



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, September 20, 2018

8:30 AM

City Hall Wing Rooms 118-120
San Jose, CA 95113

ROLL CALL AND CALL TO ORDER

The Board of Administration of the Federated City Employees Retirement System and Health Care Trust met on Thursday, September 20, 2018 at 8:30 a.m. in regular session at City Hall Wing Rooms 118-120, 200 East Santa Clara Street, San Jose, California 95113. Chair Loesch called the Pension Plan and Health Care Trust meeting to order at 8:30 a.m.

Present: 7 - Matt Loesch, Michael Armstrong, Martin Dirks, Anurag Chandra, Kurt Billick, Jay Castellano and Qianyu Sun

Trustee Billick arrived at 8:44 a.m.

Non-Voting Board Member Councilmember Dev Davis departed at 11:35 a.m.

Retirement Staff Present: Roberto L. Peña, Prabhu Palani, Donna Busse, Barbara Hayman, Benjie Chua-Foy, Melanie Kirmse, Christina Wang, Brian Starr, Jay Kwon, Dhinesh Ganapathiappan, Arun Nallasivan, Peter Pham, Marti Zarate, Michelle San Miguel, Linda Alexander.

Also Present: Jeff Rieger, General and Fiduciary Counsel; Jennifer Schembri, Director OER; Cheryl Parkman, OER; Laura Wirick, Meketa Investment Group.

OPEN SESSION

ORDERS OF THE DAY

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

Closed Session items will be heard last

Waive sunshine attachments received late on items:

3d- Discussion and action on update on the City Auditor's recommendations to ORS

5c(7) - Discussion and action on Asset Allocation Implementation by Investment Staff.

A motion was made to approve the Orders of the Day.

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

1. CONSENT CALENDAR

CEO Peña pulled item 1.6f for discussion.

A motion was made to approve the balance of the Consent Calendar.

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

1.1 Application for a Non-Service-Connected Disability

- a. **Laura McEwen**, Supervising Environmental Services Specialist, Environmental Services Department, Request for a Change in Status to a Non Service-Connected Disability Retirement, effective January 13, 2018; 8.08* years of service. (*Disability Committee Recommendation: Approval*)

1.2 Approval of Service Retirements

- a. **Arleen Arimura**, Public Outreach Representative II, Environmental Services Department, effective September 22, 2018; 28.38* years of service.
- b. **Sharon Fischer**, Supervising Public Safety Dispatcher, Police Department, effective October 6, 2018; 33.34* years of service. (*With Reciprocity - CSJ YOS 28.24 + PERS YOS 5.10*)
- c. **Natalie Grey**, Police Data Specialist II, Police Department, effective September 22, 2018; 30.05* years of service.
- d. **Mark Mas Konatsu**, Police Property Supervisor, Police Department, effective October 20, 2018; 30.04* years of service.
- e. **Edgar O'Hara**, Plant Operator III, Environmental Services Department, effective October 20, 2018; 29.41* years of service.
- f. **Jean Polo**, Senior Account Clerk, Office of Economic Development, effective September 1, 2018; 10.00* years of service.
- g. **Teresa Giao Tran**, Senior Systems Applications Programmer, Information Technology Department, effective October 6, 2018; 30.01* years of service.
- h. **Norman S. Satake**, Analyst II, Parks Recreation, Neighborhood Services Department, effective October 20, 2018; 15.23* years of service.

1.3 Approval of Deferred Vested

- a. **Maureen Dyetle**, Emergency Communications Dispatcher, Fire Department, effective September 26, 2018; 16.12* years of service.
- b. **Kingsley Okereke**, Principal Accountant, Finance Department, effective September 28, 2018; 32.26* years of service. (*With Reciprocity - CSJ YOS 3.26 + PERS YOS 29*)
- c. **Matthew Young**, Associate Civil Engineer, Public Works Department, effective August 21, 2018;

9.33* years of service.

1.4 Approval of Board Minutes

- a. Approval of the Board Minutes of August 16, 2018.

1.5 Approval of Return of Contributions

- a. Voluntary | Involuntary.

1.6 Acceptance of Communication/Information Reports

- a. Report of the Plan Expenses for June 2018. Receive and file.
- b. Review of 4/1/18-6/30/18 Quarterly Travel and attendance analysis for Federated. Receive and file.
- c. Communication regarding construction taking place in City Hall Wing Rooms during December.
- d. Office of Retirement Services and Investment Team Organization Charts.
- e. Report of the Budget vs. Actual Expenses for 4th Quarter FY 17-18. Receive and file.
- f. Correspondence from Member regarding Pensionable Pay Correction.

CEO Peña pulled this item for discussion. He stated that staff responded to the member that staff will forward this information to the Board. CEO Peña requested direction from the Board on how to proceed in responding to the member.

After discussion the Chair directed staff to work with General Counsel.

**A motion was made to accept the communication on item 1.6f.
Approved. (M.S.C. Loesch/Chandra 6-0-0). The motion passed unanimously.**

1.7 Approval of Travel / Conference Attendance

- a. Marty Dirks, Trustee
 - CalAPRS Trustees Round Table, Hilton Los Angeles North/Glendale, Glendale, CA - October 25 - 26, 2018

- b. Jay Castellano, Trustee
 - CalAPRS Trustees Round Table, Hilton Los Angeles North/Glendale, Glendale, CA - October 26, 2018
- c. Prabhu Palani, CIO
 - Fiduciary Investors Symposium, Stanford University, Palo Alto, CA - October 1 - 2, 2018
 - Due Diligence: October 22 - 24, 2018, Atlanta, Georgia

2. DEATH AND SURVIVORSHIP NOTIFICATIONS (Moment of Silence)

Chair Loesch asked for Moment of Silence for those who served in the past.

- a. Notification of the death of **Henry G. Amarillas**, Maintenance Worker, retired November 5, 2005, died August 14, 2018. No survivorship benefits.
- b. Notification of the death of **Barbara L. Edwards**, Secretary, retired May 26, 1999, died May 15, 2018. No survivorship benefits.
- c. Notification of the death of **Nancy J. Jeremias**, Typist Clerk III, retired January 11, 1980, died August 27, 2018. No survivorship benefits.
- d. Notification of the death of **Dennis R. McKiernan**, Gardener, retired February 7, 2004, died July 26, 2018. Survivorship benefits to Mary McKiernan, Spouse.
- e. Notification of the death of **Raymond Mendez**, Custodian, retired March 13, 2006, died July 10, 2018. No survivorship benefits.
- f. Notification of the death of **David Parsons**, Senior Construction Inspector, retired August 26, 1996, died November 5, 2017. No survivorship benefits.
- g. Notification of the death of **Max Rodriguez**, Senior Maintenance Worker, retired March 25, 2017, died August 25, 2018. Survivorship benefits to Maria Rodriguez, Spouse.
- h. Notification of the death of **Vivian B. Taggart**, Executive Secretary, retired August 16, 1980, died August 1, 2018. No survivorship benefits.

3. OLD BUSINESS-DEFERRED/CONTINUED ITEMS

- a. Discussion and action on the proposed ordinance clarifying the process for the payment of the amortization costs associated with transitioning rehired Tier 1 employees in Tier 2 back into Tier 1.
CEO Peña introduced the item and stated that the City has been working on the language for the ordinance and the process is based on the bargaining units.

The Chair directed Counsel to participate in the review of the ordinance and work with OER and the City Attorney.

- b. Discussion and action regarding Pensionable Pay Correction Interest Rate to be charged to the Plan Sponsor (The City) for the overpaid group.

Jeff Rieger, General and Fiduciary Counsel, led the discussion. He stated that the Board has made the decision on how it's going to correct the errors. The Board has written off some of the past overpayments which means it needs to collect those amounts from the City. The Board chose to include those amounts in the City's UAL. Counsel's recommendation is to adopt the assumed rate of return for the purpose of reporting the amounts it is including the City's UAL.

After discussion, a motion was made to use the assumed rate of return for the pensionable pay correction and roll it into the UAL unless the City is going to pay the lump sum, in which case the actual rate of return may be used.

Approved. (M.S.C. Castellano/Chandra 7-0-0). The motion passed unanimously. Trustee Sun stated for transparency include the rate. CEO Peña asked to provide the calculation of the assumed rate of return from 1998-2018. Trustee Billick arrived during this item at 8:44 a.m.

- c. Discussion and action on Committee structure and assignments.

Chair Loesch led the discussion. He stated that the Police and Fire Board would like Federated Board to align their committee structure and incorporate Joint meetings where there is duplication such as the Audit and Governance Committees. Reason being that it would be easier to share one staff and mirror committees, projects, and work. Chair Loesch recommended to keep the current committee structure as it is through the end of the year and if this comes back in 2019, the Board will revisit the charters on how and why it will make sense.

There was no action for this item.

- d. Discussion and action on update on the City Auditor's Recommendations to the Office of Retirement Services. (From the August 16, 2018 Joint Audit Committee Agenda)

CEO Peña led the discussion regarding the City Auditor's Recommendations of the Office of Retirement Services and answered questions from the Board. He stated that he and staff had a meeting with the City Auditor's office and the target dates and process are attached. He referenced the updated status in different colors on the attached slide and explained what the colors indicated.

Chair Loesch recommended that next month's briefing include the items that were changed in the prior month and what will be worked on the following month in order to continue the implementation. He also stated that on the attached, items 23 and 24 are either a communications or website item. This could be addressed in a budgetary ask next fiscal year. The Board has talked about having a communications person or a communications consultant. If we don't have the staff or the capacity to do this, we need to ask as a requirement from us through auditing process to get this done. We need to then put that request in front of the City Council for them to give us guidance.

Mr. Peña stated that the way the budget process works for the ORS office is that we meet with the Mayor's Budget office. Mr. Peña stated that he intends to bring this request forward. The request for this position has been denied in the past. Chair Loesch stated that year 2020 is too long. He wants staff to bring this as a budgetary discussion between the Board and City Council because of an audit request and we should have an answer. We have an audit recommendation but are not able to get the position through the budget process. There should be a recommendation that we get the position approved or the Audit recommendation should be retracted.

4. NEW BUSINESS

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

CEO Peña updated the Board on the following:

- Public Recruitment for Trustees – application deadline: September 23, 2018; 11:59 p.m.
- Financial Auditors will be in the office for 2 more weeks.
- Staff is working on the CAFR.
- CEO and CIO, presented the 2017 Fee report to City Council on September 18, 2018.
- Benefits staff will be in training on the PAS next week.
- The CEO will attend the Administrator's Round Table Sept. 26-28 at the Quail Lodge in Carmel.
- The Employee Health Fair at City Hall is 10/24, the Open Enrollment period for changing benefits is the first two weeks of November.
- Open Enrollment for retirees will be the entire month of November and the Annual Retiree Health Fair will be held at ORS offices on Nov. 7th.
- ORS will be recruiting for the following positions:
 - Internal Senior Auditor
 - Senior Account Clerk
 - Account Clerk
 - Benefit Analyst

Chair Loesch asked if public members who re-apply have to go before City Council. CEO Peña replied yes.

Audit Recommendation #12. Mr. Peña will meet with Councilmembers Khamis (non-voting member for Police and Fire) and Davis for the Councilmember responsibilities as non-voting members. Chair Loesch made a recommendation to have Mr. Peña work with the Councilmembers. Non-voting member Councilmember Davis stated that she discussed this with Non-voting member Councilmember Khamis and the Mayor. This has to go through the City Council for a decision. Some of the topics would have to be in the Council policy or Council action. Mr. Peña will schedule to meet with both Councilmembers to make sure there is a charter in place that will work.

- b. Discussion and action on Authorizing the Secretary to negotiate and execute the Fourth Amendment to the Agreement with L.R. Wechsler, Ltd. for Consulting Services adding \$400,000 to total compensation for an amount not to exceed \$2,050,000 (this cost split 50/50 between Police and Fire Department Retirement Plan and FCERS). Additional compensation is to cover the cost of the following:
- a) Oversee implementation of Measure F

- b) Provide additional support in preparation for parallel, during parallel, and during the first month of go-live.

Ms. Hayman led the discussion and answered questions from the Board. Trustee Armstrong stated that this item was approved by the Audit Committee.

A motion was made to approve authorizing the Secretary to negotiate and execute the Fourth Amendment to the Agreement with L.R. Wechsler, Ltd. for Consulting Services adding \$400,000 to total compensation for an amount not to exceed \$2,050,000 (this cost is split 50/50 between Police and Fire Department Retirement Plan and FCERS). Additional compensation is to cover the cost of the following:

- a) Oversee implementation of Measure F
- b) Provide additional support in preparation for parallel, during parallel, and during the first month of go-live.

Approved. (M.S.C. Loesch/Chandra 7-0-0). The motion passed unanimously.

- c. Discussion and action to authorize the Secretary to negotiate and execute a 2nd amendment to the LRS Maintenance and Support Agreement for the purpose of updating the payment terms from Annual to Monthly for the Maintenance fee, no additional funds required.

A motion was made to approve the Secretary to negotiate and execute a 2nd amendment to the LRS Maintenance and Support Agreement for the purpose of updating the payment terms from Annual to Monthly for the Maintenance fee, no additional funds required.

Approved. (M.S.C. Loesch/Chandra 7-0-0). The motion passed unanimously.

- d. Adoption of Resolution #8786 denying the application of **Mike Richardson** for a Change in Status to Service-Connected Disability Retirement.

A motion was made to approve Resolution #8786 denying the application of Mike Richardson for a Change in Status to Service-Connected Disability Retirement.

Approved. (M.S.C. Armstrong/Chandra 7-0-0). The motion passed unanimously.

5. INVESTMENTS

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

CIO Palani updated the Board on the following:

- He has been on board with ORS for six months and the Investments Division has a full team.
- Majority of returns are driven by Asset Allocation and not manager selection.
- Staff has been working with Cortex on a comprehensive governance project.

- b. Introduction by Prabhu Palani, CIO of Dr. Ashby Monk, adviser to the CIO on venture capital allocation.

CIO Palani introduced Dr. Ashby Monk to the Board. He stated that Dr. Monk will act as an advisor for the venture capital allocation and can be used for additional projects. Dr. Monk joined via teleconference and provided his background and described some of the projects that he has worked on.

- c. Discussion and action on Asset Allocation implementation by Investment Staff.

Mr. Starr presented the Asset Allocation and the implementation plan for private markets. Mr. Kwon presented the implementation plan for public equity, fixed income and absolute return. Mr. Ganapathiappan presented the core real estate and commodities. Staff recommended approval of the Asset Allocation implementation as noted on slide 6, items 1-12.

A motion was made to approve the Asset Allocation implementation by Investment Staff items 1-12 as noted on slide 6 of the presentation.

Approved. (M.S.C. Loesch/Chandra 7-0-0). The motion passed unanimously.

- d. Discussion and action on Health Care Trust asset allocation by Meketa Investment Group.

Laura Wirick from Meketa Investment Group led the discussion and answered questions from the Board. This is an updated Health Care Trust asset allocation. Mr. Ganapathiappan presented the implementation plan for the Health Care Trust asset allocation.

A motion was made to approve Meketa Investment Group's recommendation on slide six and staff recommendation memo of the Health Care Trust asset allocation.

Approved. (M.S.C. Loesch/Chandra 7-0-0). The motion passed unanimously.

Chair Loesch stated that the Board should have a general discussion in a couple of months regarding Measure F and VEBA plan.

The Board directed CEO Peña to discuss the discount rate and cash flow for Health Care with Cheiron and bring this back to the Board in November or December.

- e. Presentation of 2nd Quarter 2018 Performance Report for the Pension Plan by Meketa Investment Group.

Laura Wirick from Meketa Investment Group led the discussion and answered questions from the Board.

- f. Presentation of 2nd Quarter 2018 Performance Report for the Health Care Trust by Meketa Investment Group.

Laura Wirick from Meketa Investment Group led the discussion and answered questions from the Board.

6. COMMITTEES/REPORTS/RECOMMENDATIONS

6.1 Investment Committee (Loesch, Billick, Chandra)

Last Meeting: August 28, 2018

Next Meeting: September 25, 2018

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

Trustee Chandra stated that everything was covered on this agenda.

- b. Minutes of the May 30, 2018 Federated Investment Committee meeting. Receive and file.

This Committees/Reports/Recommendations was received and filed

6.2 Governance Committee (Dirks, Armstrong, Sun)

**Last Meeting: May 24, 2018 Next Meeting: September 20, 2018 (Joint)
(June 21, 2018 Meeting Cancelled)**

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

Trustee Dirks stated that the Governance committee meeting was cancelled. They are working on a new date.

6.3 Audit Committee (Armstrong, Dirks, Castellano)

Last Meeting: August 16, 2018 Next Meeting: October 18, 2018

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

Trustee Armstrong met with John Caldwell from Grant Thornton and everything is going well. They committed to the agreement.

- b. Minutes of the May 17, 2018 Joint Audit Committee meeting for the Federated City Employee's Retirement System and the Police and Fire Retirement Plan. Receive and file.

This Committees/Reports/Recommendations was received and filed

- c. Update on the City Auditor's Recommendations to the Office of Retirement Services.

Everything was covered on this agenda.

- d. Oral update on the Financial Audit.

Ms. Chua-Foy stated that the Financial audit is going well. This is their 5th week on site. Staff provided them with a draft last week.

- e. Update on the Pension Administration System.

All items regarding PAS have been covered on the agenda.

- f. Update on the Pensionable Earnings Corrections.

Everything was covered on this agenda. Staff will be working on corrections in October.

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.

Trustee Dirks stated that they have a transition plan in place for Chief Operating Officer/Deputy Director position.

- b. Minutes of the June 7, 2018 Joint Personnel Committee meeting. Receive and file.

This Committees/Reports/Recommendations was received and filed

- c. Discussion and action on the amended cost proposal for Koff & Associates compensation study as a result of the CEO and other Investment professional positions at the Office Retirement Services (ORS).

CEO Peña led the discussion. He stated that they brought forward the cost proposal to work with Koff and Associates if needed. An incentive plan to understand the kind of experience they have with other systems and if there is any kind of additional cost proposal, it would be under the incentive plan. Mr. Peña believes the Committee determined the cost based on the information for the compensation study in terms of Investment professionals. He stated that they are not ready to move forward at this time.

There was no action for the item.

7. EDUCATION & TRAINING

- a. The Cortex Report September 2018 - Conferences, Seminars, and Educational Programs..
- b. CalAPRS 2018 Program Calendar.

CLOSED SESSION

The Board entered into Closed Session at 11:17 a.m.

Non-Voting Board Member Councilmember Dev Davis departed during this item at 11:35 a.m.

8. CLOSED SESSION

- a. **CLOSED SESSION:** CONFERENCE WITH LEGAL COUNSEL PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(4) - DECIDING WHETHER TO INITIATE LITIGATION. (ONE CASE)
- b. **CLOSED SESSION:** CONFERENCE WITH INVESTMENT CONSULTANT PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER PURCHASE OR SALE OF PARTICULAR PENSION FUND INVESTMENT. (ONE INVESTMENT)

The Board came out of Closed Session at 11:44 a.m.
There was no reportable action out of Closed Session.

FUTURE AGENDA ITEMS

None.

PUBLIC/RETIREE COMMENTS

None.

ADJOURNMENT

The meeting adjourned at 11:44 a.m.

*Estimated

Minutes Recorded, Prepared and Respectfully Submitted by,

_____/S/_____
MATTHEW LOESCH, P.E., CHAIR
BOARD OF ADMINISTRATION

ATTEST:

_____/S/_____
ROBERTO L. PEÑA
CEO, OFFICE OF RETIREMENT SERVICES