



City of Austin Employees Retirement System

**MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD MEETING**

Tuesday, September 22, 2009

418 E. Highland Mall Boulevard, Austin, Texas 78752

Board Members Present

Art Alfaro
Janet Bartles
Eyna Canales-Zarate
Reagan David
Francine Gertz
Ed Golden
Elizabeth S. Gonzales
Sam Jones
Mark Monteith

Absent

Anthony B. Ross, Sr.

Staff and Guests Present

Stephen C. Edmonds, Executive Director
Donna Boykin, Finance Manager
Rhonda Helm, Operations Manager
Rosaree Koepsel, Administrative Supervisor
Michelle Mahaini, Executive Assistant
Kirk Stebbins, Chief Investment Officer
Barney Knight, General Counsel
Dr. Robert Dennison, Medical Consultant
Mike O'Brien, Padgett Stratemann & Co.
Mark Washington, City of Austin HR
Russell Nash, City of Austin
Pam Hausmann, Active Employee

The meeting was called to order at 1:32 p.m. by Board Chair, E.S. Gonzales.

1. System Member and Citizen Comments / Correspondence

A. Annual Members' Meeting Agenda

S. Edmonds called attention to the correspondence from member George Oswald who asked if representatives from the City could be invited to give an update at the upcoming Annual Members' Meeting regarding plans for modifying System benefits and future funding to improve the health of COA ERS. S. Edmonds suggested the Board proceed with the regular agenda with the exception of broadening GRS' agenda item to allow discussion as appropriate. No Board action was necessary.

2. Reports from Chairperson, Board Members, and Staff

A. Review of Meeting Agenda

B. Chairperson Comments

None.

C. Ethics Policy Disclosure Statements

Board-Approved Policy C-3 "Code of Ethics" requires that "Ethics Policy Disclosure Statement" forms be completed within 30 days of the Board meeting.

Board Trustee Declarations:

E. Canales-Zarate declared dinner with the TEXPERS Board during the TEXPERS summer session which included vendors Loomis, Sayles & Co., State Street Global Advisors and others. A. Alfaro declared a meeting with Peter Palandjian and Joanna Keller of Intercontinental Real Estate Corp about real estate markets and a hedge fund product on August 18, 2009.

Staff Declarations: S. Edmonds and K. Stebbins declared meeting with Bailey Bishop and Nick Stanojev of State Street Global Advisors on July 16, 2009. K. Stebbins also declared meeting with Eric Carangelo and David Turkington with State Street Portfolio and Risk Management Group regarding asset allocation research and portfolio process implementation strategies on June 29, 2009; meeting with John Grybauskas, Director of BlackRock, regarding investment product offerings and recent acquisition of Barclays Global Investors on July 7, 2009; a July 29, 2009 meeting with Steven Greenblatt of First Quadrant regarding portfolio asset allocation research and achieving better diversification; meeting with Peter Palandjian and Joanna Keller of Intercontinental Real Estate Corporation about real estate markets and a hedge fund product on August 18, 2009; meeting on August 25, 2009 with Sylvia Bell and Ian Ngo of J.P. Morgan Asset Management about their Strategic Advisory Group and recent research on how to achieve better asset allocation; meeting on August 26, 2009 with David Pittman and James Clarke of PIMCO about their firm's strategic outlook and about various investment product offerings; and, meeting with Viena Margulies of Institutional Investor about their conferences on September 2, 2009.

D. Reports on Educational Programs Attended

Board-Approved Policy T-1 "Training, Research, Education Expense Policies" requires that "Trustee Educational Program Feedback Report" forms be completed within 30 days of travel completion. Forms from A.B. Ross, Sr. on the Summer TEXPERS conference and trustee trainings and from S. Jones on the June Texas Pension Review Board conference were included in the packet for Board information.

E. 2009 Board and Committee Meeting Schedule

An updated schedule of remaining 2009 meetings was provided in the Board packet. The October meetings were highlighted, bringing attention to the Annual Members' Meeting on October 14 and the back-to-back Committee meetings being held on October 27, 2009. The tentative November meeting schedule was also reviewed.

3. Consent Items

All of the following items may be acted upon by one motion. No separate discussion or action on any of the items is necessary unless desired by a Board Member

- A. June 23, 2009 Board Meeting Minutes
- B. July 28, 2009 Special Called Board Meeting Minutes
- C. Ratification of April and May 2009 Retirement and Death Benefits

E. Canales-Zarate moved to approve the consent items. R. David seconded the motion. The motion passed unanimously.

4. Disability Retirement

- A. Convene into Executive Session Pursuant to Sec. 13, Art. 6243n, and Sec. 551.0785 Texas Government Code, to Consider and Act on:

- 1) Disability Retirement Appeal – Application Ref: #9390
- 2) Disability Retirement Application Ref: #9044
- 3) Disability Retirement Application Ref: #4116
- 4) Disability Retirement Application Ref: #9013
- 5) Disability Retirement Application Ref: #4164

- B. Reconvene into Public Session and Take Action as Determined Appropriate by the Board regarding:

- 1) Disability Retirement Appeal – Application Ref: #9390
- 2) Disability Retirement Application Ref: #9044
- 3) Disability Retirement Application Ref: #4116
- 4) Disability Retirement Application Ref: #9013
- 5) Disability Retirement Application Ref: #4164

- C. Minutes and Report from July 14, 2009 Disability Committee Meeting

The Board convened into Executive Session at 1:39 p.m. and reconvened at 2:32 p.m. No action was allowed while in Executive Session.

F. Gertz made a motion to deny disability retirement appeal on application ref: 9390. E. Canales-Zarate seconded the motion. The motion passed unanimously.

F. Gertz made a motion to deny disability retirement application ref: 9044. S. Jones seconded the motion. The motion passed unanimously.

F. Gertz made a motion to deny disability retirement application ref: 4116. S. Jones seconded the motion. The motion passed unanimously.

F. Gertz made a motion to approve disability retirement application ref: 9013. E. Canales-Zarate seconded the motion. The motion passed unanimously.

F. Gertz made a motion to approve disability retirement application ref: 4164. M. Monteith seconded the motion. The motion passed unanimously.

The minutes from the July 14, 2009 Committee meeting were provided for information only.

5. Audit and Finance Committee

A. Minutes and Report from August 11, 2009 Meeting

Due to the absence of Committee Chair A.B. Ross, Sr., Board Chair E.S. Gonzales provided a report to the Board. The minutes from the meeting were provided for Board information.

B. 2009 Report of Extended Audit Procedures

Mike O'Brien of Padgett Stratemann & Co. presented a summary on the 2009 Report of Extended Audit Procedures. He reported that the findings were discussed in detail at the August Audit and Finance Committee meeting. The audit was conducted in accordance with the current audit plan approved by the Board and included the additional scope approved by the Board in May 2009. In summary, no material weaknesses or significant deficiencies were found. There were four recommendations in the report; three of these recommend written documentation of approval by System management for disbursements of large amounts and one includes a recommendation for internal control/accounting process changes of receiving, handling, and reconciling of cash receipts.

S. Edmonds advised that management agrees with the recommendations and is working on the details of implementation.

E.S. Gonzales moved to accept the 2009 Report of Extended Audit Procedures as presented by Padgett Stratemann & Co. F. Gertz seconded the motion. The motion passed unanimously.

C. 2010 Proposed Final Administrative Budget

E.S. Gonzales reported that the Audit and Finance Committee reviewed the budget at the August Committee meeting. The final budget, as presented in the Board packet, has only minor adjustments from the current year budget.

E.S. Gonzales moved to accept the 2010 Final Administrative Budget; M. Monteith seconded the motion. The motion passed unanimously.

6. Benefits and Services Committee

A. Minutes and Report from June 30, 2009 Meeting

The Committee meeting minutes were provided for Board information.

7. Investment Committee

A. Minutes and Report from August 21, 2009 Meeting

The meeting minutes were provided for Board information.

B. Current Contract Review – Northern Trust

R. David referenced the information on COA ERS' relationship with Northern Trust as a service provider in a variety of capacities. The events of 2008, in particular, the diminished liquidity of the Northern Aggregate Bond Index portfolio and the impact from the direct securities lending program have introduced new considerations to the relationship. Staff will be seeking a meeting with representatives of Northern to discuss the relationship and the fee arrangement. No Board action is recommended at this time.

C. Temporary Fixed Income Portfolio Policy Adjustments

R. David explained that in an effort to increase portfolio liquidity and enhance future portfolio flexibility, the investment consultant, with investment staff concurrence, is recommending that COA ERS resume participation in allowable periodic withdrawals from the Northern bond index fund and that there be a temporary range from 40% to 60% set for the active and passive portions of the fixed income portfolio.

R. David put forth a motion to: 1) instruct staff to implement periodic withdrawals from the Northern Trust bond index fund, and 2) establish a temporary allowable range from 40% to 60% for the active/passive mix of the fixed income portfolio with this range to be reviewed in six months. E. Canales Zarate seconded the motion. The motion passed unanimously with M. Monteith and E. Golden absent from the dais.

D. Permission Sought by AllianceBernstein to Purchase Certain Portfolio Positions

AllianceBernstein is seeking permission to purchase shares of Vestas Wind Systems on a foreign exchange to achieve optimal transaction costs. Such a purchase would require a one-time exception to the current Investment Policy which allows for the purchase of ADR's (American Depository Receipts) but not for direct purchase on a foreign exchange. The rationale for the exception is that it will result in a considerable savings in transaction costs. Both the investment consultant and the investment staff are supportive of granting this one-time exception for the purposes of lowering transaction costs.

R. David made a motion to authorize AllianceBernstein to purchase shares of Vestas Wind Systems on the foreign exchange as a one-time exception. E. Canales-Zarate seconded the motion. The motion passed unanimously.

8. General Counsel Report

A. Open Meetings Review

B. Knight reiterated the importance of compliance with the Open Meetings Act as part of the Trustee's fiduciary responsibility. He distributed a handout which included the following issues.

Trustees were reminded that any business policy or issue must be listed as a subject matter on the meeting agenda in order for discussion to take place. In particular, the meeting agenda items listed as Board/Committee Chair/Member Comments have been posted as placeholders only; however, in the past, the items have been misconstrued as an open forum for comment and discussion. Staff advised that going forward such agenda items will only be included if specific subject matter is to be discussed.

He also reminded the Board that a meeting is considered as any verbal or written exchange by a quorum (of the Board or Committee). If a quorum of a governing body is present, the Trustees may not consider or discuss any business, policy or issue over which the governing body has supervision or control unless timely notice of the meeting subject has been given in compliance with the Act.

9. Executive Director's Report

- A. Educational Opportunities
- B. Retirement Office News / Staff Changes
- C. Trustee Election/Appointment Update
- D. Communications Update
- E. Member and Employer News / Discussions
- F. Public Pensions in the News
- G. 2Q09 Financials
- H. Comparative Calculation and Retirement Activity Levels

S. Edmonds reported that the TEXPERS CTT program will be repeated in 2010; he encouraged all to participate since it is highly recommended as a first class educational program.

Staff changes were reviewed, including the addition of Michelle Mahaini as Executive Assistant and the hiring of Russell Nash as Chief Operations Officer starting the week of Sept. 28. Rhonda Helm is retiring at the end of November; her retirement reception will be held November 6 from 2-4 p.m. and Board members are invited to attend.

S. Edmonds and K. Stebbins will be meeting with representatives of the Government Accountability Office (GAO) on September 23rd. A group of 265 state and local pension plans were surveyed recently by the GAO. S. Edmonds will report back at the next Board meeting.

The Trustee Election for Active-Contributing Places 8 and 9 is on schedule. Seven candidates originally applied; there are five total candidates with two candidates dropping. A Candidate Training Workshop was conducted September 10. The ballot will be mailed mid-October with a return deadline of December 1, 2009.

An update was requested on the Finance Department Working Group. S. Edmonds reported that since the Board Workshop, there have been no follow-up meetings held with the City. He reported that as part of the approved budget process, the City Council approved acceleration of the contribution subsidy in the Supplemental Funding Plan to a 4% subsidy effective October 1, 2009, with a total City contribution rate of 12%.

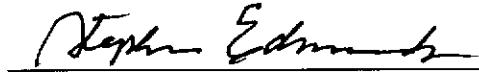
The remaining items were included in the packet for Board information only.

The meeting adjourned at 3:33 p.m.



Elizabeth S. Gonzales, Board Chair

11/24/2009
Date



Stephen C. Edmonds, Executive Director

11/24/09
Date