

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

*"Our mission is to administer the retirement benefits for the members and beneficiaries in a prudent, accurate, timely and cost-effective manner, while administering fund assets in a manner that achieves investment and funding objectives within prudent levels of risk"*

**October 1, 2014**

**REGULAR MEETING AGENDA MINUTES**

**Trustees Present:**

Laura P. Basua	Judith Case McNairy
Dr. Rod Coburn, III	Vicki Crow
Robert Dowell	Eulalio Gomez

**Trustees Absent:**

Marion Austin  
Steven Jolly

**Others Present:**

Eileen Kwei, Artisan Partners  
Matthew Clark, PIMCO  
Christopher Getter, PIMCO  
John Uslaner, BBLG  
Jeffrey MacLean, Wurts & Associates  
Dean Stuckenschmidt, Deputy County Counsel  
Becky Van Wyk, Interim Retirement Administrator  
Kelly Prinz, Retirement Benefits Manager  
Conor Hinds, Supervising Accountant  
Elizabeth Avalos, Administrative Services Assistant

**1. Call to Order**

Chair Coburn called the meeting to order at 8:39 AM.

Chair Coburn apologized for the late start noting that it was due to a conversation between him, Becky Van Wyk, and Dean Stuckenschmidt regarding an administrative issue.

**2. Pledge of Allegiance**

Recited.

**3. Public Presentations**

None.

## Consent Agenda/Opportunity for Public Comment

Chair Coburn requested that Consent Item 10 be placed on the October 15-16, 2014 Off-Site Educational Meeting Agenda for discussion. Administration agreed.

**A motion was made by Trustee Basua, seconded by Trustee Gomez, to approve Consent Items 4-13 as presented. VOTE: Unanimous (Absent – Austin, Jolly)**

**\*4. September 17, 2014 Retirement Board Regular Meeting Minutes**

RECEIVED AND FILED; APPROVED

**\*5. September 17, 2014 Retirement Board Special Meeting Minutes**

RECEIVED AND FILED; APPROVED

**\*6. Retirements**

RECEIVED AND FILED; APPROVED

<u>Name</u>	<u>Department</u>	<u>Yrs of Svs</u>
Lisa S. Barnes	VMC, Deferred	5.74
Dora Beza-Flores	Library, Deferred	9.01
Vicki A. Carlson	Internal Services	19.14
Linda Collins	Agriculture, Deferred	7.64
Pamela Conover	Behavioral Health	15.36
Richard W. Doyle	NCFPD, Deferred	2.96
Cheryl Duncan	CA Superior Court	11.58
Kathleen G. Humphrey	Dept of Social Services, Deferred	6.28
Patricia A. Kirby	Community Health	17.30
Nancy LaPlace	Community Health	13.26
Victorina Lucero-Barajas	Community Health	23.21
Isabel Martinez	Dept of Social Services	25.39
Diane L. Perez	Child Support Services	29.59
Ernest Russell	Dept of Social Services	13.57
Virginia Lopez Sanchez	Child Support Services, Deferred	13.81
Andrew E. Waits	Sheriff, Deferred	8.38
Chang B. Yang	Dept of Social Services, Deferred	6.49
Arthur Ybarra	Sheriff	25.45

**\*7. Public Records Requests and/or Retirement Related Correspondence from Robert Skowronski, FCERA Member**

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**\*8. Educational Reading Materials**

RECEIVED AND FILED

- September 19, 2014 Top 1000 Funds article – *The changing nature of fixed income*

- \*9. Report from Trustee Laura Basua on her attendance at the CALPRS Trustees' Roundtable on September 12, 2014 in Burbank, CA**

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- \*10. Correspondence from Robert Palmer, SACRS Executive Director, regarding Reorganization of the County Employees Retirement Law (CERL)**

RECEIVED AND FILED

- \*11. FCERA Cash Flow position as of August 2014**

RECEIVED AND FILED

- \*12. Most recent investment returns, performance summaries and general investment information from investment managers**

RECEIVED AND FILED

- \*13. Contract amendment with Blackstone Capital Partners**

RECEIVED AND FILED; APPROVED

- 14. Performance and Economic Summary report presented by Eileen Kwei, Artisan Partners**

The Board heard a presentation from Eileen Kwei of Artisan Partners which included a review of the firm's philosophy, organizational structure, and investment strategy.

Ms. Kwei commented on the market environment and its impact on the Plan's investment returns noting that since inception (2013) Artisan has added approximately 110 basis points to the portfolio.

In addition, Ms. Kwei addressed various comments and questions from the Board in regard to the Plan's overall investment performance and market environment going forward.

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- 15. Discussion and appropriate action on Private Credit Portfolio and Investment Recommendations**

Jeffrey MacLean, opened discussions with a brief overview of the Fund's Private Credit exposure noting that the current market value of the assets are \$80.6 million. The Retirement Plan's long time horizon and return targets resulted in an 8% target to private credit in the new strategic asset allocation.

FCERA recently committed \$20 million to Colony Distressed Credit Fund III. Given that these investments are structured debt rather than real estate, Mr. MacLean recommended reclassifying the Colony investments into the newly created private credit allocation.

Mr. MacLean stated that GSO European Senior Debt Fund and CarVal Credit Value Fund III are two strategies that deserve strong consideration by the Board and gave a brief overview of each firm.

The Board directed Administration to invite the firms present their strategies for the Board's consideration. Administration agreed.

NO ACTION TAKEN

#### **16. Discussion and appropriate action on Performance Fee Structure review**

Jeffrey MacLean, Wurts & Associates, opened the discussions by stating that the largest costs of operating a Defined Benefit Plan are the management fees and that prudently managing these is a critical component of the fiduciary process. It was noted that during FCERA's fiscal year 2013 management fees totaled \$14.6 million.

Mr. MacLean noted that Wurts is mindful of these costs and works to minimize fees utilizing a variety of methods including:

- Employment of passive management to manage costs where appropriate
- Transition management to minimize transition costs
- Securities lending to generate income to offset costs
- Negotiating the most favorable terms possible

The Board reviewed and discussed the construction and benefits of performance-based fees noting that active management has proven to be successful in certain cases but it is imperative to prudently manage costs.

NO ACTION TAKEN

#### **17. Discussion and appropriate action on departure of Bill Gross from Pacific Investment Management Company (PIMCO)**

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that the Board placed PIMCO on "watch" status earlier this year due to instability at the senior management level. Mr. MacLean commented on the recent resignation of CIO Bill Gross noting that the departure was swift.

A team from Wurts will be traveling to the PIMCO offices to speak with representatives regarding the impact of Mr. Gross's departure on the future of the firm to determine whether further action should be taken. A written assessment of Wurts' findings and recommendations will be made available to the Board thereafter.

Matthew Clark and Christopher Getter of PIMCO addressed the departure of Bill Gross and the potential impact to the FCERA portfolio. It was noted that, as part of PIMCO's responsibilities to its clients, PIMCO has been developing a succession plan for some time to ensure that the firm is well prepared to manage a seamless leadership transition in its Portfolio Management team.

The Board engaged in detailed discussion with representatives from PIMCO which included a review of the firm's philosophy, current organizational structure, and investment strategy.

The representatives addressed various comments and questions from the Board in regard to the Plan's overall investment performance, current market environment, and risk management going forward.

NO ACTION TAKEN

Trustee Case McNairy departed at 10:35 AM.

**18. Discussion and appropriate action on agreement with Cheiron to conduct an actuarial audit**

**A motion was made by Trustee Gomez, seconded by Trustee Crow, Actuarial Audit Agreement with Cheiron as presented. VOTE: Unanimous (Absent – Austin, Case McNairy, Jolly)**

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**19. Discussion and appropriate action on Improving Operational Efficiencies in the Retirement Benefits Unit; including increasing the staffing roster by one (1) position**

Becky Van Wyk, Interim Retirement Administrator, opened discussions by informing the Board that on August 20, 2014 the Disability Committee reviewed and discussed changes for improving operational efficiencies. The Committee adopted the recommendations and directed Administration to present them to the full Board for its consideration.

The recommendations are as follows:

- Support the renaming of the Retirement Benefits Unit to Retirement Services Division, divided into three sub-units – Retirement Services Unit; Disability Divorce Unit; and Benefits Support Unit.
- Support the implementation of a Disability Divorce Unit, consisting of two Retirement Coordinators and an Office Assistant, to work primarily on processing disability applications.
- Authorized the addition of one Office Assistant to the roster under the Disability Divorce Unit.
- Reduce the use of physical examinations as part of the disability application process by increasing the use of medical record reviews.
- Eliminate the legal opinion in well documented, non-controversial disability applications, unless warranted by the specific case or concern.

**A motion was made by Trustee Gomez, seconded by Trustee Basua, to approve/adopt the recommendations as presented. VOTE: Unanimous (Absent – Austin, Case McNairy, Jolly)**

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## 20. Discussion and appropriate action on Accounts Payable Processing (check issuance)

Becky Van Wyk, Interim Retirement Administrator, opened discussions by reminding the Board that FCERA issues checks through the Fresno County Auditor-Controller/Treasurer-Tax Collector's Office (ACTTC) to pay manager fees and operational expenditures, including travel and per diem reimbursements for your Board. Several years ago, FCERA transitioned from type 7 checks issued by the General Accounting Division of the ACTTC to type 14 checks issued by the Special Accounting Division of the ACTTC in order to speed up check processing timeframes. At that time, type 7 checks issued by General Accounting were taking between 3 and 6 weeks to issue due to the volume of voucher packets (check requests) received and the auditing process in place. Even though FCERA's vouchers were treated as "just pays" (paid with minimal auditing), checks were delayed due to the volume of requests received on a daily basis and the fact that checks were only issued twice each week.

As a result, FCERA began issuing type 14 checks through Special Accounting to take advantage of an expedited issuance process with daily check runs processed without auditing.

FCERA was recently notified that the ACTTC is eliminating type 14 checks by the end of October 2014. Thus, FCERA will be required to begin using type 7 checks, which are issued once per week. The ACTTC staff has indicated that "any past issue that [AP] may have had with processing vouchers, has been addressed; AP's processing time has been reduced by 67% over the last year or so." They further stated that as long as the vouchers contain appropriate signatures and supporting documentation that the auditing process should go rather smoothly.

FCERA issued 788 checks in the 2013-2014 fiscal year (approximately 65 checks per month) and issued 145 checks as of August 31<sup>st</sup> of the current fiscal year (approximately 72 checks per month).

Ms. Van Wyk is concerned that the audit process may be inappropriate in that they will attempt to apply County purchasing policies to FCERA transactions. She is also concerned with the time delay in issuing checks and any additional costs that may occur as a result of the audit process and offered the following options for the Board's consideration:

Options:

1. Establish a disbursement account through Northern Trust. This would incur additional cost for the account, check stock, and import file generation.
2. Establish a disbursement account through a local bank. This would incur additional cost for the account, check stock, and import file generation.
3. Issue type 7 checks but monitor for timeliness and auditing issues.

Ms. Van Wyk recommended Option 3 because this option will require the least amount of staff time and cost. However, the downside is that there will be a delay in obtaining checks since checks are only printed once a week. If there is a vendor that needs immediate payment, Administration will use the credit card. Should the Board elects to follow Option 3, staff will reevaluate the issue in three months to ensure that checks are issued within a reasonable time after submission of the request.

**A motion was made by Trustee Gomez, seconded by Trustee Basua, to approve Option 3 as recommended. VOTE: Unanimous (Absent – Austin, Case McNairy, Jolly)**

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**21. Discussion and appropriate action on SACRS Legislative Proposal – Service Retirement Pending Disability Determination**

Becky Van Wyk, Interim Retirement Administrator, opened discussions with a brief summary of a proposal submitted by LACERA regarding Service Retirement Pending Disability Determination for consideration of SACRS-sponsored legislation next year during the 2015-2016 California Legislative Session.

The proposal was approved by the SACRS Legislative Committee during the September 15, 2014 Legislative Committee meeting, and will be considered by the general membership at the Fall Conference in Monterey, at the Business Meeting on Friday, November 14, 2014.

Direction to the FCERA voting delegates is required in order to ensure that the legislation is acted upon according to the Board's wishes.

The Board directed the FCERA voting delegates to vote in support of the proposed legislation.

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**22. Discussion and appropriate action on draft Offsite Educational Summit agenda**

The Board reviewed and discussed the topics noted on the off-site agenda noting that several placeholder/reminders were included on the draft such as Consent Item 7 [this item will only appear on the agenda in the event Trustee Gomez is unopposed in the Safety Election].

The Board approved the topics of discussion and directed Administration to finalize the agenda as appropriate, giving approval for any necessary changes due to timing conflicts.

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**23. Closed Session:**

**A. Conference with Legal Counsel – Potential Litigation – pursuant to G.C. §54956.9(c) – possible initiation of litigation (one case)**

**B. Personnel G.C. §54957**

1. Public Employment Title: Retirement Administrator

**24. Report from Closed Session**

**23.A. A motion was made by Trustee Gomez, seconded by Trustee Basua, to initiate legal action as lead plaintiff. VOTE Unanimous (Absent – Austin, Case McNairy, Jolly)**

23.B. Nothing to report.

**25. Report from FCERA Administration**

Becky Van Wyk, Interim Retirement Administrator, reported on the following:

1. Due to the overwhelming requests for retirement estimates, Staff is directing members to the retirement calculator on the FCERA web-site and is providing written estimates instead of fact-to-face appointments.
2. Where appropriate, Administration is reducing the review process of payroll files in an attempt to direct more time toward its members and testing of the new Pension Administration System.

**26. Report from County Counsel**

Nothing to report.

**27. Board/Committee Member Announcements or Reports**

Nothing to report.

There being no further business, the meeting adjourned at 12:05 PM.

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Becky Van Wyk  
Interim Retirement Administrator/Secretary to the Board