



COUNCIL AGENDA: 5/25/10

ITEM: 3.4

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: LEE PRICE, MMC
City Clerk

SUBJECT: APPOINTMENT TO FILL AN
UNANTICIPATED VACANCY ON THE
POLICE AND FIRE RETIREMENT BOARD

DATE: May 14, 2010

COUNCIL DISTRICT: City-wide
SNI AREA: N/A

RECOMMENDATION

The City Council consider making an appointment to fill an unscheduled vacancy for the active Fire Department employee Member of the Board of Administration of the Police and Fire Department Retirement Plan.

BACKGROUND

San Jose Municipal Code, Section 2.08.1210, establishes the Board of Administration for the Police and Fire Department Retirement Plan (Police and Fire Retirement Board) and specifies that one member must be an active employee of the Fire Department who is a member of the Plan. On August 24, 1999, the City Council approved procedures governing elections conducted among officers and employees for employee representatives to the Retirement Boards. Section 215 of the procedures defines the process to fill unscheduled vacancies of employee representatives to the Retirement Boards.

Keith Keesling, the current Fire Department employee member of the Police and Fire Board has applied for retirement and has submitted his resignation from the Board effective May 15, 2010. On March 24, 2010, the City Council Rules and Open Government Committee directed the City Clerk to give Notice of Vacancy to Fire Department employees and initiate the process for accepting petitions for nominations. Notice to all Fire Department employees was given and the twenty-one (21) day nomination period began on April 6, 2010 and closed on April 27, 2010.

ANALYSIS

At the close of the nomination period, there was one qualified nominee, Sean Kaldor. As required, the Office of the City Clerk collected a candidate's statement and a supplemental questionnaire/application from Mr. Kaldor (see attached). The required documentation was submitted to the Police and Fire Retirement Board for consideration and the Retirement Board interviewed Mr. Kaldor on May 6. The Police and Fire Retirement Board, by a vote of 5-0-1 (Member Liccardo absent), recommends that the City Council appoint Mr. Kaldor to fill the unexpired portion of a term expiring on November 30, 2011 (see attached letter).

Honorable Mayor and City Council
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PUBLIC OUTREACH

This memorandum does not meet any of the criteria below; however, the memo has been posted on the City Clerk's website as a part of the May 25, 2010 City Council agenda. In addition, this information has been posted on the websites for the Police and Fire Retirement System and copies of the memorandum have been distributed to the appropriate employee organizations.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This item has been coordinated with the City Attorney's Office and the Retirement Services Department.

CEQA

CEQA: Exempt (Not a Project).



LEE PRICE, MMC
City Clerk

For additional information, please contact Dennis Hawkins, Assistant City Clerk, at 535-1275.

Attachments

2. Have you attended any Retirement Board meetings in the last 6 months? If so, what was the reason for your attendance?

Yes. I have attended several meetings, including both Board and committee meetings. My reason for attending was to familiarize myself with the issues and opportunities facing the Board, learn the Board's operations, meet Board and Retirement Services staff members, and generally gain a better understanding of the Retirement Board in anticipation of applying to be the Fire Representative on the Board of Administration.

3. Have you attended any San Jose City Council meetings in the last 6 months? If so, what was the reason for your attendance?

In the last six months, I have not attended any San José City Council meetings.

4. What are your goals and objectives for serving on the Retirement Board?

My primary interest in serving is to fulfill the Fire Representative's fiduciary responsibilities to the City of San José, the Board of Administration, active fire members, and all those dependent upon the Plan. In addition to these ongoing responsibilities, I look to: (1) Work within the committees to assist in further developing prudent short and long-term investment strategies; (2) Enhance communications between plan members and the Board; and (3) Advocate prompt response to, and proactive development of best practices in fund management.

5. Have you read the City Auditor's Retirement Board Travel Audit? Yes No

6. Do you support the recommendations of the City Auditor? Yes No

Based solely upon the information provided within the Audit I support its recommendations.

7. Do you have any additional recommendations for changes in the Travel Policy?

I support the City Auditor's recommendation to include training as a critical component of successfully implementing new travel policies for the Board, and advocate that training materials which provide clear-cut itemization of processes and procedures will significantly assist with ensuring compliance by eliminating unintentional non-compliance.

8. Have you ever failed to file a Statement of Economic Interest (Form 700) when you were required to do so? Yes No
9. Are you aware that gifts over \$50 in value, including food and entertainment, must be reported on the Form 700? Yes No
10. Are you familiar with the City's prohibition of the receipt of most gifts over \$50 in value? (Municipal Code 12.08.010) Yes No
11. Have you ever traveled at City expense? Yes No
12. Please confirm that you have reviewed and agree to comply with the City of San Jose Ordinance (San Jose Municipal Code Chapter 12.08), City of San Jose Ethics Policy (City Policy Manual 1.2.1), City of San Jose Gift Policy (City Policy Manual 1.2.2), and City Council Conflict of Interest Policy (Council Policy No. 0-34).
- Yes I have read and agree to comply.
 No I have not read and/or do not agree to comply.

Familiarity with Board

1. What is your understanding of the responsibilities of Retirement Board members?
Under the San José Municipal Code, the Board of Administration's specific duties include: consideration of requests for retirement, administration and investment of the retirement funds, determining eligibility for membership in the pension plans, and determining employee's eligibility for retirement benefits. The Board has other responsibilities as itemized in the Municipal Code, including producing an annual report, creating contractual agreements, holding regular meetings, and creating rules and regulations for its guidance.
2. What is your understanding of the roles of the Retirement Board in relation to Retirement Services staff?
The Board of Administration is responsible for considering retirement requests, administering/investing retirement funds, determining plan membership eligibility, and determining employee benefit eligibility. The Retirement Services staff assists the board in achieving these responsibilities through research, analysis, recommendations and other tasks. Staff also provide the innumerable other functions required for efficient and professional operation of the plan.
3. What is your understanding of the relationship between the Retirement Board and City Council?
Board of Administration members are appointed by City Council. Board members are responsible for how retirement funds are invested and administered, in strict adherence with the agreements between the City and affected members, while being held to fiduciary standards.

4. What do you consider to be the three most important issues currently facing the Retirement Board?

First, the Board must meet its responsibility for prudent investment of funds in an unstable financial environment, requiring constant adaptation of asset management and investment strategies. Second, the Board must continually review its policies and procedures, adopting "best practices" to identify opportunities to enhance ethical standards, accuracy and legal compliance. Finally, a restructuring of the Board will allow for optimization of Board member responsibilities while enhancing its relationship with investment managers and contractors.

5. What do you perceive as the short and long term goals of the Retirement Board?

Short term goals are focused upon successfully navigating the three issues itemized in question #4, while at the same time meeting the other obligations of the Board. A longer term goal is the development of a dynamic investment strategy that can stabilize market returns within a carefully defined market window by proactively anticipating and rapidly responding to a fluctuating market.

6. Have you discussed the role of a Retirement Board member with a current or former Retirement Board member or with Retirement Services staff? Yes No

7. What specifically can you add or bring to the Retirement Board?

I bring fourteen years of corporate and finance experience, including nine years supporting Wall Street analysts with quantitative and qualitative business and market analysis. My financial background also includes three years in strategic planning and business/financial management for a \$1.5 billion division of AT&T. My education includes a Bachelor's degree in Business Administration, earned with Distinction and Honors, completing by business studies within the Graduate School of Business.

8. Do you believe that the retirement funds that are invested by the retirement boards are public funds? Why or why not?

The Retirement Board invests funds held in the retirement plan trust. These funds were accumulated through the contribution of city public funds, individual member contributions, and investment returns. The trust is a designated account created to meet Plan obligations.

9. It is commonplace for fund managers and service providers to host large events at industry conferences and events. Do you feel that attendance at these "widely attended" events requires compliance with the City's gift policy and FPPC Form 700 reporting?

Yes. All gifts require compliance with the policy 12.08 "Prohibition of Gifts" and FPPC Form 700 compliance, including consideration of 12.02.030 and Form 700 Sections C and D as appropriate.

Experience/Expertise

1. How do you ensure that you are maintaining an in-depth and up-to-date knowledge of institutional investing and the capital market environment?

Ongoing professional training is critical to interfacing effectively with individual market investment managers and overseeing recommendations for the fund's strategy. In this effort, I study current broad economic and narrow financial market activities and projections. In light of this focused responsibility involving institutional investing, I eagerly anticipate engaging in the educational opportunities that have been afforded to past Board members.

2. Given the current status of the capital markets, where do you see opportunities to increase return and reduce risk in the pension portfolios? What is your experience with risk budgeting?

Market and Fund history have demonstrated that the majority of individual investment performance versus the broad market can be achieved through careful asset allocation. Continual review of allocation targets will increase this return while controlling risk. On top of this, benchmarking individual investment managers can optimize alpha return above underlying market risk, or identify a passive opportunity. All of this can be supplemented by adopting strategies on the periphery that capitalize on temporary market inefficiencies.

3. Please describe your views on the role of asset allocation and provide detail on your recommended asset classes and proportions for pension funds like those serving the employees of the City of San Jose.

Asset allocation drives the vast majority of fund performance versus market indices and should be the focus for optimizing risk adjusted return. The latest Fund strategy (30-50% Equity, 15-35% Fixed Income, and 10-60% Alternative Assets) is in-line with the best practices of major asset class allocations for institutional investors such as pension funds, but does provide a wide range for each class, especially Alternative Assets. I would explore staff recommendations on this distribution, as well as specific new Alternative Assets.

4. Should pension plans like those in San Jose invest in alternative investments such as private equity, commodities, infrastructure or separate account real estate? If so, how? If not, why?

I believe there are limited specific alternative investments and transitional investment models that can take advantage of temporary market inefficiencies. However, if any such investments are to be considered, each vehicle should be proven, given a restricted asset percentage and facilitated through carefully researched managers with strong proven track records who are then benchmarked with agreements that give the Fund maximum flexibility. The downside risk must always be evaluated, and any return evaluated against its risk.

5. How would you evaluate an investment manager? When would you terminate an investment manager? How should due manager diligence be conducted?

Evaluation of an Investment manager must include a panel approach, reviewing an entire matrix of qualifications including past performance, suitability of strategy, credibility, acceptance, costs, and more. Extensive due diligence must be conducted well prior to engaging the manager, including this panel review, interviews, on-site visits, referral evaluations, and more conducted by the Board, staff, and/or consultants. This manager must then be held to performance targets versus a benchmark, following a clear policy for probation and termination should net results fail to meet performance targets.

6. What should be included in a pension plan's statement of investment policies? Please address the roles of trustees, staff, consultants, investment managers and custodians in asset allocation, portfolio structure, manager selection and due diligence, rebalancing, reporting and analysis.

An Investment Policy Statement (IPS) must outline the process that the Retirement Plan intends to use in selecting and monitoring investments within the Plan. It should establish the Plan's objective, assess Plan participant needs (payment obligations), identify asset categories and allocations, outline investment options and procedures for selecting managers, and most importantly outline the entire process for monitoring and adjusting the asset allocation, investment option choices, and individual manager selections.

7. List any abilities, skills, licenses, certificates, specialized training, work-related experience or interests you have which are applicable to this Board or Commission:

In terms of work related experience, I bring fourteen years of corporate and finance experience, including nine years supporting Wall Street analysts with quantitative and qualitative business and market analysis. My financial background also includes three years in strategic planning and business/financial management for a \$1.5 billion division of AT&T. I have additionally served on the executive management board of a public multinational company.

Background Checks and References

1. Please provide four personal references (not relatives). Please include name, address, and telephone number.

In late 2006, I completed an extensive personal and professional background investigation as part of my application to the City of San José Fire Department. To supplement the successful completion of that process, I offer the following four personal references:

>Ruben Padrone
>Susan Norman
>Kelley Merizan
>Mike Rigoli

2. Have you ever been convicted of a crime (except for minor traffic offenses that resulted only in a fine)? Yes No If yes, please explain in complete detail. State the nature and approximate date of the conviction, the sentence imposed, whether the sentence has been completed, and any other information you consider to be relevant.
3. Have you ever been the subject of investigation that resulted in a sustained finding of financial improprieties? Yes No

SEAN KALDOR, Firefighter

I am seeking City Council appointment to the position of Fire Department Representative on the San José Police and Fire Department Retirement Plan's Board of Administration.

At a time when the Plan faces multiple opportunities to proactively and reactively improve performance and operations, I offer my background and education for your consideration.

My background features over fourteen years of finance and corporate management experience, including nine years supporting Wall Street analysts with quantitative and qualitative business and market analysis. I have worked in several senior management positions, as well as served on the executive team of a publicly traded company. My financial background also includes three years in strategic planning and business/financial management for a \$1.5 billion division of AT&T.

To this, I add my educational background. I earned a Bachelor's degree in Business Administration with Honors and Distinction from Indiana University. As part of the highly rated Kelley School of Business Honors program, I completed extensive business coursework at the MBA graduate level. This also provided the opportunity to study overseas at the National University of Singapore, providing me with first-hand knowledge of global cultures and business practices.

I thank you for your consideration.

Sean Kaldor

Submitted: April 16, 2010





Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

May 12, 2010

Lee Price, City Clerk
Office of the City Clerk
City of San Jose
200 East Santa Clara Street, W-243
San Jose, CA 95113-1905

Re: Appointment to Fill an Unanticipated Vacancy of the Fire Department Employee Member on the Board of Administration of the Police and Fire Department Retirement Plan

Dear Ms. Price:

I serve as Chair of the Board of Administration of the Police and Fire Department Retirement Plan and am responding on behalf of the Board to your memorandum to the Board, dated April 27, 2010. In that memorandum, you provided to the Board documentation concerning Sean Kaldor, the sole member of the Fire Department to have submitted a nomination to fill the vacancy created by the resignation due to retirement of Board member Keith Keesling. You requested the Board review Mr. Kaldor's nomination and the documentation supporting it and make a recommendation to the City Council with respect to filling this vacancy. You mentioned that the Council would at its meeting on May 18, 2010 consider the Board's recommendation.

The Board at its regularly scheduled meeting held on May 6, 2010 considered Mr. Kaldor's nomination, reviewed the attached documentation, and discussed his candidacy. It was the consensus of the Board that Mr. Kaldor possessed very strong credentials and would offer experience in the investment world that would directly benefit Board operations and advance the interests of all stakeholders in the plan, including active employees, retirees, and beneficiaries. Accordingly, the Board determined that it was appropriate for it to strongly recommend to the City Council to take action and approve the appointment to fill an unscheduled vacancy for the active Fire Department and appoint Mr. Kaldor to fill the vacancy in the seat previously held by Board member Keith Keesling.

I respectfully request that you forward the Board's recommendation together with this correspondence to the City Council for its consideration. Thank you for your consideration.

Sincerely,

David Bacigalupi, Chair
Board of Administration of the
Police and Fire Department Retirement Plan