



City of Austin Employees' Retirement System

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

**Tuesday, November 24, 2009
418 E. Highland Mall Boulevard, Austin, Texas 78752**

Board Members Present

Art Alfaro
Janet Bartles
Reagan David
Francine Gertz
Ed Golden
Elizabeth S. Gonzales
Sam Jones
Mark Monteith
Anthony B. Ross, Sr.

Absent

Eyna Canales-Zarate

Staff and Guests Present

Stephen C. Edmonds, Executive Director
Donna Boykin, Finance Manager
Russell Nash, Chief Operations Officer
Michelle Mahaini, Executive Assistant
Kirk Stebbins, Chief Investment Officer
Barney Knight, General Counsel
Paige Saenz, Assistant Counsel
Lewis Ward, GRS
Dr. Robert Dennison, Medical Consultant

The meeting was called to order at 1:33 p.m. by Board Chair, E.S. Gonzales.

1. System Member and Citizen Comments / Correspondence
There were no System member or Citizen Comments.

2. Reports from Chairperson, Board Members, and Staff
 - A. Review of Meeting Agenda

No changes to the agenda order were made.

 - B. Chairperson Comments

There were no Board Chairperson comments.

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:

R. David and E. Gonzales declared a meeting and working lunch and dinner with Agincourt Capital management during a due diligence site visit on October 15, 2009. R. David and E. Gonzales declared a meeting and working lunch provided by 1607 Capital Partners during an educational site visit on October 16, 2009. A. Ross, Sr. declared two separate due diligence review trips to Great West and ING, in connection with City of Austin Deferred Compensation on November 20, 2009. A. Alfaro declared a meeting with professional staff of Principal Real Estate Manager on October 21, 2009. A. Alfaro and S. Jones declared a meeting and working lunch provided by Sprucegrove Investment Management during a due diligence site visit on November 2, 2009.

Staff Declarations:

S. Edmonds and K. Stebbins declared a meeting and working lunch and dinner with investment professionals and staff of Agincourt Capital Management in Richmond, VA on October 15, 2009. S. Edmonds and K. Stebbins declared an educational meeting and working lunch provided by 1607 Capital Partners in Richmond, VA on October 16, 2009. S. Edmonds and K. Stebbins declared a due diligence meeting and working lunch provided by investment professionals and staff of Sprucegrove Investment Management in Toronto, Canada on November 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 55th Annual IFEBP Employee Benefit Conference and Trustees Masters Program, as well as IFEBP's Advanced Investments Management Program in Philadelphia, and from E. Golden on the HSM World Business Forum in New York 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. S. Edmonds made note that there will be an additional Investment Committee Meeting with several Investment Managers scheduled for December 11 at 11:00 a.m. (mentioning the Committee had previously scheduled the time at 12:00 noon, but is now being moved up to 11:00 a.m.).

F. 2010 Board and Committee Meeting Schedule

The proposed meeting schedule of the 2010 meetings was provided for Board approval. This schedule was modeled after the 2009 schedule which worked well for the Board and staff. S. Edmonds made special note of a tentative meeting scheduled for the Benefits & Services Committee for January 12, 2010.

S. Jones made a motion to approve the 2010 Board and Committee meeting schedule. A. B. Ross, Sr. seconded the motion. Motion passed unanimously.

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. September 22, 2009 Board Meeting Minutes
- B. October 14, 2009 Annual Members' Meeting Minutes
- C. Ratification of June, July, and August 2009 Retirement and Death Benefits

S. Jones moved to approve the consent items. A. Ross seconded the motion. The motion passed unanimously.

4. Disability Committee

- A. Minutes and Report from November 10, 2009 Meeting

The minutes from the November 10, 2009 Committee meeting were provided for information only.

- B. Re-adoption of Committee Charter

A. Ross moved to approve the re-adoption of the Disability Committee Charter with no changes. E. Golden seconded the motion. The motion passed unanimously.

- C. Medical Consultant Fee

Committee Chair F. Gertz recognized R. Nash to comment regarding this item. He informed the Board that the Disability Committee had recommended the Medical Consultant Fee be adjusted from \$225.00 to \$285.00 per case/per disability application after giving the Medical Consultant a satisfactory performance and noting that an adjustment to raise the fee has not been made since the original 2004 agreement. The amount of \$285.00 was suggested after considering the Consumer Price Index from the Houston/Galveston/Brazoria Medical Care Services Item.

After discussion among the Board, E. Golden moved to raise the Medical Consultant Fee to \$285.00 and to base adjustments going forward on the U.S. Department of Labor CPI - Houston/Galveston/Brazoria Medical Care Item. R. Ross seconded the motion. The motion passed unanimously.

- D. 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 Ref. #9044

2. Disability Retirement Continuation for Disability Retiree Ref. # 4598
3. Disability Retirement Application Ref. #2028

- E. Reconvene into Public Session and Take Action as Determined Appropriate by the Board regarding Disability Retirement Appeal Ref. #9044, Disability Retirement Continuation for Disability Retiree Ref. # 4598, and Disability Retirement Application Ref. #2028

The Board convened into Executive Session at 1:49 p.m. and reconvened at 2:14 p.m. No action was allowed while in Executive Session.

F. Gertz made a motion to approve disability retirement appeal on application Ref: 9044 and disability retirement application Ref. 2028. S. Jones seconded the motion. The motion passed unanimously.

Gertz made a motion to table the decision on Disability Retirement Continuation for Disability Retiree Ref. 4598. A discussion was made regarding giving a specific time for the Physician to make an affirmation before the January board meeting. The motion was amended by F. Gertz that the retirement continuation for Ref 4598 be tabled as needed to allow time to receive information for a decision by the January Board Meeting. The motion was seconded by E. Golden. The motion passed unanimously.

5. Report and Recommendations from Gabriel, Roeder, Smith & Company

A. 2010 Retiree Annuity Adjustment Consideration

Board Chair E. Gonzales recognized Lewis Ward of Gabriel, Roeder, Smith & Company who summarized his written report in which he opines that it would be inappropriate at this time to add liabilities to the System and that he cannot recommend any retiree adjustments, whether permanent or one-time.

B. Interest Allocation in January, 2010

L. Ward summarized his written report concerning the interest allocation on member deposits. Based on the Boards previously adopted procedure for determining the interest rate, he is recommending a 3.25 interest allocation for January 2010.

A motion was made by R. David to approve and accept the actuary's report and recommendations on the 2010 Annuity Adjustment Consideration and to accept the recommendation to set an interest rate of 3.25% for interest allocation on member contributions for January 2010. The motion was seconded by A. Ross. The motion passed unanimously.

6. Audit and Finance Committee

A. Minutes and Report from October 27, 2009 Meeting

Committee Chair A. Ross thanked E. Gonzales for chairing the meeting of October 27 in his absence. The minutes from the meeting were provided for Board information.

B. KPMG Engagement Letter for 12/31/2009 Audit

F. Gertz moved to approve the KPMG Engagement Letter for 12/31/2009 Audit.
M. Monteith seconded the motion. The motion passed unanimously.

7. Benefits and Services Committee

A. Minutes and Report from November 10, 2009 Meeting

The Committee meeting minutes were provided for Board information.

B. Board Approved Policy D-3 "Death Benefit Distribution"

S. Edmonds explained the amendment to the policy. Texas law prohibits benefits to be paid directly to a person under 18 years of age unless a custodian is appointed to receive benefits. The custodian holds the property until the beneficiary becomes 18 years of age. The staff is currently revising our documents relating to beneficiary designations. Our legal counsel has advised us to revise Board Approved Policy D-3 "Death Benefit Distribution" changing all references from age 21 to age 18 to mirror the Texas Age Majority law (it was originally based on the Uniform Transfer to Minors Law). The Benefits and Services Committee met on November 10, 2009 and adopted a recommendation to revise Board Approved Policy D-3 "Death Benefit Distribution" as amended. Once the policy is changed, we will proceed with changes to the System's forms and our handbook.

A motion was made by A. Ross to revise Board Approved Policy D-3 "Death Benefit Distribution" as amended. E. Golden seconded the motion. Motion passed unanimously.

8. Investment Committee

A. Minutes and Report from October 27, 2009 Meeting

The Committee meeting minutes were provided for Board information.

(Item D then C was discussed before B)

B. Report from November 20, 2009 Meeting

R. David provided information as to the discussions at the November 20, 2009 meeting. The investment consultant has noted that our developed international equity portfolio is currently being managed by two money managers. Summit Strategies has recommended that the committee consider managers employing non-correlated alpha strategies to diversify the developed international equity portfolio. Summit presented a report reviewing developed market international equity managers whose investment process might diversify the portfolios currently managed by Walter Scott and Sprucegrove. The Investment committee narrowed their choices down to two managers to make presentations: 1607 Capital Partners and Lazard Asset

Management. Both will be at the December 11 Investment Committee Meeting to make formal presentations.

There was also a discussion regarding the Asset Liability Study and potential scenarios for modifying our portfolio. Summit is planning to have additional information at future investment committee meetings. Summit recommended we go ahead and begin the process of looking for a core plus fixed income manager as well as a TIPS (treasury inflation protective securities) fixed income manager to further diversify our portfolio. He recommended an allocation of 5% for TIPS and breakout the balance of our fixed income portfolio to 12 1/2% for fixed core, and 12 1/2% in core plus.

C. Board Approved Policy I-1 “Statement of Investment Policies and Objectives”

R. David called attention to the Appendix which was added to define the policy regarding disclosure of third party marketing and so called “pay-to-play” relationships with investment management organizations. This was based on language used in the Texas Teacher’s retirement system policy as a guide to formulate the new language. Additionally, language was added defining the function of professional staff in the section discussing investment responsibilities. Language was also added clarifying the portfolio rebalancing activities and language was also added that removed the need for the attestation form which will make the operations process simpler. Also included is a Glossary of Terms – though it will be a separate document from the policy which the investment committee will be able to update as needed.

Reagan David moved to accept the BAP I-1 “Statement of Investment Policies and Objectives” as revised. F. Gertz seconded the motion. Motion passed unanimously.

Board Chair E. Gonzales commended both K. Stebbins and R. David for their diligence in updating the policy.

D. Custodial Services and Fee Agreement

The Committee reviewed various options that Staff had tentatively negotiated with Northern Trust and recommended a 5.25 year arrangement that would include reduced custody fees, compliance alerts and performance analytics. With additional negotiation after the Committee meeting, the final negotiated annual rate is \$100,000 for custody, \$23,000 for the compliance module and \$9,000 for the portfolio analytics module. This new fee rate will represent a savings of \$199,500 over the 5.25 year term relative to the current fee structure.

E. Gonzales made motion to approve the new fee agreement. A. Ross seconded the motion. Motion passed unanimously.

9. Policy Committee

A. Minutes and Report from October 27, 2009 Meeting

The Committee meeting minutes were provided for Board information.

B. Re-adoption of Committee Charter

A. Ross motioned to re-adopt the committee charter with no changes, D. Reagan seconded the motion.

Motion passed unanimously.

C. Board Approved Policy P-1 "Statement of Personnel Policy and Guidelines"

The Policy Committee met on October 27, 2009 and discussed revisions to the Personnel Policy. At that meeting, Staff recommended a formal nepotism policy be adopted by the Board of Trustees and incorporated into BAP P-1, "Statement of Personnel Policy and Guidelines". As proposed, the policy would prohibit hiring relatives (as defined) of any employee, board member, or relatives of the spouse (in-laws) or a domestic partner of any employee or board member.

F. Gertz made motion to adopt BAP P-1 "Statement of Personnel Policy and Guidelines" as revised. R. David seconded the motion. Motion passed unanimously.

D. Board Approved Policy D-6 "Disclosure of Certain Relationships"

The Policy Committee recommends relatively minor changes to Policy D-6 "Disclosure of Certain Relationships". Specifically, insertion of updated CIS and CIQ forms (as promulgated by Texas Ethics Commission) and a rewording of Question 11 of Annual Financial Disclosure/Conflict of Interest Affidavit. New wording is proposed as follows: "11. I have identified all entities in which I or any family member (related within the 1st degree) receive any taxable income as a result of employment or business relationship, which have contracted or solicited business with the City of Austin Employees' Retirement System."

A motion was made by Francine Gertz to approve the revisions to BAP D-6 "Disclosure of Certain Relationships" with the modification to include a clarification on the family member relation in the 1st degree (parent/child). The motion was seconded by D. Reagan. Motion passes unanimously.

10. General Counsel Report

No items to report at this time.

11. Annual Board Evaluation

Elizabeth Gonzales drew the Board's attention to Attachment 11.1 which was provided for the Trustees as Criteria for Evaluation. A discussion followed where it was pointed out that the Board has been very balanced and doing their due diligence in depth to consider each decision, having done a stellar job of keeping focused during these turbulent times. Several accomplishments with respects to the Investment Committee and their diligence through the help and guidance of the new CIO position were mentioned. Overall, E. Gonzales pointed out that everyone works well together and is looking at issues long-term. S. Edmonds

commented that he appreciates the Board's continued focus on governance. No action was necessary.

- 12 Executive Director, General Counsel, and Assistant General Counsel Performance Reviews
 - A. Convene into Executive Session Pursuant to Tex. Government Code 551.074 to confer with Board of Trustees re: Executive Director Performance Review
 - B. Convene into Executive Session Pursuant to Tex. Government Code 551.074 to confer with Board of Trustees re: General Counsel and Assistant General Counsel Performance Reviews
 - C. Reconvene into Public Session and Take Action as Determined Appropriate by the Board of Trustees re: General Counsel, Assistant General Counsel, and Executive Director Performance Reviews

The Board convened into Executive Session at 3:01 p.m. and reconvened at 4:32 p.m. No action was taken. The performance reviews for the General Counsel and Assistant General Counsel are continued to the next Board meeting.

J. Bartles departed at 4:00 p.m.

13. Executive Director's Report

- A. Calendar items/ Conferences / Training
- B. Trustee Election Update
- C. Retirement Office News
- D. Communications Update
- E. Member / Employer News / Discussions
- F. Public Pensions in the News
- G. 2Q09 Financials
- H. Comparative Calculation and Retirement Activity Levels

S. Edmonds noted that the System received the Public Pension Coordinating Council Award for 2009 - the second year in a row.

The Trustee Election for Active-Contributing Places 8 and 9 is on schedule with the ballot return deadline of December 1, 2009. On December 3, 2009, the Election Committee will meet to tabulate the votes. At the December Board Meeting scheduled for January, the election results will be certified and Trustees will be administered the oath of office.

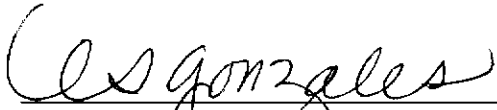
In Retirement Office news, Rosaree Koepsel will be leaving our employment in early December. Rosaree is a dedicated professional and it will be hard to see her go. We are in the process of recruiting a successor for this position.

S. Edmonds reported having met with local representatives of AFSCME and he expects that the organization will be making a written request for payroll deduction for retired member dues. This will be a Board issue for determination.

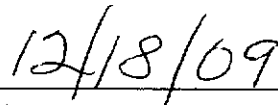
He also reported that the City Audit and Finance Committee will be having their quarterly review of pension results on December 15. The recent investment results for COA ERS are very good and staff plans to attend.

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


Ed Golden moved to Adjourn, F. Gertz seconded the motion.
The meeting adjourned at 4:42 p.m.



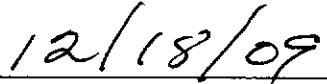
Elizabeth S. Gonzales, Board Chair



Date



Stephen C. Edmonds, Executive Director



Date