



**"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21<sup>ST</sup> CENTURY"**

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

*LaToya Cantrell, President*

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May 8, 2018

The Pension Committee met on Tuesday, May 8, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 8:30 A.M.

### **Present:**

Mr. Joseph Peychaud, Chairman  
Mr. Christopher Bergeron  
Ms. Eileen Gleason  
Mr. Ralph Johnson  
Ms. Chante' Powell  
Mr. Lynes Sloss  
Mr. Lewis Stirling III  
Mr. John Wilson

Also in attendance: Mr. Octave Francis III and Mr. Stephen Daste of FFC Investment Advisors of Raymond James; Ms. Marcie Edwards, interim Executive Director of the Employees' Retirement System (ERS) and Sewerage and Water Board (S&WB); and the following S&WB staff –Ms. Marina Kahn, interim Chief Financial Officer, Ms. Valerie Rivers, Deputy Director of Logistics, Mr. Willie Mingo, Director of Procurement, Ms. Irma Plummer, EDBP Manager; Mr. James Thompson, Office of Special Counsel; Dr. Tim Viezer, Chief Investment Officer; and Ms. Candice Newell, Board Relations Manager.

### **ACTION ITEMS:**

1. None

### **PRESENTATION ITEMS:**

Chairman Joseph Peychaud began the meeting by introducing Ms. Candice Newell, Board Relations Manager to the Committee. Chairman Peychaud then asked Mr. Lynes Sloss to read the Employees' Retirement System mission statement into the record: "to prudently manage an actuarially sound pension fund solely in the interest of participants and beneficiaries in a cost-effective manner." Chairman Peychaud also noted that Mr. Sloss had completed the new trustee training as required by R-140-2017 and was eligible to vote.

Dr. Viezer began his presentation by reintroducing a tool called the "governance matrix," which explicitly assigns decision rights and ensures checks and balances through oversight. The topic was first introduced in June and July 2017. An accountable reporting structure is achieved by efficient downward delegation of decision-making and informative and timely reporting. Efficiency is achieved by delegating smaller impact tasks further down. Governing fiduciaries decide the most impactful topics. Ms. Eileen Gleason asked whether this implied that the Board of Trustees don't worry about small impact duties. Dr. Viezer answered that the

oversight is delegated downward as well but that the Board focuses on the big picture and holds accountable those to whom authority and responsibility have been delegated.

Dr. Viezer summarized briefly his recommendations decision-making authority of a number of entities in the detailed governance matrix. These recommendations were based upon a mix of best practice, preferences communicated to him, and his observations of circumstances of the relevant parties here. The Board of Directors appoints the Executive Director and Special Counsel, who both serve the same roles in both the water utility (S&WB) and retirement system (ERS). He noted that the Mayor was the “first among equals” and was one vote on each Board. The Board of Trustees set broad policies (e.g., investment objectives, funding policy, and benefits), delegated implementation, ensured compliance with policy, and held accountable. As an aside, Dr. Viezer recommended that any change to the employee contribution rate be made by a majority vote of the entire Board of Trustees (because it is a policy) and required the support of two of the three employee Trustees. This would build trust. Ms. Gleason asked how this was handled in the past.

Dr. Viezer continued by suggesting that the Board of Trustees delegate certain decisions to the Pension Committee (e.g., asset allocation and manager selection). Requiring approval by the Board of Trustees was not efficient as it required the Pension Committee to ensure sitting through the same presentations twice and give decision-making to fellow Board members who were not as versed on these topics. The Executive Director would handle emergency procurements and oversee on a day-to-day basis, those who handled pension implementation (e.g., the Chief Investment Officer, Chief Financial Officer, and benefits administration). The Chief Investment Officer would provide advice, an annual work plan, and implement Board and Committee decisions. The Chief Financial Officer would oversee flows into and out of the pension. The General Investment Consultant would provide investment manager due diligence and recommendation as well as prepare reports on performance, risk, and compliance. The Operating Investment Consultant would facilitate rebalancing and cash flow movements at the direction of the CIO (internal movements) and CFO (external movements). The Operating Fiduciaries included investment managers, actuary, and custodian.

Ms. Gleason and Mr. Sloss asked that the role of the General Investment Consultant as an “extension of the Chief Investment Officer” be clarified to indicate a business continuity/back-up role. Mr. Sloss and Mr. Lewis Stirling requested that Dr. Viezer document how the existing situation would translate into a governance matrix to facilitate comparison. Dr. Viezer complimented the suggestion and agreed to do so. Dr. Viezer noted that he would incorporate the governance matrix into a revised draft Investment Policy Statement for the Pension Committee’s and Board of Trustees’ consideration.

Dr. Viezer moved on to the revised discussion draft of a professional services procurement policy for the Employees’ Retirement System and presented a chart comparing the existing S&WB policy with the proposed changes in the discussion draft. Dr. Viezer noted that the genesis of the policy was a question raised by Mr. Chris Bergeron at the November Board of Trustees’ meeting Mr. Chris Bergeron as to whether ERS was required to follow S&WB’s Policy. Dr. Viezer wrote the discussion draft to document both the preferences and past practices of the Pension Committee and had begun to circulate the draft to S&WB staff for comment. Dr. Viezer stated he had always envisioned a role for S&WB Procurement staff and wanted to present a clear articulation of the Pension Committee’s desires to S&WB Procurement so that department could determine an efficient and agreeable way to implement these changes. Chairman Peychaud said he believed that a central issue was whether the proposal would be a separate policy or changes incorporated into the existing S&WB Policy #95. Mr. John Wilson stated that he believed that the effort was in the “right direction” and saw the draft as documenting past processes that were not codified but conformed to pension industry practice.

Mr. Peychaud asked Ms. Valerie Rivers – Deputy Director of Logistics – to comment. Ms. Rivers noted that Procurement was the repository for all contracts and that the department needed the authority to ensure that all procurements were conducted according to the rules and regulations of the Board. She said that she understood that different industries (e.g., construction) had different procurement standards and practices. Ms. Rivers asked that the CIO produce a list of “nuances” to be incorporated into one policy.

Mr. James Thompson – attorney in the Office of Special Counsel – noted that there was never a suggestion to create a separate policy that would not use S&WB Procurement. He noted that historically two different processes were used by the Pension Committee and these processes were not codified. Ms. Gleason asked who had the right to modify the procurement policy. Mr. Thompson answered that although the organization had a unique legal structure, the Board of Trustees would have that decision right, but as a practical matter the

decision should be made working with S&WB Procurement, who had the knowledge, experience, and staff. Ms. Gleason asked further if the Board of Trustees passed a procurement policy, would S&WB Procurement answer to the Trustees or the Board of Directors. Dr. Viezer answered that the directions to staff would proceed from the Board through the Executive Director (of both the ERS and S&WB) to S&WB staff. Mr. Sloss asked whether the ERS Board of Trustees would need the permission of the S&WB Board of Directors to use S&WB resources. Dr. Viezer acknowledged that it was a fair question about the cost of in-kind services provided to ERS. Dr. Viezer noted he was looking for a “win-win” scenario for his colleagues in Procurement. Mr. Thompson added that Louisiana state law requires S&WB to maintain a pension fund but it also stipulates that ERS cannot have paid employees. ERS must therefore rely upon S&WB resources. Thus, the S&WB Board of Directors must approve the in-kind resources provided to ERS. Ms. Gleason asked whether it would then be prudent to have both Boards approve any procurement policy. Mr. Thompson answered “yes” and recommended that approach. Mr. Stirling asked whether the Board of Trustees set the procurement policy and that Procurement administers that policy. Mr. Sloss later asked for a summary and clarification of the procurement policy. Mr. Stirling asked whether the discussion draft was mirroring best practice in the pension industry. Dr. Viezer answered in the affirmative and Mr. Thompson noted that he was not aware of any public pension that had adopted a water utility’s procurement process. Ms. Chante Powell suggested that the existing S&WB procurement policy could be amended to include the desired changes. Ms. Marina Kahn – interim CFO and trustee for NOMERS – noted that the City’s retirement system used a hybrid procurement process. Chairman Peychaud asked S&WB staff to continue to work together and to bring another discussion draft that incorporated the Pension Committee’s desired changes into the S&WB Professional Services Procurement Policy #95.

Dr. Viezer noted that little time remained for a detailed discussion of the proposed investment policy. Every point had been discussed in Pension Committee presentations in August, September November, and December of 2017 and in January and March presentation of 2018. He encouraged Committee members to read the philosophy and contact him with questions.

Finally, under “Old Business” Dr. Viezer followed up on 11 items from the April Pension Committee meeting. He noted that Mr. Bergeron’s requested changes to the composition of the recommended Proposal Selection Committee was incorporated in the revised draft. Mr. Thompson stated there was no conflict for Pension Committee members to serve on the Proposal Selection Committee. Dr. Viezer had instructed Callan to incorporate data and scenarios requested by Mr. Johnson (2) and Chairman Peychaud (2) into their analysis. Dr. Viezer had instructed the actuary to run an analysis requested by Ms. Powell (impact of a natural disaster that closed the City on the pension) and another lowering the discount rate to 6.00%. Dr. Viezer noted 3 information items on ESG in response to a request by Ms. Edwards. Finally, Dr. Viezer had distributed the reciprocity agreement between ERS and NOMERS as requested by Chairman Peychaud.

### **INFORMATION ITEMS:**

Information item(s) 4 through 9 were received.

### **ANY OTHER MATTERS:**

The following questions and requests were raised for follow-up:

1. Mr. Sloss and Mr. Lewis Stirling requested that Dr. Viezer document how the existing situation would translate into a governance matrix to facilitate comparison.
2. Ms. Gleason and Mr. Sloss asked that the role of the General Investment Consultant as an “extension of the Chief Investment Officer” be clarified to indicate a business continuity/back-up role.
3. The approval of policies that affect both S&WB and ERS and the provision of in-kind resources should involve both the Board of Directors and Board of Trustees.
4. Chairman Peychaud asked S&WB staff to continue to work together and to bring another discussion draft that incorporated the Pension Committee’s desired changes into the S&WB Professional Services Procurement Policy #95.

**ADJOURNMENT:**

There being no further business to come before the Pension Committee, the meeting adjourned at approximately 9:34 A.M.

Respectfully submitted,

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Joseph Peychaud, Pension Committee Chair