

Retirement Board Meetings on February 12, 13, 15 & 16, 2007
Reported by Joe Flynn

Retirees: Lots of activity this week; Investment Committee met on Feb. 12.; Ad-Hoc Committee on DROP met Feb. 13; Business and Governance Committee met Feb 15.; and the Board met on Feb. 16. And we had retirees at every meeting; not a lot but a few and some new faces, so that's a good start.

Investment Committee, chaired by Tom Hebrank, moved its meeting from Thursday to Monday this month to consider whether SDCERS would invest in Private Equities. The term Private Equity denotes an equity security of companies that have not "gone public" (are not listed on a public exchange). It is a long term (three to seven years) investment of capital with firms/groups that buy companies, consolidate or streamline them, improve their profitability, and sell them. Sometimes the sale includes taking them public with stock offerings on the New York Stock Exchange, for example.

The committee heard a presentation by SDCERS staff and consultants from Callan Associates. It was an extensive review by the committee with questions from four other Board members (not on the Investment Committee) who were there to learn more about this option. The committee voted 4-0 to recommend to the Board approve Private Equities as an eligible asset class for SDCERS investment program. The full Board on Friday voted 9-2 to approve this asset class. I voted with the majority. No investments were made at this time. Staff, along with consultants, will in the future review investment opportunities in this class and bring them to the Board for consideration. One of the things I think you would be pleased with is the detail provided by staff and consultants and the scrutiny given to these presentations by committee members.

Doug McCalla, Chief Investment Officer, ended the meeting on a high note by announcing that the Pension Fund had reached a new high of **\$4.815 billion**.

The Ad-Hoc committee on DROP, which met Tuesday, is chaired by Wayne Kennedy. Members include Franklin Lamberth, Bill Sheffler, and yours truly. This committee is charged solely with determining the rate of interest to be applied to the accounts of active DROP participants. Any change in " . . . ***DROP interest rate or methodology would affect only active DROP participants, and would have no impact on retired DROP***

participants. . . ." Source: Nov. 3, 2006 memo on DROP Interest Crediting by Roxanne Story Parks.

This was the first of four scheduled meetings for this committee, and a lot of discussion was devoted to making sure we had adequate background material, understood the discretion of the committee and Board on this issue, and to which accounts any possible change in interest rates would apply. Those rumors that I had taped down my "request to speak" button are totally unfounded. More to come on this issue.

The **Business and Governance committee** chaired by Mark Sullivan (just elected to a new four year term) heard a presentation on fund governance and ethical and fiduciary conduct. This was arranged by Chris Waddell, SDCERS General Counsel who is active with the Stanford Principles of Fund Governance committee.

The tax compliance program in SDCERS is moving along nicely -- until it hits the City Attorney's Office. We have forwarded changes to the Municipal Code, necessitated by IRS regulations, to the City Attorney over a year ago. They have yet to be docketed for Council action. This time, we forwarded modifications to the earlier changes; again based on new IRS regulations. Unfortunately, we are stuck between the IRS and the City Attorney. The good news is that SDCERS is ahead of the curve on this but Council action is still required.

The Comprehensive Annual Financial Report (CAFR) is at the printer. (turn up your speakers to hear the audible sigh of relief - mine, the committee's, the Board's and staff.) This has been a long time coming. Our auditor got caught up in the race of the auditors -- to be last. With this SDCERS document at the printers, it appears that KPMG will win the ignominious title of "Last of the Auditors." Bob Wilson, with encouragement of David Wescoe, has been the designated shepherd on this task. The term shepherd is appropriate here since Bob almost had to camp out with the auditor to keep them moving.

One of the other items discussed was a proposed revision the Board rules governing elections. Since the changes in terms of office for the Board that was seated in 2005, the Rule is out of date. We did make a change to deal with elections when we only have one candidate for a given office. In those cases, the Administrator, along with the Board President will certify the candidate to the office in question. And for the retirees, I did get our oar in the water requesting a 60 day notice, instead of the 20 day notice now in the Rule. I justified the extended notice due to the fact that retirees do not meet frequently and need a little more time to consider these things. I didn't mention the fact that retirees are usually running around the country and the

globe and only come back to San Diego between trips. The other Board members and staff are still working, and I hate to rub it in.

The Board meeting on Friday, followed up on the items considered at committees, discussed them and put them to votes. A major presentation at the Board was made by SDCERS Actuary Gene Kalwarski. The item was the "Actuarial Funding Study: Amortization of the Unfunded Actuarial Liability." In short, this is the background for picking the number of years for the City to pay off pension fund deficit. You will recall that Prop. G, by vote of the people selected 15 years to pay off the deficit. Then the State Attorney said, that action was entirely up to the Pension Board. Next, Mayor Sanders said he thought it should be 20 years.

So you can see the Board has had lots of help on this, but we still have to do it ourselves, and the actuary's report provides some of the background for this task. Many many options, and multiple impacts to go with them. The Board will study this information, and asked for some additional calculations at the March meeting, so stay tuned.

Speaking of staying tuned, SDCERS and the City had a memorandum of understanding (MOU) to film Pension Board meeting and rebroadcast them on Channel 24. SDCERS was to buy and install the equipment and cameras and the City would provide the staff to run the equipment on the Board meeting day. Worked fine until recently when the City told SDCERS that it would no longer provide that staff support. SDCERS staff reminded the City of the MOU; didn't matter. I made a pitch during the meeting for the City to honor its part of the agreement, and to live up to the standards expected of America's Finest City. It is not a major cost, but it is a matter of principle, and principle matters.

Joe Flynn, Retiree Rep. to the Board