

December 1, 2010

To: Members of the Operations Committee

From: Elizabeth Rogers, Chair

Subject: Summary of the December 1, 2010 Operations Committee Meeting

Operations Committee Chair Elizabeth Rogers called the December 1, 2010 Operations Committee Meeting to order at 9:10 a.m. Committee members present were Elizabeth Rogers, Chair; Ophelia Basgal, Keith Carson and Liz Koppenhaver. Other Board members present were Annette Cain-Darnes, George Dewey, George Wood, and alternate members David Safer and Darryl Walker. Staff present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Betty Tse, Chief Investment Officer; Victoria Arruda, Human Resources Officer; Latrena Walker, Project and Information Services Manager; JP Singh, Chief Financial Officer; Rose Kwong, Benefits Manager; and Harsh Jadhav, Internal Auditor.

ACTION ITEMS

1. Board Travel Policy

The Travel Policy was previously brought to the Committee in April for evaluation of section III.c) of the Policy. This section identifies an annual dollar limit of \$7,500 that each Trustee is allocated for “business related expenses”. Additionally it lists educational conferences that are excluded from this expenditure limit.

Staff presented two questions for the Committee’s consideration:

1. Should the Committee reconsider its current approach to the \$7,500 annual limit?
2. Should the Committee consider imposing specific sanctions in the event a Trustee exceeds the \$7,500 limit?

One suggestion offered for consideration was for the Trustees to complete a form after attending a conference which lists the sessions that were attended and a brief summary of what was learned.

The Board Chair reminded Staff that the Committee had previously requested a complete list of all conferences attended by the Trustees and the associated costs. Staff responded that this request was on the Pending Items List for January.

The Committee requested Staff to bring back the Travel Policy and a complete list of all conferences and the associated costs in January. No action was taken.

2. Contract with Tobi Design to produce the 2010 CAFR and PAFR

Staff requested authorization to negotiate a contract with Tobi Design for the production of the 2010 CAFR and PAFR with a contract not to exceed \$100,000 plus sales tax. The Request for Proposal (RFP) process would begin in the 2nd quarter of 2011 to evaluate alternative service providers for work commencing in 2012.

The Board Chair asked Staff why an RFP was not already issued in view of the fact that it was known since June that this needed to be done. Staff responded that work on this RFP has not begun because of other priorities. Staff is also considering issuing the 2010 CAFR and PAFR electronically.

The Committee also asked if producing a fancy CAFR is a good use of time and dollars, when all that we are required to produce is an annual financial statement or PAFR. The Committee directed that the cost for producing the CAFR and PAFR be brought down significantly. The Committee requested that Staff bring back the legal reporting requirements of the annual financial report including a revised cost estimate in January. No action was taken.

3. Extension of the contract with The Segal Company for actuarial services

In September the Board granted Staff the authority to negotiate a five year extension of the current contract with The Segal Company to provide ACERA with actuarial services. Staff asked the Committee for approval of the proposed fees and hourly billing schedule provided by Segal.

Ms. Ophelia Basgal moved and Ms. Annette Cain-Darnes, Board Chair seconded that the Committee recommend to the Board that the Board approve The Segal Company's fixed fee schedule and hourly billing schedule for actuarial services through December 31, 2015. The motion carried.

4. Contract with The Segal Company to review the Liability Management Policy

Also in September the Board approved using the services of The Segal Company to conduct a comprehensive review of the Liability Management Policy and to develop recommendations for the Committee. Segal estimated the cost for this service to be in the range of \$25,000 to \$35,000. Segal's billings will be based on actual hours spent on the project. Based on the possible complications associated with Article 5.5 arrangements, Segal proposed a not to exceed fee estimate of \$50,000.

Ms. Ophelia Basgal moved and Ms. Liz Koppenhaver seconded that the Committee recommend to the Board that the Board approve a contract with The Segal Company to review the Liability Management Policy with the contract not to exceed \$50,000. The motion carried.

INFORMATION ITEMS

1. Monthly Financial Statements

For the month of October there was a net investment gain of \$129,627,173. The October year-to-date net income from investments was \$420,835,697. The year-to-date investment performance was a 9.52%, outperforming the policy index by 38 basis points. The total additions were \$608,130,232. Total deductions were \$270,883,822. As of October 31, 2010, net assets held in trust for pension benefits total \$5,014,126,004, an increase of \$337,246,410 year-to-date.

After discussing the Business Continuity expense, the Committee requested Staff to find out what other companies do for their Business Continuity program and how much they spend.

2. Total Operating Expenses – Budget vs Actual as of October 31, 2010

As of October 31, 2010 actual expenditures were under budget by \$439,679. The under spending was mainly in the General Accounts (disability related expenses, printing, postage, insurance and software support) and Consultant Fees – Legal.

The Board Chair requested that Staff look closely at ACERA's Fiduciary Liability coverage prior to renewal in 2011 because of the changes made to coverage within the insurance industry.

3. Annual support and maintenance for the Pension Gold Administrative System

The support and maintenance for the Pension Gold Administrative System is provided by Levi, Ray and Shoup (LRS). In January 2011 the annual fee for this service is \$331,686.02, which the Staff finds to be reasonable. This is a \$3,366 increase over the previous year, which is based on 15% of the total cost of customizations completed in the prior year per the Maintenance and Support Agreement.

TRUSTEE/PUBLIC INPUT

Ms. Koppenhaver stated that she has received a couple of complaints from retirees that they cannot get in contact with the Trustees. Ms. Koppenhaver asked if a Trustee's contact information can be posted on the ACERA website and Staff replied that it can be done at the request of the Trustee.

RECOMMENDATIONS

1. The Committee recommends, and I move that the Board approve The Segal Company's fixed fee schedule and hourly billing schedule for actuarial services through December 15, 2015.
2. The Committee recommends, and I move that the Board approve a contract with The Segal Company to review the Liability Management Policy with the contract not to exceed \$50,000.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for January 5, 2011 at 9:00 a.m.

MEETING ADJOURNED

The meeting adjourned at 9:56 a.m.