



# BOARD OF ADMINISTRATION

City Hall  
Wing Rooms 118-120  
200 East Santa Clara  
Street,  
San Jose, CA 95113

## Meeting Minutes - Final Federated City Employees' Retirement System and Federated City Employees' Health Care Trust

Thursday, January 17, 2019

8:30 AM

City Hall, Wing Rooms 118-120

### CALL TO ORDER AND ROLL CALL

The Board of Administration of the Federated City Employees Retirement System and Health Care Trust met on Thursday, January 17, 2019 at 8:30 a.m. in regular session at City Hall, 200 E. Santa Clara Street, Wing rooms 118-120, San Jose, California 95113. Chair Loesch called the Pension Plan and Health Care Trust meeting to order at 8:30 a.m.

**Present:** 6 - Matt Loesch, Martin Dirks, Anurag Chandra, Kurt Billick, Jay Castellano and Qianyu Sun

**Absent:** 1 - Elaine Orr

**Retirement Staff Present:** Roberto L. Peña, Prabhu Palani, Donna Busse, Brian Starr, Peter Pham, Ron Kumar, Marti Zarate, Michelle San Miguel, Linda Alexander.

**Also Present:** Jeffrey Rieger, General and Fiduciary Counsel, Bill Hallmark, Cheiron; Michael Schionning, Cheiron; Tom Iannucci, Cortex; Cheryl Parkman, OER; Julie Jennings, CAMP; John A. Klobe, Santa Clara County Grand Jury; Georgine Scott, Santa Clara County Grand Jury; Barbara Haskins, Santa Clara County Grand Jury.

### AGENDA

### OPEN SESSION

### ORDERS OF THE DAY

The following changes were made to the Orders of the Day:

-Harvey Leiderman, General and Fiduciary Counsel, had a scheduling conflict. His colleague, Counsel Jeffrey Rieger, will take his place for item 4c, Educational presentation by Fiduciary Counsel on conflicts of interest.

-Waive Sunshine on item 5c, Investment Governance Project by Cortex. Attachment received late.

The Board will go through the items in order.

A motion was made to approve the Orders of the Day and waive sunshine on 5c, attachment received late.

Approved. (M.S.C. Dirks/Castellano 6-0-0). The motion passed unanimously.

**1. CONSENT CALENDAR**

A motion was made to approve the Consent Calendar.

Approved. (M.S.C. Dirks/Chandra 6-0-0). The motion passed unanimously.

**1.1 Approval of Service Retirements**

- a. **Arion T. Jones**, Senior Construction Inspector, Public Works Department, effective February 9, 2019; 30.00\* years of service.
- b. **Sam Koosha**, Senior Engineer, Department of Transportation, effective February 9, 2019; 30.00\* years of service.
- c. **Dan Sunseri**, Fleet Manager, Public Works Department, effective January 12, 2019; 29.33\* years of service.

**1.2 Approval of Deferred Vested**

- a. **Mark Brogan**, Financial Analyst, Finance Department, effective February 2, 2019; 16.28\* years of service.
- b. **Adolfo R. Gonzalez**, Engineering Technician II, Department of Transportation, effective February 10, 2019; 28.96\* years of service. *(With Reciprocity - CSJ YOS 26.96 + TCERA 2)*
- c. **Barbara Urias**, Executive Assistant, City Attorney's Office, effective February 15, 2019; 21.94\* years of service.

**1.3 Approval of Board Minutes**

- a. Approval of the Board Minutes of December 20, 2018.

**1.4 Approval of Return of Contributions**

- a. Voluntary | Involuntary.

**1.5 Acceptance of Communication/Information Reports**

- a. Matrix of City Auditor's Recommendations from the 2017 Audit. Receive and file.

- b. Council Representative Charter - Recommendation #12. Receive and file.
- c. Federated Board Investments Performance Measures - Recommendation #15. Receive and file.
- d. 2019 Federated Board Committee Assignments. Receive and file.
- e. Board Chair Charter. Receive and file.
- f. Vice-Chair Charter. Receive and file.
- g. Election of Board Officers Policy. Receive and file.
- h. Report of the Plan Expenses for November 2018. Receive and file.

#### **1.6 Approval of Travel / Conference Attendance**

- a. Prabhu Palani, CIO
  - Trusted Insight, San Francisco, CA - January 9, 2019
  - Pacific Pension Institute 2019 Winter Roundtable, Westlake Village, CA - February 27 - March 1, 2019

#### **1.7 Notice of Alternate Payee Benefit Election**

- a. Approval of Alternate Payee Benefit election of Separate Account Monthly Payment Option to be paid to Jimmy Cotillon, ex-spouse of Library Clerk, **Rita Cotillon** to be effective December 14, 2018 under Chapter 3.28, Part 23 of the San Jose Municipal Code.

#### **1.8 Approval of Administrative Matters**

- a. Travel Policy adopted as Resolution #8872.
- b. Resolution #8871 adopting Rosenberg's Rules of Order for Board Governance in accordance with the City's adoption of the simplified meeting governance rules.

**2. DEATH AND SURVIVORSHIP NOTIFICATIONS (Moment of Silence)**

The Chair asked for a moment of silence for those who served and passed away.

- a. Notification of the death of **Kenneth Canepa**, Parks Manager, retired April 5, 1997, died December 17, 2018. Survivorship benefits to Nancy Canepa, Spouse.
- b. Notification of the death of **Helen Jackson**, City Clerk, retired March 23, 1985, died December 3, 2018. No survivorship benefits.
- c. Notification of the death of **James P. Long**, Groundswoker I, retired May 14, 1978, died November 23, 2018. No survivorship benefits.
- d. Notification of the death of **Elsa N. Mora**, Library Assistant, active employee, died September 16, 2018. No survivorship benefits.
- e. Notification of the death of **Patricia Schifano**, Office Specialist II, retired July 3, 2004, died October 18, 2018. No survivorship benefits.

**3. OLD BUSINESS-DEFERRED/CONTINUED ITEMS**

- a. Discussion and action on Other Post Employment Benefits (OPEB) Valuation Results as of June 30, 2018 presented by Cheiron.

Item 3a was heard after item 4a.

**Bill Hallmark and Michael Schionning presented Other Post Employment Benefits (OPEB) Valuation Results as of June 30, 2018 and answered questions from the Board. Mr. Hallmark stated that the report measures assets and liabilities of the City of San Jose Federated Post Employment Healthcare Plan for funding purposes only. There is a separate report for financial reporting.**

After discussion, a motion was made to approve the Valuation results.

Approved. (M.S.C. Loesch/Castellano 6-0-0). The motion passed unanimously.

**4. NEW BUSINESS**

- a. Oral update from the CEO of Retirement Services, Roberto L. Peña.

Item 4a was heard after item 2.

CEO Peña updated the Board on the following:

- Pension Administration System is running parallel with legacy system. Staff will balance January payroll. The new system will go live on 2/1/19. CEO Peña will keep the Board apprised.
- Deputy Director search, staff received 9 applications. They extended the process another two weeks to close on 1/25/19, Friday. CEO Peña is working with HR and an outside consultant. He reached out to CALAPRS and they posted the position on their website. CEO Peña wants a larger pool from which to choose. There will be panel interviews. The goal is to have the new person start in mid-March.
- Joint meeting with the City Council based on the survey has been scheduled for Thursday, April 25th, from 1:30-4:30 p.m. The board will discuss topics for discussion next month.
- The application process for the Public member closed on January 1, 2019. One applicant applied and was declined because he did not live within the 50-mile radius of City Hall. Staff is working with the City to amend the municipal code from 50-mile radius to 50-100 mile radius of City Hall. The application process will reopen in March and the Board will have a new Trustee in April.
- Additional pending internal personnel searches- Senior Auditor, Benefit Analyst and Staff Technician.
- The Santa Clara County Civil Grand Jury is working on a review of the Federated Plan. They will meet with the Trustees in the future.
- CEO Peña and CIO Palani will present the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2018 and June 30, 2017 to City Council on Tuesday, January 29, 2019.

- b. Oral update from the City Council Liaison to the Board.

Council Liaison Dev Davis reported that Council is working with the City Manager on Budget projections.

- c. Discussion on Cheiron's 5-Year Budget Projections for Federated Board.

4c was heard after item 3b.

Bill Hallmark led the discussion and answered questions from the Board regarding the 5-year projection.

CEO Peña noted that the Board may want to review the pre-funding policy. The Chair responded that they have to communicate that to the City if they want to consider to prefund. Council Liaison Dev Davis stated that they will not have future projections of City revenue until the end of February.

d. Discussion and action on Reclassified Member Contribution Rates.

Bill Hallmark led the discussion and answered questions from the Board regarding reclassified member rates. He stated that we are in the process of implementing the Measure F where employees who were hired into Tier 2 under measure F were reclassified to Tier 1. A portion of the increase in liability for them being reclassified to Tier 1 became their responsibility and they were to pay for that portion of the increase. The payments for those increase in liability is scheduled to start March 24, 2019.

There is a method in place so that the amount that they haven't paid is adjusted for that value. When the member retires, the amount remaining that they owe would be greater than the amount they owed today. The question to the Board is whether they wanted to get a higher rate than 1.85%. Chery Parkman, OER, spoke and explained that during bargaining, the unions were fine with the Boards setting the rate and also that some didn't mind a higher rate so they could pay off the amount owed quicker. Staff asked Cheiron if they could create samples for the re-classified members to give them an idea of what benefit they would receive. The Chair stated that if the members do not like the rate, they will have an opportunity to speak at the February Board meeting.

After discussion, the chair wants to have this item agendized next month and invite members who were affected.

A motion was made to set the rate at 3% and direct staff to bring back as an item to discuss with the members next month.

Approved. (M.S.C. Loesch/Billick 6-0-0). The motion passed unanimously.

e. Educational presentation by Fiduciary Counsel on conflicts of interest.

Jeffrey Rieger, General and Fiduciary Counsel, presented the Conflicts of Interest educational presentation which covered the following:

Financial Conflicts of Interest  
Political Reform Act  
Government Code Section 1090  
Government Code Section 7513.95  
San Jose Local Rules  
Restrictions on Gifts and Honoraria  
Non-Financial Conflicts of Interest  
Common Law  
Board Governance Issues  
Special Rules for Investment Advisors

## 5. INVESTMENTS

- a. Oral update from the CIO of Retirement Services, Prabhu Palani.

CIO Palani updated the Board on the attached slides regarding market updates and answered questions from the Board. He noted that the market started out on a positive note in the beginning of the fourth quarter. From January 1st through December 31st, the S&P500 was down 4% and Emerging markets lost quite a bit more than the US markets down 15%. Emerging markets are now relative to the United States as the most attractive in almost a decade.

- b. Approval to increase the annual not-to-exceed contract amount of \$35,000 to \$45,000 for Dynamo Research Management System, cost to be split 50/50 between both Plans.

Mr. Kumar provided a brief background of Dynamo Research Management System usage and answered questions from the Board. Staff recommended approval of the not to exceed amount for the contract from \$35,000 to \$45,000 shared 50/50 between the Federated and Police and Fire plans.

A motion was made to approve the annual not to exceed contract amount from \$35,000 to \$45,000 for Dynamo Research Management System and the cost will be shared 50/50 between both plans.

Approved. (M.S.C. Chandra/Billick 6-0-0). The motion passed unanimously.

- c. Discussion and action on Investment Governance Project by Cortex.

Tom Iannucci from Cortex gave a background and stated that the Police and Fire Board and the Federated Board has always been committed to taking a look at governance and management of the systems identifying the best practices in trying to implement them and adapt them to the needs of the system. In 2018 the Police and Fire Investment Committee focused on the governance of the investment functions and focused on two issues. 1). The asset allocation process and 2). Delegating more authority to staff. At the December FED IC, staff brought the issues forward for discussion. The Committee felt that the issues should be brought to the full Board in January.

Mr. Iannucci made the presentation and answered questions from the Board regarding delegation of authority. He stated that in the current process, the management delegation does change some of the ways they operate as a Board. He was looking for feedback from the Board and will bring back the formal amended language in detail of how it would be structured.

After extensive discussion, the Board felt that they do not need to mirror what the Police and Fire Board agreed to and recommended that the FED IC take a look at their Investment Policy Statement and bring this back to the Board.

There was no action for this item.

## **6. COMMITTEES/REPORTS/RECOMMENDATIONS**

**6.1 Investment Committee (Loesch, Billick, Chandra)**

**Last Meeting: December 18, 2018      Next Meeting: January 22, 2019**

- a. Oral update from the Chair of the Investment Committee.  
  
**Chair Chandra updated the Board and stated that the Federated IC adjusted their meeting calendar. They will meet 6 times a year.**
- b. Minutes of the November 27, 2018 Federated Investment Committee meeting. Receive and file.  
  
**This Committees/Reports/Recommendations was received and filed**
- c. Minutes of the November 27, 2018 Joint Investment Committee meeting. Receive and file.  
  
**This Committees/Reports/Recommendations was received and filed**

**6.2 Governance Committee (Dirks, Sun, Orr)**

**Last Meeting: November 26, 2018      Next Meeting: March 7, 2019**

- a. Oral update from the Chair of the Governance Committee.  
  
**There was no update from the Governance Committee.**
- b. Discussion and action on results of initial Board Performance Evaluation/Assessment for the Federated Board.  
  
**Tom Iannucci from Cortex led the discussion and answered questions from the Board.**  
  
**After discussion, a motion was made to add this as an appendix to the Education policy.**  
  
**Approved. (M.S.C. Castellano/Sun 6-0-0). The motion passed unanimously.**  
  
**A motion was made to hold on the funding strategy and meeting frequency and delegate it to Governance Committee to discuss operations and member services.**  
**The discussion continued.**  
  
**An amended motion was made that the Chair will put this on the agenda in early spring as a synopsis of funding strategy over the next decade.**  
  
**Approved. (M.S.C. Loesch/Dirks 6-0-0). The motion passed unanimously.**



**6.3 Audit Committee (Castellano, Dirks, Orr)**

**Last Meeting: October 18, 2018**

**Next Meeting: February 21, 2019**

- a. Oral update from the Chair of the Audit Committee.

There was no update out of the audit committee.

**6.4 Joint Personnel Committee (Dirks, Loesch, Chandra)**

**Last Meeting: August 23, 2018**

**Next Meeting: TBD**

- a. Oral update from the Chair of the Joint Personnel Committee.

Surveys went out to meet in January and February after a Board meeting and the Board did not have quorum. A new survey will be sent to the committee with non Board meeting dates.

**7. EDUCATION & TRAINING**

- a. The Cortex Report January 2019 - Conferences, Seminars, and Educational Programs.
- b. CalAPRS 2019 Program Calendar.
- c. The Pension Bridge Annual Conference, Westin St. Francis Hotel, San Francisco, CA - April 9 -10, 2019.

**FUTURE AGENDA ITEMS**

None.

**PUBLIC/RETIREE COMMENTS**

None.

**ADJOURNMENT**

**The meeting was adjourned at 12:07 p.m.**

\*Estimated

Minutes Recorded, Prepared and Respectfully Submitted by,

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MATTHEW LOESCH, P.E., CHAIR  
BOARD OF ADMINISTRATION

ATTEST:

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ROBERTO L. PEÑA  
CEO, OFFICE OF RETIREMENT SERVICES