

**CITY OF PHOENIX
EMPLOYEES' RETIREMENT BOARD**
101 South Central Avenue, Suite 600
Phoenix, Arizona 85004

April 23, 2008

MEMBERS PRESENT:	Ms. Cathleen Gleason, Chairperson Ms. Libby Bissa, Vice Chairperson Mr. Frank Barriga, Board Member Ms. Barbara Lang, Board Member Mr. Rick Naimark, Board Member Ms. Linda Reidenbach, Board Member, Citizen Representative Ms. Janet Smith, Board Member
ABSENT:	Mr. Jim Flanagan, Board Member, Retiree Representative Mr. Bob Wingenroth, Board Member
ALSO PRESENT:	Ms. Donna Buelow, Retirement Program Administrator Ms. Paula Whisel, Recording Secretary Ms. Lollita Cordova, COPERS Ms. Jackie Temple, COPERS Mr. Greg Fichet, COPERS Atty. Paige Martin, Kutak Rock, LLP Atty. Mary Chang, Law Department Ms. Jodi Nicholson, Finance Department Ms. Barbara Kellogg, City of Phoenix Retirees Association Mr. Ryan Harvey, R.V. Kuhns & Associates Mr. Russ Kuhns, R.V. Kuhns & Associates Mr. Randy Spenla, City Auditor Department Ms. Susan Hogarth, Gabriel Roeder Smith Ms. Leslie Thompson, Gabriel Roeder Smith Mr. Nick Collier, Milliman, Inc. Ms. Pat Beckham, Milliman, Inc.

The City of Phoenix Employees' Retirement Board met at 17 S. 2nd Avenue, 2nd Floor Subcommittee Room, Phoenix, Arizona on April 23, 2008 at 9:30 a.m., to conduct regular business.

1. **Call to Order**

Chairperson Gleason called the meeting to order at 9:36 a.m. She stated Mr. Flanagan and Mr. Wingenroth were unable to attend the meeting. She stated Mr. Naimark would join the meeting in progress.

2. **Approval of Retirement Board Meeting Minutes – March 26, 2008**

Ms. Bissa moved approval of the March 26, 2008 Retirement Board minutes. Mr. Barriga seconded the motion. The motion carried unanimously.

Mr. Naimark entered the room.

Mr. Barriga moved to convene in executive session at 9:37 a.m. for discussion of items 20 and 21. Ms. Bissa seconded the motion. The motion carried unanimously.

[Executive Session took place]

The Board convened in open session at 9:54 a.m.

20. **Discussion with Attorney to Consider Position and Instruct Attorney Regarding Lawsuit CV2002-020383 Regarding Former and Current Head Start Workers**

No action was taken.

21. **Discussion with Attorney Regarding COPERS v. Carroll/Stephens, Maricopa Superior Court Case CV2006-011541**

No action was taken.

Atty. Martin left the room.

3. **Investment Committee Report**

The Investment Committee met on April 23, 2008.

Approval of Investment Committee Minutes of March 26, 2008

Ms. Reidenbach stated the Investment Committee minutes had been approved.

Consideration of Excess Benefit Arrangement Trust Report

Ms. Reidenbach stated the quarterly Excess Benefit Arrangement (EBA) Trust report which the Committee and the Board reviewed as part of their fiduciary responsibilities was included in the materials. She stated a contribution had been made to the EBA trust account.

Consideration of Correspondence From Western Asset Management Regarding Downgrade of Sprint Bonds

Ms. Reidenbach stated the fund cannot purchase bonds below investment grade, but occasionally a downgrade takes place to an asset held by one of COPERS' investment managers. She stated the Committee recommended allowing Western to hold the bonds until they felt it was prudent to sell the bonds.

Consideration of Request From GMO To Utilize Emerging Markets Funds

Ms. Reidenbach stated GMO had an emerging markets fund which had reopened. She stated the Committee felt it would be prudent to allow GMO to invest funds using the emerging markets fund.

Consideration of and Appropriate Action Regarding Organizational Changes: Cramer Rosenthal McGlynn

Ms. Reidenbach stated R.V. Kuhns & Associates had recommended Cramer Rosenthal McGlynn make a presentation at the May 2008 meeting because three members of the small cap team had left the firm. She stated employees of R.V. Kuhns & Associates had visited Cramer Rosenthal McGlynn's office. She stated R.V. Kuhns & Associates would provide a report at the May 2008 meeting regarding the visit.

Consideration of and Appropriate Action Regarding Organizational Changes: Eagle Asset Management

Ms. Reidenbach stated R.V. Kuhns & Associates did not have any concerns with Eagle's organizational changes.

Consideration of and Appropriate Action Regarding Organizational Changes: Pyramis Global Advisors

Ms. Reidenbach stated a portfolio manager who oversaw the Japan region had left the firm. She stated the Japan sector had underperformed for the last three years. She stated R.V. Kuhns & Associates thought this was a positive change.

Future Agenda Items

Ms. Reidenbach stated at the May 2008 meeting the Board would review the impact of bank holdings in light of the Bear Stearns situation. She stated the Board would also review the manager fee structure and the securities lending program.

Call to the Public

Ms. Reidenbach stated there had been no response from the public.

Ms. Reidenbach moved approval of the Investment Committee report to include the approval of the minutes and the acceptance of Western's recommendation to hold the Sprint bonds. Mr. Naimark seconded the motion. The motion carried unanimously.

4. **Legal Review Committee Report**

Chairperson Gleason stated the Legal Review Committee meeting had been rescheduled.

5. **Consideration of Scope of Management/Investment Portfolio Reviews – Presentation by City Auditor**

Mr. Randy Spenla approached the table.

Mr. Spenla stated included in the packet was a copy of a draft request for proposal (RFP). He stated the overall purpose of the study was to compare COPERS' policies, procedures and practices to the best practices of top performing funds and identify any areas for improvement. He stated the Audit Department was ready to proceed with issuing of the RFP. He stated he would like for either a Board member or Retirement staff to help on the evaluation committee.

Chairperson Gleason asked Mr. Spenla what his expectations would be in regard to the item concerning the structure of the Board. Mr. Spenla stated he expected the vendor to indicate how the Board structure compared to other plans.

Chairperson Gleason asked Mr. Spenla if he was considering conducting this review on a regular schedule. Mr. Spenla stated the Audit Department had included the review in their five year audit plan.

Mr. Spenla left the room.

6. **Consideration of Finalists for Request for Proposal for Actuarial Audit**

Ms. Buelow stated the Board had provided direction to staff to coordinate an actuarial audit RFP. She stated part of the discussion had been whether to do a sampling or replication process. She stated the Board had determined to move forward with the replication process. She stated the RFP had been issued with the assistance of R.V. Kuhns & Associates. She stated included in the materials were the proposals and additional materials from the two finalists.

Mr. Kuhns stated R.V. Kuhns & Associates provides the investment consulting for Milliman's retirement fund and would therefore not be able to offer a recommendation on which firm the Board should choose. He stated they were involved in the process and they provide facts about the two proposals.

a) **Gabriel Roeder Smith & Company**

Ms. Susan Hogarth and Ms. Leslie Thompson entered the room.

Ms. Thompson stated she was a Senior Consultant and had been in the industry for 30 years. She introduced Ms. Hogarth and stated she had 20 years of experience.

Ms. Thompson stated Gabriel Roeder Smith (GRS) was one of the largest providers of pension and healthcare consulting services in the public sector. She stated GRS does mostly public sector work. She stated GRS served over 600 clients and 40 statewide systems. She stated the benefit to COPERS of GRS work with statewide systems was knowledge about what other entities were doing. Ms. Thompson stated she understood COPERS was seeking a full replication audit. She stated GRS would be completely replicating the results of the most recent actuarial valuation and reviewing COPERS' methods and assumptions. She stated in the replication they will be able to determine if the methods and assumptions were being applied consistently with what was being included in the valuation report. She stated the purpose of the audit was to demonstrate the reasonableness of the results, assumptions and the correctness of the application of the funding method.

Ms. Thompson stated she had previously worked for a firm which had been audited and performed the auditing. She stated GRS also had experience auditing Rodwan Consulting Company. She stated she was the consulting actuary to the City of Tucson. Ms. Thompson stated GRS had very deep roots in the public sector and had been in business for 70 years.

Ms. Thompson stated GRS had just completed a full replication for the City of Denver. She stated when Ms. Hogarth and she were at a prior employer they had audited the Public Safety Personnel Retirement System (PSPRS). She stated GRS handled a variety of cases from very large state cases to the much smaller public safety cases.

Mr. Naimark asked Ms. Thompson when the PSPRS audit had taken place. Ms. Thompson stated the audit was done in 2006.

Ms. Hogarth stated GRS would be replicating the 2007 valuation. She stated their report would explain any significant changes from the valuation prepared by Rodwan Consulting. She stated GRS will provide a draft report to the retained actuary and the Board for comments before issuing a final report.

Ms. Hogarth stated GRS was the largest actuarial consulting firm dedicated to the public sector. She stated GRS had worked with the Arizona plans and Rodwan Consulting Company. She stated the GRS team had performed many audits.

Ms. Thompson stated with her background in public speaking and advising, she would bring to the Board current information about what was happening with pension funding and actuarial issues.

Ms. Hogarth stated part of GRS' process was to have a kickoff meeting with the plan to review the project scope and timing. She stated after the data had been received GRS would start programming. She stated they would look at the provisions and statutes. She stated GRS would then do a draft report early in the process so they can get comments from the Board and the retained actuary.

Ms. Thompson stated the team was based in Denver, Colorado. She stated their proposed fee was \$49,875 to prepare the audit with a charge for meetings of \$1,000 per person, per meeting.

Ms. Thompson stated the Board should hire GRS because of their public sector consulting leadership, their experience in Arizona and their strong board communication skills. She stated GRS had been in business for 70 years and they have advanced technology which would increase their value. She stated GRS would very much appreciate the Board's business. She thanked the Board for the opportunity to present.

Mr. Naimark stated GRS had mentioned they had experience with Arizona plans and auditing Rodwan Consulting Company. He asked if there was a specific value in having this experience. Ms. Thompson stated there was a lot of value because GRS already knows how Rodwan Consulting Company's data looks. Mr. Naimark asked from an auditing perspective if GRS has audited Rodwan Consulting Company a lot was it viewed as being too related and not as independent. Ms. Thompson stated she did not think knowledge impacted independence.

Mr. Kuhns stated GRS mentioned they had replaced the actuary for the City of Denver. He asked if there was a conflict between auditing someone and then replacing them. Ms. Thompson stated GRS had been awarded the City of Denver on-going work first. She stated GRS always does an audit when they take over a plan.

Ms. Hogarth and Ms. Thompson left the room.

b) Milliman, Inc.

Ms. Patrice Beckham and Mr. Nick Collier entered the room.

Ms. Beckham thanked the Board for the opportunity to present the highlights of Milliman's proposal to provide auditing services. She introduced Mr. Collier and stated they would both be working directly on the project if chosen.

Ms. Beckham stated in general the work actuaries in the public sector perform for retirement systems was very important to the financial health of the system. She stated the work was technical and highly specialized so it was difficult for the Board as a fiduciary to judge the quality of the work. She stated an actuarial audit gives reassurance the numbers presented to the Board were accurate, the methodologies were appropriate, the assumptions were reasonable and overall being provided with sound actuarial advice. She stated Milliman encouraged all clients to conduct an actuarial audit periodically. She stated it was her understanding this was the Board's first actuarial audit and they had chosen to do a replication audit. She stated Milliman would do the same calculations as the retained actuary and compare the numbers on an individual and an aggregate basis. She stated normally there would not be any large issues or concerns.

Ms. Beckham stated both she and Mr. Collier specialized in the pension area. She stated within the pension practice they were further specialized into public, corporate, union and Taft Hartley plans. She stated she worked in the public sector. She stated audit experience was important because the more audits performed the broader the base of experience and expertise brought to the next project.

Ms. Beckham stated Milliman was a large national firm with over 2,000 employees and 1,000 credentialed actuaries. She stated Milliman had a group of 16 senior consultants working primarily in the public sector area. She stated Milliman had been around for 60 years and their corporate structure had not changed. She stated Milliman was committed to the public sector and have built a reputation of high quality work.

Ms. Beckham stated Milliman had done 16 audits in the last five years. She stated they have been retained several times by the same system. She stated Milliman had a lot of takeover experience. She stated when Milliman was retained by a new firm they replicate the last valuation. She stated Milliman had experience in some difficult situations where the audit was not as clean as hoped and they have been able to present the results in a very professional manner. Ms. Beckham stated there was always some good information which comes out of an audit. She stated with the more subjective areas like assumptions it was not unusual for the retained actuary's opinion to be different. She stated systems which have periodic audits have less issues found. Mr. Collier stated in the few situations where there had been significant discrepancies Milliman has always been able to resolve those issues.

Ms. Reidenbach asked how often Milliman was retained by a public plan after an audit. Mr. Collier stated the firm has been retained as the primary actuary after the completion of the audit three times on clients he had worked on.

Ms. Beckham stated Milliman had been both the retained actuary and the auditing actuary. She stated Milliman had worked with Rodwan Consulting Company before on another audit about a year ago and there had been no problems with the data or cooperation.

Ms. Beckham stated she, Mr. Collier and Mr. Brent Banister would be the three key players on the team. She stated there were two other people on the team. She stated Ms. Karen Steffen, who was the most senior public sector consultant at Milliman, was included on every audit team because of her experience. She stated Ms. Steffen would not be actively involved in doing the audit. She stated Mr. Collier would head up the replication of evaluation results, she and Mr. Banister would review the assumptions and the methods and make the presentation to the Board. She stated Milliman had very strict internal quality control requirements.

Mr. Collier stated he has worked on over 20 audits in the last 10 years involving 10 different firms. He stated one way Milliman sets themselves apart from other firms was in their final product. He stated there are two kinds of differences, the subjective difference and the calculation difference. He stated the subjective difference was the assumptions.

Mr. Naimark asked Milliman if the work they performed for PSPRS had been an audit. Ms. Beckham stated it was an audit and they were not currently retained by PSPRS. She stated the audit had been done in 2007. Mr. Naimark stated Milliman also mentioned they had audited our retained actuary before. He asked if they viewed that experience as an advantage. Ms. Beckham stated it was an advantage.

Mr. Naimark asked Milliman how often they recommend funds perform an actuarial audit. Ms. Beckham stated the most common time period was every five years for an audit. She stated if COPERS ever had a significant change in the benefit structure it would be a good time for an audit. She stated it was good for the system, the taxpayers and the actuary to make sure the results presented were accurately reliable. Mr. Collier stated Milliman prided themselves in providing the draft report well in advance so they can get comments back and incorporate them as appropriate. Ms. Beckham stated the final report also goes to the retained actuary.

Mr. Harvey asked how many in-person meetings would their work plan anticipate. Ms. Beckham stated there could be two to three in-person meetings.

Mr. Harvey asked was there anything the proposed \$50,000 fee did not include. Ms. Beckham stated the proposed fee included all fees.

Ms. Beckham and Mr. Collier left the room.

Ms. Buelow stated staff had conducted reference checks and both firms had satisfactory references. She stated Ms. Rodwan had been an employee of GRS for many years during her relationship with COPERS. She stated in 2001 Ms. Rodwan left GRS to form her own firm.

A discussion ensued regarding both firms' qualifications.

Ms. Reidenbach moved to contract with Milliman to perform an actuarial audit. Ms. Lang seconded the motion.

Ms. Buelow stated previously the Board had indicated funding for this project would come from plan assets.

Chairperson Gleason called for the vote. The motion carried unanimously.

7. **Consideration of Proposed Work Plan – Presentation by R.V. Kuhns & Associates**

Mr. Harvey stated the proposed work plan was the next investment frontier which R.V. Kuhns & Associates would like to introduce to the Board over the remainder of 2008 and early 2009. He stated included in the materials was a memo detailing the proposal.

Mr. Harvey stated R.V. Kuhns & Associates would like to establish a transition manager bench. He stated the Board would then have several options each time a transition was required. He stated transition managers would be utilized during the reallocating process. He stated the current practice had been to use State Street for all transitions. He stated it was relatively easy to set up a pre-approved list of transition managers to compete for each transition. He stated R.V. Kuhns & Associates proposed to present a list of three or four transition managers at the May 2008 Board meeting.

Mr. Harvey stated also at the May 2008 meeting he would like to present an asset allocation study. He stated the asset allocation study would show the benefits of changing allocations within the current portfolio and introducing new asset classes.

Mr. Harvey stated R.V. Kuhns & Associates would be performing a fixed income portfolio review and would present a recommendation at the May 2008 meeting.

Mr. Harvey stated it had been determined by the Board's attorney long/short equities did not violate the Charter. He stated long/short equities would introduce important diversification to the portfolio. He stated the Board may consider the use of a fund of hedge funds strictly confined to long/short stocks. Mr. Harvey stated R.V. Kuhns & Associates would present information regarding the long/short equity strategy at the June 2008 Board meeting.

Mr. Harvey stated currently the real estate portion of the portfolio was only in core real estate. He stated there were other global real estate strategies R.V. Kuhns & Associates would like to introduce for diversification purposes. He stated the portfolio would benefit by having strategies like value added real estate, opportunistic real estate and all components of real estate in the international arena. He stated R.V. Kuhns & Associates had recently hired experts in the real estate area. Mr. Kuhns stated the real estate experts would be opening an office in Chicago.

It was a consensus of the Board to direct R.V. Kuhns & Associates to move forward with the work plan.

8. **Consideration of Proposed Process to Establish Transition Manager Pool – Presentation by R.V. Kuhns & Associates**

Mr. Naimark moved to have R.V. Kuhns & Associates prepare a list of transition manager's for the Board's consideration. Mr. Barriga seconded the motion. The motion carried unanimously.

Mr. Harvey and Mr. Kuhns left the room.

9. **Consideration of Correspondence and Resolution From Rodwan Consulting Regarding Mortality and Interest Rates for Actuarially Equivalent Optional Forms of Payment**

Ms. Buelow stated previously the actuary, Ms. Rodwan, had suggested the Board consider changing the assumptions used to calculate benefits for employees who chose to have benefits payable to a survivor upon their death. She stated the change would have had the impact of slightly increasing benefits for individuals who chose those survivor options. She stated because the next valuation was so close, Ms. Rodwan recommended the Board not make any changes in the assumptions for the mortality table and the interest factor used. She stated Ms. Rodwan would have additional information for the Board when she presented the valuation in October 2008. Ms. Buelow stated Ms. Rodwan could assess whether the trends she had seen in the last few years have continued.

Ms. Reidenbach asked about the interest rate drop from 7½% to 5%. Ms. Buelow stated on every resolution a mortality table and interest rate was adopted through some foreseeable future date. She stated what the Board would be adopting today would be through December 31, 2009. She stated the Board would revisit this issue before the end of 2009.

Mr. Naimark moved to adopt the resolution which reflects Ms. Rodwan's current recommendation. Ms. Smith seconded the motion. The motion carried unanimously.

10. **Consideration of Disability Assessment Committee (DAC) Recommendation and Timeline for Selection of Employee Member of the DAC**

Ms. Buelow stated one of the two employee members on the DAC had retired. She stated the DAC had reviewed the tentative timeline and process for the selection of an employee member. She stated Ms. Bissa had volunteered to participate in the DAC meeting where the interviews will be conducted. She stated at the June 2008 Board meeting a candidate will be recommended.

Ms. Bissa moved to adopt the DAC selection process. Mr. Naimark seconded the motion. The motion carried unanimously.

11. **Consideration of Request for Service Credit (Buyback) Forfeited Due to Refund of Member Contributions**

Mr. Barriga moved approval of the buyback requests. Ms. Reidenbach seconded the motion. The motion carried unanimously.

- a) Dorielle Beck
- b) John Perez

12. **Consideration of Request for Transfer of member Account Balance from COPERS to Public Safety Personnel Retirement System (PSPRS)**

Ms. Bissa moved approval of the transfer request. Ms. Smith seconded the motion. The motion carried unanimously.

- a) Steward R. Hostetler \$35,488.36

13. **Consideration of Requests for Purchase of In-State/Out-of-State Public Service Credits Pursuant to Board Policy 180**

Mr. Barriga moved approval of the service purchase requests. Ms. Reidenbach seconded the motion. The motion carried unanimously.

- a) Tri Bui
- b) David Ebeling
- c) Richard Thompson
- d) Todd Gehoski
- e) David Gonzales
- f) Steven Hansen

14. **Bills to be Paid**

Ms. Bissa moved approval of payment of the bills. Mr. Barriga seconded the motion. The motion carried unanimously.

- a) Kutak Rock LLP
Professional Services \$ 334.69
Professional Services \$ 3,545.40
- b) Pyramis Global Advisors
1st Quarter 2008 Fees \$153,567.00
- c) R.V. Kuhns & Associates
1st Quarter 2008 Fees \$ 44,602.00
- d) Rodwan Consulting Company
1st Quarter 2008 Fees \$ 4,900.00
- e) State Street Corporation
February 2008 Fees \$ 8,771.18
- f) Yoder & Langford, P.C.
Professional Fees \$ 1,574.50

15. **Refunds - (through March 31, 2008)**

Chairperson Gleason stated this item was informational.

16. **Pension Payroll – April 1, 2008**

Chairperson Gleason stated this item was informational.

17. **Treasurer’s Report as of March 31, 2008**

Chairperson Gleason stated this item was informational.

18. **Pending Legal Opinions**

Chairperson Gleason stated this item was informational.

19. **Administrator’s Report**

a) **Continuing Education Report**

Ms. Buelow stated the report was informational.

b) **Update on CHRIS Upgrade**

Ms. Temple stated the CHRIS system would be moving from application based to web based over the weekend. She stated currently retirees will not have the same self service options as general city employees who were able to change their address and direct deposit information. She stated additional access for retirees will be discussed with the Board at a later date. Ms. Buelow stated the June 2008 pension payroll would be the first retiree payroll issued under the new CHRIS system platform.

c) **Update on Investment Manager Roundtable**

Ms. Buelow stated the roundtable will be posted under Open Meeting Law as an educational event and no action can take place at the meetings. She stated if there were any particular topics the Board wanted to see addressed to contract staff. Mr. Fitchet stated the managers had been instructed to discuss the opportunities and challenges over the next year to 18 months in their particular asset class.

d) **Results of COPERS’ Database Comparisons Against Database of Deceased Individuals (PBI Results)**

Ms. Buelow stated the report was informational.

e) **Update on Retirement Voluntary Separation Incentive Packages for Employees Involved in Reduction in Force**

Ms. Buelow stated 25 individuals had retired through the retirement incentive process.

f) **Update on Presentation at City of Phoenix Retirees Association (COPRA) meeting March 27, 2008**

Ms. Buelow stated the thank you letter from COPRA was informational.

22. **Future Agenda Items**

No future agenda items were brought forward.

23. **Call to the Public**

There was no response to the call.

24. **Next Board Meeting: Wednesday, May 21, 2008 at 8:30 a.m. – Historic City Hall, Second Floor Subcommittee Room**

Chairperson Gleason stated this item was informational.

25. **Close Session**

The meeting adjourned at 11:38 a.m.

Donna M. Buelow
Retirement Program Administrator

Paula Whisel
Recording Secretary

APPROVED:

Ms. Cathleen Gleason, Chairperson
COPERS Retirement Board

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