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City of Austin Employees Retirement System

MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM BOARD MEETING

July 27, 2010 – 8:30 a.m.
Mexican American Cultural Center
600 River Street, Austin, TX 78701

Board Members Present	**Board Members Absent**	**Others Present**
Elizabeth Gonzales, Board Chair	William Spelman	Stephen C. Edmonds, Executive Director
Art Alfaro *(arr. 1:10 pm)*		Donna Boykin, Chief Financial Officer
Janet Bartles *(dep. 2:14 pm)*		Russell Nash, Chief Operations Officer
Reagan David		Kirk Stebbins, Chief Investment Officer
Francine Gertz		JoAnne Norton, Manager, Admin & Support Services
Ed Golden *(dep. 1:38 pm)*		Michelle Mahaini, Executive Assistant
Sam Jones		Paige Saenz, Assistant Counsel
Mark Monteith *(dep. 2:50 pm)*		Gary Lawson, Strasburger & Price, LLP
Anthony B. Ross, Sr.		Eric Ralph, Summit Strategies Group
Jim Williams		

The meeting was called to order at 9:02 a.m. by Board Chair, Elizabeth S. Gonzales.

1. **Agenda Review**

   Chair Gonzales welcomed the Board of Trustees, staff, and guests. She made note of the venue of the Mexican American Cultural Center and its many programs as well as the Diego Huerta photographs on exhibit in the main gallery. The workshop agenda is essentially divided into two sections. The morning section focused on an environmental scan and legal and fiduciary education led by the guest speaker Gary Lawson. The afternoon session focused primarily on investment education and system benchmarks and operational priorities.

2. **Approval of June 22, 2010 Board Meeting Minutes**

   Anthony Ross moved to approve the June 22, 2010 Board Meeting Minutes with four typographical corrections. Sam Jones seconded the motion. Motion carried unanimously.

3. **Environmental Scan and Organizational Review**

Director Steve Edmonds gave an overview of the environmental factors affecting COA ERS. Environment review issues included: ongoing economic distress; increasingly complex investments with associated audit requirements; changing capital market projections; convening of the State Legislature; implementation challenges of new tiered benefit; IRS stepping up audits of public plans; pending IRS rules defining "normal retirement age"; pending COA ERS determination letter with the IRS; loss of purchasing power with retirees; increasing retiree healthcare costs; COA ERS employees approaching retirement eligibility; increasing expectations for services; increasing use of "social media"; and office space limitations. Last year's operational priorities were reviewed, including those items that were still in progress and those that were completed or near completion.

Director Edmonds gave an organizational overview which began with broad view of the Board functions. He then reviewed the current COA ERS organizational chart and noted that in 2009 there was a turnover of a third of staff. All positions are now filled except the IT Coordinator which will remain unfilled.

Mr. Russell Nash was recognized to explain the COA ERS professional development plan. The plan consists of three components: Group 1 - Annual Professional Development; Group 2 – Skill Building Professional Development; and Group 3 - Career Building Professional Development. Group 2 was added to include skill topics such as legal/compliance, HR & benefits, City HR & payroll, communications, investment, etc. Chair Gonzales asked if any thought has been given to have staff involved in civic works, challenging the staff to get involved in the community and allowing them the time to volunteer. Mr. Nash felt this was an excellent idea.

4. **Legal and Fiduciary Education**

Gary Lawson of Strasburger & Price gave a presentation on Fiduciary Duties, reminding the Board that their fiduciary duties have been described as "the highest known to the law." He described Texas Government Code Section 802.203 and the duties of fiduciaries, starting with the provision to "discharge its duties <u>solely</u> in the interest of the participants and beneficiaries 1) for the exclusive purpose of: providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the system; 2) with the care, skill, prudence, and diligence; (3) by diversifying the investments of the system to minimize the risk of large losses; (4) in accordance with the documents and instruments governing the system. He explained the concepts of "exclusive benefit" and co-fiduciary responsibilities. He also discussed some of the situations that can give rise to liability such as failure to comply with the Open Meetings/Open Records laws and conflicts of interest. Finally, he reviewed some recent cases noting their implications.

The Board recessed for lunch at 12:05 p.m. They reconvened at 1:05 p.m.

5. **Investment Decision-Making Process**

Mr. Kirk Stebbins began his presentation by recapping what had been covered in previous discussions. He noted the categories of investment decisions and their prioritization based upon the degree they determine Portfolio Performance– with Strategic Asset Allocation the most important, then Asset Class Implementation, Investment Manager Decision, and finally Ancillary services. A discussion followed regarding the Decision Process Flowcharts with considerable attention focused on the critical decision points. Mr. Ross suggested that the report box on Primary Question 3 of the Investment Manager page should be clarified to reflect that a decision was being made leading to either a manager search process or to an asset class implementation process. Mr. Stebbins agreed that there were two conclusions coming out of the manager alternatives examination process; and perhaps an A&B designation could be used.

The discussion on decision accountability and the next steps was briefly addressed with a fuller discussion anticipated at the August 20 Investment Committee Meeting.

(Art Alfaro arrived at 1:10 p.m.)

6. **Review of CEM Defined Benefit Investment Survey/Analysis**

Mr. Eric Ralph of Summit Strategies Group reviewed the CEM Defined Benefit Investment Survey and Analysis. He highlighted several points – showing what other plans are doing and how we compare.

(Ed Golden departed at 1:38 p.m.)

He explained that this was a preliminary report from CEM and that the final would be coming out later in the year. On page 4, he pointed out that the plan was in the top quartile with a 26% return. Also noted was the chart on page 11 of the report which showed a Cost Effectiveness Ranking where COA ERS was ranked in the high value added, low cost quadrant. He pointed out this is a very good position to be in. Director Edmonds said that CEM is highly regarded not only on the investment program benchmarking side but also on the pension administration side. He further noted that administration benchmarking studies are now available for plans of our size, for a fee.

(J. Bartles departed at 2:14 p.m.)

7. **Overview of New Federal Financial Reform**

Congress recently passed landmark financial reform legislation. Mr. Ralph provided a brief overview, particularly highlighting any portions of the new law that may be relevant to institutional investors such as COA ERS. He noted in the packet the House press release on the Dodd-Frank Wall Street Reform bill and Consumer Protection Act. The three broad goals were to: 1) address the systematic risks in the financial system; 2) make sure that there was a formal system for monitoring and regulations supporting that system; and 3) consumer protection. He offered that the major takeaway was that it passed. The broad brush strokes have been laid out but none of the detail has been written yet. All the implementation and enforcement has been passed off to different agencies. The Financial Stability and Over-site Council will drive growing budgets, growing staff and the growing number of rules in Washington.

(M. Monteith departed at 2:50 p.m.)

8. **Communication Tools for Trustees and Staff**

Director Edmonds showed a variety of headlines on pension funds from the past and present across the country, then headlines from Austin. He stated that the media in Austin has been fair in its reporting of pension issues and we have tried hard to ensure that reporters have a good understanding of the issues and facts. He shared some techniques that have worked for him in communicating to the press and public. He reviewed a document showing a core message that "the retirement program provides a secure and dignified retirement for career City employees" along with supporting points that help reinforce the core message.

9. **System Benchmarks and Operational Priorities**

High level system benchmarks were reviewed by Mr. Edmonds along with various external sources of benchmarks. In addition, he and Mr. Nash discussed the operational priorities for the coming months. These include assisting the City in enacting legislation to establish the new tier of benefits and a plan for implementing these in 2012, refreshing our member communications, a new asset liability study, documenting the investment decision-making process, implementing a standardized investment management agreement with existing managers, benchmarking and quantifying investment management fees, catching up on less-critical "maintenance", providing additional professional development for staff and expanding our operational benchmarking tools.

Mr. Ross moved to adjourn. Ms. Gertz seconded. The meeting adjourned at 4:06 p.m.

Elizabeth S. Gonzales, Board Chair	9. 28. 2010 Date
Stephen C. Edmonds, Executive Director	9-28-2010 Date