

BOARD OF TRUSTEES MEETING

SEWERAGE & WATER BOARD OF NEW ORLEANS

WEDNESDAY, SEPTEMBER 17, 2014

8:30 AM - PRIOR TO REGULAR BOARD

SEWERAGE & WATER BOARD - BOARD ROOM

625 ST. JOSEPH STREET

ORDER OF BUSINESS

- 1. Approval of Previous Report**
- 2. Recommendation for Investment Consultant for Pension Trust Fund**
- 3. ADJOURNMENT**

BOARD OF TRUSTEE'S MEETING

OCTOBER 16, 2013

MEETING MINUTES

SEWERAGE AND WATER BOARD OF NEW ORLEANS

ROLL CALL

The Executive Director, Marcia A. St. Martin, called the roll and showed the following members present: **Mr. Cedric Grant, Mr. Wm. Raymond Manning, Mr. Mark M. Moody, Ms. Kerri Kane, Mr. Glen Pilie, Mr. Marvin Russell, Mrs. Florence Schornstein, *Mr. Gerald Tilton, Mr. Charles F. Webb, Mr. John Wilson, Dr. Beverly Wright (Eleven) and a quorum.

Absent: Mr. Marion Bracy, Mr. Harold Heller, Councilperson Stacy Head, Councilperson Kristin Gisleson Palmer, Ms. Loyce Pierce Wright (Five).

**Mr. Cedric Grant, Mayor's Representative

Also present were: Brenda Thornton, CommuniRep, Inc; Ron Loesel, City of New Orleans, District "C"; Geneva Coleman, The Hawthorne Agency, Inc.

Staff present were: Marcia A. St. Martin, Robert Miller, Executive Director's Office; Joseph Becker, Madeline Fong Goddard, General Superintendent's Office; Nolan Lambert, Special Counsel; Brian Ferrara, Harold Marchand, Legal Department; Alvin Porter, Veronica Johnson, EDBP Department; Willie Mingo, Purchasing Department; Ethel Williams, Finance Administration Department; Jason Higginbotham, Emergency Management Department; Robert Jackson, Community & Intergovernmental Relations Department; Bobby Nathan, EEOC, Equal Employment Opportunity Department; Jennifer Medley, Risk Management Department; Dexter Joseph, Budget Department.

A quorum was established and Mr. Wm. Raymond Manning, President Pro Tem, presided and called the meeting to order at 8:48 a.m.

APPROVAL OF THE PREVIOUS REPORT

Mr. Marvin Russell moved for the approval of the previous meeting held on April 17, 2013. Mr. Charles F. Webb seconded the motion. The motion carried.

**AMENDMENT TO THE RULES AND REGULATIONS OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE SEWERAGE AND
WATER BOARD RE: PURCHASE OF MILITARY SERVICE CREDIT**

The Pension Committee and the staff discussed and reviewed amendments to revise the Rules and Regulations of the Employees' Retirement System and to adopt all amendment of Section 5.2(b) of the Rules and Regulations provides that a Member who serves in the Armed Forces while on a leave of absence can receive Credited Service for such time provided that the Member meets the requirements in Section 5.2(b), and makes the contribution called for in Section 5.2(c) within the time period specified in 5.2(d) of the Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board of New Orleans.

Following a brief discussion, the Pension Committee and the staff recommended the adoption of the Amendment of the Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board therein, resolution (R-205-2013).

Mr. Marvin Russell moved for the approval of the Amendment to the Rules and Regulations of the Employees' Retirement System of the Sewerage and Water Board therein, (R-205-2013). Dr. Beverly Wright seconded the motion. The motion carried.

ADJOURNMENT

There being no further business the meeting adjourned at 8:55 a.m.



SEWERAGE AND WATER BOARD OF NEW ORLEANS

September 17, 2014

Pension Board of Trustees
Sewerage and Water Board of New Orleans
New Orleans, Louisiana

Subject: Recommendation for Investment Consultant for Pension Trust Fund

Summary

The Sewerage and Water Board of New Orleans initiated a Request for Proposals for the procurement of a qualified investment consultant for the Employees' Pension Trust Fund. For our purposes, a qualified investment consultant conducts relationship management and coordinates oversight relative to investment management, investment performance reporting, custodial services, security lending, security litigation and other services to meet the PTF's adopted investment strategies and style management.

The RFP was released on May 12, 2014 and closed on June 13, 2014. The RFP was advertised 3 times in "Pension & Investments" and posted continuously on the Sewerage and Water Board's website. At the closing date, seven firms submitted timely and complete proposals:

1. Meketa Investment Group
2. Graystone Consulting - Morgan Stanley
3. Buck Consultant, LLC - a Xerox Company
4. The Bogdahn Group
5. FFC Capital Management
6. Watershed Investment Consultants, Inc.
7. Dahab Associates, Inc.

No proposals were rejected or returned by S&WB.

Staff individually evaluated the RFPs then held a Public Meeting on August 26, 2014 to compile the individual evaluations into a team RFP evaluation and ranking.

Staff selection committee recommends that the Board authorize acceptance of the proposal from FFC Capital Management for an initial 3 years contact period for a fee to be determined by negotiation not to exceed \$397,500 with \$145,000 for each of the two (2), one (1) year renewals - a total 5 year fee of \$687,500. FFC Capital Management is compliant with the RFP's DBE participation goal of zero (0) percent due to the specialized nature of services and performance risk by subdividing duties.

Scope of Work

The Investment Consultant is a fiduciary to the Board and required to work closely with the

Pension Committee. The Investment Consultant reports to both the Pension Committee and the Board of Trustees. The Investment Consultant attends all monthly Pension Committee meetings, periodic Board of Trustee meetings and other investment related meetings. Below is a listing of prime duties of the Investment Consultant:

1. Asset Allocation and Liability Studies
2. Investment Policies and Guidelines
3. Performance Monitoring and Reporting
4. Due Diligences for Public and Private Market Managers
5. Market Research and Education

Proposal Evaluation Methodology

Responsive proposals were individually evaluated by the team members and scored by the following criteria:

- I. Instructions and Policy Statement 95 Fee Ranking
- II. The Firm's Organization, Experience and Qualification
- III. Commitment to Relationship
 - a) Client Service Team
 - b) Fiduciary Responsibility
 - c) Ethics & Internal Controls
- IV. Investment Philosophy, Strategy and Council
- V. Performance/Quantitative

A Public Meeting was held on August 26, 2014 to tabulate the individual team members' scores. The proposal with the highest team tabulation ranked Number 1 to the lowest team tabulation ranked Number 7.

Evaluation of Proposals

The Proposals were evaluated by a five-member team of Sewerage and Water Board employees. The evaluation team consisted of three elected employee members of the Pension Committee and two representatives from the Accounting Department:

Rosita Thomas, Chairperson – Accounting Department
Harold Keller, Pension Committee
Gerald Tilton, Pension Committee
John Wilson, Pension Committee
Steve Woolridge, Accounting Department

This evaluation process was monitored by the Purchasing Agent and Legal Department. The total proposal score assigned by the team carried a maximum of 35 Points. The rank and score for each Proposal were as follows:

1. FFC Capital Management (34)
2. Dahab Associates, Inc. (28)
3. Watershed Investment Consultants, Inc. (20)

4. The Bogdahn Group (18)
5. Buck Consultant, LLC - a Xerox Company (16)
6. Graystone Consulting - Morgan Stanley (15)
7. Meketa Investment Group (9)

FFC Capital Management received the highest total score and was found to have the strongest proposal. Their strength was reflected in the proposal as follows:

- Commitment to Client Relationship relative to the experience of the proposed team, understanding of their fiduciary responsibility and ethical standards.
- Understanding the importance of risk-return needs of a public pension fund and the underlying performance and quantitative benchmark metrics employed by the Board of Trustees through its Investment Policy Statement.
- Portfolio philosophy, strategy and council relative to portfolio construction, performance drivers of asset and sector allocations, performance drivers related to money manager's issue selection, duration cycles and the proposer contributing and adding value to the PTF on its engagement.
- The organization's history, structure, assets under management, revenue analysis and commitment to changing technology
- Firm's written compliance with RFP instruction to organize their answers, provide positive affirmations of bid requirements, rules of contact, pricing affirmations and general ability to follow written instructions.

FFC Capital Management proposed a 5 year fee of \$687,500. The proposed fee covers all recordkeeping, reporting, performance measurements, investment compliance monitoring and related services connected to the contract. The RFP called for an initial contract period of three years with two (2), one (1) year renewals. FFC proposed \$397,500 for the initial 3 years and \$145,000 for each of their two (2), one (1) year renewals.

Dahab Associates, Inc. had strong experience with regard to their client team. Additionally, they had good fiduciary, ethics and performance representations. Their Proposal showed strong capability to perform the required services. DAHAB proposed a 5 year fee of \$477,500.

Watershed Investment Consultants, Inc. had strong experience with regard to their client team. Additionally, they had good fiduciary, ethics and performance representations. Their Proposal showed strong capability to perform the required services. Watershed Investment Consultants, Inc was non-responsive/complaint regarding their flat fee proposal – proposed a compounding CPI index fee.

The Bogdahn Group had strong experience with regard to their client team. Additionally, they had good fiduciary, ethics and performance representations. Their Proposal showed strong capability to perform the required services. The Bogdahn Group proposed a 5 year fee of \$491,000.

Buck Consultant, LLC had strong experience with regard to their client team. Additionally, they had

average fiduciary, ethics and performance representations. Overall, their Proposal showed strong capability to perform the required services. Buck Consultant, LLC proposed a 5 year fee of \$381,750.

Graystone Consulting had strong experience with regard to their client team. Additionally, they had average fiduciary, ethics and performance representations. Overall, their Proposal showed strong capability to perform the required services. Graystone Consulting proposed a 5 year fee of \$462,500.

Meketa Investment Group had strong experience with regard to their client team. Additionally, they had average fiduciary, ethics and performance representations with several non-responsive answers. Overall, their Proposal showed strong capability to perform the required services. MEK proposed a 5 year fee of \$875,000.

Recommendation

Staff selection committee recommends that the Board authorize acceptance of the proposal from FFC Capital Management for the initial 3 years contact period for a fee to be determined by negotiation not to exceed \$397,500.



Robert K. Miller
Deputy Director

SELECTION OF INVESTMENT CONSULTANT

WHEREAS, the Board of Trustees of the Sewerage and Water Board of New Orleans, in conjunction with the Pension Committee, is entrusted with the fiduciary responsibility to properly oversee the investment and management of the pension fund of the Employees' Retirement System of the Sewerage and Water Board of New Orleans, and;

WHEREAS, the Pension Committee conducted an Investment Consultant search through an RFP process, to which several investment consultant firms responded and submitted proposals, and;

WHEREAS, the seven (7) respondents were Meketa Investment Group, Graystone Consulting – Morgan Stanley, FFC Capital Management, Buck Consultant, LLC – a Xerox Company, The Bogdahn Group, Watershed Investment Consultants, Inc. and Dahab Associates, Inc., and;

WHEREAS, the Pension Committee, at its September 3rd, 2014 meeting, voted to recommend FFC Capital Management to the Board of Trustees to serve as Investment Consultant Manager,

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees selects FFC Capital Management as its Investment Consultant Manager for the Employees' Retirement System of the Sewerage and Water Board of New Orleans for an initial contract period of three years for a fee to be determined by negotiation not to exceed \$397,500.

I, Cedric S. Grant Executive Director, Sewerage and Water Board of New Orleans, do hereby certify that the above and foregoing is a true and correct copy of a resolution adopted at the Regular Meeting of said Board, duly called and held, according to law, on September 17, 2014.

Cedric S. Grant
Executive Director
Sewerage and Water Board of New Orleans



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

Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, President
WM. RAYMOND MANNING, President Pro-Tem

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September 8, 2014

TO THE HONORABLE MEMBERS OF THE SEWERAGE AND WATER BOARD OF THE PENSION TRUSTEES

Mesdames and Gentlemen:

This comes as a formal notification of a Meeting of the Board of Pension Trustees of the Sewerage and Water Board of New Orleans being held on Wednesday, September 17, 2014 at 8:30 a.m. immediately prior to the Regular Board Meeting being held at 9:00 a.m., at 625 St. Joseph Street, Room 240, as follows:

Date: Wednesday, September 17, 2014
Time: 8:30 a.m.
Place: Room 240 – Board Room

The purpose of the meeting is:

1. Approval of Previous Report
2. Recommendation for Investment Consultant for Pension Trust Fund
3. Adjournment

Respectfully,

Cedric S. Grant
Executive Director

Pension Consultant Comments

I would like to give the reasons for hope it will spur a serious discussion

Letter from
Alan Arnold
(Board Member) -
to Bd of Trustees
meeting.

serious matter and I

In the committee meeting I had very little time to evaluate the recommendation since no data was provided to make that evaluation except a Metric scoring number with 35 being the highest possible score. Since the evaluation team consisted of 3 employee members of the pension committee who have worked with FFC for many years and two members of the accounting department whose expertise in portfolio management is unknown I was not surprised that FFC was being recommended. Mr. Francis has done a commendable job of building a local investment firm. However has it reached a position that it warrants premium pricing for its service as the Board's financial consultant to the pension fund.

In my opinion it has not. I do not expect to win any friends by expressing this opinion but my job as I see it is to be a good steward of the limited resources of the S&WB that essentially is owned by the ratepayers, which it serves. Additionally I want to foster a system of "Best Practices" that I have experienced in my many years in the world of business.

In making any analysis of a business operation I let the numbers guide me. It is then necessary to apply a qualitative judgment, which often may override the numbers. I find it difficult to apply a quantitative value to subjective analysis. The selection committee chose this method. In so doing they awarded a Score of 34 out of 35 to FFC. They were obviously very impressed. The problem is the recommended fee is 44% higher than the second firm that received a score of 28 points. Did they only give a 3% weighting to cost by reducing 1 point from the FFC's score? That additional cost is \$42,000 per year for three years. It is my understanding that FFC's present contract is about the same amount that the second firm Dahab & Associates is proposing. That means that FFC is proposing a 44% increase for the services that they provided for the last 5 years.

For those kinds of numbers it can only mean that their performance for the last 5 years of their contract had to be outstanding and the profile of their firm has to be equal to or better than the second firm. Since there were no numbers other than the metric score of 34 or explanation of these facts I went to published numbers that are available. For their performance over the last 5 years I went to their Quarterly Performance Report dated Jun 30, 2014. In that report it states that the Total Fund Composite score for 5 years is 10.36%. It also reports that the Policy Index is %10.50. Pension funds and endowments all over have been moving to a passive indexing strategy because it is less costly to administer and study after study proves that the majority of fund managers fail to beat their comparative index over time. Said another way it means that all of the fund managers that have been hired and fired under FFC's tenure for the Board's pension fund produced a fraction less than what the averages produced. Is this performance worthy of a 44% raise? To answer