



Donald C. Kendig, CPA
Retirement Administrator

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

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DATE: February 3, 2016

TO: Board of Retirement

FROM: Donald C. Kendig, CPA
Retirement Administrator

STAFF CONTACT: Elizabeth Avalos
Executive Assistant

SUBJECT: Educational Attendance Report: Donald Kendig, Retirement Administrator for the Opal Financial Group Public Funds Summit and CALAPRS Administrators' Roundtable – RECEIVE AND FILE

Background and Discussion

Per the Fresno County Employees' Retirement Association (FCERA) Education Policy, paragraph 18, trustees attending a non FCERA educational program shall provide a written report to the Board which summarizes the program's merit and content. Such reports will be included in the public meeting on the consent agenda.

Similarly, the Retirement Administrator and Assistant Retirement Administrator will also prepare written reports to the Board so that the Board is aware of their training activities and of potential training opportunities.

Fiscal and Financial Impacts

None from the receiving and filing of this item.

Recommended Action(s)

1. Receive and file.

Attachment(s)

1. Educational Attendance Report – Public Funds Summit
2. Educational Attendance Report – Administrators' Roundtable



FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Report of Attendance at Conference or Seminar

Attendee Name: Donald C. Kendig, CPA Retirement Administrator

Conference/Seminar Name: Public Funds Summit

Conference/Seminar Sponsor: Opal Financial Group

Dates of Attendance From: January 12, 2016 To: January 15, 2016

Educational Credit Earned: 20.7 (17.25 hrs) Type: CPA CPE

Brief Summary of Information and Knowledge gained:

In Summary: The attendees comprised the usual suspects from the affiliate sphere of investment managers normally seen at SACRS. I saw some newer managers, so this would be a good venue for some of those smaller or newer managers. There were about 5 or 6 securities litigation firms, and as a ratio to the other affiliates, this felt like a significant percentage. About half of them were not SACRS attendees, so this would be a good venue to expand exposure to securities litigation firms. System attendees were from all over the Nation. Many state plans and representatives from a couple Canadian plans.

I will list the various session titles and presenters and then summaries directly below them.

January 13, 2016

10:00am Welcoming Remarks by Derek Dobson, CEO and Plan Manager, CAAT Pension Plan (Colleges of Applied Arts and Technology Pension Plan). Emphasis on sustainability. Example plan: 5.7% return assumption and 89 average age assumption and about 115% funded. Pension Envy is growing - Picking away at systems one at a time. Seems like a race to the bottom. Concern Myths - Longevity - Can be adjusted for and is gradual and Low Interest Rates - has been problematic, but is manageable. (He listed others that I could not keep up with.) Emphasized a good funding policy as key to success.

10:30am Investment Environment for Long/Short Equity Strategies Lee Ainslie, Founder & Managing Partner, Maverick Capital. Hedge fund performance suffering was discussed as part of volatility. One attendee thought that ETFs are a major cause of the volatility and if there was anything that could be done to rescind them. This was a very focused topic on just long/short equity hedge funds.

11:00 am Pension Issues for 2016 Panelists: Alan Maguire, President, The Maguire Company, Russ Kamp, Managing Partner, Kamp Consulting Solutions, LLC, Harry Griffin, Trustee, San Antonio Fire and Police Pension Fund.

Sustainability question: Reasonable benefits, Prudent assumptions, Shoot for 120% (not 100%), Act slowly on any surpluses. Give them time to mature. Recommended reducing volatility as we get closer to 100%.

Governance question? Balanced Board that avoids group think would be a plus. Friction is not always bad. Diverse thoughts are helpful. Disability abuse concerns. DROP programs with 8.5% guaranteed return is a governance problem. Who wouldn't want that? Need governance that minimize benefits schemes. Interesting Contract Example was given with the message that the sponsor's taxpayers are the ones that benefit from prudently saving for the contract that the employer agreed to. The employee had a contract whether or not the Employer decides to set money aside or not to pay for a pension promised. To boot, a lot of the pension payments are invested locally.

Publicity surrounding public pensions: Envy is brewing - How do we keep from becoming a pariah? Group felt that employees need to express more gratitude to be happy for their job. Concern is that employees have become greedy and some temperance is recommended. Doesn't seem like Envy. Seems like anger. Concern with privatizing is the apparent risks transferred to citizens that don't know how to manage their own money. Governments have as much difficulty as they do now. It would be devastating in the private hands. Lively discussion.

12:00 pm The Volkswagen Scandal: How It Impacts Your Portfolio Maya Saxena, Attorney, Saxena White. We all own its stocks and it is iconic with the facts: Major company, with apparently a good reputation and ethics. Breaks a lot of myths: Scandal is just a small cap start up thing. It is also international. German company. Largest company in the world. Hitler commercialized the company. Hitler felt all Germans should have a car. Accessible and Popular. Became an American favorite: Herbie. Became a trendy car. They developed a magic bus with fans forever. Touted its diesel technology and its clean diesel. VW spent millions of dollars to adopt diesel technology. Green car of the early 2000's.

60 minutes did a great piece on the VW scam. Students had a \$50,000 research grant to promote the diesel technology. Wanted to validate them. In the lab they were perfect. When they went on the road, the emissions were 40 times (or 40%) higher. Went to another lab. And found the same problem. Company had been lying since 2008. It could not meet US standards. Developed software - to make it easy to test. Do not use in any models for sale. Several warnings. It was a defeat device. Created a smart engine software. It sensed when it was in the lab. Admitted to it. Some of their other gasoline cars are having issues. (Potential defeat devices.) [Effectively poisoned all of us for close to a decade. What about the other manufacturers? Reminds me of cigarette companies saying they don't lace their cigarettes.]

Talked about securities fraud aspects: Traded in lots of markets. ADRs can allow for US lawsuits. Public Pension Fund is leading the lawsuit. German Stock - Majority of Public Pension Funds bought the German Stock.

12:30 Securities Class Actions - current industry trends and best practices Trent Calretta, CFA, Vice President, Battea - Class Action Services, LLC. Best Practices for Claims and Suits 1.) Calculate loss yourself (or with a consultant/Representative/Attorney) and confirm with your claim administrator. You

need to be able to calculate the number. 2.) Include all security types, so you do not miss anything. Industry is equity heavy, but almost every conceivable security could have a possible loss. 3.) Have a Comprehensive Data Set 4.) Take a global approach and understand the terms and liability before opt-in. Custodians do not file international cases. Custodians should alert us, but we need to determine whether or not we are going to pursue it. 5.) Know the status of the claim every step of the way. Daily reporting showing all steps and correspondence. 6.) Smarter monitoring - Become a passive member (do nothing) or opt out and pursue privately, or becoming a lead plaintiff. We are doing good at this. Unbiased analysis tool between us and a law firm would be a good practice. Our policy services as that. This vendor (Battea) would monitor for an unbiased fee and then we could choose any law firm to represent.

1:00pm Conversations with Chief Investment Officers Moderator: Eileen Neill, Managing Director, Wilshire Associates Panelists: Gregory Samay, CIO, Fairfax County Employees' Retirement System Patricia Humbert, Chief Investment Officer, Arizona State Treasurer's Office. Nothing positive about bonds. Anticipate a slow drawn out increase in rates. Inflation hedge questions; TIPS – So so, Real Estate? Some think not. Commodities is one, but has not worked out very well. One Panelist: TIPS - real rates were negative. Moved out and switched to emerging market debt. Moved to commodities. Ouch. Lesson: when you are seeing values change, you can't really substitute an asset to get what you want. Need to ride the course or back out of the goal. One state system, AZ, is not going to hedge against inflation at all. Fed will likely increase three more times. One panelist imagines the anxiety increasing over time. MLPs bubble has burst. Higher correlation to oil than was previously anticipated. Negative view on energy - Russia will keep pumping as much as it can. US Dakota's suffering. 10 years ago commodities seemed like a free lunch with the same earnings assumptions and low correlation. Problem: A lot of data was based on modeled indexes and results. Dividend Yield Hunter - for MLPS - Folks are getting scared out of the class and its values are sinking. But there seems to be no place to hide.

ETFs - No Bond ETF liquidity right now. Not recommended. Don't think they could sustain a market crisis. There were even some mismatch in the marking to market in the Bonds and the ETFs. Did not match. Bond price and the ETF price did not match. There was a securities lending premium for the ETFs of about 50 to 100bps. Now 5bps. No longer a free lunch.

Risk Parity at the total fund level? Unique with only a couple of systems doing it. Took education and pacing. For Fairfax it took about 10 years. Bridgewater started the allocation at 5%. Looked at paste performance. Equities have done well by comparison. 10 year risk parity far exceeded at 7% ranking. 60/40 was at 24th percentile. 60/40 - did very good by comparison without all of the active risk.

2:00 pm Opportunities in Equity Investment Moderator: Senior Vice President, Callan Associates Panelists: Managing Director of Sales & Marketing, Kennedy Capital Management, Inc. Client Portfolio Manager, Equities, J.P. Morgan Asset Management Director - Institutional Business Development, CBOE Portfolio Manager, Algert Global. Does anyone on the panel see any opportunity in equity investments? Small cap is decent, but dicey. Bearish view, but there are pockets within equities that are appealing from the bottom up. Top down, China and Brazil and Canada are headwinds against the equities.

Dooms day is with oil. If it stays at \$30, then high yield will likely collapse and insurance companies are the main holder of them. In that case, equities will be doing much better, relatively speaking. If inflation comes back, are real assets good. Well yes, but How do we turn the question around. How do we hit our target and provide downside protection?

3:15 pm New Wave of Fixed Income and Credit Strategies Moderator: Kathleen Barchick, Senior Managing Director, Cliffwater LLC Panelists: Jeffrey Springer Director, Client Portfolio Manager, Symphony Asset Management Kris Kowal, Managing Director & CIO, DuPont Capital Management Scott Austin, CFA, Managing Director, U.S. Fixed Income, TCW James Rieger, Managing Director and Global Head of Fixed Income, S&P Dow Jones Indices. Often retail sentiment will outweigh fundamentals when dealing with corporates. Market Place Lending? Collection of online platforms for student loans, small business loans and other small loans. Was called peer to peer lending. Market is evolving - Small, but growing. Falls under Financial Technology (FinTech) - higher nominal yields. Algorithmic lending, which can be better than fico based lending. But there are cons. No history on this subset of lending. Loans have been around forever, but not this type. There is no collateralization, so servicing is untested. Consumption based loans. No recourse and they are term loans. Borrowers love real time approvals, but that is the antithesis of underwriting. This goes against what is grounded with history - utilize fundamentals and be thoughtful and be dispassionate These loans are being securitized, but they are untested. (Looks a lot like MBS and the bubble we had there.) TIA CREFF says it is not investing in them now, but is monitoring them and will buy them at the time there is a shake-up/adjustment when they can get them for pennies on the dollar and have a better guarantee of upside. Default rates are historically low, but on their way up, starting in the materials and energy and some big names in the CCC's. This has increased spreads creating opportunities. Smaller loans - need managers that understand the businesses because it is the businesses that will make or break the bonds.

4:15 pm Executive Director Roundtable Moderator: John Keane, Executive Director-Administrator, Jacksonville Police and Fire Pension Fund Panelists: Paul Matson, Executive Director, Arizona State Retirement System Steve Olish, Executive Director, St. Louis Police Retirement System Pat Robertson, Executive Director, Public Employees' Retirement System of Mississippi. St. Louis is having issues with Social Security and its base agreement. AZ is dealing with data breaches, reputational damage from pension spiking, sponsors wanting to withdraw. Mississippi does not have a pool of individuals that want to move to work there. Hard to recruit talent.

January 14, 2016

8:10 AM Washington Outlook: Politics, Policy and the Regulatory Landscape Colin Masters, Director, Public Policy, Fidelity Institutional Asset Management. Only three candidates for Democrats and a deep bench of republicans who have waited for an open race. Iowa seemed like a significant state for the elections according to the speaker. There are many established republican candidates that are good, but they are diluting their power. This is giving Trump an advantage as a change candidate. Hillary Clinton has the lead now, but it could be a similar situation to when she lost to Obama. Republican congress is acting in a way as to try to cement Obama's views and theirs and to peg Obama's stance to the new Democratic candidates. In turn, Republicans are not acting in states where they have republican

senators that they would like to have re-elected (in states that have been predominantly democratically held). My editorial: In summary, politics whether republican or democrat is act if it increases your power, don't act if it increases your power. Tax reform is likely coming. It is a tough issue that is to be believed when seen.

1.1 Trillion comes from tax expenditures, which means not taxing something to encourage a certain behavior. For instance, reduce taxes for mortgage interest because they believe it is important to encourage home ownership.

Retirement Policy Debate: No silver bullet for retirement. Competing forces between customer needs and policy makers. Not mature enough for a retirement moment in congress.

Take aways: Election Season is in full swing and congress will only be in reactive mode. Don't expect much substance. Regulators will fill in the gaps.

8:40 AM International Small Cap Equity Investing: Lessons from the road Reid Galas, Portfolio Manager, GW&K Investment Management. State Owned Enterprises (SOE's) - Not in the US per se, but internationally. China example with two telecom companies. One was doing well and one was not, so the Government just switched the CEOs. In this structure, share holders come last. Ownership examples with preferential shares. Gave a family example. Just because the family controls something does not mean they are interested in it. Small holding in a multi layered ownership structure. Keswick - it is an ownership structure that prevents anyone from being able to take over the company, so you are at the whims of the family. Better hope they do good. Gave a bankruptcy example of Asia Pulp & Paper - went bankrupt and majority owner did not pay out any of the debt. Another company, different name, same owners, similar situation. Currently issuing debt and it would appear to be getting ready to do the same thing. Debt investors better be careful, but they do not seem to see it and the debt is at 99 cents on the dollar. Honworld example. IPO with a lot of negative cash and a margin that is unbelievable. A fraud or some sort of disaster waiting to happen. Satyam - Oldest Trick in the Book - revenue numbers not going to be met, so they made up sales, so then you buy a fake company to make the cash go away. Olympus - New CEO and major drop. Far in the past, fake companies didn't exist. Chaoda Modern Agriculture Holdings Ltd. - create a business, growing quickly, need cash and then pretend you are doing the business. Hard to verify business - did it 5 times. Still trading, but it is a fraud all together. If there is a business in an emerging market that does not exist in a developed market, you need to question its validity. Nintendo - share prices for each console release, cash flow for each release. Nintendo has no debt, and no cash, was almost free.

Lessons: Don't own state owned enterprises, Align with controlling shareholders' economic interests, Study history and past actions of controlling shareholders, Compare margins globally to validate them, Ask about cash - Am I ever going to get it. Nintendo example - no.

9:00 AM Maximizing Yield through Net Lease Real Estate Investment Dave Piasecki, COO, ElmTree Funds. What is a net lease and what are the benefits? They are the most stable transaction in the real estate market. 10 to 15 years. Stable return based on the credit, and an imbedded inflation protection, and tenant covers the increased cost of maintenance and janitorial and utilities, etc. Generally high on

the side for bankruptcy recoveries. Can also create jobs. Became main stream in early 2000's. Usually a 7.5% business.

10 year treasury 2.19%

Investment Grade Bonds 3.46%

Levered NNN - 10%

Starts 5.5% vs 7.5% and increases to 8% vs 9.95%

NNN a lot like collecting coupons.

9:20 Am Commodities: Waiting for the Bottom, Positioning for the Turn Commodity Strategist, Van Eck Global. Gave an optimistic forecast. Prices are below production cost. Supply will come into check and demand will increase in the future. Prices should eventually increase. Hold the course.

9:45 AM Current and Future State of the Hedge Fund and Alternative Industry Moderator: Trustee, Austin Firefighters' Retirement & Relief Fund Panelists: Associate Partner, Institutional Advisory Solutions, Aon Hewitt Advisor to the Board, Jacksonville Police and Fire Pension Fund Head of Global Investor Relations and Marketing, LibreMax Capital. Not a going concern meaning hedge funds will not go away any time soon. Main topics were: Emerging managers. How many invest in emerging manager fund of funds? Not many. Why not? These are the young, the hungry, the brilliant. Fees will come down as firms mature, but fees will not likely drop to 1 and 10% because there are data feeds and a significant amount of fixed costs that exist. They are experiencing economies as far as staffing requirements are concerned, which is likely why the fees are coming down a little. Public funds carry a big stick and should keep working at lowering fees. Private Equity was discussed. 10 year lock up was discussed. Pressure for hybrid model with lower lock-ups. Looks like return of capital prior to the completion of harvesting.

10:30 AM Real Estate's Role in Today's Investment Environment

- Trends in Real Estate for 2016
- Correlation to other asset classes
- Upcoming changes in 2016
- Role of REITs

Moderator: Senior Consultant, Segal Rogerscasey Panelists: Managing Partner, TerraCap Management, LLC Managing Director of Research and Strategy, American Realty Advisors VP IR/Capital Markets, Realty Income Corporation Chairman & CEO, Intercontinental Real Estate Corporation. Covered the various ways to invest in real estate. Various risks, such as interest, which depended on the panelists. Some are in the mortgage business and have variable rates, so they liked increasing interest rates. Residential discussed/Multi-Family - There is over supply so there are concessions. Cranes in the sky and over

building continues. Office does not have the same oversupply and is still recovering. A lot of construction is going on now.

Net lease landlord - tenant credit is one of the most important aspects. Do not want to sacrifice underwriting. Businesses that are succession proof. Something we can ask our real estate managers are who they feel are succession proof sectors and related tenants.

11:30 AM Real Asset Strategies Moderator: Bill Rubin, First Deputy City Controller, Office of the Controller Philadelphia Panelists: James Clark, Senior Vice President, Client Portfolio Manager, Nuveen Investments Nuveen Investments Abel Mojica, Director, Head of Corporate Development, Tortoise Capital Advisors Austin Kahn, Chief Investment Officer, Ethika Investments, LLC. Phili is definitely a city of brotherly love. The Controller had a very welcoming persona. Real Estate, Commercial Real Estate, and Infrastructure - Energy Infrastructure/MLPs - What are real assets: Inflation protection, Correlations that are decoupled from other market driven structures like bonds and equity, Market Inefficiencies sort of assets - Areas to benefit from. A real asset is tangible - something you can touch and see and use. In summary: Tangibility and cash flow.

12:15 PM Networking Luncheon Market Volatility and the Global Economy Lunch Keynote Speaker: Peter P. Costa, President, Empire Executions, Governor, NYSE, and Market Analyst, CNBC. Very lively speaker. ETF's were criticized again here. Similar economic views to the other economists.

1:30 PM Investment Styles and Strategies – Private Market strategies that will generate alpha. Moderator: Treasurer, Redford (MI) Police & Firemen Retirement System Panelists: Managing Director, Wilshire Private Markets Chairman, Inter-Local Pension Fund. Focus on GP/LP alignment. Don't focus on the fees. Focus on arrangements where the manager doesn't get paid if you don't get paid. Interesting investment ideas for Asia. Get the GP's early because they get larger and larger with each round, unlike with US GP's who are comfortable with a given size. Their best work is in the beginning.

Agenda Review meeting and work from 3pm to 5pm AZ time. Sessions missed.

5:00 PM Time to Reform State and Local Pension Funds. Edward Prescott, Nobel Laureate, Economics, W.P. Carey Chair in Economics; Professor of Economics, Arizona State University Regents. He was confusing as hell. Here are some notes. There were some plugs for NNN leases again. Start a theory with questions and then try to work out the theory. Congress starts with an answer and says make a theory to fit it. Every theory has deviations. These get resolved with better measurement or better information. US economy is depressed 12% compared to 2008. Always think levels when dealing with a policy regime. If the regime changes, then so will the growth. 1.85% is his estimate on average. He is estimating 2.6% now until there is a regime change. We have had some reforms. SS - in 1980's - was in bad bad shape. It was reformed and just need some small things to get it in shape. Cut benefits in half. Those liabilities would be twice as big now. Got rid of the double indexing, taxed the benefits, increased the full retirement age over the future. Have to phase in to have it work politically. Set up a trust fund. Best solution is to stop promising to pay future benefits. All Federal employees have a thrift plan. Was phased in over 30 years. DC plan. 80's and 90's returns were not normal. Tax changes that affected the values of the stocks. Were not real returns. His solution is to change everyone to a thrift account.

Talked about outliving your DC plan. Annuitize and you get about 3% (2% gets eaten up). Talked about investing in NNN leases and owning land. He did not seem to have a grasp of what the rest of the world is doing or how they are living. We can't all afford land to lease out. (Maybe we can?)

5:20 PM Funding Policy and Manager Selection Moderator: Adam Frankel, Chairman, Delray Beach Police & Fire Retirement System Panelists: Kevin Nichols, CAIA®, CIMA®, Senior Investment Management Consultant, U.S. Government Entity Specialist & Portfolio Manager, The Forma Institutional Consulting Group, Morgan Stanley Wealth Management James Maloney, Acting CIO, Chicago (IL) Policemen's Annuity & Benefit Fund. Accounting Standards - GASB 67 & 68 and the effects on funding ratios. Lower in the CAFRS but don't jump to conclusions just yet as it has had a difficult year or two, and change your asset allocation. Can still be in equity, but look for companies with higher than average cash flow and dividends. Stick with lower volatility investments if you are close to fully funding. Which ones and how much would they earn? (He did not say.) Draw back of the GASB standards is the one year snapshot. Will introduce a lot of volatility and makes it look especially bad this first year of implementation. Discussion about doing some LDI once plan is better funded. Would need it to be segregated. Gave Ontario as an example with 10 year futures.

January 15, 2016

8:15 Am Fiduciary Responsibility - the importance of being an active trustee Moderator: Board Member and Trustee, Deerfield Beach Fire Pension Panelists: Executive Director, Illinois Professional Firefighters Association Trustee, Boca Raton (FL) Police & Fire Retirement Assoc. Partner/Member, Clark Hill PLC Partner, Wolf Haldenstein Adler Freeman Herz LLP. Some systems have engaged PR firms. Some systems have unions that have engaged PR firms. Some systems have public relations committees. Some caution with PR firms, there is no attorney client privilege, and if anything is said wrong it flows back. Systems usually run it by their counsels before issuance. PR firms are not just for crisis. Any year there are swings in systems earnings it could be good to have a PR firm help educate the media for rate changes.

9:15 AM What role should your consultant play in your investment decisions? Moderator: Trustee, Holyoke Contributory Retirement Panelists: Vice President, Director | MPPP Plan Administrator, Innovest Portfolio Solutions LLC Chairman, Atlanta Firefighters Pension Fund. Liason for the Board and trusted advisor and link between all if the investment related providers. Have heard the expression several times that the larger consultants treat systems like one size fits all, or cookie cutter. Large consultants can pool assets and negotiate better fees. Understanding liquidity, time horizons, and regulatory environment. Issue is possibly the temptation to build a box and put clients into that box. The box is a pool of well vetted managers and is easy in the sense that the consultant stops looking for new managers. How much input does a trustee have in the asset allocation. In reality, the expertise rests with the consultant and a trustee needs to rely on their advice after providing the system's needs. What about the alpha trustee and how do consultants deal with the alpha trustee. The consultant's annual fiduciary education can explain that regardless of the level of education every member has equal liability and equal responsibility. Each trustees vote is their own. Consultant can be an independent resource when the policy makers are about to make changes in the law or policy that can have

significant effects on a plan. One system went 100% passive to save 300k in fees. There is concern that they are missing potential alpha from active management. This change was made at the legislative level outside of the plan. Colorado - Thought it would be hard to attract executives with a DB plans. So they offered prior years of service at 15% of pay. Cost was not correct. More like 35%. Rush on the plan by existing employees. Raised it to actual cost and has since implemented a match with the DC plan that can be attractive. Rank and File and Unions don't seem to understand the costs. All the rank and file want the most that they can get when they retire. Standard human behavior. They talked about 7.75% as average assumed rates. Fresno is ahead of the curve. Peer Group Rankings are the Frankenstein of consultants. They are create pressure to conform with others and create undue pride or sadness based on being in the top or bottom quartile for a given period. The objective of your allocation is to achieve your funding goals.

10:00 AM DB or DC - Which works best for your plan? Moderator: Executive Director, Wayne County Employees' Retirement System Panelists: CEO, Halifax Port ILA/HEA Pension Plan and Trust Funds

Former Chairman, Austin Police Retirement System Chairman, Kansas City Board of Public Utilities. One representative has a DC plan - Likes the program. When someone retires, they can roll their DC contributions in a computed fashion in to an Annuity. It is 111% funded and is able to offer a COLA. Agreed that the DB plan is the best way to provide retirement security. Advocated how his plan does it. 100% employer contribution; however, they have shifted away from DC choices because now it is not buying the employees what it used to, so they are starting to experience problems with taking care of their employees. People's financial literacy is horrible and they are expecting someone else to take care of it for them. While his plan is doing well, he still believes that a DB plan is the best way to do it. Does not presently allow supplemental contributions for a higher benefit. Wayne County Michigan - Switched to DC in the 80's. Found that individuals do not know how to invest. They chase return and do not save enough. Created a DB of 1.25% for all future years of service and increased the retirement age to 65. Success has been achieved from being arms length (Halifax). Contributions are always paid. Commitment was always kept. No matter how good we are doing, the hard right will not have it. They want to get rid of it for whatever reason. This is a dog fight. We need to do something to preserve it. We need to balance our approach and temper our behavior. We have an excess and Retirees want it, Employers want it, Consultants want to lower volatility. What should be do. Be prudent and reduce volatility. 401 - was never designed to be a retirement plan. It was for supplemental savings to augment retirement. DC is a 401, 403, 457, etc. When they set it up to allow you to borrow, that was set for failure. Employees are not repaying. A good retirement plan would take pressure off of SS, Medicare and other public services and all of those other transfers. Question - How long does it take to get up to speed? Three to five years is required for good trustee education and experience. How do disabilities get covered with a DC plan? (not answered)

10:45 AM A conversation amongst trustees - What to be prepared for in 2016? Moderator: Trustee, City of Lincoln Police and Fire Pension Panelists: Trustee, City of Aurora (CO) General Employees' Retirement Plan Trustee, Boca Raton (FL) Police & Fire Retirement Assoc. Trustee, City of Atlanta Firefighter's Pension Fund. For one panelist, the hybrid plan does not work: 1% year and have to contribute another amount for their DC portion. Firefighters are leaving left and right. This is not normal. Firefighters are

firefighters for life, so they are working somewhere else. 2016 - Education should be a focus. Huge issue for someone that wants to be a trustee. Atlanta has a trustee school. Educate the members. Some don't even know they have a pension. Some know they have it, but don't know how it works. New DOL promulgations- Fiduciary Responsibility Act for Consultants and Trustees - redefines fiduciary and legislates integrity. Consultants must sign as a fiduciary, but it seems that there will be more regulation and requirements. Panelist thought that Actuaries have more issues with fiduciary responsibility with their discount rates and their mortality assumptions. What are panelists looking forward to in the new year. One – retirement, another – Volatility, another - continue to work on 30yr 100% funding plan, get to 100% and de risk.

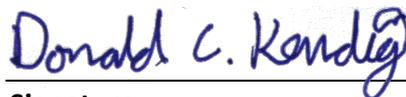
Met with our attorneys from Berman De Valerio immediately following the conclusion of the conference for introductions of their team members.

Evaluation of the Conference/Seminar:

The conference structure is one of long days with no scheduled breaks, except for a 15 minute afternoon networking break each day. I say the days are long because they start at about 8 am and go to after 6 pm and the lunches include speakers (for lunch and learns). Very intense. There are booths by various investment managers and securities litigation attorney's and I saw several client service personnel from many of the well known firms throughout the event. I saw representatives from several states and one from Canada (who was an excellent presenter). I saw probably a half dozen representatives from California.

Recommendation Concerning Future Attendance:

I would recommend attendance based on the contents of the conference specific to the needs of FCERA. In other words, there might be other general interest conferences available that are just as good or better.



Signature

1/25/2016

Date

Return to: Elizabeth Avalos



FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Report of Attendance at Conference or Seminar

Attendee Name: Donald C. Kendig, CPA Retirement Administrator

Conference/Seminar Name: Administrators Roundtable

Conference/Seminar Sponsor: California Association of Public Retirement SYstems

Dates of Attendance From: January 22, 2016 **To:** January 22, 2016

Educational Credit Earned: 6.9 (5.75 hours) **Type:** CPA CPE

Brief Summary of Information and Knowledge gained:

9:00 a.m. Welcome & Introductions around the Table (Mark Hovey, SDCERS)

Robert (Rob) Theller - New City of Fresno Administrator. (I will contact to schedule a meeting to introduce myself.) San Bernardino Shooting was discussed and it was relayed that agencies banded together with other agencies to help with disability and death applications and death certificates. Will likely have disability ramifications for some time to come. One system shared a presentation template on demographics and funding that we could customize (Thank you Gary!). One system has new experience issuing RFPs for negotiators for labor contracts. (Potential future resource.) Another System – will be moving into a building that they own. (Another indication that owning is the best policy.) One system has 4/10s whereby they open at 7am and close at 6pm in order to provide better access Monday through Thursday, being closed Friday. The Administrator commented how well that it is working. (This could be an option for FCERA at some point with either Friday's closed, creating facility savings, or open Monday through Friday enhancing Member access to counseling sessions on all days.) The rest of us introduced ourselves. The above items had the most pertinence to FCERA. Security concerns were shared, as well as methods for mitigating them.

9:15 a.m. Roundtable Topics

A. Rogue Plan Sponsors (Harvey Leiderman, Reed Smith LLP)

EXAMPLES

1. District that unilaterally chooses to stop paying its UAAL amortization entirely, pleading fiscal hardship. Fire district. Still working with them to get them to pay reliably.
2. District with declining covered payroll, and retirement system keeps sending contribution rates against payroll, collecting nothing. Employees moved to Cal PERS and felt once the last employee retired from the old plan that they did not have to pay. Did not send any money in, and County had been subsidizing. They are now contemplating how to collect dollars as opposed to rates.

3. District with declining covered payroll, but claims predecessor county is responsible for contributions, per side agreement. Became special district and thought County was going to pay for it.

4. District formed as a Joint Powers Administration, whose members are either withdrawing from the JPA, or the JPA is dissolving. Pull out and go to PERS and have someone else do some fire fighting. JPA is the sponsor and not the underlying participants. One has just about all of the revenues and is deciding to leave. JPA will likely have no money and the system will have an uncollateralized debt.

We discussed the “real life” examples and the issues that they raised and thanked Harvey for his time.

B. Public Employee Relations Board (PERB) Ruling on San Diego Prop B (Mark Hovey, San Diego City) On December 29, 2015, PERB issued a ruling finding the City violated the Meyers-Milias Brown Act (MMBA), and ordered the City to reimburse costs and attorney’s fees for the union’s anticipated legal action to overturn Proposition B, and to make the affected employees whole. PERB acknowledged, however, that it has no authority to invalidate the 2012 municipal election. The City has since appealed PERB’s ruling. What’s next?

Mark gave an update and it sounds like a messy situation.

C. Reciprocity Issues (Kelly Jenkins, Sonoma) Once reciprocity is established, Government Code §31833 says the member’s entry age is adjusted to the entry age at the prior system. CERL has no explicit deadline for establishing reciprocity, nor is there a provision making the age-based contribution change prospective only. This results in overpaid member contributions until reciprocity is established, requiring a repayment of overpaid member contributions when reciprocity is established (not to mention record correction; sometimes for years of records). First, does your system impose a deadline by when reciprocity must be established? Second, is there interest in legislation that would, for new reciprocal employees, establish a deadline for establishing reciprocity or, alternatively, make age based contribution corrections effective only from the date reciprocity is established (as in §31833.1 for repayment of withdrawals for reciprocity)?

Group expressed legislation would be tough, given that the largest reciprocal system is CalPERS, followed by Cal STRS and they would need to be a part of the solution. Some systems only provide interest if reciprocity is established within 6 months. I asked, “Why don't we have a data exchange for reciprocity and other issues.” Apparently a data exchange idea has floated for over 10 years. We brainstormed all the things that we could do with it. I mentioned the DMV national exchange and how law enforcement has theirs. One system mentioned that it only has 3% of members with reciprocity issues. I mentioned we could look up deaths, or check for potential reciprocity at retirement with quick queries, and pointed out that 3% of all government employees would be a critical enough mass to optimize with an exchange. (We need a spear head. If only CalPERS or CalSTRs would lead the charge. They have the mass. It might be we need the ingenuity of one of the smaller systems to bring it to reality.) One system won't credit any interest beyond 180 days if you do not elect within the first 180 days. It is on their form. (I will check if we can do something like this).

D. Reception of GASB 67 and GASB 68 (Kelly Jenkins, Sonoma) What has the reaction been (if any) to the GASB 67 and 68 reporting? From employers? From the public? For most, not much has changed. For one plan, an activist (disruptor) is coming in saying the County is “Bankrupt!” (Sounded a lot like, “The sky is falling!” I have to be skeptical when I witness this behavior because the person shouting out is often pushing a personal agenda, not necessarily a solution.)

E. The Debate on Private Equity Fees (Ray Ciranna or Bill Raggio, LA Fire and Police) How are your systems handling the debate over private equity, and what are you doing regarding management fees and carried interest? I reported that it has been discussed by our Board. One large system had an outside auditor recalculation of fees and used RVK to test the fee calculations of the private assets. Findings were that the management fees were good and on the up and up. Carried interest is the latest issue. Huge amount of work to go through and verify and for what benefit? Systems supported alternative assets and doing the best possible to negotiate the fees. CalPERS said it didn't know and raised a big red flag. Hamilton Lane - did an educational on it for one system as its private equity consultant. Talked about the difference between fees and partnerships and profit sharing. We are limited partners in a profit sharing agreement and need to look at how we are paid differently than a simple fees analogy. We agreed that we are following industry standards and reporting on a Net Net basis.

F. Investment Strategies in the Current Market (Michael Hermanson, Imperial) What strategies is your plan considering to help deal with poor investment returns, given what is known through Dec. 31? Many systems focus on income flow and low volatility. One uses the State LAIF - Daily Demand for Cash idea. We all mentioned that we still have until June 30 to see how the market will turn out. In general, we want to hold the course with our investment allocation. It is especially tough when some of our allocations are doing particularly poorly (i.e. Commodities for FCERA and Emerging Markets for SBCERS). Hold the course.

H. Open Forum (Administrators, California)

Elected Trustee placed on administrative leave. Still a trustee? Department director says no. County Counsel for personnel says no. County Counsel for Plan says yes. Group debated the issue and generally agreed, that yes, still a trustee until laid off or terminated, but it was the trustee's choice whether or not to attend the meetings. Group suggested that the Plan get its Legal Opinion formally adopted, so it has its position known on the matter.

Manager Due Diligence? Varied amongst the group. One System – had trustee participation and delegated scheduling to the CIO. I shared how we apparently modeled VCERA's, but had since consulted with our General Investment Consultant and updated it to incorporate the efficiencies of Verus' ongoing due diligence activities. The word “boondoggle” came out and examples of trustees selecting managers in cities where trustees had families were shared. [Not shared with the group: Boondoggle (definition, verb) waste money or time on unnecessary or questionable projects. I take exception. Due diligence is not boondoggling. Further due diligence is also not boondoggling, if a trustee optimizes his time to see relatives or a new or attractive location at the same time on the trustee's own dime and own time. That

is just good time management. Critics lump the two activities together and call the due diligence a boondoggle. Now if a trustee signs up to conduct due diligence (or attend a training conference for that matter) and then ditches the due diligence obligations or the training sessions, the trustee's activities ARE a boondoggle and unethical, not the due diligence and not the training. I have consistently learned a lot from due diligence activities, whether in San Diego where I grew up, Boston where I have never been, or Los Angeles where I have been a lot.] I mentioned to the group that we also conduct due diligence on our other service providers and mentioned our visit to a securities litigation law firm in San Diego, while we were at SACRS. I mentioned to the group that I am attempting to combine purposes for our trips, see multiple managers, and optimize/minimize our travel expenses. I mentioned that not only did the law firm due diligence show us how a securities litigation law firm is structured and operates it had the surprising benefit of showing us the latest space planning trends as they were undergoing a 10/15 year remodel and our host explained all the changes they were making for the next generation of workers. [FCERA will be changing offices due to High Speed Rail and I learned to look for much more than I would have ever imaged that will benefit our upcoming space planning efforts.] Others, and I, shared how we make the trips meaningful by seeing at least two firms a day and making the trips very rigorous. [My experience has been that they are rigorous.] The groups have visited both existing and prospective managers.

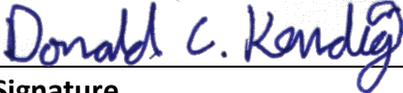
A number of other items were discussed, such as investment belief statements, very similar to IPS statements, and other administrative activities associated with PEPR.

Evaluation of the Conference/Seminar:

The roundtables offer high value content with peers in the industry. The value is high because the subject matter is focused on the issues that specifically relate to the peer group. We are focusing on what is directly impacting us, as Administrators. I imagine that it is the same for the other "focus groups". The time listed above does not include the networking time during the breakfast, break, and lunch. We are spending the whole day discussing issues that affect our retirement plans and each other as Retirement Administrators.

Recommendation Concerning Future Attendance:

I recommend attendance to the roundtables and will send staff to their respective peer group roundtables. I will also attend the CIO roundtables from time to time, until we have a CIO or IO on staff. I find a number of Administrators informally serve as CIO, such as I, and we learn a lot from our CIO peers.



Signature

January 26, 2016

Date

Return to: Elizabeth Avalos