

**BOARD OF RETIREMENT
FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

March 17, 2010

Trustees Present:

Michael Cardenas
Franz Criego
Phil Larson

Nick Cornacchia
Eulalio Gomez
John Souza

Vicki Crow
James E. Hackett

Trustees Absent:

Steven Jolly

Others Present:

Ronald S. Frye, Alternate Trustee
Anthony Fakouri, American Benefit Strategies
Dave Godinho, Amerisave Financial Insurance Services
Doug Godinho, Business Representative Local 39
Kevin Smith, SEIU Local 521
Ron Madsen, FCERA Member
Seetha Rasaputram, FCERA Member
Susan Coberly, Senior Deputy County Counsel
Roberto L. Peña, Retirement Administrator
Becky Van Wyk, Assistant Retirement Administrator
Elizabeth Avalos, Administrative Secretary

1. Call to Order

The Chair called the meeting to order at 8:33 AM.

2. Pledge of Allegiance

Recited.

3. Public Presentations

None.

Consent Agenda/Opportunity for Public Comment

Roberto L. Peña, Retirement Administrator, pulled Consent Item 8 for discussion, Trustee Cornacchia pulled Consent Item 9 for discussion, and Ron Madsen, FCERA Member, pulled Consent Item 6 for discussion.

A motion was made by Vice Chair Hackett, seconded by Trustee Larson, to Approve Consent Items 4, 5, 7 and 10 as presented. VOTE: Unanimous (Absent – Crow, Jolly)

***4. Approve the February 17, 2010 and March 3, 2010 Retirement Board Regular Meeting Minutes**

RECEIVED AND FILED; APPROVED

***5. Summary of monthly statistics from the Retirement Association Office on service credit purchases, retirement benefit estimates, public service, contribution adjustments, final compensation calculations, and disability retirement applications for February 2010**

RECEIVED AND FILED

***6. Public Records Requests and/or Retirement Related Correspondence from Ron Madsen, FCERA Member; Jakema Lewis, Investment Management Weekly; Carl Winfield, Money Management Letter; Marc Singer, Osage Partners; Sandra Brock, FCERA Member; Sue Thornhill, Mendocino County; and Ester Stone, Cal State Fullerton**

Ron Madsen, FCERA Member, distributed his January 2010 email request to the Board noting that only the responses to the request were included in the agenda material.

A motion was made by Trustee Larson, seconded by Vice Chair Hackett, to Accept Mr. Madsen's January 2010 request and Approve Agenda Item 6. VOTE: Unanimous (Absent – Crow, Jolly)

RECEIVED AND FILED

***7. Update of Board of Retirement directives to FCERA Administration**

RECEIVED AND FILED

***8. Board Communications**

Roberto L. Peña, Retirement Administrator, noted that, as part of the Communication Packet, an article from The Fresno Bee regarding rising pension costs and the creation of a committee by the Board of Supervisors to examine how to reduce pension costs was included for the Board's reference. Mr. Peña stated that Trustee Jolly requested that a discussion be agendized to address the importance of open communications between the committee and the Board of Retirement. Mr. Peña noted that he expects to be on the committee and will report to the Board as information becomes available. The Board agreed.

Kevin Smith, SEIU Local 521, and Doug Godinho, Business Representative Local 39, noted that, as committee members, no changes will be made to retirement benefits until all parties agree through meet and confer meetings.

A motion was made by Trustee Souza, seconded by Vice Chair Hackett, to Approve Agenda Item 8 as presented. VOTE: Unanimous (Absent – Crow, Jolly)

RECEIVED AND FILED

***9. SACRS Internal Revenue System (SIRS) Task Force Phase 3 IRS/CERL Compliance update**

In response to a question from Trustee Cornacchia regarding the costs of the SIRS Task Force project and legal fees not being included in the current budget, Mr. Peña clarified that, although the costs were not anticipated nor included in the current budget, the funds are available.

In response to a question from Trustee Cardenas regarding what SACRS expects to accomplish through this process, Mr. Peña stated that the Internal Revenue Service (IRS) was implementing a program to audit public retirement systems to confirm that they are in compliance with IRS rules. In an attempt to simplify the process, SACRS took the lead and hired an attorney to review the County Employees Retirement Law of 1937 (CERL) to identify areas of the law that needed to be addressed. SACRS established the SIRS Task Force to work with the SACRS attorneys to redraft sections of the Government Code and local regulations for review and adoption by each system. SACRS has requested that all systems share the cost of this process as it will address the CERL which impacts all 1937 Act systems.

A motion was made by Vice Chair Hackett, seconded by Trustee Criego, to Accept Agenda Item 9 as presented. VOTE: Unanimous (Absent – Crow, Jolly)

RECEIVED AND FILED; APPROVED

10. Discussion and appropriate action on suggested solutions on how to deal with pension underfunding issues presented by Tony Fakouri, Chief Marketing Officer, American Benefit Strategies and David Godinho Vice President, Amerisave Financial Insurance Services

Roberto L. Peña, Retirement Administrator, opened discussions by noting that representatives of American Benefit Strategies and Amerisave Financial Insurance Services were present to discuss their approach to providing pension plans solutions designed to bring underfunded pensions into compliance with plan funding requirements and applicable federal laws. Mr. Peña stated that should the Board decide to move forward with this approach he would contact the Plan's consultants (legal, actuarial, and investment) to ascertain whether the approach is an option for the 1937 Act systems.

Tony Fakouri, American Benefit Strategies, began the presentation by stating that American Pension Solutions (APS) approach creates an additional asset class designed to compete with fixed income investments with returns driven from policy values and death benefits retained by the Plan. Mr. Fakouri stated that purchasing life insurance through a qualified pension plan can be a very attractive option for both those who manage pension assets and for plan participants.

Mr. Peña expressed his concern to a comment made by Mr. Fakouri that the concept "fully guarantees" an increase in overall assets in the Plan in less than five years and cautioned the Board that an investment "guarantee" may be "too good to be true".

Mr. Fakouri reviewed the design objectives as follows:

- Provide a permanent, pre- and post-retirement, death benefit of all plan participants
- Eliminate or reduce the current group term cost of the death benefit provided
- Fund the death benefit in a manner that has as little impact as possible to the Plan's balance sheet and incur no ongoing expense
- Obtain long-term return that is greater than the return on assets from which funds were taken

In response to a question by Mr. Peña regarding the number of public pension funds that have embraced this concept and if any are in California, Mr. Fakouri stated that eight public funds are using the approach, none of which are in California.

Mr. Fakouri stated that with the Board's approval, APS will audit the Plan and design a proposal specific to FCERA's needs at no cost.

Trustee Crow joined the Board at 9:02 AM.

Mr. Peña requested clarification of the composition of the underlying investments in the product being proposed. Mr. Fakouri stated that the primary investment is "puts". Individual contracts are written for each employee to provide a guarantee for the underlying investment in the contract.

Mr. Fakouri clarified that each member would have to sign a Notice and Consent form in order to be included in the coverage. The idea is to "help" the County out as well as the pension plan.

Mr. Peña asked about the cost for this program? Mr. Fakouri responded that "a capital transfer" to the asset class was all that was required to purchase an insurance policy on each employee that is split between the employee and the pension plan as determined in the agreement. The capital transfer would create a subset of an existing class used to fund the new mandate. The insurance company pays ABS a commission as part of the contractual purchase price. ABS is paid through the "spread" between the contractual returns to FCERA and the actual returns.

Mr. Fakouri explained the concept as a "no loss" investment. It is treated as a fixed income investment with a minimum interest crediting rate of 0%-16% annually (credited once per year) returned on the investment. The investment cannot lose money because a rate of less than 0% is not allowed in the contract. When the member dies, the pension system gets a payoff from the insurance policy. Thus, the system gets both interest earnings and insurance proceeds.

Mr. Peña noted that the investment seems too good to be true, "similar to Mr. Madoff".

In response to a question from Chair Gomez regarding why Administration had not contacted Wurts & Associates with this investment product as it has done with other investment products, Mr. Peña stated that, because this is a unique product, he wanted to have the Board's approval before moving forward as it will require input from legal and actuarial consultants as well the investment consultant.

A motion was made by Trustee Souza, seconded by Trustee Criego, to direct Administration to work with American Benefit Strategies to draft a proposal specific to FCERA and to obtain necessary information from the Board's consultants and agendize the issue for further discussion. VOTE: Unanimous (Absent – Jolly)

After further consideration Trustee Criego made the following motion seconded by Trustee Souza:

To direct Administration to work with American Benefit Strategies to draft a proposal specific to FCERA using information from the current actuarial valuation and to agendize the issue for further discussion. Administration will not incur any costs using the Board's consultants without prior approval from the Board. VOTE: Unanimous (Absent – Jolly)

RECEIVED AND FILED; APPROVED

For the record, Doug Godinho, Business Representative Local 39, informed the Board that he and Dave Godinho are brothers and that he had suggested that his brother approach both the County of Fresno and the FCERA Board with this concept.

11. Discussion and appropriate action on Professional Consulting Evaluation Process presented by Roberto L. Peña, Retirement Administrator

Roberto L. Peña, Retirement Administrator, opened discussions by reminding the Board of its request for Administration to develop a Professional Consultant Evaluation Process for FCERA's primary outside consultants as a way of providing timely and sufficient feedback to service providers to let them know how "they are doing" as it relates to the Board's expectations of their services.

Mr. Peña noted that this process, while seemingly appropriate and valuable, has proven to be more challenging than anticipated. An inquiry to the '37 Act retirement system peers found that a very limited number of the systems had implemented such a practice. Nevertheless, Administration requested information from those systems that had such a process in place to aid in developing a consultant evaluation process.

Mr. Peña stated that Administration could not find a "common benchmark" among retirement systems that would lend itself to a comparison of some objective standard of measure, a difficult approach to take in the subjective world of service providers; presumably because true benchmarking with measurable goals and outcomes is not possible or even practical in application to the types of services provided by the Board's consultants.

The consultant evaluation process, while not the norm among public pension plans, has been implemented by more systems over the last few years as more trustees are starting to consider the review of the Board's outside consultants as part of their fiduciary responsibilities for the pension plan. However, rather than recommending an evaluation form at this time, Administration believes it makes more sense that the Board agree to the general goals and objectives for this process first through the development and implementation of a Board Consultants Evaluation Policy.

As a result, Mr. Peña recommended a policy for the Board's consideration that gives the Board the opportunity to provide feedback to the primary consultants for Investment, Actuarial and Legal services, as a means of ensuring alignment of interests within the Board's goals and objectives and those of its consultants. The policy envisions the creation of a permanent four-member Consultant Evaluation Committee of the Board to assist in the process.

Vice Chair Hackett expressed concerns that an annual evaluation of the consultants could possibly restrict the performance of the consultants.

A motion was made by Trustee Criego, seconded by Trustee to Souza, to Approve the Board Consultants Evaluation Policy as presented and to form a permanent four-member Consultant Evaluation Committee with the following members Gomez, Hackett, Souza and Criego (Chair). VOTE: Yes – Cardenas, Cornacchia, Criego, Crow, Gomez, Larson, Souza. No – Hackett. (Absent – Jolly)

RECEIVED AND FILED; APPROVED

12. Discussion and appropriate action on Compliance Monitoring Position presented by Roberto L. Peña, Retirement Administrator

Roberto L. Peña, Retirement Administrator, opened discussions by reminding the Board of its request to discuss the possibility of adding a Compliance/Internal Audit position to the FCERA organization.

Mr. Peña noted that Administration surveyed the '37 Act retirement systems on this matter to aid in the discussion of this issue. Mr. Peña briefly reviewed the results of the survey noting that the data indicates that fourteen of the eighteen surveyed systems responded and ten of them do not have the function in place at this time and are not considering implementing it in the future. One system will be adding an Internal Auditor and a Compliance position this year; while the remaining three systems have an internal audit function (compliance) in place.

In addition, the data indicates that for the larger retirement systems (those with over \$2.0 billion in assets), three out of four systems with over \$5.0 billion in assets have an internal audit function; while those systems with assets between \$2.0 - \$5.0 billion the reverse is true, three of the four systems do not have such a position in place and are not considering implementing one in the future. This may suggest that the \$5.0 billion asset size is the threshold for pursuing the implementation of this position.

Mr. Peña noted that the compliance/internal audit function can add value to an organization, but mostly it is a policing function to identify weaknesses in the control structure, including areas where staff would benefit from additional training and or review processes. Timely review would provide an early warning/detection system so that corrective action could be taken before an error that occurs, for example, in the benefit calculation or accounting function, becomes a project.

The Board could consider hiring an audit firm on a contract basis to perform this, mostly operational function, or add a position. This function would not increase revenue to the system but could result in cost savings due to the reduction of errors and improved efficiencies.

Typically, the compliance/internal audit function reports to the governing board or a committee of the board to ensure independence and autonomy of the auditor and they are granted authority to review any process within the responsibility of the agency. Some examples of operational areas that could be audited are:

- Benefit calculations
- Service credit calculations
- Manual updates to pensions
- Special District contributions
- Retirement contribution adjustments
- Adherence to policies and procedures

Although these areas would not have a major impact on the financial statements, they do reflect on the quality of the work performed by FCERA.

Mr. Peña noted that last April the Board indicated a desire to implement an internal investment function to the FCERA. As a result, Administration compiled data that suggests that an internal investment function was a result of asset size and the complexity of the investment program. The data strongly supported an internal investment position, most likely at the Investment Analyst level, but that the implementation of the position is more of a timing issue given the current budget constraints in the public arena.

The internal investment function can add value to an organization such as FCERA with more oversight of its investment strategy which has become more complex over time due to a higher risk higher reward approach and an increase in the number of money managers in more time-consuming, less transparent mandates.

Mr. Peña questioned the Board on how it would like to proceed. Detailed discussions ensued regarding the objectives of each of the proposed positions and the benefits they will bring to FCERA.

Trustee Souza expressed his concern regarding the use of an in-house investment position noting that it may create conflict with FCERA's current investment consultant.

In response to a question from Vice Chair Hackett regarding the need for the proposed positions, Mr. Peña noted that the positions would greatly benefit FCERA by improving efficiencies and reducing errors. However, the issue is more of a timing issue given the current budget constraints in the public arena.

Trustees Cardenas and Crow suggested that a discussion outlining a specific plan for outsourcing the Compliance/Audit position be scheduled with the Audit Committee.

A motion was made by Trustee Souza, seconded by Trustee Larson, to consider outsourcing the Audit position at the committee level and to table the internal investment function for a later date. VOTE: Yes – Cornacchia, Criego, Gomez, Hackett, Larson, Souza. No – Cardenas. (Absent – Crow, Jolly)

RECEIVED AND FILED; APPROVED

13. Discussion on Cost of Living Adjustment (COLA) Unfunded Actuarial Accrued Liability (UAAL) total project costs presented by Becky Van Wyk, Assistant Retirement Administrator

Becky Van Wyk, Assistant Retirement Administrator, opened discussions by noting that staff has completed the COLA UAAL project and reminding that Board this was a multi-stage project that began in early 2007 with modifications to the employees' retirement contribution rates.

Ms. Van Wyk thanked the staff that worked on this project and acknowledged Kim Jantz, Retirement Coordinator II, who served as the lead worker on the project.

A brief discussion ensued regarding the costs of the project.

A motion was made by Trustee Criego, seconded by Trustee Souza to Accept Item 13 as presented. VOTE: Unanimous (Absent – Crow, Jolly)

RECEIVED AND FILED

14. Discussion and appropriate action on SACRS Board of Directors Elections Recommended Ballot

A motion was made by Trustee Cardenas, seconded by Chair Gomez, to Approve the SACRS Board of Directors Elections recommended ballot. VOTE: Unanimous (Absent – Crow, Jolly)

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Roberto L. Peña, Retirement Administrator, pulled Closed Session Agenda Item 15.A.1. as there was nothing to discuss.

15. Closed Session:

A. Conference with Real Property Negotiators – pursuant to G.C. §54956.8

1. Property: 1713 Tulare Street, Fresno, CA 93721
Agency Negotiators: Brian Decker of Colliers Tingey

B. Disability Retirement Applications – Personnel Exception (G.C. §54957):

1. Reuben Mange
2. Seetha Rasaputram
3. Rosanna Garcia-Aguayo

16. Report from Closed Session

15.A.1. Nothing to Report.

15.B.1. Reuben Mange – Decision – To Approve the Findings of Fact and Decision granting Service Connected Disability Retirement benefits. M – Criego. S – Crow. VOTE: Unanimous. (Absent – Jolly)

15.B.2. Seetha Rasaputram- Decision – To direct the Administrator to notify the applicant that her Service Connected Disability application will be denied unless the Applicant requests a hearing in accordance with the Hearings Policy. M – Criego. S – Crow. VOTE: Unanimous. (Absent – Jolly)

15.B.3. Rosanna Garcia-Aguayo – Decision – To Approve the Findings of Fact and Decision granting Service Connected Disability Retirement benefits. M – Criego. S – Souza. VOTE: Unanimous. (Absent – Jolly)

17. Report from FCERA Administration

Roberto L. Peña, Retirement Administrator, reported on the following:

1. A meeting to kickoff the General Ledger project was held on March 15, 2010.
2. The project to repair flood damage at the Fresno Station Business Center is complete. The costs were covered by insurance.
3. The Conflict of Interest Form 700 is due by March 31, 2010.
4. Administration is considering combining the Large Cap Value presentations with the Small Cap Value presentations during a Special Meeting.
5. Administration will schedule a Budget Committee meeting to begin discussions of the 2010-2011 FCERA budget.

18. Report from County Counsel

Susan Coberly, Senior Deputy County Counsel, had nothing to report.

19. Board Member Announcements or Reports

The Board Members had nothing to report.

There being no further business the meeting adjourned at 11:28 AM.

Roberto L. Peña
Secretary to the Board