



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

**Tuesday, September 27, 2016 – 1:30 PM
418 E. Highland Mall Boulevard, Austin, Texas 78752**

Board Members Present

Michael Benson
Reagan David
Francine Gertz
Elizabeth Gonzales
Chris Noak
Leslie Pool
Anthony B. Ross, Sr.
Sam Jones
Ed Van Eenoo

Board Members Absent

Russ Sartain
Jim Williams

Others Present

Staff:

Christopher Hanson
Russell Nash
Donna Boykin
David T. Veal
Michelle Mahaini

Other Guests:

Dr. Harold Skaggs, M.D.
Paige Saenz, General Counsel
Chris Hornsby, Hornsby &
Company
Mike O'Brien, RSM US LLP
Angela Dawson, RSM US LLP
Corley Pillsbury

Mr. Chris Noak, Vice Chair, called the meeting to order at 1:35 p.m.

1. System member and citizen comments/correspondence

There were no citizen comments nor any correspondence to share.

2. Review order of business

Ms. Pool indicated a need to leave mid-afternoon. Vice Chair Noak commented that the agenda was structured to have action items nearest the front. There were no changes to the order of business.

3. Receive reports on the following Board administrative matters:

A. Ethics policy disclosure statement

Board Declarations: Chris Noak declared attendance at the Markets Group Second Annual Credit & Hedge Forum (with meal); and meetings with Principal Real Estate during a tour

of 500 West 2nd Street, Legal and General and Northern Trust; Summit Strategies Group; Jason Peet of Markets Group; EDHEC ERI Scientific Beta; Adrian Lee & Partners; City of London; Walter Scott; Baillie Gifford; LSV; and Causeway. Michael Benson declared meetings with Legal & General and Northern Trust. Jim Williams declared meetings with Principal Real Estate during a tour of 500 West 2nd Street, Legal and General and Northern Trust; Summit Strategies Group; Jason Peet of Markets Group; EDHEC ERI Scientific Beta; Adrian Lee & Partners; City of London; Walter Scott; Baillie Gifford; LSV; and Causeway. *Staff Declarations:* Russell Nash declared meetings with Frank Ammons of GAATN Network; Time Warner Cable; Summer Stream; Ed Rataj of CBIZ Human Capital; LRWL; LRS; and Padgett Stratemann (RSM). Chris Hanson declared meetings with JoAnne Svendsgaard and Mark Astley from Millennium Global Investments; Reston Blumwest and Market Herchel of AlpInvest; Ryan Green of LGT Capital Partners; Warren DeKinder and Nancy Holden from INTECH; Kathy Stevenson, Melissa Gallo and Colleen Neu from Northern Trust; Jeffery Fox and Pat Jakobson from J.P. Morgan Asset Management; Ed Rataj from CBIZ Human Capital; Steve Moen and Andreas Baumann from Partners Group; Kirk Tattersall and Shannon Fake from 1607 Capital Partners; Todd Bitzer and Shaun Murphy from Legal and General Investment Management Americas; attendance at Texpers conference with breakfast and lunch provided; meeting with Andrea Ferzoco and Ian Charles from Landmark Partners; Javier Elizalde with eVestment; Torry Wogen and Shamin Parikh from FactSet, and Bill Grayson and John Bergo of Principal Real Estate Investments. David Veal declared meetings with Shaun Murphy, Legal & General Investment Management Americas; David Settles, State Street Global Advisors.; Frances D'Alessio, Thornburg Investment Management; Doug Keith and Dan Rosenberg, GMO LLC; Alastair Barrie, Martin Currie Investment Management; Ted Sheridan and Jeff Springer, Symphony Asset Management; John Trammel, Novus Corporation; Andre Meyer, QCAM Currency Asset Management AG; Edmund Grant and Carol Geremia, MFS; Chas Kutney, Winton Global Investment Management; Geoff Skillings, Mellon Capital Management; Brent Humphries, AB Private Credit Investors LLC; Bill Grayson, Principal Real Estate; Steven Damiani, Sensus Wealth Management Group LLC; Torrey Wogen and Shamin Parikh, FactSet Systems; Julian Bostic and Lori Holland, Neuberger Berman; Paul Schutzman, MSCI Inc.; Aaron Dillon, Global X Funds; Andrea Ferzoco and Ian Charles, Landmark Partners; Javier Eliza, eVestment; Stuart Bernstein, CapRidge Partners; Anne Christiansen, Vida Capital Inc.; Brandon Kunz and Brian Ralph, Research Affiliates; Jeffrey Fox and Pat Jakobson, JP Morgan Asset Management; Tony Hass, KKR & Co.; Mark Astley and JoAnne Svendsgaard, Millennium Global Investments; and Reston Blumwest, AlpInvest.

B. 2016 Board and Committee meeting schedule

Vice Chair Noak noted that the meeting schedule in the packet includes a date of Friday November 18, 2016 for the next Investment Committee meeting; this meeting may not be included on previous versions of the yearly calendar.

4. 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. July 26, 2016 Board Education and Planning Workshop Meeting Minutes**
- B. Ratification of May, June, and July 2016 Retirement and Death Benefits**

Mr. Anthony B. Ross, Sr. moved to approve the July 26, 2016 Board Education and Planning Workshop Meeting minutes and the retirement and death benefits of May, June, and July, 2016. Mr. Sam Jones seconded and the motion passed unanimously.

5. Disability Retirement Application

- 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 application ref. # 0393**
- B. Reconvene into public session and take action as determined appropriate by the Board regarding Disability retirement application ref. # 0393**

The Board convened into Executive Session 1:38 pm and reconvened into public session at 1:45 p.m.

Ms. Francine Gertz arrived at 1:42 p.m.

Mr. Ross moved to approve disability retirement application ref. #0393. Ms. Leslie Pool seconded and the motion passed unanimously.

6. Consider Board Resolution authorizing and designating persons to give instructions to investment managers

Mr. Chris Hanson reported on the proposed resolution. He explained certain staff are authorized to give instructions to COAERS's investment managers. He explained that the former Chief Investment Officer was authorized to given written instructions to COAERS' investment managers. The proposed resolution would give that same authority to the current Chief Investment Officer, Mr. David Veal.

Ms. Elizabeth Gonzales moved approval of the Board Resolution 2016-0927-1 authorizing and designating persons to give instructions to investment managers and that the Board authorize the Vice Chair to sign the resolution on behalf of the Board of Trustees in the absence of the Board Chair. Mr. Reagan David seconded, and the motion passed unanimously.

7. Investment Committee

A. Receive reports from the August 12, 2016 and August 31, 2016 meetings

Mr. Noak reviewed the prior two Investment Committee meetings from August.

B. US equity portfolio

1. Receive report on Committee recommendations regarding US equity portfolio structure

Mr. David Veal reported the results of the partial restructure of the US equity portfolio in 2015 and reviewed the Committee's recommendation to continue moving forward with those strategies. This further restructuring is expected to save \$800,000 annually in investment management fees while improving the risk-adjusted performance and factor diversification of the US equity portfolio.

2. Discuss and consider implementation of Committee recommendations to restructure the US equity portfolio

Ms. Francine Gertz moved to redeem the AJO and Westfield accounts and move the funds to the existing Scientific Beta US Equal Weight Index. Ms. Gonzales seconded. Ms. Gertz amended her motion to add authorization to the Executive Director to terminate the investment management agreements with AJO and Westfield. Ms. Gonzales again seconded and the amended motion passed unanimously.

C. Emerging Markets portfolio

1. Receive report on Committee recommendations regarding the Emerging Markets portfolio structure

Mr. Veal presented an overview of the deliberations undertaken by the Committee to arrive at its recommendations regarding the Emerging Markets portfolio structure. Key considerations for evaluating the portfolio implementation options included risk, returns, structure, fees, and expenses. After a manager search that included due diligence visits and after considering thirteen different investment structures, the Investment Committee selected its preferred portfolio structure and directed Staff to prepare an implementation plan for Board approval. Mr. Veal noted that the portfolio structure recommended by the Committee is estimated to save \$100,000 annually in investment management fees while improving the risk-adjusted performance and factor diversification of the portfolio.

2. Discuss and consider implementation of Committee recommendations to restructure the Emerging Markets portfolio

Upon review of the implementation plan by the Board, Mr. Ross moved approval of the following changes:

1. Fund the Scientific Beta Emerging Markets Equal Weight Index with Legal & General Investment Management Americas (LGIMA) at 67% and the Baillie Gifford Emerging Markets (EM) Fund at 33% of the Emerging Markets portfolio;
2. Authorize the Executive Director to terminate the investment management agreements with existing Emerging Markets managers;
3. Authorize Staff to work with the custodian to fund the allocations of the restructured Emerging Markets portfolio; and
4. Approve and authorize the Vice-Chair to sign on behalf of the Board of Trustees in the absence of the Board Chair, pending final approval by legal counsel and the CIO:
 - a. An Investment Management Agreement with LGIMA
 - b. A Side Letter with LGIMA and Reliance Trust Company of Delaware and any other documents needed to give effect to the investment
 - c. Baillie Gifford EM Fund Service Agreement, Subscription Agreement and any other documents needed to give effect to the investment

Mr. Benson seconded and the motion passed unanimously.

D. Discuss and consider index providers, including amendments to existing agreements

Mr. Veal explained the proposed amendments to contracts with Northern Trust Asset Management including the fee reductions in the Russell 2000 Index, Barclays US Aggregate Index, and Scientific Beta US Index products. Mr. Veal noted that in the aggregate these revisions would result in \$80,000 in savings annually. Mr. Benson moved approval of the Eighth Amendment to the Investment Management and

Custodian Agreement, the First Amendment to the Investment Management Agreement with Northern Trust Investments, Inc. and that the Board authorize the Vice-Chair to sign the amendments on behalf of the Board of Trustees in the absence of the Board Chair. Ms. Gertz seconded and the motion passed unanimously.

Trustees directed Staff to continue exploring potential savings related to index providers and to add that topic to the agenda for the next Investment Committee meeting.

E. Discuss and consider transition management services

As part of its duty to ensure that the Fund received the best quality services at competitive prices, Staff solicited two bids for transition management services for the US equity portfolio. Mr. Veal noted that while the commissions and fees were roughly comparable, the Fidelity Capital Markets proposal would be expected to cost \$20,000 less than the bid from Northern Trust Securities due to lower trading costs. The Board discussed the two options for implementing transition management services. Ms. Gertz moved approval of the Fidelity Capital Markets Transition Services Agreement and authorizing the Vice-Chair to sign the agreement on behalf of the Board of Trustees in the absence of the Board Chair. Ms. Pool seconded and the motion passed unanimously.

Ms. Pool departed at 2:51 p.m.

Trustees took a break at 2:51 p.m. and reconvened at 2:58 p.m.

F. Discuss and consider Request for Proposal (RFP) for general investment consultant

At the direction of and with feedback from the Investment Committee, Staff prepared a draft Request for Proposal for a general investment consultant. Mr. Veal reviewed a number of key discussion points contained in the document. Trustees discussed the length of potential contracts since the draft proposed an initial contract term of three years with two potential two-year renewal periods. Trustees also discussed whether having an OCIO business should disqualify a firm and the level of involvement of the Board and Staff in the process of reviewing potential bids. Ms. Gonzales reported that upon writing the initial RFP years ago, the Board at that time was looking for both transparency and lack of conflict of interest. The Board directed Staff to include Mr. Benson in the list of Trustees in the “No Conflicts” section and add language requiring proposers to specify how price escalations are calculated. Mr. Ross suggested soliciting academic and continuing education activities of the proposers. Mr. Hanson suggested that be part of the second round of interview questions.

Mr. Benson moved approval of the General Investment Consultant Request for Proposal as revised. Mr. Jones seconded, and the motion passed unanimously.

8. Policy Committee

A. Receive report from September 13, 2016 meeting

Mr. Hanson reviewed the meeting discussions from the last Policy Committee meeting regarding personnel matters including a compensation study report by CBIZ, a review of the 2016 salary scale and position assignments, and proposed technical revisions to BAP P-1 “Statement of Personnel Policy & Guidelines”. Mr. Hanson noted that the

Committee also received an update on the Service Delivery and Technology project and considered a Change Order to the LRWL contract, and the reviewed revisions to policies related to the Code of Ethics.

B. Discuss and consider personnel matters including:

1. Proposed 2017 salary scale and position assignments to pay grades

Mr. Ross moved approval of the proposed salary scale and position assignments to pay grades. Ms. Gertz seconded and the motion passed unanimously.

2. Board Approved Policy P-1 “Statement of Personnel Policy & Guidelines”

Mr. Ross moved approval of the proposed Policy P-1 “Statement of Personnel Policy & Guidelines”. Mr. Benson seconded, and the motion passed unanimously.

C. Discuss and consider change order to LRWL, Inc. agreement

Mr. Nash reminded the Board that the relationship with LRWL, the technology consultant, began in May of 2013. At the time it was not yet known how long COAERS would need LRWL’s services to help implement the pension administration software. Staff estimates that implementation of the project will be completed on or about August 2018 but expects to reach the maximum original contract amount in late 2017.

Mr. Benson moved approval of a Change Order with LRWL, Inc. in an amount not to exceed \$316,146 with LRWL, Inc., with \$72,956 of the change order being reserved for contingencies, and to grant general authority to the Executive Director to authorize expenditures out of the contingency funds with LRWL, Inc. if needed. Ms. Gertz seconded and the motion passed with Mr. Ross opposed.

Mr. Nash stated that the Staff would keep the Policy committee updated and manage the work to keep expenditures with LRWL lower than authorized. He also thanked the Board for their support.

D. Discuss and consider disclosure requirements including:

1. Board Approved Policy C-3 “Code of Ethics”

Mr. Hanson reported on the proposed changes to the Code of Ethics, including new definition of key terms, new sections on fiduciary standards, more specificity on prohibited conduct, and the merging of the Ethics Policy with the Disclosure of Certain Relationships Policy. Mr. Hanson noted all changes were recommended by the Policy Committee. Ms. Elizabeth Gonzales moved approval of the revised policy. Mr. Ross seconded and the motion passed unanimously.

2. Board Approved Policy D-6 “Disclosure of Certain Relationships”

The Board discussed the fact that all elements of policy D-6 were now included in the new policy C-3. Ms. Gonzales moved to repeal policy D-6. Mr. Ross seconded, and the motion passed unanimously.

9. Benefits & Services Committee

A. Receive report from the September 13, 2016 meeting

Mr. Nash presented a report of the last Benefits & Services Committee meeting where a revision to Policy Q-1 regarding Qualified Domestic Relations Orders was discussed. The Committee also reviewed a draft policy regarding limits on contributions.

B. Discuss and consider revisions to Board Approved Policy Q-1 “Qualified Domestic Relations Orders”

Mr. Nash reviewed the proposed revisions to Policy Q-1 which included new language suggested by legal counsel to specify that a Qualified Domestic Relations Order (QDRO) contain the specific dollar amount of the Alternate Payee’s portion of the participant’s monthly annuity.

Mr. Jones moved approval of Board Approved Policy Q-1 “Qualified Domestic Relations Orders” as revised. Mr. Ross second and the motion passed unanimously.

10. Executive Session

A. Convene into executive session pursuant to Section 551.071, Texas Gov't Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 13, Article 6242n, Texas Revised Civil Statutes, to consult with legal counsel regarding settlement of a matter

B. Reconvene into open session to make a recommendation as deemed appropriate at the Board’s discretion regarding the subject of the Executive Session

The Board convened into Executive Session 3:50 p.m. and reconvened into public session at 4:20 p.m.

Mr. Jones moved to Authorize Executive Director and General Counsel to make a settlement offer and enter into a settlement agreement as discussed in Executive Session. Mr. Benson seconded and the motion passed with Mr. David opposed.

11. Audit and Finance Committee

A. Receive report from the August 30, 2016 meeting

Mr. Ross and Ms. Boykin presented an update from the last Audit & Finance Committee meeting.

B. Consider acceptance of 2016 report of extended audit procedures

Mr. Mike O’Brien and Ms. Angela Dawson presented a brief overview of the Extended Audit and offered to answer any questions on the report. Mr. David moved to approve the 2016 Extended Audit report. Mr. Jones seconded and the motion passed unanimously.

C. Discuss and consider proposed 2017 budget

Mr. David moved approval of the proposed 2017 budget. Mr. Benson seconded and the motion passed unanimously.

Mr. Hanson and Mr. Veal discussed in-house investment tools and analytics which are not included as line items in the administrative budget and which could provide Staff with important new capabilities related to portfolio analysis, manager selection,

performance reporting and risk management. Trustees directed Staff to present this item to the next Investment Committee meeting.

D. Discuss and consider Committee Charter

Mr. Ross explained the minor revisions proposed to the Committee Charter. Mr. Benson moved to accept the proposed changes to the charter. Mr. Jones seconded. Discussion ensued regarding the minimum number of participants in the Audit & Finance Committee. The motion and second were amended to change the minimum number of Committee members from three to five. The motion passed unanimously.

E. Second quarter 2016 financial statements

Trustees were provided the second quarter 2016 financial statements. There were no questions or comments.

12. COAERS facility management

A. Receive appraisal and market value conclusion from Paul Hornsby & Company

Mr. Chris Hornsby reviewed the appraisal which was presented to Trustees in advance of the meeting.

B. Discuss and consider short term and long term facility plans

Trustees directed Staff to develop a long-term facility plan based on current and projected needs and allow the Board to consider the plans in conjunction with the market value study.

13. Discuss Board educational activities including:

A. Reports on educational programs attended

Mr. Ross highly recommended the Claritas on line certificate program. Mr. Hanson noted that it was his expectation that ten of the eleven Trustees have completed their Pension Review Board (PRB) required training and all will have it completed by the end of the calendar year.

B. Upcoming educational programs and conferences

Mr. Hanson shared a list of upcoming opportunities.

14. Executive Director Report

A. Update on elections

B. Annual members meeting

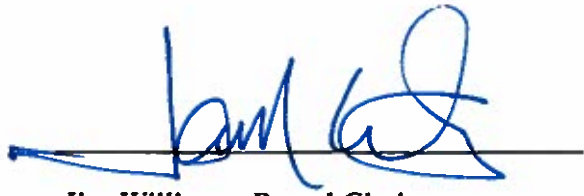
C. Public pensions in the news

D. Comparative calculation and retirement activity levels

Mr. Hanson reported that there were two applicants for the election of Place Ten. He also noted that a draft agenda of the upcoming Members' meeting was included; Ms. Gonzales noted that she will be out of town and will not be able to attend that meeting.

15. Call for future agenda items

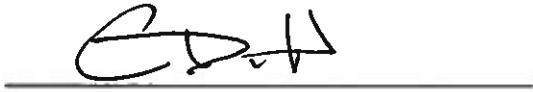
As there were no further items to address, the meeting adjourned at 5:29 p.m.



Jim Williams, Board Chair

12/12/2016

Date



Christopher Hanson, Executive Director

12/12/2016

Date