



"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21ST CENTURY"

EMPLOYEES' RETIREMENT SYSTEM OF THE Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, President

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November 13, 2017

The Pension Committee met on Monday, November 13, 2017 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 4:46 P.M.

Present:

Director Joseph Peychaud, Chairman
Director Ralph Johnson
Ms. Chante' Powell Pierre
Mr. Christopher Bergeron
Mr. John Wilson
Mr. Marvin Russell

Also in attendance: Mr. Octave Francis III and Ms. Melanie Parent of FFC Capital Management; Mr. Mike Conefry of Conefry & Company; Ms. Janice Leumont of Capital One; Mr. Theodore Sanders III of the Louisiana Asset Management Pool; Mr. Harold Marchond and Mr. James Thompson of Sewerage & Water Board Legal; and Dr. Tim Viezer, Sewerage & Water Board Chief Investment Officer.

ACTION ITEMS:

1. Trustee Education (R-140-2017)

Mr. John Wilson moved to recommend that the Board of Trustees adopt Trustee Education as described in resolution R-140-2017. Mr. Marvin Russell seconded the motion. The motion carried.

The Resolution listed above will be moved to the Board of Trustees for full adoption.

PRESENTATION ITEMS:

Chairman Joseph Peychaud began the meeting by asking Dr. Tim Viezer to read the Employees' Retirement System mission statement: "to prudently manage an actuarially sound pension fund solely in the interest of participants and beneficiaries in a cost-effective manner."

Dr. Viezer then listed four reasons to consider the voluntary adoption of Trustee Education in La RS 11:185. First, principles of good governance include ongoing education and development. Second, the CFA Code of Conduct for Members of a Pension Scheme Governing Body (which the Board of Trustees adopted in October) requires that trustees "act with skill, competence, and diligence." Ongoing education ensures trustees' level of knowledge and understanding is current. Incumbent trustees and the plan sponsor have a responsibility to ensure new trustees receive proper training to fulfill their duties. Third, La RS 11:185 requires continuing education for each member of the board of trustees and each designee of a trustee for 14 Louisiana public retirement systems. Finally, the City of New Orleans Employees' Retirement System while not mandated by La RS 11:185, has "strongly encouraged" its trustees to complete 14 hours of continuing education each year.

The Committee discussed the education requirement and noted that attendance at the Louisiana Association of Public Employees' Retirement Systems (LAPERS) annual seminar in September in New Orleans would meet much of the education. Mr. Chris Bergeron clarified that the resolution would strongly encourage ongoing education but new trustees would be required to have five hours of education before they could vote on Board matters. Mr. Russell noted that the new mayor and her delegate, as a member of the Board would be required to receive the new trustee training in the months before taking office. Ms. Chante Powell noted the importance of the new trustees receiving timely training to ensure the Board's ability to achieve quorums.

The fund investment consultant, Mr. Octave Francis III provided a recap of the markets in the third quarter and reviewed the performance of the fund. Mr. Francis noted that fund underperformed its policy benchmark year-to-date and for the one-year ending September but outperformed the policy benchmark for the 3-, 5-, and 7-years periods. Extending back to the full 8 years that FFC has served as investment consultant includes financial crisis, which results in an annualized 10 bps of underperformance. But the fund outperformed its policy benchmark on a risk-adjusted (Sharpe Ratio) basis relative to its policy benchmark over that 8-year period. Mr. Ralph Johnson asked for an explanation of the recent year's underperformance.

Dr. Viezer provided a "drill-down" into the 1-year performance. He noted that the equity portfolio was the main source of the underperformance. Structurally, the equity portfolio is 93% actively managed. Active management has underperformed until recently. A second factor is an intentional tilt to value in the equity portfolio. Value is a style of investing in "cheap" stocks rather than stocks whose price or earnings are rapidly growing. Value has outperformed growth over the very long run but value and growth have cycles of under- and outperformance. Value has been underperforming growth for about ten years. That the cycle will turn is almost certain, but the timing is not certain. Dr. Viezer discussed one of the equity managers and noted that the drivers of future performance are investment philosophy, process, and resources. He and FFC were monitoring these drivers and they see no deterioration in the equity manager's drivers of future outperformance. Dr. Viezer committed to reviewing portfolio structures as part of the action plan and providing detailed manager reviews next year after conducting on-site due diligence.

Dr. Viezer reviewed the fund's compliance with the policy target asset allocation. He noted that all but two categories were within the allowable ranges. The U.S. Large Cap Core and U.S. Large Cap Value allocations were both over the maximum range. In conformance with the Investment Policy Statement, a rebalancing of the fund has commenced to coincide with the provision of cash to make pension payments. These purchase and sales of assets are based upon the "straightforward rebalancing" plan outlined in August. Dr. Viezer and Mr. Francis will provide an update on the rebalancing next month.

As Dr. Viezer began the last topic on consultant searches, Chairman Peychaud asked the Sewerage & Water Board Legal team if they had an answer to a question posed at the last meeting. Mr. Harold Marchond provided the answer. Mr. Marchond stated that the Sewerage & Water Board Professional Services Procurement Policy specifies the composition of the Proposal Selection Committee that evaluates RFPs. Therefore, the Pension Committee does not have a role in the Proposal Selection Committee's composition. Chairman Peychaud noted the importance of having confidence in the composition of the Proposal Selection Committee. Dr. Viezer replied that he followed the Policy, received Mr. Cedric Grant's approval for membership, and shared the names of the individuals serving on the Proposal Selection Committee. He noted that four of the five members had good investment knowledge. Mr. Bob Miller (the former Chief Financial Officer) was slated to participate but resigned to become an Executive Director in Jackson, Mississippi. The replacement for Mr. Miller was recommended and has a background in accounting. RFPs were received from four large investment consulting firms for the asset-liability consultant search. The Proposal Selection Committee is scheduled to meet publicly on November 27th. Dr. Viezer plans to have the Proposal Selection Committee's recommendation for the Pension Committee's consideration in December.

Dr. Viezer asked the Pension Committee to carefully review the table of "consultant deliverables." The Committee will discuss these deliverables, the process of conducting due diligence on investment consultants, and the process for selecting investment managers in December.

Chairman Peychaud thanked everyone for their patience given the meeting's delayed start. He repeated his desire that Board Relations schedule the Pension Committee prior to the 2:00 pm Finance Committee meeting. The importance of sending the Pension Committee packet out a week in advance of the meeting was also noted.

INFORMATION ITEMS:

Information item(s) 4 and 5 were received.

ADJOURNMENT:

There being no further business to come before the Pension Committee, the meeting adjourned at approximately 5:43 P.M.

Respectfully submitted,

Joseph Peychaud, Vice Chair