



City of Austin Police Retirement System

Minutes of the Regular Meeting
Tuesday, October 18, 2011 at 11:30 a.m.
Kendall Thomas, Chesley Wood, Bldg.
2520 South IH 35, Ste. 100
Austin Police Pension Office

Trustees Present

Pete Morin, Chair
John Ross
Catherine Haggerty
Kendall Thomas
Art Alfaro
Mike Jung
Tim Atkinson
Kathie Tovo
Chesley Wood
Fred Fletcher, V-Chair

Trustees Absent

Jeff Knodel

Staff/Guests

Sampson Jordan, CEO
Stephanie Willie, DD
Vernon Webb, FM
Michelle Ruland, BSM
Joe Meals, CSG
Bob May, EA
Mark Fenlaw, EA
Jason Dusterhoff, APD
Chris Perkins, APD
Chris McIlvain, APD
Bob Klausner, K&K (Conf. Call)

Peter Morin, Chair called the Board to order at 12:25 p.m.

Minutes of the Regular Board Meeting held September 20, 2011

Peter Morin, Chair, reported the September 20, 2011, Regular Board meeting minutes as written in trustee packets, was up for discussion and approval. Not hearing any discussion Pete asked for a motion to approve the minutes. Catherine Haggerty made a motion to approve the September 20, 2011 minutes as written in the trustee packet. Fred Fletcher seconded the motion.

New Retired Members September 2011

Peter Morin, Chair, reported the two (2) New Retired Member for September 2011 as written in trustee packets was up for discussion and approval. Not hearing any discussion, Peter asked for a motion of approval. Catherine Haggerty made a motion to approve the two (2) New Retired Members for September 2011 as written in the trustee packets. Fred Fletcher seconded the motion.

PROP Disbursements for September 2011

Peter Morin, Chair reported the seven (7) PROP Disbursements for September 2011 as written in trustee packets, were up for discussion and approval. Not hearing any discussion, Peter asked for a motion of approval. Catherine Haggerty made a motion to approve the seven (7) PROP Disbursements for September 2011 as written in the trustee packets. Fred Fletcher seconded the motion.

Member Service Credit Purchases for September 2011

Peter Morin, Chair reported the two (2) Service Credit Purchases for September 2011 as written in trustee packets were up for discussion and approval. Not hearing any discussion, Pete asked for a motion of approval. **Catherine Haggerty made a motion to approve the two (2) Service Credit Purchases for September 2011 as written in the trustee packets. Fred Fletcher seconded the motion.**

Member Refunds of Contributions 3rd Quarter July-September 2011

Pete Morin, Chair reported (9) Refund of Contributions for 3rd Quarter July-September 2011, as written in trustee packets were up for discussion and approval. Not hearing any discussion, Pete asked for a motion of approval. **Catherine Haggerty made a motion to approve the nine (9) Refunds of Contributions for 3rd Quarter July-September 2011. Fred Fletcher seconded the motion.**

Retiree Death Benefit for September/October 2011

Peter Morin, Chair reported the two (2) Retiree Death Benefits for September as written in trustee packet, were up for discussion and approval. Not hearing any discussion, Pete asked for a motion of approval. **Catherine Haggerty made a motion to approve the two (2) Retiree Death Benefits for September 2011 as written in the trustee packet. Fred Fletcher seconded the motion.**

Sections on Retirements, DROP disbursements, PROP disbursements, PROP Monthly Annuity Deferrals and Changes, Member Service Credit Purchases, Death Benefits, Survivor Benefits and Member Contribution Refunds contain Confidential Information under Texas Government Code 552.0038 and will not be publicly released.

Investment Committee Meeting, October 18, 2011

A. Manager Monthly & YTD Performance Report

Kendall Thomas, Investment Committee Chair reported Joe Meals Investment Consultant at Consulting Services Group, Inc. presented to the 'Committee' at 9:00 a.m. October 18, 2011 on manager performances, accruals and unrealized gains as of September 30, 2011. Kendall introduced Joe who reported to the 'Board' on the total composite asset fund value \$463,956,755 (unaudited) earlier presented at the 'Committee'.

Joe reported the performance handouts titled 'Market Value and Returns Summary' showed the 'APRS' total composite return was down -5.9% Current Month, -9.1% Current Quarter, -7.0% Year to Date, -1.1% Trailing 1 year, -1.5% Trailing 3 Years and -0.2% Trailing 5 Years. The handouts also showed the portfolio Asset Allocation was 51% Market Dependant (Equity-US, International & Emerging Markets of 35% and Fixed Income-Cash, Core US Bonds, Mezzanine Loans & Private Loans of 15%) and 49% Alternative Investments (Hedge Funds-9%, Private Real Estate-19%, Timber-11%, Private Equity-7% and Natural Resources-3%). The 'APRS' equity manager performances were down -12.8%, while the broader S&P 500 index was down -7.0%; fixed income manager performances were down -7.4%, while the JPM EMBI Global Diversified index was down -4.4%, Merrill Lynch High Yield Index was down -3.6%; real estate and timber manager performances were down -.1%, and alternative manager performance in private equity and hedge funds were down -1.0% at month-end. In conclusion Joe reported the equities and fixed income performed poorly, real estate-timber and private equity were flat, due to delayed market reporting and hedge fund investments were poor, too. The real estate/timber and private equity performance market returns will be reported in October. **No action required by the Board.**

B. WCCG-Custer Creek Center & Other RE Opportunities

Kendall Thomas, Investment Committee Chair reported the 'Committee' met at 9:30 a.m. October 18, 2011 with Nate Paul, President at World Class Capital Group, Inc., Joe Meals, Investment Consultant and Bob Klausner, APRS attorney regarding investment performance on 'Rutland Distribution Center', 'Custer Creek Center' and new value added investment opportunity in 'Chase Plaza Tower' in Orlando, Florida.

Nate reported to the 'Committee' 'Rutland Distribution Center' in Austin and 'Custer Creek Center' in Plano. The 'Rutland Distribution Center' is fully leased and producing revenue of \$162k or 8% preferred cash return on \$2mm APRS contributed partner's equity. The internal rate of return as of September 30, 2011 is 14.0% (cash and equity) and original five-year May 2009 Performa at disposition is expected to be 21-26%. The 'Custer Creek Center' in Plano funded June 22, 2011 is having strong attraction to new tenants, such as Walgreens and Chase Bank and will produce revenue of \$320k or 8% preferred cash return on \$4mm APRS contributed partner's equity. The original five-year June 2011 Performa at disposition is expected to be 20% plus.

Nate introduced to the 'Committee' 'Chase Plaza' (aka Orlando Tower) in Orlando, Florida as distressed debt real estate investment opportunity for \$3.5mm amount. This commercial tower has motivated Bank seller at significant discount price. Its current occupancy is 66% and the tower needs no capital improvements, but will need lease holding improvement reserve for new tenants. The current lease roll may need some market rate adjustment as it rolls over when new tenant improvements are made. The tower is located in downtown across the street from Orlando City hall and new \$404mm performing arts center being built. The acquisition purchase price is approximately \$2,725,000 with additional \$775 thousand used to fund closing costs, expenses, legal expenses to complete the foreclosure, and the future costs of the lease-up operations. The investment strategy period is five years and the pro forma at exit is projected to be in 30% plus. The investment will have 8% preferred cash distributed quarterly and after distributed all remaining cash flow will be split 50% to the limited partner and 50% to the General Partner. Upon sale the proceeds will pay partnership invested capital, unpaid 'preferred return' and lastly remaining net profits shared 50% between Limited Partner and General Partner.

Kendall Thomas reported the 'Committee' recommended; 1) sending John Ross, Trustee and Sampson Jordan, CEO on site visit to determine if the economics merit Austin Police Retirement System investing \$3.5mm in 'Chase Plaza aka Orlando Tower', and 2) cross collateralization on 'Rutland Distribution' and 'Custer Creek Center' were added in agreement on general partner equity. **Thereafter, Kendall Thomas made motion to approve this investment in the amount of \$3.5mm as recommended by the Investment Committee and as presented by Nate Paul, subject to legal counsel review and approval of agreement. John Ross seconded the motion.**

C. Investment Policy Statement (IPS)

Kendall Thomas, Investment Committee Chair introduced Joe Meals, Investment Consultant who met with the 'Committee' on Tuesday, October 18, 2011 at 10:30 a.m. regarding revisions to the portfolio diversification guidelines in the Investment Policy Statement (IPS).

Joe reported, he presented and the 'Committee' recommended the Board approve changing the Fixed Income minimum range to 10% from 15%, in order to comply with actual portfolio practice and include private issued debt under Fixed Income allocation. **Kendall Thomas made a motion to approve the changes in the IPS portfolio diversification minimum range to 10% from**

15% and included private issued debt under Fixed Income allocation, as recommended by the 'Committee' and presented by Joe Meals, Investment Consultant. John Ross seconded the motion.

D. IPS-Security Litigation Policy

Kendall Thomas, Investment Committee Chair introduced Bob Klausner, APRS attorney, who met with the 'Committee' by phone on Tuesday, October 18, 2011 at 10:30 a.m. regarding revisions to the Security Litigation Policy addendum to the Investment Policy Statement (IPS).

Bob reported by phone, he presented and the 'Committee' recommended the Board approve adding language under 'Purpose', in the Security Litigation Policy that stated the following: 'The term "securities litigation" shall be defined to include that broad category of cases relating to damages suffered by a shareholder as a result of allegations of officer or director misconduct. This shall include violations of federal securities law, violation of state laws relating to fiduciary duty of corporate board of directors and losses of share value relating to mergers and acquisitions. Securities litigation can also refer to misrepresentation concerning company products which, when revealed, cause a decline in the value of company stock.' In addition Bob, presented by phone and the 'Committee' recommended adding language under 'Identification of Potential and Filed Securities Class Action Litigation or other Securities Litigation', Security Litigation Policy that stated the following: 'The Board's general counsel shall be responsible for review and approval of all pleadings and shall actively participate in any litigation. The Board counsel may receive a portion of any fee approved by the Board for the class lawyers, with disclosure to the Board. The service of the general counsel on securities matter shall not be at the expense of the Board, except for sharing in any contingent fee which may be paid in a successful resolution of the case.' Kendall Thomas made a motion to approve the changes in the IPS addendum purpose and identification of potential and filed securities class action litigation or other securities litigation, as recommended by the 'Committee' and presented by Bob Klausner, APRS attorney. Chesley Wood seconded the motion.

E. Filing as Co-Lead Plaintiff on Omnicare Class Lawsuit

Peter Morin, Chair recused himself from this agenda item, due to client/employee relationship conflict and Fred Fletcher, Vice Chair gaveled the discussion.

Kendall Thomas, Investment Committee Chair reported the 'Committee' met with Bob Klausner, APRS attorney by phone on Tuesday, October 18, 2011 at 10:45 a.m. regarding Omnicare, Inc. class action lawsuit.

It was reported at the 'Committee' that APRS suffered \$258 thousand dollars in investment loss, due to Omnicare false and misleading statements made during the class period. Kendall reported the APRS attorney, Bob Klausner and Spector, Roseman, Kodroff and Willis, PC security litigation counsel recommended that APRS file as co-lead plaintiff with Jacksonville Fire and Police Retirement System in Omnicare, Inc. class action lawsuit. The combined two retirement systems loss was approximately \$750 thousand dollars. In addition Kendall reported the retentions agreement on legal services to be provided by Spector, Roseman, Kodroff and Willis, PC on contingency fee basis will not exceed 27% of the gross recovery. Shortly, thereafter Kendall Thomas made a motion to authorize Sampson Jordan, CEO to file affidavit as Co-Lead Plaintiff with Jacksonville Fire and Police Retirement System and hire Spector, Roseman, Kodroff and Willis, PC as security litigation

representative during the class action lawsuit, subject to plaintiff and retention agreement review and approval by Bob Klausner, APRS attorney. John Ross seconded the motion. Peter Morin abstained.

F. Investment Rebalancing and Reallocation

Kendall Thomas, Investment Committee Chair reported Joe Meals, Investment Committee met with the 'Committee' on Tuesday, October 18, 2011 at 11:00 a.m. and both recommended rebalancing for investment cash flow purposes 'only' should be made from Aletheia. The Board agreed by acclamation that the Chair, Investment Chair and Chief Executive Officer may rebalance from Aletheia Research Management, Inc. to fund investment cash flow commitments as needed.

G. Landbaron RE Performance, Valuations & Other Related Issues

Kendall Thomas, Investment Committee Chair reported Bob Klausner, APRS attorney met with the 'Committee', in Closed Session on Tuesday, October 18, 2011 at 11:15 a.m. on Landbaron Real Estate regarding pending litigation and/or contemplated litigation. There was not any action taken during the 'Session' and no further action during meeting regarding Landbaron Real Estate at this time, according to Kendall Thomas, Investment Committee Chair. No action required by the Board.

Actuary-Rudd & Wisdom, Inc.

A. Service Purchase Factors on Military, Proportionate, Permissive(s), Forfeited.

Peter Morin, Chair recognized Mark Fenlaw and Bob May, actuaries at Rudd & Wisdom, Inc. regarding updating the Service Purchase Factors for Military, Proportionate, Permissive Type A & B due to assumed mortality rate changes in RP-2000 Combined Healthy Lives Mortality Tables for males and females projected to 2014.

Mark presented the 'Updated Military Service Cost Factors' for pre-membership military service credit option and reported the pension statute 6243n-1 requires the cost be 25% of the actuarial cost of the service purchased. This change in the mortality rates causes the military service cost factors to increase from 0.2% to 1.3% depending upon the age at retirement. The recommendation from Rudd & Wisdom, Inc. was to approve this change in cost factors effective January 1, 2012.

Mark presented the 'Updated Permissive Service Cost Factors' to determine member's cost to purchase permissive service credit to reflect changes in: 1) Mortality tables used in the RP-2000 Combined Health Lives Mortality Tables for males and females projected to 2014; and 2) change to reflect the current actuarial normal cost. The normal cost changed from 21.839% in the December 31, 2007 actuarial valuation to 22.438% in the December 31, 2010 actuarial valuation. The change in the mortality rates and the normal cost in combination cause the Type A factors to increase in the range of 0.2% to 0.7%. The change in the normal cost itself increased by 2.7% primarily due to the reflection of the provisions of the Permissive Service Program. In addition the mortality table changes to RP-2000 Combined Health Lives Mortality tables and normal cost factors used in the Deferred Permissive Service cost is very small, less than 0.1% change. However, the APRS act requires the contribution be based on rates and tables recommended by the actuary and approved by the Board. Therefore, Rudd & Wisdom, Inc. recommends these two changes in Permissive Service Factors become effective January 1, 2012.

Mark presented the 'Updated Proportionate Retirement Plan Cost of Reestablishment of APRS Past Service by Former Members' for certain

members who are now members of one or more of the other participating Proportionate Retirement Program (PRP) systems in Texas. These former APRS members received a refund of their APRS accumulated contributions and interest when they terminated employment with the Austin Police Department and now under the PRP, allow re-establishing their APRS past service credit. However, they must pay the actuarial present value, as determined by the appropriate system according to section 803.203 of the Government Code (Proportionate Retirement Program). The changes in the assumed mortality table rates to RP-2000 Combined Health Lives Mortality for males and females projected to 2014 causes the PRP cost factors to increase from 0.2% to 1.2% depending upon the age at purchase and the combined total service. Therefore, Rudd & Wisdom, Inc. recommends the PRP cost factors become effective January 1, 2012.

Peter Morin, Chair asked for a motion to approve updating these service purchase factors on Military, Permissive Type A & B and Proportionate, effective January 1, 2012 as presented and recommended by Mark Fenlaw and Bob May actuaries at Rudd & Wisdom, Inc. Art Alfaro made a motion to approve updating these factors on military, permissive Type A & Type B and proportionate cost, effective January 1, 2012, as presented and recommended by Mark Fenlaw and Bob May, actuaries at Rudd & Wisdom, Inc. Fred Fletcher seconded the motion.

B. Actuary Service Agreement

Peter Morin, APRS Chair recognized Mark Fenlaw and Bob May actuaries regarding extending the Rudd & Wisdom, Inc. actuarial service agreement for another four years period with Austin Police Retirement System.

Mark Fenlaw, FSA presented a proposed 'Professional Services Agreement Renewal' executed by himself and Bob May actuaries at Rudd & Wisdom, Inc. which was for another four year term (expiring October 31, 2015) at a retainer fee of \$64,500 year 1, \$66,000 year 2. \$67,500 year 3 and \$69,000 in final year 4 on a 'Scope of Regular Work' that is similar to the previous agreement, except whereby GASB 25 & GASB 27 changes may occur in years after 2012 it reserves the right to amend and renegotiate this agreement to cover the cost of additional actuarial work required to comply with the amended GASB statements in the third and fourth years of this agreement. In addition to the retainer fee an hourly billable rate for services other than the 'Scope of Regular Work' will be charged in year: 1) 2011-12 at \$275 for a Senior Actuary, \$225 for an Actuary, \$175 for technical support and \$80 for administrative assistant; 2) 2012-13 at \$283 for Senior Actuary, \$232 for Actuary, \$180 for technical support and \$82 for administrative assistant; 3) 2013-14 at \$292 for Senior Actuary, \$239 for Actuary, \$186 for technical support and \$85 for administrative assistant; 4) 2014-15 at \$300 for Senior Actuary, \$246 for Actuary, \$191 for technical support and \$87 for administrative assistant.

Pete asked if there were any questions or discussion regarding this four year actuarial agreement presented by Mark Fenlaw, there not being any he asked for a motion of approval. John Ross made a motion to approve the Professional Services Agreement between APRS and Rudd & Wisdom, Inc., as presented by Rudd & Wisdom's actuary Mark Fenlaw with the stipulation to GASB 25 & 27 statement in years after 2012 valuation. Fred Fletcher seconded the motion.

2012 TEXPERS Membership Dues

Sampson Jordan, CEO presented the Texas Public Employees Retirement System (TEXPERS) annual membership dues to the Board of Trustees for renewal. The Austin Police Retirement System's Annual Membership Dues for 2012 is in the amount of \$2,391.15. **Timothy Atkinson made a motion to approve paying the TEXPERS annual Membership dues in the amount of \$2,391.15. Fred Fletcher seconded the motion.**

2012 NCPERS Membership Dues

Sampson Jordan, CEO presented the National Conference of Public Employees Retirement System (NCPERS) annual membership dues to the Board of Trustees for renewal. The Austin Police Retirement System's Annual Membership Dues for 2012 is in the amount of \$225.00. **Catherine Haggerty made a motion to approve paying the NCPERS annual membership dues in the amount of \$225.00. Fred Fletcher seconded the motion.**

Pension Office Report

A. Treasury Report

Vernon Webb, Finance Manager presented the September 30, 2011 monthly Treasury Report, showing the total 'APRS' asset value \$478,229,034.23 (unaudited). This asset value was down \$21,315,801.91 from August 31, 2011 asset valuation \$499,544,836.14 million (unaudited). The Fixed Income asset allocation of 13.60%, although out of compliance in August was now in compliance after 'Committee' recommended and 'Board' approved changing this asset allocation range to 10%-70% in the IPS per Joe Meals, Investment Consultant recommendation, today.

The total investment unfunded commitments are \$9,535,998.48 million, which consisted of \$754,517.34 in Mezzanine Loans, \$2,555,611.00 in Value Added Real Estate, \$689,113.33 in International Real Estate, \$92,455.97 in Opportunistic Real Estate Land Development, \$2,928,845.84 in Private Equity, and \$2,515,455.00 in Special Situation awaiting capital calls. The report showed \$11,094,443.83 in cash, which is more than \$10,000,000 IPS reserve requirement. The IPS required 30% Minimum Public Traded liquidity is in compliance at 35.44% and 50%-60% Maximum Public/Private Liquid Target is in compliance at 51.22%. **No action required by the Board.**

Vernon also reported the Administrative Expenses paid year to date September 30, 2011 of \$610,423.96 (unaudited) meets the \$847,840.00 budget revised in February 28, 2011. The Building Expenses paid and revenues received on tenant leases year to date September 30, 2011 produced net income of \$52,448.35 or 10.92% return on investment. The Investment Expenses paid year to date September 30, 2011 of \$1,204,084.26 meets projections made in the January 2011 budget of \$2,169,000.00. **No action required by the Board.**

B. 2011 Property Management Report

Vernon Webb, FM presented the Property Management Report for fiscal year 2011 on the Kendall Thomas, Chesley Wood Office Building. The information disclosed current tenants, building vendors and provided an accounting financial report with balance sheet, income statement and rent roll. The expected return for fiscal year 2011 is 10.71%, which is higher the 8.71% return estimated in fiscal year 2010. One tenant lease expired September 30, 2011 and is month to month till December 31, 2011, and one tenant expires December 31, 2011 and will have to be replaced in 2012. **No action required by the Board.**

C. IT Management Services Agreement (Renewal)

Sampson Jordan, CEO presented letter to Peter Morin, Chair and Board of Trustees regarding agreement renewal with Whiteglove Technologies. The letter stated the IT management service agreement was opened for bidding to three companies; Whiteglove included, and after staff review on pricing and service it was recommended to continue the agreement with Whiteglove for another year. Whiteglove price and service won out, because their service platform was increased to Gold level at \$943 per month, which is \$237 per month cost reduction on previous agreement. This amounts to \$2,844.00 savings per year in 2012 IT management services budget. Catherine Haggerty made a motion to approve the Whiteglove, Inc. IT management services agreement at \$943 per month as recommended by Sampson Jordan, CEO for the year 2012. Timothy Atkinson seconded the motion.

D. 3rd Quarter Security Monitoring Reports

Sampson Jordan, CEO presented the 'Security Monitoring Report-3rd Quarter 2011' as prepared by Berman, DeValerio, PC; Cohen, Milstein, PC; and Spector, Roseman, Kodroff, & Willis, PC securities litigation firms retained to monitor the 'APRS' trading records and to determine if any losses were the result of fraud. One firm Spector, Roseman, Kodroff & Willis, PC reported losses in Omnicare, Inc. in the amount \$258,000 merited Co-Lead Plaintiff consideration with Jacksonville Fire & Police. The other two security litigation firms reported there were not any security losses that occurred during the 3rd Quarter in the APRS portfolio, whereby they recommended taking any legal action. No action required by the Board.

E. Active and Retiree Election Notice

Sampson Jordan, CEO presented the Active Officer (Police) Election Notice and Retiree (Police) Election Notice with Timetable, signed by Mike Jung, Election Committee Chairperson and mailed to each active and retired police member in Austin Police Retirement System. The Notices were mailed out October 3rd and requested any member interested in filing as a candidate in the December election, to submit in writing to the Pension Office a 'Statement of Interest' before October 24, 2011. Sam went on to state the Election Committee would convene on November 1st to certify the candidate's eligibility and placement on the ballot to be voted electronically (computer or phone) between November 17 through December 9, 2011 at 11:59 p.m. No Action required by the Board.

Old/New Business

Peter Morin, APRS Chair requested the Board Members observe a Moment of Silence recognizing the passing in September of one retiree. No action required by the Board.

Timothy Atkinson requested the Goals & Objective Committee meet in January to discuss Military BB and Permissive Service Credit costs. Kendall Thomas requested the Years of Service retirement eligibility be included due to low investment return environment experiencing this year. Other issues are Multiplier, Forward DROP and PROP Program benefit costs to the system. All of these require actuarial studies and if adopted may require legislative action in 2013. No action required by the Board.

Adjournment



Peter Morin, Chair