



**DISTRICT OF COLUMBIA RETIREMENT BOARD
MEETING MINUTES
OCTOBER 18, 2012
1:00 PM**

MEMBERS PRESENT

Michael J. Warren, Chairman
Barbara Davis Blum
Joseph M. Bress
James E. Bunn
Deborah Hensley
Judith C. Marcus
Darrick O. Ross
Edward C. Smith
George R. Suter
Thomas N. Tippet

DCRB STAFF PRESENT

Eric Stanchfield, Executive Director
Erie Sampson, General Counsel
Sheila Morgan-Johnson
Tom Anderson
Joan Passerino
Daniel Hernandez
Corinne Koch
Leslie King
Peter Dewar*
Kevin Green*
Sebastian Podesta
Deborah Reaves
Katie Schultz
Yolanda Smith*
Nina Bridgers

MEMBERS NOT PRESENT

Lyle M. Blanchard
Diana K. Bulger
Jeffrey Barnette, ex-officio

OTHERS PRESENT

Ms. Brenda Mathis, OCFO

***Not present at roll call.**

ROLL CALL

Chairman Warren called the meeting to order at 1:27 p.m. Ms. Deborah Reaves called the roll.

APPROVAL OF MINUTES

Ms. Blum made the following motion, which was seconded by Mr. Ross:

Motion #1: To approve the September 20, 2012 Board meeting minutes. *A voice vote was called and the motion was approved 10-0. (See Tally #1)*

CHAIRMAN'S COMMENTS

Chairman Warren updated the Board on the following items:

- Investment Policy and Investment Assumptions: Mr. Warren thanked the Board and staff for their work on these items, including training on GASB rules;
- Investment Returns: The returns are looking strong, and more information will be shared with the Board following the close of the fiscal year.

EXECUTIVE DIRECTOR'S REPORT

Mr. Stanchfield updated the Board on the following items:

- Attendance at Conference at the California State Teachers' Retirement System (CalSTRS): Mr. Stanchfield gave an overview of the International Foundation of Employee Benefit Plans meeting he recently attended. He encouraged Board members and DCRB employees to consider attending their upcoming conference on retirement plan communications, including social media;
- Bill 19-570, Equity in Survivor Benefits Amendment Act of 2012: The Committee of the Whole and the Committee on the Judiciary held a joint hearing Monday, September 24, 2012. This proposed legislation would amend the District of Columbia Police Officers and Firefighters' and Teachers' Retirement Plans to reduce the age from 60 to 55 before when remarriage by a widow or widower will terminate a surviving spouse annuity. Ms. Joan Passerino, DCRB Chief Benefits Officer, testified.
- Implementation of Fiscal Year 2013 Budget Support Act of 2012: The BSA includes an amendment to D.C. Code § 1-621.09 to reset the maximum premium amount payable by the District for post-retirement health care to 75% from the current 72%. Changes related to this legislation were reflected in October 2012 annuity payments and DCRB sent letters to affected annuitants informing them of the changes beginning October 1, 2012;
- DCRB Communications Survey: DCRB has extended the Summer Newsletter Communications survey deadline to Friday, November 16th, in hopes of additional survey responses. Members may click on the survey from DCRB's home page or a link provided in our email communications. Over 140 active and retired Plan members had completed the survey at the time of the meeting;
- GASB's Article: The Governmental Accounting Standards Board's (GASB) has provided a question and answer document about the new accounting and financial reporting of public employee pensions by state and local governments. The new standards are: Statement No. 67, Financial Reporting for Pension Plans, which applies to financial reporting by most pension plans; and, Statement No. 68, Accounting and Financial Reporting for Pensions, which applies to financial reporting by most governments that provide their employees with pension benefits. The Q&As can be found at <http://www.gasb.org> under the GASB Pension Project Information Tab – Fact Sheets.

GENERAL COUNSEL'S REPORT

There is no General Counsel's Report.

INVESTMENT COMMITTEE

On behalf of the Investment Committee, Ms. Blum updated the Board on the following items:

Ms. Blum made the following motion, seconded by Mr. Smith, which was approved by the Investment Committee and the Board in Executive Session on September 20, 2012:

Motion #2: That the Board terminate the Board's investment management agreement with Thompson, Siegel & Walmsley for the management of the TS&W Small Cap Value separate account and to transfer the proceeds to the Northern Trust Russell 3000 Index Fund. *A voice vote was called, and the motion was approved 10-0. (See Tally #2)*

OPERATIONS COMMITTEE:

Mr. Bress updated the Board on the following items:

- Upcoming Meeting Schedule: There will be no Operations Committee meeting next month, and the December meeting date will be announced shortly;
- Liability Insurance: Aon Risk Services Inc., DCRB's insurance broker, will conduct a competitive process on behalf of DCRB to select the insurance carrier to provide fiduciary liability insurance. There are no material changes to the policy. The Board renews its fiduciary policy on an annual basis. The policy is due to be renewed on November 1, 2012. Trustees may pay the \$25 waiver of recourse fee via check or money order.

Mr. Bress made the following motion, which was seconded by Ms. Hensley:

Motion #3: To recommend a renewal of the Board's fiduciary liability insurance policy for \$10 million of coverage for a retention fee of \$110,000. *A voice vote was called, and the motion was approved 10-0. (See Tally #3)*

- The agency requires Oracle licenses to support both its production environment in Washington, DC, and the disaster recovery site in Ashburn, VA. The licenses support the FileNet content management system that houses member records. The onetime licensing costs per location are \$130,000, for a total of \$260,000.

Mr. Bress made the following motion, which was seconded by Mr. Suter:

Motion #4: To approve funding for Oracle licensing in the amount of \$260,000. *A voice vote was called, and the motion was approved 10-0. (See Tally #4)*

Discussion: In response to a question from Ms. Hensley, Mr. Bress noted that the funds for this item have already been included in the budget.

- Elections: The process to commence the Active Teacher, Active Firefighter, and Retired Police Officer elections was launched on September 17, 2012, as outlined in the election schedule that was released by DCRB. Results will be available for certification by the Board at its December 2012 meeting. To provide the Active Firefighters and Retired Police Officers with additional voting methods, aside from traditional paper ballots, the Board must authorize electronic voting, pursuant to § 401.6 of the Election Rules. It states in pertinent part: "Consistent with the quorum requirement for transaction of business, the Board, by majority vote of those members present and voting must permit electronic balloting for each category of qualified voters except active teachers."
Discussion: There was a vendor selection process, after which, the American Arbitration Association (AAA) was selected.

Mr. Bress made the following motion, which was seconded by Ms. Hensley:

Motion #5: To permit qualified voters to cast their ballots electronically in the 2012 Retired Police Officer and Active Firefighter elections. *A voice vote was called, and the motion was approved 10-0. (See Tally #5)*

Discussion: Active and Retired Teachers do not use this process currently due to past considerations, but this may be considered in the spring of 2013.

- Both District of Columbia Supply Schedules (DCSS) and the Federal General Services Administration's Federal Supply Schedule (GSA) contracts are competitively solicited by the Federal and District governments' procurement agencies before they are awarded to contractors, which are required to offer the best terms for the services and goods offered. For most schedules, there are multiple vendors who have been awarded contracts for the same category of goods and services. It is the staff's intent where there are multiple vendors on an awarded schedule to further compete between two or more of those scheduled vendors. DCSS and GSA contracts leverage the buying power of the District and Federal governments, respectively. The Executive Director will continue to provide data to the Board on all contracts, including GSA and DCSS, on a quarterly basis. In FY 2012, DCRB utilized services from 18 vendors from the GSA and DCSS. Section 1608.2 of the procurement rules states: "The Board may use the following methods of procurement ... (i) General Services Administration/District Supply Schedule purchase..." Further, section 1605.1 of the procurement rules states: "The Executive Director is designated as the Chief Contracting Officer for the Board. The Executive Director is authorized to enter into, administer, terminate, and otherwise manage contracts subject to any threshold amounts established by the Board." The Board establishes in section 3.2 of the procurement manual that the threshold is \$100,000.

Mr. Bress made the following motion, which was seconded by Mr. Bunn:

Motion #6: To increase the Executive Director's procurement approval threshold for goods and services that are acquired through the use of District of Columbia Supply Schedules (DCSS) or the Federal General Services Administration's Federal Supply Schedule (GSA) from \$100,000 to \$250,000. *A voice vote was called, and the motion was approved 10-0. (See Tally #6)*

- **Proposed Plan Assets Rule:** Ms. Sampson noted that both the Retirement Reform Act and ERISA define a fiduciary to include individuals who exercise discretionary authority or control with respect to management or disposition of plan assets or provide investment advice for a fee with respect to the assets. If an individual exercises this authority, he or she will be deemed a fiduciary even in the absence of written acknowledgement of that fiduciary status. She noted that commingled fund managers hired by DCRB to invest in private equity investments may be unwilling to make such investments because their status as a fiduciary is unclear. Without some assurance from DCRB that they may or may not meet the definition of a fiduciary, they may not accept DCRB's subscription agreements. DCRB has informally relied on the guidance of the U.S. Department of Labor's (DOL) plan assets regulation under ERISA that applies to private sector retirement plans to clarify a commingled fund manager's fiduciary status.

Under this rule, when a plan acquires an equity interest of another entity, the plan's assets include both the equity investment and an undivided interest in each of the underlying assets of the entity. This results in the manager being subject to fiduciary rules, unless:

(1) the entity is a publically offered security or a security issued by an investment company registered under the Investment Company Act of 1940; (2) the entity is an operating company; or (3) less than 25% of each class of interests of the entity are held by benefit plan investors.

Discussion: Mr. Bunn noted that he has reservations about the fund managers' reluctance to accept the role of fiduciary. Ms. Sampson noted that some managers might have holdings in the funds they are managing, which would keep them from being deemed a fiduciary. Ms. Hensley inquired whether or not passing this rule would limit DCRB's power to negotiate in the future. Ms. Sampson noted that if the Board is going to move forward with alternative investments, this rule should be in place. She also noted that these issues are part of DCRB's due diligence process in selecting prudent investments and may be deal breakers.

Mr. Bress made the following motion, which was seconded by Ms. Blum:

Motion #7: That the Board adopt the proposed plan assets rule, which is modeled after the U.S. Department of Labor's plan assets regulation, to clarify what constitutes plan assets for the retirement funds of the District of Columbia Police Officers and Firefighters' Retirement Plan and Teachers' Retirement Plan investments in commingled funds and to determine who is subject to the Retirement Reform Act's fiduciary standards.

1901 PLAN ASSETS

- 1901.1 Individuals who exercise any discretionary authority or discretionary control regarding the management or disposition of plan assets or who provide investment advice for a fee (direct or indirect) with respect to plan assets may be deemed to be fiduciaries under § 102(20)(A) of the Reform Act (D.C. Official Code § 1-702(20)(A) (2011 Repl.)) unless an exception applies.
- 1901.2 This rule describes what constitutes plan assets with respect to the Funds' investment in another entity for purposes of the fiduciary duties imposed by the Reform Act. This rule is intended to be modeled after the U.S. Department of Labor's (DOL) plan assets regulation, as amended (29 C.F.R. § 2510.3-101).
- (a) Generally, when the Funds invest in another entity, the Funds' assets include its investment, but do not, solely by reason of such investment, include any of the underlying assets of the entity. However, in the case of the Funds' investment in an equity interest of an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the Investment Company Act of 1940, its assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established that:
- (1) the entity is an operating company, or
- (2) equity participation in the entity by benefit plan investors and by the Funds is not significant.
- (b) Therefore, any person who exercises authority or control respecting the management or disposition of such underlying assets, and any person who provides investment advice with respect to such assets for a fee (direct or indirect), is a fiduciary of the Funds.
- 1901.3 Equity Interests and Publicly-Offered Securities.
- (a) An "equity interest" means any interest in an entity other than an instrument that is treated as indebtedness under applicable law and which has no substantial equity features. A profits interest in a partnership, an undivided ownership interest in property and a beneficial interest in a trust are equity interests.
- (b) A "publicly-offered security" is a security that is:
- (1) freely transferable,

- (2) widely held (more than 100 holders unrelated to management and to each other), and
- (3) registered under the Securities Exchange Act of 1934 (or scheduled to be registered subsequent to an initial public offering).

1901.4 Operating Company.

An “operating company” is an entity that is primarily engaged in the production or sale of a product or service other than the investment of capital, plus hybrid entities known as a “venture capital operating company” or a “real estate operating company.”

1901.5 Insignificant Equity Participation.

- (a) Equity participation in an entity by benefit plan investors or by the Funds is “significant” on any date if, immediately after the most recent acquisition of any equity interest in the entity, 25 percent or more of the value of any class of equity interests in the entity is held by benefit plan investors or by the Funds. For this purpose, the value of any equity interests held by a person (other than a benefit plan investor) who has discretionary authority or control with respect to the assets of the entity or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person, shall be disregarded.
- (b) A “benefit plan investor” is any of the following:
 - (1) any employee benefit plan (as defined in § 3(3) of ERISA)), that is subject to the provisions of title I of ERISA;
 - (2) any plan described in and covered by § 4975(e)(1) of the Internal Revenue Code; or
 - (3) any entity whose underlying assets include plan assets by reason of, and to the extent of, benefit plan investors’ investment in the entity.
- (c) An “affiliate” of a person includes any person, directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the person. For this purpose, “control”, with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person.

1901.6 Joint Ownership.

For purposes of this rule, where the Funds jointly own property with others, or where the value of the Funds’ equity interest in an entity relates solely to identified property of the entity, such property shall be treated as the sole property of a separate entity.

1901.7 Specific Rules Relating to Funds’ Investments.

Notwithstanding any other provision of this rule:

- (a) Except where the entity is an investment company registered under the Investment Company Act of 1940, when the Funds acquire or hold an interest in any of the following entities its assets include its investment and an undivided interest in each of the underlying assets of the entity:
 - (1) a group trust which is exempt from taxation under § 501(a) of the Internal Revenue Code pursuant to the principles of Rev. Rul. 81-100, 1981-1 C.B. 326;
 - (2) a common or collective trust fund of a bank;
 - (3) a separate account of an insurance company, other than a separate account that is maintained solely in connection with fixed contractual obligations of the insurance company under which the amounts payable, or credited, to the Funds and to any participant or beneficiary of the Funds (including an annuitant) are not affected in any manner by the investment performance of the separate account.
- (b) When the Funds own all of the outstanding equity interests (other than director’s qualifying shares) in an entity, its assets include those equity interests and all of the underlying assets of the entity.

1901.8 Governmental Mortgage Pools.

- (a) Where the Funds acquire a guaranteed governmental mortgage pool certificate, the Funds’ assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the Funds’ holding of such certificate, include any of the mortgages underlying such certificate.

- (b) A “guaranteed governmental mortgage pool certificate” is a certificate backed by, or evidencing an interest in, specified mortgages or participation interests therein and with respect to which interest and principal payable pursuant to the certificate is guaranteed by the United States or an agency or instrumentality thereof. This term includes a mortgage pool certificate with respect to which interest and principal payable pursuant to the certificate is guaranteed by:
- (1) the Government National Mortgage Association;
 - (2) the Federal Home Loan Mortgage Corporation; or
 - (3) the Federal National Mortgage Association.

A voice vote was called, and the motion was approved 9-0, with one abstention. (See Tally #7)

- **Modernization Project:** Mr. Dewar gave an overview of the Modernization Project through Phase I. He also gave an explanation of Phase II of the project, including project goals, methodology, and oversight. The IT department and project managers will report to the Board on progress and activities on a quarterly basis. It was noted that the money for this project is in the Budget, which has already been approved by the Board.

Mr. Bress made the following motion, which was seconded by Ms. Hensley:

Motion #8: To authorize the Executive Director to spend up to \$3.4 million on Phase II of the DCRB Retirement Modernization Program. *A voice vote was called, and the motion was approved 10-0. (See Tally #8)*

BENEFITS COMMITTEE REPORT

Mr. Suter noted that the Benefits Committee met on September 6, 2012. He updated the Board on the following committee items:

- **Business Process Reengineering Project:** Linea has held work sessions with Benefits Department staff on key process that will be assessed during this project. Once Linea has completed the initial assessments of current processes and these processes have been commented upon by Benefits staff, Linea will finalize the documents and use them as a basis for making reengineering recommendations in mid-December. Following these recommendations, Linea will complete a capacity analysis, and they will suggest an organizational structure intended to fit the reengineered processes. The final steps will be the implementation of the new structure and processes, as well as any training needed by the staff to work successfully in the new environment;
- **Teachers’ Plan Option 2 Implementation:** The Collective Bargaining Agreement between DCPS and the Washington Teachers Union (WTU) for contract years 2007-2012 contained a provision (Option 2) that allows excessed teachers with acceptable IMPACT scores and who have twenty or more years of creditable service to retire “early” with “full benefits,” subject to available budget funds. DCPS determined that eight teachers are eligible for consideration under Option 2. DCRB will process the selected applicants as soon as the Teachers’ Plan is amended and the appropriate funds are transferred into the Trust. As indicated previously and emphasized during the meeting, DCRB is not involved in the selection process;
- **Plan Amendments and Summary Plan Descriptions (SPDs):** DCRB met with

Councilmember Bowser on September 28, 2012, to brief her on the Plan amendments related to federal tax law changes and the repeal of the Teachers' Plan's voluntary contribution provision. She agreed to introduce legislation related to the amendments following her receipt of letters of support from the presidents of the unions whose members participate in the Plans. Such legislation was introduced on October 2, 2012. Assuming this legislation will be enacted by the end of November, DCRB should have time to complete the update of Plan SPDs by the end of the year;

- Cost-of-Living Adjustment (COLA) for Social Security Recipients: This COLA of 1.7%, beginning on January 1, 2013, was announced on October 16, 2012. Since COLAs for DCRB Plan members are not calculated at the end of the calendar year and not the end of the fiscal year, the COLA for DCRB Plan members will be announced in January 2013.

There were no action items to be recommended by the committee.

LEGISLATIVE COMMITTEE REPORT

There was no Legislative Committee Report to be presented to the Board.

OTHER BUSINESS

No other business to report.

ADJOURNMENT

Motion #9: Ms. Hensley moved to adjourn the meeting at 2:18 p.m. Mr. Ross seconded the motion. *A voice vote was called and the motion was approved 10-0. (See Tally #9)*

DISTRICT OF COLUMBIA RETIREMENT BOARD
RECORD OF OFFICIAL BOARD ACTIONS

Tally #1			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #2			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #3	Date: October 18, 2012

Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #4			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #5			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				

Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #6			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #7			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah			√		
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #8	Date: October 18, 2012
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Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #9			Date: October 18, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				