



City of Austin Employees' Retirement System

MINUTES

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM BOARD MEETING

June 22, 2010 – 1:30 p.m.

418 East Highland Mall Boulevard, Austin, Texas 78752

Board Members Present

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

Board Mbrs Absent

William Spelman

Others Present

Stephen C. Edmonds, Executive Director
Donna Boykin, Chief Financial Officer
Russell Nash, Chief Operations Officer
Kirk Stebbins, Chief Investment Officer
JoAnne Norton, Manager, Admin &
Support Services
Michelle Mahaini, Executive Assistant
Paige Saenz, Assistant Counsel
Susan Warren, KPMG
Dr. Robert Dennison, Medical Consultant

The meeting was called to order at 1:47 p.m. by Board Chair, Elizabeth S. Gonzales.

1. **System Member and Citizen Comments / Correspondence**

There were no member or citizen comments/correspondence.

2. **Reports from Chairperson, Board Members, and Staff**

- A. Review of Meeting Agenda
- B. 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:

Anthony B. Ross, Sr. declared a meeting with PFM Consultant, Jim Link, in connection with his work on the Deferred Compensation Plan. Ms. Gonzales and Mark Monteith declared lunch at the Pension Review Board Forum on June 14, 2010.

Staff Member Declarations:

Steve Edmonds declared a meeting with Peter Marana, PJM Consulting, on May 26, 2010.

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 were received for the Texas Pension Review Board Conference of June 14, 2010 from Francine Gertz, Sam Jones, Jim Williams, Mr. Ross and Ms. Gonzales. A form was also received on the Securities Fraud Self-Study Course completed June 11, 2010 by Mr. Ross.

E. 2010 Board and Committee Meeting Schedule

An updated schedule of remaining 2010 meetings was provided in the Board packet. Mr. Edmonds reminded the Board that the Benefits and Services meeting originally scheduled for June 29, 2010 is now confirmed for July 13, 2010 to receive any reports from the City of Austin concerning a new benefit tier, and to further discuss retirees returning to work.

Mr. Edmonds also reminded everyone that the Board Workshop will be held July 27, 2010. The meeting will be held at the City of Austin's Mexican American Cultural Center (9:00 am to 4:00 pm). Mr. Edmonds noted there will be a continued discussion on the process for investment decision-making, and Gary Lawson, of Strasburger & Price, will speak on legal/fiduciary responsibilities at the workshop.

3. Consent Items

- A. March 23, 2010 Board Meeting Minutes
- B. Ratification of February and March 2010 Retirement and Death Benefits

Mr. Ross moved to approve the consent items, Mr. Monteith seconded the motion. The motion passed unanimously.

4. Disability Retirement:

- A. Convene into Executive Session Pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code, to Consider and Act on Disability Retirement Appeal Ref# 0465.
- B. Reconvene from Executive Session Pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code, to Consider and Act on Disability Retirement Appeal Ref# 0465.

The Board convened into Executive Session at 1:52 p.m. and reconvened at 1:59 p.m. No action was allowed while in Executive Session.

Mr. Jones made a motion to deny disability retirement appeal Ref. #0465. Mr. Monteith seconded the motion. The motion passed unanimously.

5. **Benefits & Services Committee**

A. Minutes from May 18, 2010 Meeting

Ms. Gertz stated the minutes were for information only, as a report was given at the May 25, 2010 Board Meeting.

6. **Audit & Finance Committee**

A. Minutes and Report from June 8, 2010 Meeting

Mr. Ross reminded the Board that the minutes from the June 8 committee meeting were provided for their review.

B. December 31, 2009 Financial Audit Report

Mr. Ross introduced Susan Warren of KMPG who provided a summary of her report given at the committee meeting. The 2009 audit had an unqualified and clean opinion, there was no management letter which meant no material weaknesses and no deficiencies to report and no audit entries made on the financial statements, which all led to a clean opinion. Mr. David asked if there was anything on the horizon. Ms. Warren answered that there will most likely be something from GASB. The preliminary views would require employers to put a liability on their books for the unfunded portion of their pension plans to make it consistent with GASB 45 which requires the OPEB to be recorded as a liability.

Mr. Ross noted that there was a meeting between he, Ms. Warren, and Donna Boykin after the meeting and that he will have included in notes of the next committee meeting.

C. Re-adoption of Audit & Finance Committee Charter

At the committee meeting there was a recommendation to re-adopt the Audit and Finance Committee charter.

Mr. Ross made a motion to approve the audited 12/31/2009 financial statements and report, and to re-adopt the Audit and Finance Committee Charter. M. Monteith seconded the motion. The motion passed unanimously.

7. **Investment Committee**

- A. Minutes from May 21, 2010 meeting
- B. Report from June 22, 2010 meeting
- C. Rebalancing Plan (this item moved to end of list)
- D. BAP I-1 "Statement of Investment Policy"

Reagan David stated that the Minutes from the May meeting are for Board information only. The Investment committee, which met prior to the Board meeting of June 22, made several recommendations to the Board which included these Modifications to the BAP I-1 "Statement of Investment Policy":

- On pg. 16 – language to reflect where 1607 Capital Partners fits in the International Equity portion of the portfolio, specifically their blended benchmark of 90% MSCI EAFE and 10% MSCI Emerging Markets;
- On pg. 17 – the target percentage that 1607 will represent of the International Equity portfolio will be 15% and the revised targets for both the Sprucegrove and Walter Scott go to 25%;;
- On page 31 – a clarification that 1607 requested to allow for the specific circumstances of their product to be written *"In recognition that 1607 will be investing in closed-end fund securities which are diversified equity portfolios, the portfolio concentration limits for individual closed-end funds shall be 20% at both cost and market. Indexed exchange-traded funds used for the purpose of achieving international equity market exposure as part of the initial funding of the account shall not be subject to portfolio concentration limitations. Furthermore, in recognition that some of the closed-end funds in which 1607 invests may employ leverage in their process, the 5% cash limitation from Appendix I paragraph three will be raised to 10%. Finally, in recognition that the market capitalization of the underlying holdings of closed-end funds may not be timely available to 1607, requirements under Appendix III, B. 3. relating to market capitalizations shall be modified to require monthly estimates of capitalization ranges."*

Mr. Ross made a motion to accept the modifications to the Investment Policy. Janet Bartles seconded the motion. The motion passed unanimously.

E. 1607 Capital Partners Investment Management Agreement

The committee recommended acceptance of the Agreement with a few modifications, which were to change the 3rd "whereas" paragraph from "and" to "to" and to change any references to "advisory fees" to "management fees."

Mr. Ross wanted a clarification on Exhibit I on the benchmark whether it should be gross or net figures. Mr. Stebbins noted that it now correctly shows "net".

Mr. Ross made a motion to accept the Agreement with changes as listed, Ms. Gonzales seconded the motion. The motion passed unanimously.

F. Funding Plan for International Equity Non-Correlated Alpha Strategy

The committee recommended proceeding with the Funding Plan which uses basic dollar cost averaging to amount to the funding target of 5% (\$75 million) which will come from liquidated holdings of Walter Scott and Sprucegrove to amount to 12.5 million a month

from each of these with a total of 25 million per month for 1607 to invest with a goal to have the funding process completed by September 30, 2010. Mr. Ross moved to accept the plan, Mr. Jones seconded. The motion passed unanimously.

G. Re-adoption of Investment Committee Charter

The committee recommended re-adopting the Investment Committee Charter. Art Alfaro moved to re-adopt the charter. Ms. Gertz seconded the motion. The motion passed unanimously.

C. Rebalancing Plan

This item was a recommendation from the May 21, 2010 Investment Committee meeting. Mr. Reagan pointed to the handout of the June 17th email from Summit which recommends the “first tranche of 1% or (approximately) \$15 mm; fund on 6/30; cash raised from Walter Scott. The second funding of \$15 mm will be discussed regarding the source at the August Investment Committee meeting, with target for September 30, 2010.”

Mr. Ross moved to accept the Rebalancing Plan. Mr. Monteith seconded. The motion passed unanimously.

8. **Policy Committee**

A. Minutes and Report from June 8, 2010 meeting

Ms. Gonzales reminded the Board the minutes were provided for their information.

B. Board Approved Policy E-1 “Election Policy for Active-Contributory and Retired Board Members”

Chair Gonzales recognized Mr. Nash to explain the recommended changes to the Policy. Mr. Nash said the adoption of the Policy kicks off the annual election process. He noted that the Policy showed an inconsistency with the statute and therefore to make the policy consistent, the committee recommends the change to state “appointing 5 committee members and 5 alternates.”

Mr. Monteith motioned to accept the changes, and Mr. Ross seconded. The motion passed unanimously.

9. **Appointment of Nominating and Election Committee for the 2010 Retired Member Place #11 Election**

Mr. Edmonds noted the listing of the members who have volunteered, and that there should be an appointment to approve the entire committee first and then a random drawing of names so that there will be five members and five alternatives of the committee. Mr. Ross noted one name misspelled on the list – Mr. Ornealas should read Mr. Ornelas.

Mr. Nash mentioned that COA ERS had put out an open call for volunteers for the committee and that there was a good response. He reminded the Board that all ten volunteers will be participants, five as voting members, five as alternates, but all should be attending the meetings. There commenced a brief discussion on roles of members, alternates and why there should be a random drawing rather than a staff recommendation of appointees.

Mr. Ross motioned to approve the volunteers to the committee. Mr. Jones seconded the motion. The motion passed unanimously.

A random drawing took place and the following were chosen as members: 1) Marsha Wehmeyer (2) Dean Labonte 3) Alex Duderstadt 4) Ben Ornelas 5) John Hooten. The alternates were chosen as follows: 1) Alice Benson 2) Bernadine Davis 3) Donna Pollan 4) Rosie Rendon 5) Wallace Gootman.

JoAnne Norton is the staff member who will be working as point of contact with the Nominating and Election Committee. Ms. Norton provided a general overview of the events of the election, and discussed the timeline. She noted that the Committee will be adopting the schedule at their first meeting.

10. General Counsel Report

There was nothing to report.

11. Executive Director's Report

- A. Educational Opportunities
- B. Retirement Office News
- C. Communications Update
- D. Member and Employer News / Discussions
- E. Public Pensions in the News
- F. Comparative Calculation and Retirement Activity Levels

Mr. Edmonds pointed to the new 2009-12-31 CAFR that was provided to the Board members. He acknowledged Ms. Donna Boykin and her staff for work on the CAFR, expecting it to qualify for the GFOA recognition again this year.

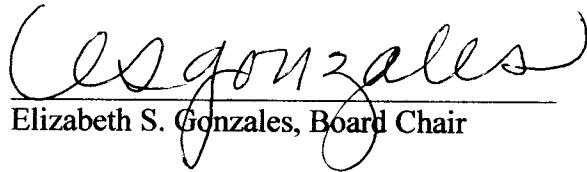
He mentioned that the Padgett Stratemann group just completed their extended audit field work and a report is expected to be given at the August 17 Audit and Finance Committee meeting.

The Board Workshop coming up on July 27 at the Mexican American Center will have a Fiduciary Education presentation from Gary Lawson from our tax counsel firm. There will be continued discussion on the process of investment decision making.

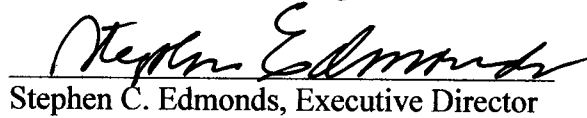
Mr. Edmonds gave a brief summary of the proceedings at the City's Audit and Finance Committee meeting which took place earlier in the morning on the same day of the Board meeting. They talked in terms of staff recommendations from the City's Finance Committee, gravitating more toward options A & E, but nothing is certain at this stage.

There seemed to be a question whether the 2% annual increase in employer contributions, up to 18% from the City works independently from the plan design issues, and there was a reminder that it is a package proposal. Ms. Gertz expressed her observation that the preference presented to the Council Members appeared to be either "Option A" or "Option E", and she felt there should have been more a voice for "Option D" for which the COA ERS committee had expressed preference. Mr. Edmonds reminded that on the July 13 meeting there should be an opportunity to discuss and clarify these matters with the City.

Mr. Golden moved to adjourn. Mr. David seconded. The meeting adjourned at 2:48 p.m.


Elizabeth S. Gonzales, Board Chair

7/27/10
Date


Stephen C. Edmonds, Executive Director

7/27/2010
Date