The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> Matt Loesch: Well, good morning. Federated employees retirement system. Under orders of the day, if note-taking is your thing I would like to at your pleasure, my pleasure hopefully and your agreement to rearrange the agenda quite a bit. So first I ask for the apologies for not having it done correctly in agenda meeting. In my mind, to have good flow, I was thinking about yesterday what things could flow right, and also when we could get folks physically in the room with Meketa traveling up here from San Diego and so forth. This is what I would like to do with your permission: Consent calendar first, and then deal with most of the stuff that would affect Cheiron. So what I'd like to do, for those taking notes, 4.7, which is the budget, after consent, and then 4.11, which is the 401h stuff, 4.6 after that, that's the contribution rates, and then 4.5 which is the Cheiron ballot measure presentation and our conversation around that. And then slide down to 4.1 through 4.4, the investment stuff, the Meketa stuff. And if it seems appropriate at the time, depending how that conversation goes not really trying to weigh in pull in the investment committee conversation from 5.2, investment stuff kind of chunked together. And then this is one thing that Cheiron will be for the educational pieces, 4.8 after that, so the 4.8 through 4.10 all the educational pieces. And then the remainder of the agenda, even through public comment and do our closed session at the end. So instead of putting that in the middle and having us linger or wait, do the closed session at the end and we'll just adjourn after that. Does that seem to make sense? Okay.

>> Arn Andrews: Motion to approve the revised agenda as stated.

>> Lara Druyan: Second.

>> Matt Loesch: Anything Mr. Leiderman on the proposed agenda.

>> No.

>> Matt Loesch: All those in favor, opposed, keep me honest to what I said I would do. On the consent calendar, anything we need to pull before we entertain a motion on the consent calendar?

>> Will you please pull 1.1B.

>> Matt Loesch: Sure. On the balance of the consent calendar, I'll entertain a motion.

>> Arn Andrews: Motion to approve the consent calendar with the exception of 1.one B.

>> Matt Loesch: All those in favor, opposed, seeing none, thank you. On 1.1B.

>> Donna Busse: Yes, 1.1B, Mollie Dent, as the board knows she was our legal counsel for several years. She was always extremely helpful to staff, I talked to her, Veronica talked about already, we definitely got more hours than she was budgeted. We wanted to acknowledge her retirement and her work for us.

>> Matt Loesch: Anyone else on that? Otherwise I'll entertain a motion on 1.1B.

>> Edward Overton: Move approval.

>> Matt Loesch: All those in favor, opposed, none, thank you. According to the revised agenda we're on to 4.7 which is the discussion and action on the Department of Retirement services administrative budget proposal for fiscal year 2012-2013. And we have in our packets a bunch of slides and also, Ms. Niebla who is going to discuss that budget now. Thanks.

>> Technical difficulties trying to get the screen up.

>> Matt Loesch: The screen is not projecting?

>> Not projecting up. Either I don't have something connected or --

>> Matt Loesch: Is there something to do on the panel here? Do we need to get somebody from I.T. out here?

>> While that is coming up in your packet you have a PowerPoint presentation. As you'll hear later on in your agenda, the board approves the administrative expenses for the retirement plan. I'll walk through the slide if that's okay with everyone. So turning to slide 2, when we put together the board, the planned budget, what we're really looking for are all the administrative expenses that have to do with the plan. All of the management fee expenses are not presented in this budget. So right now, as of 6-30-2011 the plan had approximately $1.9 billion in pension and other post-employment assets. So I'm going to go into slide number 3 which is a proposed budget for fiscal year -- looks like I'm running here. Okay, so what you have in front of you what's up on the screen here is the proposed budget for 2010-2013. The table that you're looking at here breaks out the actual expenditures for fiscal year ending 2011. The adopted budget for the current fiscal year that we're in, forecast to the best of our ability of away the numbers will look like as of June 30th, 2012. And then the proposed budget for fiscal year 2013. It's broken out into personal services, the personal services line is all the Department of Retirement services staff, the nonpersonal and equipment are all the other administrative costs. The professional services other line is all of the professional fees that have to do with non-investment items. Please keep that in mind. The medical director in support, this is Dr. Das and his support staff. And then the last column I've got the change from the current fiscal year's budget, adopted budget and the proposed budget. And then, the following slides I'll go over each of the changes year-over-year.

>> Matt Loesch: Would you like to have questions as we go along in case folks would like to stop or would that tell a better story? Up to you.

>> No I'd be glad to take questions as you have them.

>> Matt Loesch: Mr. Armstrong.

>> Michael Armstrong: Point of clarification: We share expenses with Police and Fire. Is this a budget for both, representing both entities, or if not, how are things being allocated? How does this work?

>> Sure. Yes, it's true that the Federated system does share the staff and some of the overhead expenses with the Police & Fire plan. They're currently split on a 50-50 pro rata share. The only portion that is not on a 50-50 pro rata share is the medical director and support, it is 70 to 30%, where 30 is covered by Federated, it is an allocation, determined earlier on. Based on a utilization over time.

>> So this represents 50% of the actual --

>> This is 50% of the staff for the personal services line.

>> Stuart Odell: But the number of full-time FTEs is shared?

>> Shared, yes.

>> Lara Druyan: Why is equipment forecast to go down by 30% in 2012, what -- I'm just curious what that is.

>> What that is, last year we had projected that we had been purchasing an Alborne alternative investment database system. Something that would have been used by staff. Since then, there has been -- Alborne has come on as a consultant, so it moves out of our nonpersonal line and moves into expenses for investment.

>> Matt Loesch: Further questions? Mr. Andrews.

>> Arn Andrews: Just one, I noticed the increase of 2 FTEs and I read the comment about adding an assistant director. What's the other FTE?

>> The other FTE was a senior accountant position that this board approved last year. However, the city's budget office didn't approve it so it's going back to the city's budget office again this year.

>> Stuart Odell: On the professional services, other, you mentioned those are non-investment related professional services. Would that include like Mr. Leiderman's cost of attending these meetings, would you consider that non-investment related?

>> A portion of it is. So when he attends here as general counsel, it is going into the professional services/other. When Reed Smith provides services for investment contract or investment related expenses those actually go into the investment line.

>> Stuart Odell: Thanks.

>> Where would the actuarial services go?

>> That would go into professional services other.

>> Let me ask you this. Begin the ballot initiative that's coming and the potential requirement for additional actuarial analytic services in general, we're really looking at a flat budget. Is that realistic?

>> I do have later on in the presentation that while I've tried to estimate for the best of my ability based on historical usage, and agreement limits, and those types of things, I do acknowledge that with all of the upcoming ballot pieces, the changes in GASB, that it is very much probable that we will have to come back to this board sometime throughout the year, with better estimates, and contract amendments and possibly budget amendments to allow for the additional services that will be provided. At this time, this budget was put together again with the historical information and agreement information.

>> Michael Armstrong: Okay.

>> Matt Loesch: Once this budget is set for these values, to the extent that the professional services exceed that, you need to come back -- do you need to go back then to the budget office for their --

>> No, let me clarify. All of the administrative expenses that are non-personnel-related all of those run through this board. The only portion that's limited by are the City's procurement process which we do have to go through the city for proper RFPs or vendor selection. But the actual approval for the expenditure does not go through city council or the city.

>> Matt Loesch: Any other questions on this slide?

>> Okay. So on slide 4 what I've provided here are some more historical information. We don't budget for our money manager fees. It's so dependent on assets an how some of the investments move. What instead I've done is put together what the money manager and investment costs are on a percent of net plan assets. So down at the bottom I've provided some historical numbers and some projections for fiscal year -- projections for 2012, I don't intend to provide any kind of budget pieces for 2013, it's too difficult to gauge those numbers because they are so dependent on the market. But you do see that there is an increase between fiscal year ending 2011 and 2012, and the increase is not that there are additional fees, it's just with the lack of staffing that we had in accounting in last fiscal year a lot of the private equity fees were netted out and not drawn out. The expense on the profit and loss statement or the statement of changes all recognizes the correct amounts. Unfortunately, without the staff having to go back in and actually segregate out each of those figures they were reported as a net amount. In this fiscal year what we've been doing is going back to each of those managers and digging through and pulling out each of the fees again. That's why we have a projected increase for this fiscal year.

>> Stuart Odell: Are you including performance fees as these fees or just the investment management fees for your private vehicles?

>> They're the investment management fees. They are the investment consultant fees. They are the legal fees related to investment related contracts.

>> Stuart Odell: But not performance fees?

>> Carmen Racy-Choy: I think performance fees when they apply would be included.

>> Matt Loesch: What he's talking about is the investment performance fees as opposed to the investment manager fees. The investment manager fees could include performance fees.

>> They are captured in this line.

>> Matt Loesch: That's what you're asking about, Mr. Odell?

>> Stuart Odell: Yes.

>> Matt Loesch: On other administrative expenses, between projected '11-12 and budget '12-13, there is about a $250,000 increase there. Am I missing what's causing that?

>> Some of the other administrative expenses, the increases that we're seeing are again the legal and the actuarial. For the budget for 2013, I've added some additional budget for actuarial and legal. I'm sorry, were those the two years you were comparison? I apologize.

>> Matt Loesch: Yes, the third line, third row down on the top box. And far left, the far right to projected 11-12 and budgeted 12-13.

>> Yes, that is truly the increase.

>> Matt Loesch: So legal an actuarial increases?

>> Yes.

>> Martin Dirks: The net plan assets it's being compared to, is that for Police and Fire plus Federated, or just Federated?

>> Those are just Federated assets. The entire presentation is only based off the Federated system. There will be a similar presentation for Police and Fire board.

>> Martin Dirks: For example, the personnel expenses would be half of the total actual?

>> Yes, half of the total.

>> Matt Loesch: Any other questions on slide 4?

>> So moving on to some of the differences that you see between last year's or the current year budget and the proposed budget, you see personal services, a .2% decrease in last year's budget, and this is truly just due to salary and fringe benefit decreases projected by the City's budget office. Again, as staff of the City of San José our budget salary projections come from the budget office. And then in addition, there are additional savings that would have shown if the addition of the assistant director position, which I've estimated based on the City's labor distribution report. Okay. And the nonpersonal and equipment you see the 30.51 decrease that Lara initially asked about and the large portion of that is coming from Alborne Alternative Investment consulting, in lieu of the analytical databases. There are also increases in the fiduciary insurance premiums. We added the health trust in this fiscal year. There are fiduciary insurance costs related to that. In addition we have some minor increases in postage and printing due to increase in volume of output with a lot of the budget pieces that are going on, and a lot of the projected reductions that we had in postage and printing through utilization of online that hasn't materialized, I have an increase in that budget for the next year. To the degree that we actually accomplished some of the paperless stream to the notebooks for the board agendas and we'll see some cost savings, I've included those costs in here but we may actually see some cost savings when we get to that next fiscal year.

>> Matt Loesch: It's variable to accomplish that major cost to paper cost would happen this fiscal year so we should see the decrease in some of those.

>> Should see a decrease in next year. And the last line is the professional services. And again, while you see pretty much no change from this current fiscal year, on the actuarial piece, to touch on this a little bit. In this year's current budget we had the experience study cost which we don't anticipate having the experience study for this year. But the additional services for actuarial out -- balance out the experience study cost.

>> Arn Andrews: Just one follow-up question on actuarial expenses. On the initial primary slide on professional services you know you said a component of that is actuarial. And then when we were on the money manager and investment cost slide, and other administrative expenses there too, you also referenced actuarial type expenses. What differentiates actuarial expenses on the budgetary side versus actuarial expenses on the investment manager side?

>> On the investment manager side they're not included. I'm sorry let me clarify. On the other administrative expenses that is the summary of the nonpersonal and equipment professional services other and medical director. I've combined those three on the following slide and only separate out the personal services.

>> Arn Andrews: Okay. I'm with you now.

>> So overall from where you actually were, in 2010-11 to 11-12, then 11-12 to 12-13, in the most current year forecast proposed we're up a half million dollars in expenses. And $1.1 million from actual 2010-2011. And I -- so percent change column, in that previous slide is a bit misleading. You're comparing budget which may or may not occur, to what was proposed for this year. I don't know, I just -- what's the biggest factor in the half million dollar gap year to year?

>> Year to year, between the forecasted and --

>> The forecast and the next year budget?

>> Some of the expenses that we budget for, because of delays on actually implementing them, don't necessarily materialize, into the full amount that was budgeted. But we -- the budget is prepared with the assumption, that the tasks or the activity that we're looking to incur that year will actually occur. As we run into the year, there are delays. For example, the board, wireless packets that we were looking to move towards, while they've been budgeted for the full year they're still not here yet so you'll have that difference. The same thing with Alborne. Alborne would have been budgeted for a full year. We didn't actually hire Alborne into well into the year.

>> But as I read this we're also assuming that we're going to fill our positions. That's the big number.

>> That's the big number. We've been historically unable to do that.

>> So it's all of the things that the budget has put together I guess under the best case scenario, if we're able to achieve and obtain all of the services that we're looking to in a time Lin manner then we get to the cost, as we get to the actuals that's really where the differences lie.

>> Edward Overton: I have a question on slide 5 where you have the additional -- addition of the assistant director. And the cost at $94,000. Are you anticipating a mid year appointment on that? Or $94,000 seems kind of on the low side if that's --

>> It does seem on the low side, my understanding is the budget office budgets on an entry-level cost portion for budgeting. I don't believe that it is the full range of what the salary offers. So I believe it is for a full year. But it is with the intent of a beginning range of the salary. I'm not sure that that is definitely realistic. I don't anticipate that we'd have any issues with budget for this fiscal year, because we haven't been able to fill the other portion. So to the degree we'd have savings on other positions, we'd have a little bit more room for the assistant director position.

>> Edward Overton: Well shouldn't the board have some basic information about what the parameters of a recruitment might be so that we can go out with a realistic offer for someone to get a high-quality person?

>> Yes, I apologize, I don't have very much information on the assistant director position. It's something that was proposed by the City Manager, and I understand the board is interested in, but at this point, I don't have very many of the details to vet out in this presentation. I could definitely look into it and gather some more information to come back to this board with.

>> Matt Loesch: My understanding on the position is, that it's created as -- the position itself is planned to be created as of July 1st. But what that position is being crafted is how -- I mean that's not done yet. I mean the title and classification of assistant director is but what is being sought for that position in retirement services has not been cleaned up yet. We had an initial meeting couple weeks ago, remember you had asked for Mr. E and myself to meet with Police and Fire reps and the City Manager's office to talk about these immediate needs. That was one of the things that they had proposed to create that position. That has been declared. But as far as the next steps as to how it's going to be filled and so forth, that's not been nailed down yet.

>> Arn Andrews: So it sounds like someone is working on scoping out what the job specifications are going to be so they can actually create what eventually will be posted in the recruitment for the job specs, okay.

>> Matt Loesch: Correct, I'm following your line, I was looking at that myself, the $94,000. If that's the budget office's practice of starting at the low end, my understanding is always the top step is what was budgeted. There's been some changes to practices maybe mid step because of the amount of salary freezes and so forth that have gone on. But my recommendation is we create it more the top end to allow us some wiggle room on the way down. We can absorb it here and there but if we're trying to create the best case scenario of what it should be, we should budget for the top step and have the wiggle room within that position how we fill it.

>> Lara Druyan: Especially since our salary is still low by surveys done by Cortex.

>> Matt Loesch: Mr. Leiderman.

>> Harvey Leiderman: Thank you. Is it possible that this number of 94,000 represents only 50% of the position?

>> Oh, it definitely does.

>> Yes, it definitely -- spent only 50%. I would be glad to make an amendment to the budget. I'll go back and look at the range and go more towards the top end and add that to this year's budget.

>> Matt Loesch: Because that's the fully-loaded cost as well and all the overheads added in. Still, at 180 fully-loaded seems a little on the light side.

>> And I do apologize, as I was working with the information that I had, so I'd be glad to go back and make the amendment.

>> Matt Loesch: Anything else Mr. Overton?

>> Edward Overton: No.

>> Matt Loesch: Mr. Odell.

>> Stuart Odell: On the administrative expenses, do you -- is there a process where we are going to benchmark you against peers in any way? How do we know that your costs, particularly as a percentage of assets, is reasonable?

>> There's some difficulty in the administration expenses in comparison to other plans only because of how for example the 37 act retirement plans have specific rules about what goes into the administrative cost, like they won't include some I.T. costs or they will include some legal. So in order to go back through and really compare to

another plan that presents all of tear information exactly the way that we do, without going through their underlying detail, could be misleading. But I can put together something on a high level. But I would make the caveat that there are some changes as far as what they're allowed to put into administrative pieces and which pieces don't flow through.

>> Stuart Odell: Presumably a portion of your administration, you're administering the DB plan internally, you have your own processes for doing that and presumably you could put that out to bid to a third party and get a bid, a third party price for providing those services which would give us at least some relative comparison as to whether you guys -- I mean in theory, you should be doing this cheaper than what an outside party could do it, a third party administrator could do this for you. I'm just wondering whether that isn't a prudent step we should take. To benchmark you so that we can come back and say, you know, this staff is doing this efficiently, at below, you know below the cost at which we could outsource this potential function. Because certainly a lot of plans outsource their administration. You know, it's not necessary that it all must be managed in-house with a staff of you know, 25 or 30 people.

>> I have looked a little bit into some of these is pieces for the accounting portion. The chair had asked for some cost as far as outsourcing the accounting portion alone and in reaching out to some of the organizations that do outsource the accounting portion I've encountered some reluctance because of the idea of it's just a benchmark that we're working towards. So trying to gather the information has been a little slow-going but I am in the process of gathering that information for accounting. Maybe my recommendation would be that I can continue on with the accounting portion that I'm putting together, and seize if I can apply that then to the full plan.

>> Stuart Odell: Yeah, I mean in particular, what I was focused around was, you've got you know systems that you have to have I.T. people maintaining that are -- these are your -- this is your administrative system that's dealing with not only accounting but also with payments right and managing the accounts.

>> Yes.

>> Stuart Odell: So I know from our plan we outsource that function to a third party. And we -- you know we put it out to bid on a regular basis and we get competitive bids. So we have some benchmarking on that side, as well. And I just think that best practices are to try and figure out how we can maybe segregate that portion of the work that you guys are doing internally and put that out to bid, to at least get some pricing for it, so that this board has some comfort that you guys are operating efficiently within the work you're doing. Otherwise I have no -- I can't tell whether 30 employees and this payroll are prudent or not. I have no comparison to the services that you're providing. I think that's the challenge as a board member that we face.

>> Keep in mind it's not really the 30 FTEs. If you look at it the two plans are split. You're looking at 15 or so FTEs that you're looking at.

>> Stuart Odell: I understand.

>> The other difficulty, we could definitely look for some of that information. It's been pointed out that there is a lot of uniqueness to San José and with all of the changes to tier system and the fact that we're lacking on staff, to go out and look for more information on how we can outsource, will take resources at this time. While I think it's not a good step to go out and benchmark against something it's just trying to gather how to benchmark it when we've never outsourced our plan before. And with all the plan changes and everything else that's going on with our plan, it would take a good amount of resources at this point.

>> Matt Loesch: Well, why don't we do this: Since it's -- the budget stuff is fairly timely, you need to have it finished in the next month or so to get it into the budget system. Maybe it's a fall thing, out of sequence.

>> Stuart Odell: I'm not suggest this is something you need to do prior to us necessarily approving this budget but I think we need to move towards a process whereby there is some regular benchmarking of the administrative expenses to some objective benchmark that we can get comfortable with. Otherwise, I don't know how I can sit here and say this is reasonable and prudent.

>> Matt Loesch: So let's take full questions and maybe we can kind of come with how we do this.

>> Arn Andrews: And I just have one kind of city process piece I'm going to add to the conversation. Because what you're describing does transpire to the city. It's referred to as service delivery evaluations or SDEs. I believe since the employees of the retirement board are actually employees of the city that type of evaluation would occur through that type of process. When the city does do as what they referred to as service delivery evaluations, I think it's going to impact something more I believe three to five employees if you're going to have an impact in that range it does start to trigger issues with I believe meet and confer. I believe in the last course of years, the city has had discussions on outsourcing and they do have a process to evaluate that. While we may want to give direction we may have to utilize the processes that are already established in the city since the employees work for the city. We might need to look into that. I'm not sure if we would be able to do an evaluation outside of that purview.

>> Stuart Odell: Okay.

>> Matt Loesch: Further questions?

>> Edward Overton: Not to prolong discussion. But I do think that it's -- Mr. Odell's points are well taken. And that there should be some thought not necessarily before we approve and go forward with this budget. But there should be some performance goals at least. And for example, how much are we paying for investment expenses versus what happens in the marketplace in general. And that stuff should be -- that data rather, should be part of the budget process, like we're beating the average of public pension plans, of $2 billion, $3 billion, $5 billion. And it's a goal or it's a yardstick. And it's not necessarily -- I realize what you're same Veronica that there are many nuances in other plans, that would not make it a complete Apples to Apples comparison but it would be something for the board to get their arms around.

>> Matt Loesch: So why don't we do this. I agree with the thoughts, and we should give staff a chance to evaluate what the best way and most economic is. Can you come back in June so two months of what your

approach is going to be so we could assume maybe Septemberish we might be able to have some kind of -- September-October, that's unreasonable? So that way you would have chance to make modifications for next budget if that's the recommendation of the board, you would have the chance to look at internal processes, we could keep it fluid but you could come back in June with your chance to benchmark personnel and all the whole nine yards. Would that be possible?

>> Would that are possible to move that out to August? June is year-end, and we tend to have a lot of volume that time period. But August works.

>> Matt Loesch: That's fine.

>> Stuart Odell: I did not -- I was very specific that I was talking about administrative expenses not investment expenses. I do think the investment cost benchmarking is a much more straightforward process. Staff can do that, you can benchmark your fees very competitively on an investment management level. I think that is a prudent process that should be reviewed annually with the board as probably through the investment committee first, with Meketa giving you the advice. Meketa certainly has all the benchmarking of where fees are for various products. So that piece, at least from my perspective, I would let the investment group work separately. I'm specifically focused around administrative costs and being able to benchmark those. That was my concern.

>> Edward Overton: I understand that. And my comments were, you know, let's start with something. Because there's nothing in here right now.

>> Stuart Odell: Yes, I agree.

>> Carmen Racy-Choy: The investment fees we do on a continuous basis. We actually have Jim Dee as the source of information on non-alternative mandates and the plan's consult Meketa provides information on obviously alternative mandates. And what we typically do is, we have the whole percentile range, the median, and we typically try to negotiate fees that are better than median. So we try to be on the low cost or at the worst, at

median. Overall, we've benchmarked the plan's investment expenses comparatively to other local public plans of similar size. And we compare very favorably. Obviously right now, we have a lot of passive mandates so we are cheaper than others. Even looking back 2008-2009, I believe the investment expenses were significantly higher. So we've decreased investment expenses, in a very significant way over the past couple of years. Clearly, as you hire hedge funds that's going to go back up. And we might at some point in time as we put the program in place, that number might change. But we can definitely provide information on that fairly quickly.

>> Stuart Odell: Yeah, I think it's just -- it's an annual process, it should be reviewed with the board. We should get comfortable that you're negotiating the lowest possible fees that either at the manager level or at the plan level that our fees are both reasonable and prudent. That's really all I'm looking for.

>> Matt Loesch: So when could the investment fees be presented in that evaluation be presented to the investment committee? At what -- you said it's done continuously, so when could something like that be done?

>> Carmen Racy-Choy: The current -- the investment committee meets next week. It's a bit too late for that one. So it would have to be the May investment committee meeting. And I don't know if we can -- if we have enough time to bring it to the May board meeting but if not it would be the June board meeting.

>> Matt Loesch: That sounds fine to me. I mean I kind of agree with Mr. Overton's concept, the overall picture should be looked at as well, and the investment stuff yes, should be funneled through the investment committee. But I think the understanding of all the expenses that we're looking at, broken down compared to other folks, it's kind of what everybody is saying, how are we doing spending this money, is it prudent, is there anything we can do to try to save costs do it better, more efficiently. Mr. Leiderman.

>> Harvey Leiderman: Just for information, many boards are looking at this and it's a good question to ask. There is an organization out of Toronto that has stepped in to fill the gap of this kind of benchmarking information called CEM. One of my other clients, the Orange County board is looking at that. Now CEM charges about $40,000 a year to participate in this thing. But they generate some robust statistics by slicing and dicing

across many metrics for organizations, you know for public pension funds in terms of customer service and response time and handling the disabilities and all that sort of thing and cost, on the cost side for comparison purposes to other plans of a relative peer group of size in this case from a billion to maybe three or $4 billion in assets. That information's available out there. There's a lot of it. You may wish to have them just come in and explain to you what they do at a future meeting to give you the kind of benchmarking data that you may find interesting. Take it with a big grain of salt because the differences between the systems and their governing laws and how they handle budgets, as Veronica pointed out, some are allowed to put their I.T. costs off balance sheet and so to speak and some include their I.T. cost and that can be a big line item every couple of years. But in the context, there is a lot of information out there available on relative costs and it's a terrific question for a fiduciary board to be asking.

>> Donna Busse: And we actually did participate in some of the CEM surveys in the past and we could get data for free by participating in their survey. Just as you said as Veronica was saying, it wasn't useful to us because it wasn't Apples to Apples, like you said, I don't know how useful it was to the board because it wasn't Apples to Apples you either a looked great or you looked really bad, depending who was participating and what kind of data they provided to CEM. We can contact them again.

>> Harvey Leiderman: The last data I saw was psychologically disturbing. They used a black bar compared to pretty colors. The system was very upset with the presentation because they got the black bar.

>> Matt Loesch: Okay. So just to be clear, so everybody understands, come back in May to talk about investment cost. Presumably going back to the board on June issue. August as far as other things as far as the process by which we can benchmark these things and when we can get the numbers and start evaluating in the fall. Does that kind of meet everybody's needs.

>> Stuart Odell: Yeah, it is fine. I would say we are -- the investment management fees are going to change dramatically as they roll out the hedge fund program. And if you -- if you don't have the time in May to do it, there

may be some argument to say, hey, let's wait until we kind of get the hedge funds rolled out in three to six months and do our review, our initial review at that time.

>> Matt Loesch: To baseline, too, this is what was before.

>> Stuart Odell: Absolutely we're certainly going to do that.

>> Matt Loesch: Mr. Andrews, were you going to say something?

>> Arn Andrews: I was just going to say if there's no further discussion I'd move the proposed budget for 2012-13.

>> Matt Loesch: Further discussion? All those in favor? Opposed, thank you. So going back to our revised jumbled up agenda here. 4.11. Discussion and action on Cheiron's 401 (h) subordination limit test results as of June 30, 2011. Let them get shifted around, give them a moment.

>> Bill Hallmark: So the retiree medical and dental benefits have historically been funded through a 401H account which is a separate account within the pension fund. And the IRS allows you to have that as long as you comply with certain requirements. And one of those requirements is that the 401 (h) account has to be subordinate to the pension plan. And so this is the task to confirm compliance with that requirement. You've been very close to the borderline. And the way the test is performed is to determine that the aggregate contributions to the 401 (h) account are no more than 25% of the total aggregate contributions to the pension and 401 (h) account where contributions to the pension are limited to normal cost contributions. And so we performed this test for you last year. This is an update, and there are essentially two key parts to the test. The first is to determine exactly what dollar amount was contributed to the pension, so that we can carve out the payments for the unfunded liability from the aggregate, and then update the cumulative numbers. So the key result is on page 3, in the test -- in the box at the top under the fiscal year ending 2011. We see that cumulative pension correction have been

about $648 million. Cumulative 401 (h) contributions, $215 million. So total of contributions of $862 million. The ratio of the 401 (h) to the total is 24.9 which is below the 25% threshold.

>> Matt Loesch: Definitely places to use (inaudible).

>> Bill Hallmark: So you are very close. The city has established a 115 trust now, and the city contributions are going into the 115 trust. The employee contributions are still going into the 401 (h) account. And so we have to continue this test with the employee contributions. But the table at the bottom of that page shows our projection that the aggregate numbers would slowly improve if contributions are restricted to just the employee contributions. So I think that's all there is to this test. It's something that we will be monitoring each year to make sure we maintain compliance.

>> Matt Loesch: Couple quick questions myself, open it up to the board. Again the consequence for going over 25% is -- exercise you have to go through after that if something like that happens?

>> Bill Hallmark: Well I guess I would defer that to legal counsel as to what happens when you go over. Because that's a potential IRS disqualification event. I believe for the 401 (h) account which could affect the pension trust. Now presumably you'd be able to go through some sort of correction process. But those are all questions for legal counsel to sort through.

>> Matt Loesch: Because that was one of my things going along is what was -- we talk about leaving the stuff in the 401 (h) account and employee contributions still going into the 401 (h) account and that being the kind of active money paying out the premiums, right? So the active money paying out for the premiums for the retirees is coming out of the 401 (h) account or from cash contributions coming in. Why is it we can't take that -- resolve this problem and remove it from the 401 (h) and put it into the 115, is that not possible?

>> Harvey Leiderman: If I may, Mr. Chairman, it's not possible. The 115 trust can be used as a feeder fund into the 401 (h) but not the other way around.

>> Matt Loesch: And am I right about the current costs for the medical premiums for retirees are coming out of the 401 (h) money and or cash coming in for contributions?

>> Current the only money (inaudible).

>> Matt Loesch: But there's no draw outs?

>> Everything is still been running through the 401 (h).

>> Matt Loesch: Any other questions or comments from the board? Okay, this is a discussion and action. So it essentially is a receipt of the results, right, not an approval of the results, am I correct?

>> Harvey Leiderman: That's right, just a receive and file. Accept the report.

>> Matt Loesch: Just note and file it.

>> Harvey Leiderman: Forgive me, what has been your action for --

>> Matt Loesch: Note and file.

>> Harvey Leiderman: I would think a motion to accept is appropriate.

>> Matt Loesch: So I'll entertain a motion.

>> Arn Andrews: Motion to accept receipt of the 401 (h), subordination limit test results as of June 30th, 2011.

>> Matt Loesch: All in favor, opposed, again, to the rearranged schedule. Item 4.6 on the contribution rates. You see I'm chunking out the easier ones first. So this is 4.6, contribution rates and amounts for 2012-13. Discussion and action, and then there's 4.6 A. Discussion and action, regarding resolution 6750 setting new city and employee contribution rates and amounts for Federated members to be effective June 24, 2012.

>> In your board packet is a resolution. If you have any questions on the rate but pretty much all the board adopted rate (inaudible).

>> Arn Andrews: I have one question. I know that the prefunding date is July 2nd. Memo references the effective on or after June 24th.

>> This is the difficulty in trying to (inaudible) actuarial evaluation that covers the fiscal year July 1st to June 30th into biweekly contributions that tie closely to the fiscal year as possible. So this is the results of that. You're seeing that the member contribution which still on a biweekly basis compared to covered payroll will take effect as of June 24th. It's just really a function of converting biweekly pay periods into a fiscal year as closely as possible.

>> Arn Andrews: So we don't anticipate any tine of impact on the sponsor's side, the prefunding amount on July sect get operationalized through payroll and we don't see any type of stub or true-up?

>> That we can tell, no, there's not any stub. There will be a difference on the accounting for accrual based accounts, but on a cash basis we shouldn't be.

>> Arn Andrews: Great, thank you.

>> Matt Loesch: Any other comments or questions? If not I'll entertain a motion.

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: All those in favor, opposed. Okay. Item 4.5. I'll read the item and set it up a bit then we'll go on to the presentation and our discussion. Discussion and action on the actuarial, administrative and legal impacts of the ballot measure. Little vague there. It should be more filled out. A, Cheiron's assessment of the ballot measure and B, the impacts on administration of the retirement system. So in your packet there are three things under 4.5. One is 4.5 then A and B. 4.5 was my request to add, this was something that was put together for the police -- the reason it looks like Police and Fire board stuff because it is. This is put together in combination with the trustee Drew Lanza on the Police and Fire board and Russ Richeda on the impacts to the board, bullet points as to what the recommendations were. It was referred to quite a bit at their board meeting as to ways to work through them. I'd ask Mr. Leiderman if that might be a good idea for us to kind of discuss this going forward, he thought it might be and he would help us work through recommendations moving forward after we hear the presentation and discussion moving forward. That's the reason that was there, if there were questions and then you have a presentation by Cheiron and then an outline by staff. So we have Cheiron here to set it off.

>> Bill Hallmark: Okay, thank you. This is also a -- we gave a very similar presentation to the Police and Fire board on the ballot measure. And the basis of our presentation is, first, we assume that everything in the ballot measure is legal. And so we are not addressing any of the potential legal questions. And then, part of the question that was posed to us is, is there enough information there for the board to analyze? And if they wanted to analyze it, how would we proceed? So we're going to walk through an overview of our understanding of the ballot measure and the implications for the Federated plan. Some of the key questions that we have, just from reading the ballot measure, that we currently don't have answers to, and then talk about some potential board options for addressing or not addressing or analyzing the ballot measure. And if the board wanted an false of the ballot measure one possible approach that we could take to provide that analysis. So to start with, just wanted to look at the different components that would come out of this ballot measure. You have the current plan, which would cover all the -- continue to cover all the retirees and in actives. But the active employees would be provided a choice between staying in the current plan or going to the voluntary election plan, the VEP. In that VEP, the benefits are defined, but there are a number of questions we'll talk about. New employees would go into what's

called the tier 2 plan. The benefits there are not defined. But there are maximum parameters. And so we'll talk about those maximum parameters. The changes, the key changes to the current plan are that employees would pay up to half of the cost of the unfunded actuarial liability. That's in addition to their 3/11 share of the normal cost. In the first year that maximum would be 4%, it would increase 4% each year up to an ultimate maximum charge to employees of 16% for the UAL. The disability definition changes, and there's a new determination process with a workers comp offset, and there's potential for some matching funds to purchase additional long term disability insurance. The Supplemental Retirement Benefit Reserve would be eliminated and all the funds that are in the SRBR account would be returned to the main pension account. Since the key provision here is -- one of the key provisions the is the sharing of the UAL cost, this does not reflect any of the benefits on the new plan but the 2011 evaluation, looking at the current plan the projected UAL cost and the variability of that cost using our stochastic investment model. And so it starts right now at 26.4%. That's the total UAL cost. But you can see over time, there's a wide variation in what that cost could be that the employees would be sharing in. In fact according to the model there is a 5% chance that it would be minus 1.3 or lower in 20 anticipate. The voluntary election plan has a benefit multiplier of 2%, three-year final average earnings, the cola is 1.5%. The year of service is defined as 2080 hours, I think the current plan is 1739. Retirement eligibility, the age for unreduced retirement would increase gradually to age 62. Actuarially reduced benefits would be available at age 55. The 30-year service eligibility, right now if you have 30 years of service you can get an unreduced benefit. That would be increased by six months per year indefinitely. The VEP also uses the new disability benefits, and for the prior service benefits, at the time the employee elects into the VEP, the prior service benefits, the benefit accrual rate earned and accrued is preserved. And so we do have some questions about how that is interpreted but the intent appears to be to preserve at least the accrual rate earned to date.

>> I'm going to go over the tier 2 for new hires that is in the ballot measure. As Bill said earlier, the ballot measure does not specifically define the plan provisions but it puts limits or maximums on what these provisions can be. And the plan can be a hybrid with any combination of Social Security, defined benefit plan and/or defined contribution plan. Which is giving some flexibility in the design for the tier 2 employees. And the City's tier 2 DB plan contribution cannot exceed 50% of the total contribution to the tier 2 DB plan. So this is a change in the cost sharing between the members and the city with the tier 2. And if the tier 2 program incorporates a DB and a DC

component, the city can only contribute to the DC plan if the total DB and DC plan contribution rate is less -- or does not exceed 9%. So that means if, let's say, the city DB plan for tier 2 is 5%, then they can contribute up to 4% to the DC plan. But this contribution to the DC plan is not mandatory or required. And the last provision is that there are no vested rights with the tier 2 plan. Which means this plan is subject to termination or amendment by the city council's discretion.

>> Edward Overton: I know you said you weren't going to do the legal fees. But isn't there ERISA requirement for vesting after a certain number, and it's a basic concept isn't it?

>> Well you have vested rights to any benefit that's accrued in the plan but future benefits is what they're talking about.

>> Edward Overton: Okay.

>> Bill Hallmark: So I think the key point of this provision is that the City's reserving the right to change the benefits in the future. So once you're hired you don't have a contractual vested right to the benefit formula in place at the time of hire.

>> Carmen Racy-Choy: Clearly, Cheiron is giving you what's in the balance. What they are not providing you an opinion on whether that is legal. I think the courts --

>> Edward Overton: I realize that.

>> Carmen Racy-Choy: The courts and legal counsel, they're really giving you a summary of their reading of what's in the ballot.

>> So the maximum DB provisions in the ballot measure are unreduced service retirement age of 65. And there's no provision in the ballot measure for an earlier eligibility with the service or based on years of service. There are

actuarially reduced benefits as early as age 55. A maximum benefit multiplier of 2%. The final average compensation in the benefit formula is a three-year final average with base pay only. There's no premium pays or additional compensation there. And also, a maximum cola of 1.5%.

>> Bill Hallmark: There are a few other provisions in the measure. Coal as can be suspended in the event of a fiscal emergency declared by the city council. Retiree health care cost are split 50-50. There is a declaration that there is no vested right to retiree health care benefits. And then all plans have to be actuarial sound, minimize any risk to the city and its residents, and be prudent and reasonable in light of the economic climate. There are also specific objectives defined for the retirement boards in terms of setting assumptions and setting investment policy.

>> Matt Loesch: And to be clear the potential suspension of colas is for existing retirees regardless of what status they retired in or whether they joined the VEP and then retired? It's just a statement of just all the other things breaking down the different -- the three type of groups, and this one is kind of applicable to all? Am I correct?

>> Bill Hallmark: That's right. My understanding is these provisions are applicable to all. So some of the key questions we had: In the sharing of the UAL cost, 50-50, the question really is, is the intent to share the cost of the full unfunded liability with the current active members 50-50? In which case that might affect the amortization periods that we use. Because you will have a closed group that will dwindle over time. And if we're supposed to spread the amortization cost of that UAL over that group wile they're still active, that would change our amortization. So the questions are: When we determine that UAL rate, is it based on the payroll of all employees in the -- any of these three plans or is it some subset. And how is -- what's the intent on how that should work? And then, if -- it says you split the UAL rate 50-50. It's not clear, if there's a surplus, if that results in a reduction in member contribution rates that offsets their normal cost rate, or not.

>> Arn Andrews: My understanding, and I could be wrong, I believe I heard that the intent is to strand the UAL with the legacy plan and start the VEP plan with no UAL. So I don't know if that helps you as you think through this but I believe the intent is for the entire UAL to be amortized with whoever opts to remain in the legacy plan.

>> Bill Hallmark: Yes, and that's certainly one interpretation of the -- that we would read in the ballot measure. And the results of that will be significantly higher UAL rates because we'll be spreading it over a smaller and smaller payroll. Now, if you elect into the VEP, there's a question -- there's some questions about how you calculate the benefits that are attributed to service before the employee entered the VEP. So for that -- for those years, do you use the final average earnings, as of the election date based on the current plan of 12 months? Do you use it as of retirement date, and is it the one-year or the three-year average for those prior service benefits? Does the retirement eligibility and survivorship and disability, does that change for those prior service of service benefits if you elect into the VEP and follow the new provisions of the VEP, or do those benefits get to keep their eligibility requirements that are in the current plan? And is the cola for those prior service benefits 1.5% or 3%? And those will obviously have implications on the costs, the election choices that people make, and certainly, the administration of the plan. I think we've cleared up some of this. But the question is, does the definition of the one year of service, as 2080 hours, apply to the service that's calculated -- used to calculate the members benefit, service used to determine eligibility or both? One potential issue is, if it's used to calculate a member's benefit, you can get a double proration. So if someone works half time, and they get a half year of service, they're also getting half a year of pay. And if you end up multiplying those together, they're getting a quarter of the benefit of what a full time person would have got. So it depends on if you have people who work half time for their whole career or part time for their whole career, and the specifics of how the ballot measure is supposed to work. A couple of questions on the disability changes. And whether or not the workers comp offset only affects new determinations of disability benefits. The cola suspension, the retiree colas can be suspended for up to five years by the city council, but it's not clear to us from reading the ballot measure how often that could happen, and whether or not the colas are forfeited or if the city council once you come out of the fiscal emergency restore the colas that were suspended or are they just gone forever.

>> Arn Andrews: You mean forfeited or accrued when the suspension is lifted?

>> Bill Hallmark: Right. So if you were suspended for two years, and you missed two, 3% colas when the suspension is lifted is that 6% increase to your benefit restored, or do you just start where you are and get the 3% from that point forward? The requirement that all plans be actuarial sound, we wanted to raise this question with you. Because there is no definition of actuarial soundness, either in the ballots measure or promulgated by any actuarial organization. So we don't know how you would define it. Everyone has their own definition of what's sound. And so this particular requirement is somewhat vague.

>> Arn Andrews: And would I defer to legal counsel on this, the same way we know that benefit structure is not within our purview, we also know that there are items that are within our purview. And you know setting the rate of return and items like that, I believe ends up equating what the actuarial soundness is. So I think at some point we will defer to legal counsel on an interpretation of this.

>> Bill Hallmark: The other question was on the requirement that you minimize any risk to the city and as residents, there are a wide variety of risks that you could potentially be looking at when it says any risk. And many of them are competing. And so how do you structure something to minimize whatever risks you're trying to minimize? So in thinking through this, we thought the board has several options on how they can proceed with the ballot measure. You could choose not to address the ballot measure until after the election results are known, and once the election results are known, we understand that the measure's going to be referred to the courts for an opinion. So you could wait until you get some validation from the courts. And then at that point we understand ordinances would have to be written. So you could wait until there's actual ordinances that would actually define the specifics.

>> Michael Armstrong: So you have these list of questions so who or what is the process for clarifying these?

>> Bill Hallmark: Well, I think it would be difficult to know what the answers to those questions are until the ordinances are written. And then you would get a legal opinion based on the ordinances, right. I think.

>> Matt Loesch: You could certainly opine. My one thought is if we could have your full presentation and then folks could answer the questions about the presentation and then maybe we talk about procedures of how we would like to interact based on the representations here, recommendations from counsel, feedback from ourselves an the folks in the audience. We could have -- that's kind of one of my thoughts. Were you finished with your options?

>> Bill Hallmark: We're very close to being done so -- one of the things at a were discussed particularly at the Police and Fire board, if we analyzed this, would we come out with a single number or projection for what the ballot measure would be or do we develop a range of answers or model to illustrate what the potential answers are or how do we go forward with it? The other question was, should we illustrate the impact for a hypothetical employee or a set of hypothetical employees so that people can understand what the election choices might be and what the ultimate impacts might be for employees. I think this is really looking at the same questions so let me move on. There are some issues that I think we might want to make some assumptions on how they would be resolved. So in these next couple of slides we lay out some possible assumptions to use to go forward, to analyze the measure, if we were to analyze it. We could use the current assumptions, except where the plan provisions make it clear that a significant change might be needed. So the retirement rates are the obvious one, because they're moving the eligible retirement ages. So we may need to make an adjustment there. For tier 2 we could assume the adoption of the maximum DB plan and assume the city contributes the maximum amount available to a DC plan. So if we project cost for the DB plan, city cost for the DB plan to be less than 9% then the balance we could assume was contributed to a DC account. We're suggesting that if the UAL rate becomes negative so there's a plan surplus that we do not offset the employee contribution rates. So that they still are 3/11 of the normal cost and for the prior service benefits, we could just assume the new provisions of the VEP apply to the benefits earned prior to -- prior to electing the VEP. So that the only thing that would be protected is if you had accumulated, you know, 40% of final average pay, that 40% would be protected. But it would be -- everything else would be on the new positions. I think we don't have full data on hours so we were suggesting the simplest for us would be to assume everyone's full time in these projections. We could obviously do some sensitivity on that. And for disability, we'd develop a workers comp offset assumption. Then so those are the things we'd have to make some assumptions about, the possible assumptions. What we could do in terms of a model much like you've seen

our projection model is give some choices that could be included in the model as variables so that we could see what the results are under different scenarios. And so the first thing is, looking at the choice elections. We could just do an across the board zero to 100% choosing the new VEP. And then, also, different employees are going to see different potential advantages or disadvantages to making the change. And so we could build something based on the expected value of the choice for the employee. Cola, we could put in some cola suspension scenarios and then the amortization scenarios, so you could play with the effects of different amortization and what that does. So I think that's -- that's the end.

>> Matt Loesch: Okay so why don't we do this. Did you have anything you wanted to add at this time?

>> No.

>> Matt Loesch: Are there questions about either the content of what they presented as their evaluation of what the ballot measure is saying to them, and what they interpreted, are there questions on that alone? We could then get into options and actions and so forth, if there's not content questions. Mr. Armstrong.

>> Michael Armstrong: On the choice selection fees, how -- what are you suggesting we do there? Because I've read through the ballot initiative a number of times.

>> Matt Loesch: Mr. Armstrong, there are folks who can't hear. If you would speak the microphone.

>> Michael Armstrong: We're talking about human behavior in some of these choices. What are you suggesting we do?

>> Bill Hallmark: We're suggesting you use some somewhat simple variables to model different options as to what actually happens. So you can start with, nobody elects to go to the new plan, everybody elects to go to the new plan, some across-the-board type percentage you know pick your percentage. But we know that none of those are going to reflect the reality. And then, so the other piece is to look at it as if each employee was maybe

an actuary, and did an expected value calculation. And chose what was most advantageous to them. And the human behavior's not going to follow that partnership, either. But it would give you an idea of the potential range of outcomes that you would experience.

>> Arn Andrews: And I would just add as an employee who hears some of these conversations going on, I think there will be a few inflection points for a few cohorts where we could make some reasonable assumptions of what might motivated one cohort more than another. I mean anybody approaching 55 you know would probably see it as advantageous to pay 4% of additional salary per year towards the UAL if they know for the rest of their retirement they are going to pick up an extra five basis points on a multiplier. Younger folks might see absolutely no advantage to paying more because to them retirement is far off so they might automatically opt to go into the VEP. So there are probably ways that if we work together with the -- with folks we could come up with a couple scenarios that while they will not ever hold true in the end are probable.

>> Bill Hallmark: That's another thing we could do is just put an age criteria in or age service criteria. But I think we don't want to imply that any of these would reflect what is actually going to happen or is a prediction of what would happen. The idea is to get some sensitivity --

>> Matt Loesch: This is one of the conversations we've had with the Police and Fire board and I had tracked with folks who asked me stuff. Once we create a document that says something folks are going to use that as a ruler by which this is the truth or not. And then when they go forward, we already know as soon as you print it, it is not true because some of the variables are innumerable as to what could actually happen. Even the ordinance changes and what's going on there. And there was great concern at least about putting together a model, we're putting together even what that looks like and who has access to it and how that conversation would flow through. And what things would even plug into it. As opposed to these are the numbers, for example, some department created a sheet that has kind of a summary of what the ballot initiative said and then a chart as to what the contribution rates are going to be. And I mean, as opposed to having like 5 billion asterisks around it saying warning, don't trust any of this stuff. People literally sat down, 45 minutes it took me to explain why every one of the numbers in those charts, in those cells could be wrong. And that's kind of the fear of it you put down

this chart, you put out these numbers you say this is the potential impact of 37-year-old that chooses X but you already know that as soon as you print that it might not be so and most likely it's not so. That's kind of the hesitation about what do we do here? And I think there's some good discussion points we have to keep going forward here.

>> Arn Andrews: I was going to say at some point I think legal counsel could give us some guidance where we need to go with our role for beneficiaries and possible beneficiaries. What is the expectation on us and what the education, because that will determine what kind of product we end up asking for.

>> Matt Loesch: I think the final step is to get people to look at it and say, what do you see here, where are there questions, where are there thoughts that we need to pursue or not pursue.

>> Michael Armstrong: I don't know if this is part of the scope of this discussion, but the other presentation in your packet, I think it's a similar to one that was given at a Cal APRS session. And there's some interesting slides here, and the one that caught my attention is with negative cash flow, market volatility difficult to manage.

>> Matt Loesch: Let's do this. Not everybody in the audience has access to the slide until it's put up here. Because we're talking about the numbers. If that's okay.

>> Michael Armstrong: Yes.

>> Matt Loesch: Because we'll certainly get into that for sure. I know some folks in the audience wanted to address maybe this part of the topic and then we can talk about options, anybody else need to talk administrative things, whomever. Make sure you pull the microphone up.

>> Good morning share and board members. My name is Brian Doyle, plan member, working in the city attorney's office, I also happen to be one of the negotiators for our bargaining unit with the city on the ballot measure. First of all I'd like to thank Cheiron for illustrating how incredibly ill conceived this ballot measure is. We at the

negotiating table asked many of the same questions Cheiron asked and received no answers. The city did not think this through. This is I think if most likely result of this ballot measure if it passes and it's found to be legal is that you will see a mass exodus of city employees, in which case I would assume the plan would become closed. This, if rates of contribution would be so high, between the ballot measure rates for current employees in addition to the expected increases in the medical contributions, are just going to be beyond the ability of any employee to withstand and they will have to leave city service. One point I would like to bring out and perhaps give you a little bit more direction is that I'm not sure if you're aware but the city did deliver to us on Tuesday, a last, best and final of the actual tier 2 so we do now know what the city wants to put forth as tier 2. And it pretty much goes along the lines of what is in the ballot measure for a defined benefit plan. What I would suggest is I could maybe give it to Cheiron.

>> Matt Loesch: Maybe if you could give it to the clerk of the board and then she could circulate it please.

>> Proposed date for implementation of tier 2 is July 1st. I would presume that would put you on a very hurry up schedule here at the board to fry to come up with contribution rates. There is a letter attached from Bartel, that was certainly never something at a was given to us in any kind of negotiation, so we have no idea of what the projected rates would be. I also don't know how that comports with what the limitations in the ballot measure are on the city side of what they're supposed to be able to contribute towards tier 2. I think my biggest concern as a current employee is if this tier 2 is adopted what would be the impact on tier 1. It really makes a big difference to us, who are contemplating whether or not we want to continue in city service. And as our fiduciaries I would hope that this board could at least give us some idea of the impact of the adoption of this tier 2 on the tier 1 members. As well as any impact on us by the adoption of this ballot measure. In saying that, as a lawyer, I really do believe the ballot measure is illegal. But I do think that hearing from an independent counsel, Mr. Leiderman on the legality would be of benefit to the plan members. Because it really does affect whether or not we will stay in the plan. I realize there's a lot of moving parts here but I think both the public and the plan members really would benefit from an independent neutral analysis of just how stupid this ballot measure is. An you know, if this had been negotiated by and among the employees and the city and you know with the board's help, we wouldn't be in this position. We would all have a much greater idea of the predictability. So I realize I'm indicating some

sentiment here that you may not want to get into. But it is a genuine sentiment of, I'm a 22-year employee and I would hope that reason might prevail. I see this whole effort as being very much a political statement rather than a wise, prudent course of action for planning a retirement system for a public agency. If you have any questions I'd be happy to answer them.

>> Matt Loesch: I think at this time we will just take some more folks if they have any quick comments.

>> Thank you very much.

>> Matt Loesch: Does the board have any --

>> Good morning, I am Susan de Vincenzi, I am a retired city employees. Hello Harvey. I have not gone through the entire memo that Brian just referred to, regarding this new tier 2 some I believe it's starting out as executive management and Your Honor represented employees who are hired on or after July 1st, 2012. So you're looking at very few people to start with. And I don't know if -- I have no idea how that impacts this plan, or assuming that the VEP ultimately is enacted, how it would affect any of those calculations. One of the things I found very interesting though in the blood measure when it talks about tier 2 is it says that the city contribution will not exceed 9% but it doesn't say 9% of what. And I'm sorry, but as a math major I find that little difficult to deal with. Because it could be, how about 9% of the General Fund? Or 9% of the property tax revenues. Or 9% of the total budget. I like that one, because then you get to put more money into if plan. But it doesn't say that. So to get to 9% of pay you actually have to read some words in there, that aren't in the ballot measure. I don't know what a court would do with that but we'll see I'm sure. With respect to the VEP, it appears to be one plan that they're proposing that would include both police and fire, and nonsafety employees. I can't really tell whether they are pointing to two separate ones and I don't think we'll know until they start writing ordinances. But that's going to be interesting because I don't know who the board will be. I mean do you want to administer a plan that has firefighters in it? Maybe not. Do you want --

>> Matt Loesch: Reserving comment.

>> Okay. As a former nonsafety employee I would prefer to have you administer my plan than the Police and Fire board. So that's going to be an interesting thing. Maybe they'll do two plans, I don't know. I wonder if the contribution rates would be different for safety and nonsafety employees? Because they will have different benefits. The retirement age is going to be different. They say the accrual for maximum benefit levels will remain the same for current employees, that is 70% for nonsafety and 90% for safety. So you get some different things like that in there. And I also am curious about what happens to the prior service costs for an employee who moves from the current plan into the VEP. Does he take those unfunded liabilities with him? Because certainly, if you're a 20 year employee and let's say you're 45 years old so you're going to work for a while longer, there is an accrued liability that is unfunded that would attach if you separated it all out for each individual employee would attach to that employee. Toss he leave it? Like Bill was saying maybe in the current plan or does he take it with him? If he takes it with him then because the go doesn't pay any part of the unfunded liability, then the city would pick that up. That doesn't sound like what the city has in mind. I don't know how that works, either. And then do you retire from both plans? Do you retire from the current plan, where you have service, and then you retire from the VEP? And you get two different benefit calculations based upon those two -- I don't know how that works, either. And then there's the cola. The ballot measure says that the council can suspend increases in the cola. Assuming that that even holds up, once it gets challenged in court, I'm not sure how that works. Suppose that I already have received cost of living adjustments because I've been retired for a while that equal, let's say, $300 a month of my, of what I get. Do I get to keep getting that $300 a month, it's just the increase that I don't get or are they talking about suspending the whole thing? I'm not sure but it certainly makes a big difference both from the retiree's point of view and from how you calculate contribution rates. And speaking of contribution rates, the ballot measure doesn't say that the city gets to suspend its contributions, nor do the employees suspend their contributions. It's just that little increase that gets suspended. So I'm having trouble figuring out how, given the uncertainties that Bill has already identified, how you would even calculate the contribution rates that the city and the employees are still going to have to make. And that's something I think I would certainly hope that the retirement board stays on top of in case the city decides well what this really means is that we're suspending contributions because that's not what it says. And I think they still have an obligation to make the contribution. So this thing is complicated. It really is. And I don't know whether an ordinance has been drafted, Brian do you know

if an ordinance has been drafted? On this tier 2 that's supposed to become effective July 1. Normally, the process is, that an ordinance is drafted, the board has a chance to look at it and comment. I don't know, that's going to be interesting. Because in order to be effective by July 1 it has to be finally adopted by June 1.

>> Matt Loesch: For reading purposes.

>> So it could give you five weeks. Okay.

>> Matt Loesch: More questions? Quickly.

>> My name is Vera Todorov, I'm a nine year employee in the city attorney's office. I'm also the president of the association of legal professionals. To quote one of the City's negotiating team members when we were negotiating the ballot measure and everything else you see before you including tier 2 he said about the ballot measure and he's a lawyer, this will be a lawyer's paradise. That was in response to all of the similar questions that we asked that Ms. De Vincenzi just told you about. We asked for backup, what would the impact on Federated employees be of a tier 2. We asked what would the impact of a ballot measure proposal be as they were molded through the process and how they morphed through the process. We got absolutely no answers. Absolutely none. And what I'm asking you here today is very simple. You be the gate keeper. Be the steward. Be the trustees for the beneficiaries of this plan. Leave the politics aside. Do what you need to do to evaluate, as best you can, the City's proposals. We're going to be stuck with them Financially. You're going to be stuck administering them. The city won't. Thank you.

>> Matt Loesch: Anything further so we can deliberate. The question is what to do.

>> Harvey Leiderman: I can assure you, my view of paradise looks nothing like this ballot measure. If I may Mr. Chairman, and board, let me put some framework around this. Let's start with what is the roam of the board and what are we here to do about this? I was thinking about this coming in this morning. And Mr. Odell's comments earlier about our hedge fund program actually is a good thing to key this off on. I look at the ballot measure, and

I'd like you to look at it, as a fat-tail event. That may or may not happen. And part of our responsibility, both on the investment side and on the administration of the system side, is to anticipate fat-tail events, and stress-test for what might happen, under those circumstances. So if I may, with a little poetic license here, talk about this potential event and then what's the role of the board in anticipating things that may impact. And that's what Cheiron has helped us do. So just from a practical standpoint first, we have a ballot measure which is -- appears to have been surviving a number of challenges as to its text and the arguments and that sort of thing and will probably be on the June 5th ballot. The city has told us that, this from the city council, that if the ballot measure passes, nothing will happen until they put it through the legal test in court. They intend to file a declaratory relief, almost like a validation action you would have for a bond measure. But they intend to seek essentially validation of its terms in court. And to not promulgate ordinances to put it into effect until that happens. So that's a process that it's going to have to go through. There was an invitation I think I'll decline it if I may right now, to advise you in open session as to my views on the legal issues that are raised in terms of vested rights and other challenges that may be posed to this measure. But assuming it passes through that sieve of the judicial system, and something comes out through the screen that is part of the current ballot measure. The next thing that has to happen is that the city needs to pass ordinances that answer a lot of the questions that you've seen on the screen. Because right now, we have no idea away this is. And remember, this board's responsibility is to administer a plan document. And if you don't have a plan document that you can administer, you either can't do anything or you have to go to court like most trustees would in this situation and petition for instructions. What am I supposed to do as the trustee under this situation. Once those owners are promulgated there is another huge if on the horizon. Orange County, three and a half years ago, voted for the Board of Supervisors, a hybrid if you will plan that included an election for current active members, not just for future hires, but current active members to elect, out of their current DB plan into a tier 2 kind of VEP or whatever you want to call it hybrid. The IRS has not approved that. The IRS regulations say that you cannot give an election of that nature to current members, to have them opt in to some other plan. The IRS has said, over the last three years, that they have absolutely no intention of approving that kind of election plan, any such approval will have to come from Congress. Every Bay Area legislator from senator Feinstein to the representatives from this area, as well, have been pushing for the last two years, at least, to try to get some traction in Congress to get these kind of so-called pension reform measures permitted by the IRS. And it has gone nowhere. And it's not going anywhere before November. So I'll come back to my description of a fat-tail event. On a likelihood of probabilities of things happening, someone will have to make a judgment as to whether this is akin to a Greek default or a German default of the likelihood of it happening. So how much should this board tie itself up in knots shall we say trying to anticipate the impact on the system if some or any of this goes through? Because, you know, a real question you have to ask is, what's an appropriate expenditure of plan assets? Do we want to have Cheiron spend whatever it cost to go through all the what-if scenarios that may come down only to find out that six months from now or eight months from now we have a very different beast to look at. So if I may, I'll offer a few guidelines. As you'll see from an excellent staff presentation which is part of this agenda item, and it's a memo on the administrative impact for 4.5 (b). These are not the sort of plan changes that you can simply press a button on, the day after it passes and have this system administer it. We don't have the bandwidth to administer what you have on the screen now and likely until the next 18 months or so even if we had the overnight answers to some of these questions. So from some standpoint from just administration it makes sense to try to administrate some of the big picture items. Some of the -- if disability is going to be a whole new standard what is that going to mean to our members? If cola going to go away or be reduced to 1.5% what does that mean? Some of those things we need to anticipate to be able to advise members what the potential big picture consequences may be on them. Because they're going to be making retirement decisions based on that. But there is another, more pressing issue, it seems to me, for the board to contemplate here, and to do it now and start looking at it now. If this goes into law, in the way that it's presently configured, even before we get answers to all these questions, it will have a significant effect on the cash flow and therefore, on the investment portfolio than anything we are presently anticipating. We are off to embark under present anticipation, on a hedge fund program which is a long-term, a long view investment program which is not compatible with a cash flow need that a closed DB plan would impose on the system. A closed plan, based upon the selective choices of people in which primarily the older members, nearer to retirement than the younger members, whose contributions are going to, future contributions are not going to support the cost of the benefits going forward, creates a new cash flow profile for the system that is probably, I'll say probably because we don't -- we haven't looked at the numbers yet -- but probably going to be very incompatible with the board's asset allocation the way it's presently designed and anticipated. Before we or at the same time that we go forward with the implementation of the board's desired alternative investment program, we need to have a better idea of what may happen to the DB plan if, within six months to a year, that plan is going to be a closed plan, with an amortization schedule that is going to also change. And therefore, require a whole different flow of contributions into the system. I'm not sure for example, that the city has anticipated that part of the ballot measure that says that asks for intergenerational equity and that we won't kick the cab down the road and that amortization should be pegged to the working life of the people in the plan. Well, let's posit and I'll ask Bill and Ann to posit from the actuarial standpoint what happens with the now closed DB plan with its current level of benefits for the funding and the contribution rates, if the amortization schedule has to be brought down to ten years, 12 years? What is going to happen to that contribution rate? Now, that contribution rate is going to be apparently split 50-50 between the members. But you know, I'll give you, what do we call it in the business, a swag, a silly wild-ass guess. I'll give you a swag on it, which is the contribution rate is going to go to 60% and the members are going to pay 30 and the city's going to pay a 30% contribution rate. I don't know, that probably really is silly.

>> Bill Hallmark: Well the members are capped at 16 on the UAL. So they won't go quite that high.

>> Harvey Leiderman: All right, well, they'll do 16 and the city will do 44. In any event there are things that we in place right now that will be significantly impacted by this plan and I think it makes sense. I think it's prudent for the board to start questioning some of the aspects of this plan now. And how that's going to affect things such as cash flow and asset allocation and to get Meketa involved in that, get Cheiron involved in that, and try to get some projection. We may be told, don't worry about it, we can swallow this, and it won't have a significant impact, we can make mid-course changes, that's great. But it seems to me to make prudent sense to do some stress-testing on some scenarios right now, as how it's going to impact on the investment side and the asset side of the equation. We are going to get -- you're going to start getting probably has already happened, I haven't spoken to staff about this. You are going to get members coming in here on June 6th. Not here but at the offices. There's going to be a line out the door that's going to look like Apple issuing a new iPad of people who are going to say, I need to make a decision about my future. We're going to have very constant information to be able to pass on to our members about what the impact of this is. So it seems to me that although we are not involved in plan design, we have to administer something, and we do have an obligation, there is a fundamental obligation, not to try to project all the ifs about the future but to get some data, and be able to advise members as best we can with all the big caveats and asterisks that you talked about. But to say there's some big choices to be made, whether you opt

in or opt out. And here are some of the variables that we've been able to identify. We can't make predictions about the future. But it does seem that we have an obligation to our members to at least assist them in evaluating their choices. Just as we do now, for optional settlements. We do that now, if a member comes in and says I'm thinking about retiring. Do I want to take 100% to me and do I have a survivor? I'd rather flip it around, I'll take 60% and leave the survivor 100%. What's that going to cost me? Those are the kinds of things we're in business to do for the members. We need to have some tools to deal with to help them out in the situation if the ballot measure passes.

>> Stuart Odell: But what you're saying is to assist the measures this is after the ballot measure passes.

>> Harvey Leiderman: Right.

>> Stuart Odell: You're not expecting this group to go out and proactively sort of educate the members about what the ballot measure says. Or what people are doing, but after something's been passed, that's the only time that we should be communicating and educating to the participants?

>> Harvey Leiderman: Right now I think that the education that we can do is to ask a series of questions. We talked two weeks ago at the Police and Fire board about between legal an actuarial and the investment consult coming up with a series, putting these into a series of 20 questions, is probably a little more than 20, to be able to put them out and say these are the things that we need to know to be able to administer the system before we can do that. So that we can do before the ballot measure. But you know at this point it's so speculative, that we really don't have any answers. And you know, it's -- you don't want to put out misinformation any more than you want to put out, you know, no information. So I agree with you. I think in terms of advising the membership, the trigger date on that is going to be if the ballot measure passes. But meanwhile if we can get some answers to some of these administrative questions or impact questions, put that it way, then maybe at the same time we'll have a little bit better idea of where this is going.

>> Matt Loesch: Who to put the questions to.

>> Stuart Odell: Could it be clearly Cheiron has identified that there's so much variability here, I don't even know how we could ask the right administrative questions to do that. You know, I just -- I think there's -- it's too wide a range. We don't know what the colas are, we don't know what these outcomes are so until we have that clarity, how can we really do much of anything at this point?

>> Harvey Leiderman: Well, there may be. I think I heard for the first time this morning from Mr. Doyle, I guess, that the city has now published something new about that will maybe flesh out some of these things and we can get our hands on that and maybe we can start answering this questions.

>> Stuart Odell: That was a tier 2.

>> Matt Loesch: Essentially that's closing the exist plan. Even the VEP, there are no new folks who are going to be added as of that certain date. What are the effects of that closure in and of itself.

>> Arn Andrews: And just watching the presentation and seeing all the different types of questions, Cheiron wanted to ask, I think there are answers for a couple of these, not a lot of them and so if I'm hearing counsel correctly if the concept is between now and the ballot measure to just compile did questions at least we've got it already documented what our consultants are telling us they're going to need for them to provide their services to us, even if they don't get checked off until June at least we know what the questions are, and if any of them can get checked off between June then we're in a better position. And I do think that like for instance, I mean personally, part of my -- part of my direction out of this would be, to make sure that staff works with Cheiron to schedule time with the administration to even present this to them directly. And see the types of issues that you're going to need to provide the services you're going to need to provide so that we can contemplate what a legacy plan looks like, we can you know start to contemplate the questions that counsel is bringing up. And for myself personally that can happen between now and June. I think modeling you're absolutely right and I think counsel has said that from a modeling standpoint that probably can't happen until we see words on paper in terms of ordinances but I think we can start to narrow conceptually what we are going to be faced with by doing exactly

what Cheiron did and I think it's advisable too I think your words are very salient on the fact that we are about to embark on a very different asset allocation plan based on the fact we have the plan based on how we understand it today. So I think we need our investment advisors to way in the cash flows you're absolutely right are going to be very different and locking up money in hedge funds are not necessarily a liquid asset if the legacy plan is going to need more liquidity we need to conceptualize all of these things. So for myself personally I think we should direct our consultants to do exactly what Cheiron did, come up with the type of questions and inflection points they need to understand and have that provided to the administration in the event they think they can answer any of them. To the extent they can't, we know what's going to proceed after June from an operational standpoint and an administrative standpoint.

>> Martin Dirks: And it seems like we may want to start preparing in advance the educational materials if it passes, because people need to make very complex decisions and need guidance on that. Would we want to prepare before the ballot measure actually is decided? Because immediately afterwards people may want to make decisions.

>> Arn Andrews: We do have a year. With the new ballot language employees don't have to make a decision until 2013. I will say the decision they have to make is a very important one because it is an irrevocable decision. If you voluntarily go into the new plan that is a one time decision that is irrevocable. So I do think we are going to have to have educational materials and probably be part of that process because of the nature of the types of decisions that are going to be needing to make before 2013.

>> Like I don't know if this came out of the question but in tier 2 is there going to be a series of investment selections for people to make? What sort of administration -- are we going to be administrator for 401(k) plan, what does that mean for us? And then for new employees when does it become effective? If I become an employee of the city you know, June 30th --

>> Arn Andrews: The comments that were made earlier my understanding are true, I haven't read it yet but on Tuesday there was new documentation came out for what they referred to as unit 99 employees, were the at will

employees, in there they start to frame out what a tier 2 looks like. And I do believe that at least the wording in that document visualizes something happening by July 1st.

>> That has not been adopted by the council.

>> Arn Andrews: No, it has not been adopted but I believe it is agendized for --

>> Matt Loesch: May.

>> Arn Andrews: -- May.

>> That's quick.

>> Matt Loesch: One thing I'll ask, staff gets that document out and if we could document and schedule for whatever that thing would happen, that that should be one thing I think the staff should certainly get out to the board members via e-mail. I think we'd have to ask from the administration if the same document was provided to everybody, or if it was -- because we have 11 bargaining units, that could be getting something different. I mean I don't know. I had heard something that my bargaining unit had gotten something.

>> It's all on the city council agenda. The city council has scheduled for May 1st imposition of last, best and finals for all of the bargaining units that are in the Federated system of the tier 2 plan which I gave you a copy of the one that our unit received. So very clearly, their proposal to the council is that this be implemented by July 1st. It's certainly sounding like from the board, it looked to me like it violated the ballot measure because the City's contribution rate looks like it exceeds over 9% under Mr. Bartel's calculations. I don't know what that means but it would certainly be informative -- I realize it's not on your agenda so I don't know away you would really do. But it would be informative to the council as to whether that would be realistically possible to implement a tier 2 by July 1st.

>> Matt Loesch: Well, we need to get hold of it. If we get hold of it first, we can give it to the folks with the consultants and have them give us direction as to what we need to be doing.

>> It certainly affects us, as a bargaining unit, being able to accept that offer to know the answer to that question.

>> (inaudible).

>> Matt Loesch: Here is the one point any new hires as of what date? That's going to be our issue for operational administratively, operation cash flow wise all that stuff as it is being reported here. We need to get the document and get it to the advisors, look at what it means, what the implications are, so we can report back, if we need to do anything. Obviously we can't do anything now, because the document hasn't been presented to us.

>> Arn Andrews: We can't do anything about it now, but to the extent the staff's reading of the document or the board's reading of the document I would suggest staff should be in attendance of the meeting on May 1st based on their reading of the document to mention some of the administrative aspects that might be related to it.

>> You mean the council meeting?

>> Arn Andrews: I mean the council meeting, I'm sorry.

>> Just for clarification Mr. Chairman, we want to make sure we're making a distinction between the consequences of this future ballot measure and what I'm hearing is that at least for some new employees, the city intends to go separate and apart from the ballot measure to a tier 2 effective July 1, 2012. In other words, two and a half months from now.

>> Arn Andrews: I believe in 2010 the city passed what's reared to as measure W and measure W created the groundwork to establish a tier 2. What I'm hearing is more a separate conversation from the one we just had, administratively it appears as if the administration conceptualizes a tier 2 going into effect on July 1. I think there

are two conversations going on, the ballot measure conversation but then there's also this new expectation that a tier 2 based on the measure W ballot in 2010 can proceed on July 1.

>> Harvey Leiderman: So as part of the agenda item that staff was going to present it would be useful to have some discussion with staff as to what they anticipate separate and apart from the ballot measure what an implementation for new hires would be, presuming that it is a different contribution flow or different source of contributions and may be no other impacts. I don't know what this new tier 2 is but maybe that's the time to discuss that and let staff weigh in on what they would need to do, to tool up for implementing that for new hires.

>> Matt Loesch: Why don't you go ahead.

>> Donna Busse: Just in general for a new tier you have not even had evaluation done on that. So we wouldn't have a contribution rate to charge a new employee hired on July 1st. That's the first comment I would get to the council. Is they haven't even asked you to provide an actuarial report for a new hire to set a contribution rate to set an estimate from their actuary. So just given their factor there's no way they're going to be able to implement on July 1st.

>> Harvey Leiderman: So in other words without experiencing away the potential retirements would be for a new tier they would just -- you would adopt or Cheiron would recommend that you just adopt a current contribution rate that the old tier has, right? I don't know, what would --

>> Donna Busse: That's a question for Cheiron and I would ask Cheiron that.

>> Bill Hallmark: I don't know. We would need to look at the terms of it.

>> He's an actuary. That doesn't come naturally.

>> Matt Loesch: What would reduce the number of swags?

>> He doesn't swag.

>> Donna Busse: The board sets the contribution rates for all the plans.

>> Harvey Leiderman: That's the point, we wouldn't know what contribution rate to apply to the new people for the first payroll period in July.

>> Arn Andrews: I think counsel is correct, the fact that 4.5B is agendized today, and in there it does say administrative impact, and they have a whole section on the new tier. I think we can provide guidance to --

>> Matt Loesch: That's fine. I'm talking about having them present a number here.

>> Arn Andrews: But I think we do have an item that we can utilize to provide guidance to meet with the administration do start to walk through, the new tier is actually part of the first page of the document, so clearly there is administrative issues with doing something, and we need to apprize the city administration of what these elements are.

>> Lara Druyan: And quickly, since we're talking about a couple of months.

>> Matt Loesch: To the extent I mean since this is a nice outline in terms of the potential impacts, are these things would you want to highlight to us, especially in light of the urgency?

>> Donna Busse: Yes in light of the urgency, I probably would want to add the assumption that these bargaining groups are going in at the same time. So that adds another wrinkle. You know I really would have to defer to Bill on if you're -- when you're developing a new tier the board would you have to make a recommendation to a contribution rate that the board is going to have to approve and forward to the city and payroll and I don't know how long that would normally take. We operated under the assumption that this was all going to be vetted out and

we would have an evaluation done, we would have the ordinance written. We don't even have the ordinances yet.

>> Bill Hallmark: Right. I think our normal practice would be to do evaluation based on the new provisions. And develop a contribution rate based on that. Now, obviously we don't have experience from the new employees and stuff so it's very much an estimate initially when you start with the new tier anyway. The -- so that would be kind of the ideal, and probably the normal, is you have enough lead time that you can do that, and vet that, and come up with an appropriate contribution rate. I guess the question I was hearing here was, could we put in a temporary contribution rate until something like that was done, or maybe even for a first year. And you know, I don't know what the restrictions on that would be. But you'd have to recognize that would just be a temporary estimate of what the contribution rate should be.

>> Matt Loesch: So we'd have to have a discussion of what the assumptions that would go into this valuation based on whatever document is defining that tier, set those assumptions, do your math and come back to what are the contribution rates would be, based on those assumption and then come back.

>> Bill Hallmark: And what data are we going to use to set it. You can use the date of the whole plan as actives and just presume that the new employees will reflect the characteristics of the current actives or you could look at just the people hired within the last X number of years. There are some decisions like that, that could affect what cost you come up with.

>> Arn Andrews: I was going to say based on what I'm hearing I would take a stab on making a motion for item 4.5 A and B. And I think we do have two conversations going on now, one with a much more time-critical element than the other, and yet I'm also heeding the advice that I heard from counsel. So I think what I would say is I would make a motion asking Cheiron to review the new language that's in the MOUs, I mean the best and final offers on the tier 2, come up with a list of questions, similar to what they have now, provide those questions in tandem, with what has been presented in item 4.5 B administrative issues related to a tier 2 and direct staff to provide both of those to the administration, and meet with them and discuss those. And then, I would also say, as

the second part of the motion, that based on direction from counsel, we start to proceed initially with Cheiron, determining the questions that need to be answered in order to administer the system based on what we currently know, the types of questions you would need answers, and bring at a list back to counsel at our next meeting, I mean to the board at our next meeting and then as we engage other of our consultants, including the investment consultant, we ask the same of them. That's a fairly long --

>> Matt Loesch: Yes.

>> Arn Andrews: -- motion but that --

>> Matt Loesch: Will someone second that?

>> Lara Druyan: Second.

>> Matt Loesch: We can discuss more certainly. One moment I'll address that in just a moment.

>> Edward Overton: Is it appropriate to expend plan assets in a manner that Arn suggests for something that's out there in the wind the city is proposing with its bargaining groups and has not yet presented to the board as a plan?

>> Matt Loesch: Well, good question. Mr. Leiderman.

>> Harvey Leiderman: Excellent question. In this instance, a couple of comments. In this instance, it seems to me appropriate. Because -- and I want to split, if I may, addressing the motion, in two halves, one dealing with the current anticipation of the chain in plan or change in tier as of July 1, 2012. Separating that from the ballot. On the 2012 potential change it seems to me very prudent for us to provide some education to the parties, and I say parties. This is a matter at the bargaining table. So I think any information we provide to the administration should also be provided to the other parties at the bargaining table as well. In terms of maintaining so that we're not

seeing as tilting one way or the other or weighing in on the current negotiations that are going on. I think in fairness to all sides, that if information comes out of this system in terms of questions or how it will impact and that sort of thing that everybody's entitled to it as a matter of just public policy and open discourse. So I would make it -- I would ask if the maker of the motion would consider changing the motion to include disseminating whatever information we generate to both sides at the bargaining table as opposed to just advising the administration on the matter. The second point is, yes, I think to answer Mr. Overton's question, I think at this stage because it is so imminent, and the expectation is that this board, as of July 1, and the system is somehow going to be able to implement a new tier 2 with new contribution rates or something like that, that it is a prudent expenditure of plan assets, to identify the issues that -- of administration that that's going to raise and bring it up with the parties to avoid any unintended consequences that they may have and so that we can actually manage the system for the people starting with the first payroll period in the new fiscal year. On the ballot measure, I think there's some steps that we need to take in anticipating the fat-tail event if you will, that are a prudent expenditure but I think we need to cabin that somewhat until we see whether or not the ballot measure passes and what we're really dealing with and the tile line on that. If in fact the impact on that is not going to be any earlier than July of 2013 then I wouldn't recommend to the board that we go full-in, all-in with all of our chips on everything before that ballot measure passes. I think we have time to get deeper in, as it looks more imminent. I do think that if it does pass, that if we look at this in terms of triage if you will, that one of the first things that the board needs to look at, if it does pass, is how the change will impact the asset allocation, and the cash flows of the system. To me, that is going to be the largest single impact. Put aside the impact on members. But the job of this board to prudently invest the assets of the system and make that bogey that has been set for the assumed rate of return, there needs to be some immediate attention paid to those issues.

>> Matt Loesch: Does that answer your question, Mr. Overton?

>> Edward Overton: Yeah, it does. There is a further comment on your statement earlier that the IRS is not likely to approve this shift in benefits. A member from one plan to the other. How does that impact the answer you just gave?

>> Harvey Leiderman: Well, if we start with -- it depends on how this is constructed. There are many plans that have many tiers and they're all start of the same DB plan. Contribution rates may be different, but it doesn't impact the investments, just because you go into a new tier. It doesn't so impact the cash flows. If the intention, and we don't know this, if the intention of this ballot measure is for new hires, they're going to essentially ask us to start a new plan, which has no unfunded liability in it. And all the unfunded liability resides with the current members. And let's assume the IRS doesn't approve current members. This is where the IRS weighs in on -- not for a new tier but whether current members can make an election to go into a new tier. So if the IRS doesn't approve that do we tell ill have something akin to a closed plan? That the blood measure has also if you look at the last couple of pages of the ballot measure, it imposes a concept of intergenerational equity on the amortization rate. So if we have a closed plan, and I don't remember what the current amortization rate is for the unfunded liability. Bill?

>> Bill Hallmark: We have the 2009 UAL at 30 years from 2009, and then new at 20 years.

>> Harvey Leiderman: All right so let's just take the 30 years. If this ballot measure is now telling us we can no longer use a 30 year amortization because the life span of the current members who are current members, the expected work span of the current members is 15 years, that's going to change things dramatically. Whether or not the IRS says anybody can make a choice in the future. So that, I think, is some imminent impact on the system that will read out into our investment policies almost immediately. That it is proper, and is appropriate for us to expend system assets and staff time trying to get our arms around what that means. Because we have decisions already about where we want to go with this portfolio that are going to be seriously impacted.

>> Arn Andrews: And so I'm hearing you correctly the IRS determination is more an issue between the blending of the election plan and the VEP as opposed to a tier 2?

>> Harvey Leiderman: It's the VEP, it is the VEP plan that the IRS has heartburn with.

>> Matt Loesch: Before we talk about your motion and since we have someone waiting so patiently.

>> I want to suggest that maybe one of these things that goes into the mix of questions that gets asked is that come July 1 or whenever that first pay period starts and the contributions come over, are those contributions allowed to be commingled with the assets of the current plan for investment purposes? I haven't seen an ordinance that describes where those contributions are supposed to go. And it would seem to me that that would make a really complicated issue for staff if they have to be -- I mean they're going to have to be accounted for separately I'm sure but can they be commingled for investment purposes?

>> Matt Loesch: Okay, thank you. Further comment on just on the motion because we have the possibility of amending or having a substitute motion even from the original motion.

>> Yes, Charles Solomon on behalf of the AFSCME, MEF and CEO membership here at the city. Just had a couple of concerns, really, that I wanted to raise on behalf of our members. The tier 2 plan that's been talked about that basically will close the current plan it's my understanding which is problematic. The -- also the admin outline as far as I understand it indicates a third party is going to administer that plan, I'm not sure who that third party is or what that would mean. And then lastly we keep talking about delays. But it's my understanding that the VEP people have to get into pretty quickly. So by 2013. And again I think one of the people raised the comments earlier. That's going to mean a huge queue of people lining up asking what do I do next. And as noted that becomes something you can't go back on. So some of those concerns I think need to be addressed.

>> Matt Loesch: Being all right, okay.

>> Bill Hallmark: Again I'd reiterate the tier 2 plan which is for future employees, not for (inaudible) and it would be inaccurate to say that it would close the plan.

>> Matt Loesch: Okay. Do you want to try another stab or do you want to have someone else amend the motion or are you happy with the motion? We could take a vote. You've made a recommendation.

>> Arn Andrews: I was fine with the motion it encompasses the comments. The motion is for the administration to look at the type of questions that need to be asked in order to operationalize a tier 2 plan. Sow I think the comment would fold into my concept of the motion. And I would also name the motion per direction from counsel to include that whatever information is gathered, when it is disseminated it is disseminated to all parties, however that is done, disseminated uniformly to all the parties.

>> Matt Loesch: Amendment to the motion and the second was Druyan.

>> Lara Druyan: Yes.

>> Matt Loesch: Further discussion by the board or comments?

>> I only have one question, I haven't seen or read anything that says that the tier 2 would not close tier 1, and I'd like to know where that information comes from. That was a statement that you just made. Where did it come from, what's the basis of it.

>> I said to assume that it would close the plan was an inaccurate sums. That it's inaccurate. I don't need to debate anyway.

>> Matt Loesch: I'm sorry?

>> So that should be another question that we ask. Because we vice president seen -- nobody has seen anything about whether there's an internet to close. We assume that there might be, we don't know. That's a huge question but I find it disturbing that the city doesn't appear to have thought of that yet.

>> Matt Loesch: Let's do this so I mean we don't get into debate between --

>> Arn Andrews: I think the second part of my motion which asks that Cheiron since they're currently agendized find the types of questions they need answered so that they know what they are going to need to operationalize something I think they can determine what the appropriate questions are.

>> Matt Loesch: Well in line with that just so folks know because we got handed documents and the document is a memo from the City Manager to the mayor and council. Dated April 17th. I believe it's to go to the May 1st council agenda, no item number listed here and I'll just read the subject line so folks know what the document is so they can look for it themselves. Approval and implementation of the terms contained in the city's last best and final offer to the association of legal professionals of San Jose, ALP. My guess is, because it's just the organization, it's probably a similar document as the city put here, so I'm not going to state that as fact, but I'm just going to -- that there is probably similar documents and memos to the remaining bargaining units of the Federated system. And so this could be a document that might guide some of the questions that are generated. But I think your motion, though it's very all-encompassing, to be clear what the intent is, and it's not to reshape your motion, it's more just for clarity, for my own sake, to reiterate what I'm understanding so folks in the audience and watching kind of get where we're going, is generate a list of questions from our advisors and from our staff, to produce that list of questions both on the imminent stuff that might be on the tier 2 that's proposed here, what questions need to be answered, at which to administer that plan to produce and maybe order and group the questions from both our investment advisors, our legal counsel and our actuaries on staff about what this means and present it to all parties. That's the nature of what you addressed in the motion, correct?

>> Arn Andrews: Right and would I just prioritize it with the tier 2 list being assembled and are addressed first.

>> Matt Loesch: First and so maybe to give clear direction that that -- and so I'll make a friendly amendment to the motion, that that -- those list of questions, we need to funnel them through someone so we be clear who they're going to. Would it be appropriate that they go through staff or through Mr. Leiderman, what would be the most appropriate to do that? That's part of a question to my motion so I'll clarify my motion in a moment. Is it more appropriate to go through Mr. Leiderman you think or go through staff? Because that way my recommendation

would be that that list whoever generates, who are is the container of it, recommending it gets disseminated either normal communication methods to all parties.

>> Donna Busse: It would probably be logical to come to us and then we would get it to all parties.

>> Harvey Leiderman: That's fine.

>> Matt Loesch: The dissemination to and through is through staff. Can I get a second to the amendment?

>> Second.

>> Matt Loesch: Everybody clear on that mostly for the second-tier stuff. All in favor, opposed? Anything else on this item? Kicked around quite a bit. Okay. If nothing, I'll call a ten-minute recess, thank you. [Recess]

>> Matt Loesch: I'm going to reconvene here folks. Call back to order the April meeting of the Federated 70 employees retirement system. Since we've blown past one of our time-certains. I'd like to beg the forgiveness of the board to see if we can move around and deal with the Cortex stuff because Mr. Ianucci is not at his location, Hess he's at a conference. We're checking to see if he's open the line. Tom, are you there?

>> Donna Busse: Are we called in?

>> Matt Loesch: Have we called in to the number? He might have called in but we might not have called in. Momentarily we'll have Ianucci on the line.

>> Edward Overton: What items?

>> Matt Loesch: Item 5.3, the ad hoc governance committee. Letter A discussion and action on the, role of the board of administration role of the CEO and communications policy. I did take some liberties and I hope that's

okay, in setting the agenda that instead of having the entire chunk of the policies to go through, in talking to Mr. Leiderman, he thought maybe the most prudent one was to do these in little piles, as opposed to one big fell swoop, so we can swallow them. And that these first three would be a good three, the Police and Fire board dealt with them last -- a couple of months -- a couple of weeks ago. You will see notes in there that they have talked about them as well. So on 5.3 A -- about as much filler music as I can provide. Maybe to continue the conversation Mr. Leiderman, you did -- before our last meeting there really wasn't a chance for Reed Smith to look through these Doc that the we had put through with previous counsel so you'll see some -- and there will be specific recommendations in Mr. Leiderman on documents that weren't present before or even contemplated by the committee. That wouldn't necessarily true but since all of us are here, are yours denoted differently than the blue ones from Cortex?

>> Harvey Leiderman: No I think the joint, our comments and Cortex's are all in blue or red. But they'll be fairly clear. Most of them are non-substantive.

>> Arn Andrews: I only have one comment on the communication policy. I mean note that we're going to create the position of a spokesperson and it just denotes that Police and Fire chose --

>> Matt Loesch: There's typos.

>> Arn Andrews: It notes that Police and Fire chose counsel be the spokesperson. Do we need to take action on that or --

>> Matt Loesch: Move the microphone away. Well on all these things, to take action to approves this things, policies to make them --

>> Arn Andrews: I couldn't tell from the wording if it's implicit that we're going to ask that counsel be the --

>> Matt Loesch: We'll have that in our discussion, so it will be a change from our existing policy as is most of the stuff. This will be interesting, I wonder if we could pull him up on a regular phone.

>> Can you hear me?

>> Matt Loesch: I don't know if anybody else can.

>> Can you hear me now?

>> Matt Loesch: Yes.

>> Good enough to proceed?

>> Matt Loesch: We'll give it a shot. Go forward Tom.

>> I'll try, I can't hear you very well at all. But I'll run through the presentation.

>> Matt Loesch: Maybe because you're on my cell phone. I'll kneel next to it and we'll get going.

>> Should I begin?

>> Matt Loesch: Sure.

>> Okay. Good morning everybody. I understand the board wanted to review the governance policies in smaller subsets. And that we're going to begin with the board charter, the director's charter, and the communications policy. We've revised the three policies to reflect the input that's been received recently from a number of sources. First of all, the board, this board provided a number of comments at the last meeting. City attorney's office had some comments which we've addressed, your legal counsel, Harvey Leiderman, provided comments,

and I also noted changes or some comments that were discussed at the Police and Fire meeting. So what I thought I would do is walk you through the changes and try to give you an understanding of where these changes came from. And then we can answer any questions that you may have. And if Harvey is present he could, of course, elaborate on any of the edits that he suggested.

>> Matt Loesch: He is present. Yes.

>> Okay, great. So I'll begin with the administration of the charter page 1. And that's one change you'll see throughout the documents. We've changed at Harvey's suggestion and we're comfortable with that changing the name of these documents, role-related documents to charters, rather than simply calling it the role of the board of administration. The only major change on page 1 of the board charter is, paragraph 5, which describes the board's operations or summarizes the board's operational rules. And this was at the suggestion I believe of Pete Constant at a recent meeting, he suggested that because we have something similar, in the different committee charters, that the board charters should be consistent. So we've done that by adding paragraph 5. Turning to page 3 of the board charter, few more changes here. Under the heading of vendors, paragraph 11, this board paid it clear at the last meeting that at East for the time being, the board needs to appoint the investment managers. Can you hear me okay?

>> Matt Loesch: Yes, we can layer you.

>> Okay, so we've added item E investment managers again this was discussed by this board at the last meeting. Harvey suggested adding G counsel. And at the last Police and Fire meeting it was suggested that we should add the medical director, so that's why you see that in paragraph H, and something that this board should probably consider adding to its documents. Paragraph 12 deals with the financial auditor and at the last Police and Fire meeting, the retirement staff clarified this point. So we've added the point that in fact, the board may appoint the financial auditor for the system. And if so, it would pay for the financial auditor fees. Or it may use the services of a financial auditor appointed by the City Auditor so we thought that was an important clarification by staff and we've added it in paragraph 12. So you do have the authority to appoint the financial auditor provided

you pay for the fees and I suspect you don't have a concern there. Harvey made a suggestion, an important one. Paragraph 13, a reference to the city charter, which specified that the director of retirement services is responsible for carrying out the direction of the board. And that's an important point which we've added and Harvey can elaborate if you would like. Turning to page, paragraph -- page 4, paragraph 15, sub B as in bob, again the retirement staff clarified this point at the last Police and Fire meeting. When it comes to the budget this board does have the authority to approve the operating and capital budget. The issue is, and we made a point in the footnote, that while the board may approve the budgets, including compensation, you do not have the authority to approve the creation of new personnel positions. So that's the wrinkle, with respect to the approval of the operating budgets. We tried to capture that here on page 4. And I believe there are no other significant edits to the board's charter. And maybe we can take the questions to the end or I can continue to the end of the director of retirement services chart.

>> Matt Loesch: Maybe I'll have to respeak the questions, but if there are comments to the board or counsel on any issues on the board or administration committee. I had one this is on page 5, item 23. That one refers to the Police and Fire -- that's just a typo, that should be Federated.

>> Oh, I apologize.

>> Matt Loesch: And the one that I had was on item 22, in that similar grouping, that the board may notify city council of board concerns with respect to state and federal legislation relating to the system. I thought it would be appropriate to have even city legislation that's going forward. If we wanted to provide comments. Or not, one of the things we've talked about in the past is declaration of the lowest cost plan. It's gone back and forth for the last several years, we've recommended they clean up the language and there wouldn't be much of a debate. Just an example. Things that came up in the past, just with respect to state and federal legislation but maybe city state and federal legislation, San José city not whatever other city.

>> I think that makes sense to mow. Unless Harvey has any concerns.

>> Harvey Leiderman: No, that's fine.

>> Matt Loesch: Harvey said no, that's fine.

>> Okay, great.

>> Matt Loesch: Other than that, I had no other comments myself. Seeing no others from the board, let's move on to the director of retirement services.

>> Okay, great. Once again with this document we've changed the name of it, we're calling it a charter and Harvey also suggested that we use the current name of the position director of retirement services and perhaps in the future consider changing that title, Police and Fire board agreed with that, this board may want to consider that. Other than that, there are no changes on page -- no significant changes on page 8. Turning to page 9. Harvey made a -- I think an important clarification to paragraph 10, which he may want to elaborate on the -- at the end of this -- when I'm finished. Then turning to page 10, paragraph 18. The city attorney's office had some concerns with the prior language, because it indicated that the director could hire certain positions. And city attorney's office felt that wasn't accurate, suggested we modify this paragraph. We did so. Not making any references to hiring. We reviewed it with the city attorney's office and they were comfortable with the language we proposed here in paragraph 18. Turning to page 11, this was something that the Police and Fire board discussed. They agreed to strike paragraph 26, I think the thinking was that the retirement boards can determine their own spokesperson, but it's really up to the City Manager to decide whether or not -- who the spokesperson of the Department of Retirement services would be, so they suggested striking these points. Want to share that on with you, you might consider doing the same thing. No significant changes on page 12. And on page 13, Harvey had suggested a very useful point, on point 33, which states that the director shall timely report to the board when engaging in any activities requested by any party other than the board itself and it would affect the board's administration of the system. Police and Fire was comfortable with this. They discussed the language. Made a few changes to ensure that it wasn't too onerous a burden for Russell, in that he might have to report every single activity that he undertook. But we think with current wording we've limited it only to those activities that might

affect the board's administration of the system. So the Police and Fire was comfortable with this language. Just wanted to bring it to your attention, as well. And that covers all the significant changes for the director's charter.

>> Matt Loesch: Okay let me see if there's comments or questions from the board.

>> Arn Andrews: Hi so is the intent on 33, the way we have it phrased, that would affect the board's administration of the system, are we talking about anything that would deviate actual like personnel capacity from board-specific purposes and their being utilized from say a more city centric effort, is that the nature of this?

>> Harvey Leiderman: If I may, yes expect this is in recognition that the board has the sole duty to administer the system and to invest the assets of the system and the assets should be used solely for the purposes of the members and beneficiaries of the system. To the extent the director of retirement services or staff is requested by the city or anyone else to expend staff time, energy or resources or assets of the system for purposes other than board directed purposes, that might have an impact on the administration of the system. It's appropriate for the director to disclose that. To the board, so the board has a complete ability to monitor the use of system resources.

>> Arn Andrews: Great, as worded and as described, I'd like to (inaudible).

>> Matt Loesch: Mr. Overton.

>> Edward Overton: Yes, would it be better to say that the director should report to the board before engaging or prior to engaging in any activities? So if the director is directed to do something that someone else directed him to, we don't want to wait till he's in the middle of it and then come to the board and oh, by the way I hired an outside lawyer.

>> Matt Loesch: There's going to be the times where most of the time, sure. And an instant like that came up in the last couple weeks, correct? Where Mr. Crosby was requested per the City Manager to attend a city council

study session. Things like that. So he was requested and he notified the chairs of both boards and Mr. Leiderman that he was requested and that he was you know told that he didn't prepare the docs or anything like that, he was just requested to attend, the City Manager requested it so he did attend and he notified the two chairs of the board and Mr. Leiderman. So something like that, that's going to be fairly easy to do, you know, it's being notified. But then you're going to have the incidences where I'd like to have you come talk to us about what's going on, we called up the City Manager's office or something like that, does that not happen unless the board's already notified and do they notify the board chair, is that good enough? You know, I understand your point. There's going to be some instances where like the study session that's easy to do. Might be other instances where notifying beforehand might not be easy to do.

>> Edward Overton: Well, if it's a simple phone call to you, to Mr. Leiderman and to the chair of the Police and Fire board why couldn't they do that?

>> Matt Loesch: I don't know. I don't say it's pertinent, that could be an issue there. Just what do you guys think?

>> Carmen Racy-Choy: May I just interject a small comment? I think with respect to city council requests we typically 7 the requests at best a week in advantages and a simple phone call to the chair, Mr. Leiberman is very possible. But to have to seek approval, having to report every single meeting with the administration, we meet a lot with the administration. That -- you will be receiving every month a lengthy list from the senior staff.

>> Matt Loesch: Well, receiving a list isn't necessarily that burdensome but when requesting and I don't see necessarily, I don't think a phone call is necessarily warranted for three people. But maybe e-mail off, I was requested to do this preferably ahead of time so that we could say --

>> Edward Overton: I don't want to make this too onerous but my thoughts are if the activity is material. You know, to the board's business. For example doing an actuarial report that the plan pays for that costs thousands of dollars, and the board didn't know bit, didn't authorize it didn't approve it, et cetera.

>> Carmen Racy-Choy: The practice currently is, if the city wants to do actuarial services, they have to get board approval, meaning they do not come to staff and request that Cheiron does costings unless the board has approved the use of Cheiron. They have their own actuary. What we're kind of discussing is, though, at many times they might come and say we require some component of staff to come in and discuss this specific topic. That kind of a discussion. That tends to happen usually with very little advance notice. So it would be a bit difficult, I mean Donna I don't know, you can probably relay the experience over longer periods of time. But typically we're given at best a week's notice which doesn't give us enough time to come to the board and get approval. We definitely could make phone calls to the two chairs and legal counsel. But then you might be receiving a phone call on that topic fairly often.

>> Edward Overton: Okay, are we okay on the way this is written Harvey or --

>> Harvey Leiderman: This is a charter, not a code of federal regulations. I kind of like to leave it at a charter level, which is why we chose the word timely. We need to have some flexibility in there and I think if the board, in experience, considers things that you know it doesn't get information until long after the fact and a material cost has been incurred or something like that, then we're going to go to the wood shed on what the definition of timely is. But you know for right now, I think the -- it's pretty clear what the intent is here. We want to avoid situations that have now got us involved in a lawsuit for unauthorized expenditure of system assets. And we would like to know, the board would like to know if we're going to incur an expense or there's going to be you know precious staff time consumed by doing work for somebody other than this board. Board wants to know and they want to know that before it's too late to do anything about it. So if you're comfortable with leaving it at timely and let's see how this works out we can always revisit this and tighten it up and come up with a few more dependent clauses later. But for now I think it's pretty clear what the board's intent would be if it wants to go with this language.

>> Stuart Odell: So I'm okay with the language. But what I did hear gave me a little bit of pause for concern, which is that staff who's being paid out of the plan assets is engaging with city council on matters, or other people on matters, that are not plan matters. Or not direct matters of the plan. And if that's the case, and that's material,

don't we have an obligation to track that and be aware of that? So I don't know what percentage of Russell's time is being spent outside of kind of dealing with non-plan matters. I have no idea.

>> Carmen Racy-Choy: They typically are plan matters. But they are questions that the administration is raising about plan matters. So it is definitely plan matters. But then, it is more that the city is trying to understand the specific topic. And so they come to retirement services and say, basically, how does this work?

>> Matt Loesch: Why don't we do this, to kind of address this. You say you're uncomfortable with the policy. Maybe we can work with Russell here today, that next month he -- what's the mechanism of reporting on standard things? You know maybe the things he doesn't necessarily have to report to the chairs, or whatever. If we can work on that mechanism when he's here, what's reasonable to do as well as sufficient.

>> Stuart Odell: That's fine, again I'm okay with the language.

>> Arn Andrews: Or somewhere point out mechanism, right?

>> Matt Loesch: So we will just be clear that we get that agendized for next time so that Russell can have the time to help us.

>> Harvey Leiderman: If I may, Mr. Chair, that conversation could also touch on the budgetary issues that Mr. Odell raises, which I think is extremely important, as to just what the system assets are being used to pay for and on his behalf, especially since we have a bogey that we're supposed to be meeting every year.

>> Matt Loesch: Right, okay. Any other comments on the role of the director? Okay.

>> Harvey Leiderman: If I may, I'm sorry. If I may make a couple explanations. Just so you know, we've talked about before, and we'll talk more obviously, the role of the Department of Retirement services and the director of retirement services in this particular plan, and Police and Fire are unique to the state of California. And so when I

first looked at this charter and it was addressed as a CEO charter it seemed to me that using the phrase CEO was inappropriate because that comes out of a corporate structure, where the CEO reports to and is answerable only to the board. That's not the situation here. And unless and until that changes, seemed to me that it was more appropriate to retain the current charter name for the position of the person who leads the city's Department of Retirement services, which is the director of retirement services. So that's why I made that change, just to -- it was no slight to anyone intended whatsoever, just a more accurate representation of the position as it presently exists. The -- on paragraph 10 again this was another theme, I wanted to make it clear since it was this board who was adopting this charter, that the director's authority is to make expenditures on behalf of the sustain for the sole benefit of the members and beneficiaries, which is your constitutional fiduciary responsibility. And to the extent you are directing and delegating responsibility to the director of retirement services that person should reflect your responsibilities in that regard, the exclusive benefit test. Otherwise, Tom has accurately described some of the changes and I recommend this to the board's consideration.

>> Matt Loesch: Okay, so anything further from the board? Okay, Tom, should we go through the communications policy?

>> Okay, first point I wanted to bring to your attention is page 14, first page of the board's communication policy. Paragraph 3. I believe this board was initially comfortable with the original language. I just want to draw to your attention that at the last Police and Fire meeting they adopted a slightly different approach, very different approach and they adopted the language to read the board's general counsel will certain as spokesperson for the system. I'm not sure to what extent this board contemplated that approach. But I wanted to let you know that the Police and Fire took that route. They felt it would be easier more effective and with a need to put a board member in the sometimes difficult position of being the spokesperson.

>> Lara Druyan: How common is that practice to put the general counsel in the role of spokesperson?

>> Matt Loesch: The question was, how common is it to put the general counsel in the role of spokesperson?

>> In my experience with our public-fund clients, it is not common at all to have that as a general approach. Harvey may be aware of other situations, but it's not common amongst our clients.

>> Harvey Leiderman: No, in my experience, it is not common. The conversation that took place at Police and Fire was, they actually were -- a number of people were looking out of a way to get out of the hot seat. Ordinarily it's either the chair or the director in this case, who ordinarily acts as spokesperson, unless there's a matter in licks, that you would want to have your counsel be the focal point of that. But it's -- this was -- the change was at their behest, certainly not at mine.

>> Lara Druyan: I'm sure not!

>> Harvey Leiderman: That's another version of paradise that I don't subscribe to. But one point I will make is when I have asked to be spokesperson in various situations usually related to litigation that's pending, I frequently do less speaking than spokesing. In other words, a spokesperson, whoever it is, needs to know when not to speak. And there are many opportunities when that will arise and so discretion needs to be exercised. But I'm perfectly comfortable from the legal standpoint from whatever you wish to do from a governance standpoint whoever you want to have as your spokesperson in ordinary circumstances.

>> Arn Andrews: I'm perfectly comfortable keeping Matt where he is.

>> Lara Druyan: As long as Matt is comfortable staying right where he is.

>> Matt Loesch: Again, we are creating governance policies for whoever is chair. And regardless of whether I'm comfortable or not, I'm perfectly comfortable, when presented with a question, to not answer, and to check with counsel on what my answer ought to be or ought not to be. So I'm not necessarily pushing for a change or not for a change as far as being the board chair but whatever the board wants. I mean, what is the policy which we think is prudent to have for whomever is chair? And if right now, we don't see any issue with the board chair, whoever

that person is, being spokesperson, knowing that they are -- and I think it's very clearly delineated here. They're not speaking their own opinion. They're speaking what the board has decided.

>> Lara Druyan: And we also have enough flexibility to designate another spokesperson, should that time arise, that we're in litigation we can ask general counsel to do that, which to me seems appropriate, as opposed to taking what I view is the unorthodox step of having counsel be the spokesperson for the board.

>> Matt Loesch: Be super-defensive.

>> Exactly.

>> Lara Druyan: Seems odd to me.

>> I'm just thinking as a resident, and someone said well we'd like to hear someone from the board, we say here, talk to our attorney, raises all kinds of red flags. Exactly.

>> Matt Loesch: There's good need to be cautious and it does allow us to have other opportunities for what, make it's the chair or it's not, maybe it's investment stuff or it's not Whatever the right route should be. So if the board chooses to have the board chair as the spokesperson that's fine. If the board chooses to have something else I think that you know, seeing as I'm sitting in the chair position I won't advocate one way or the other because it looks weird. But the one thing I had is I think number 5 conflicts with number 26 of the director's policies.

>> Lara Druyan: Yes, right.

>> Matt Loesch: Still there, Tom?

>> Oh, that's right. You're right, in that case, to be consistent we should delete 5 as well.

>> Matt Loesch: So the rest of the communication policy Tom is there anything else you would like to highlight?

>> Only on paragraph 16, I just wanted to again, not that the board needs to take the same approach as Police and Fire, just wanted to draw your attention that Police and Fire took a slightly different approach to paragraph 16. And I included it there just for your information. And you can discuss it if you like. And then, we tried to address the communications, external communications that this board had discussed, that was last meeting, I went back to the videotapes to listen to it again. And I included paragraph 20, you address the direction of the board at the last meeting. Which was my understanding. I hope I've got it correctly. That when approached by a representative of the media for information concerning the system, board members would be expected to refer those individuals to the spokesperson or to the official meeting minutes or recordings of the board or other official documents of board, that was my understanding of what the board had asked at the last board meeting. To clarify paragraph 21 to focus on press releases, and there was concern around paragraph 22 that for some board members who work in the industry or depending on their position, found that 22 could be awkward or constraining. And we tried to address that, in particular, by you'll notice in the second line, we struck out the words "or indirectly." So this would only kick in, if the board members find themselves in situations where they are communicating publicly about issues pertaining directly to the system. So woo thought that might alleviate the awkwardness at times. We also you'll notice at the end of the paragraph in parentheses, when we say the board members should use the following disclaimer, we've added "modified under certain circumstances," in the hopes that that would give board members the flexibility to modify the disclaimer, depending on their exact situation. Again, this was in response to discussion at the last board meeting. Where, again, board members felt it would be difficult for some, given their positions in their regular lives, to have to make this disclaimer each and every time they're at a conference or what have you. I think that covers all the major issues, major changes in the policy.

>> Matt Loesch: Well I think it's clear the intent is, if you are at some place to -- and representing the board as part of what you're doing, that a disclaimer needs to be said. If you're there representing your professional function, and san José Federated retirement board is not part of that function, it's modified if at all if you include it, that's kind of the way I read it and intended it, because I know you had a concern about having to disclose any

time you're talking, right, that I'm not talking on behalf of the board, therefore, so for those folks who this might be affecting, does that satisfy your needs?

>> Stuart Odell: I'm probably not going to make the exclaimer every time I speak. But certainly if I'm aware that somebody's introduced you as a member of the board or something like that, I think it's appropriate to say, you know, I'm speaking in my capacity as you know, employee of Intel or I'm speaking in my capacity on my own, but not on the capacity of the board.

>> Arn Andrews: I think as a city employee and a board member, I'm in situations where I need to differentiate also. And I usually give a blanket disclaimer that says you know, in full disclosure, I'm a board member of the Federated retirement board however I speak before you today as an employee of the City's finance department or something to that effect. Do I need to read this verbatim the way it's written or as long as I get to the concept that I'm differentiating my role?

>> Matt Loesch: Well, as Arn says, modified as appropriate under the circumstances.

>> Arn Andrews: Perfect. I get it.

>> Matt Loesch: That kind of gives the out.

>> And how do you see that as applying to these nonvoting board member (inaudible).

>> Matt Loesch: Again it's similar to their professional capacity. If he is speaking or he is there as the nonvoting board member of the plan, he should disclose that. But if he's there as his councilmember role purely, or that he has other positions or whoever is there, I mean it's really dependent upon what capacity they're speaking or what capacity they're participating as. Let's use the debate that was happening just the other day at the Rotary Club. He was there as a councilmember, correct? He wasn't there as the non-voting board member, necessarily. But to Mr. Odell's point, if he's introduced also as the non-voting board member, then maybe you

ought to qualify his comments as not being -- speaking on behalf of the board or anything like that. I mean, that's part of what he was doing as a nonvoting board member, anyways. I think that's correct?

>> Does the attorney have any comment on that, Harvey?

>> Harvey Leiderman: There's probably a lot more cache to Pete to introduce himself as city council member than a nonvoting member of this board. So he's probably always going to be introduced as the city council member. This is -- you know, just use your good judgment. If somebody is attributing to him, and he is commenting about retirement matters, fine all he has to say is, I sit on the retirement board but obviously I'm not speaking for the board. That doesn't even need to be in a charter.

>> Matt Loesch: I don't think so.

>> Harvey Leiderman: To answer Arn's question, you don't have to read this verbatim. Circumstances will tell you what the attention span of your audience is, whether they want to hear all of this. But just make it clear, you're not speaking on behalf of the board, that's all the intent of this is.

>> Matt Loesch: Did you need to add anything more, Tom?

>> I just wanted to add, just remind the board that the most important provision in this area is paragraph 19 the, 19 A and B, simply says board members will not speak on behalf of the board or make unilateral commitments on behalf of the board or give the impression that they are doing so. I think the disclaimer kicks in when there is a reasonable expectation that the audience may get the impression that you're speaking on behalf of the board. That's when the exclaimer really needs to be made.

>> Stuart Odell: How does that work when a board member meets with an investment manager in another capacity or through relationships? There's going to be assumed or through the manager's perspective that this

board member is going to be influenced, bring information back, share it with the CIO, et cetera. Is this going to get us into any gray area there with respect to that?

>> Harvey Leiderman: If I may, it shouldn't. But that's always an area too that as a board member you need to be careful about what representations you're making. At a future board meeting we'll have an interesting exercise that I'll take you through on potential conflicts, in that arena. And I'm glad you raised it, because in paragraph 16, I wanted to explain why the Police and Fire Board wanted to slice through that last sentence that says board members are expected to refrain from actively seeking out investment opportunities. Many of the board members at Police and Fire during the discussion expressed the position that part of their job and part of what they do is to look for more opportunities. As long as they don't say I can bring you vendor whoever it is in, and get you signed up and make it clear that the rest of that paragraph is operable, that is, any new investment opportunities are referred to investment staff, or to the board as a whole, or in their case they wanted to insert the investment committee, so long as there's a handoff of the opportunity. They didn't want to be restricted in any way to say that it wasn't part of what they do to actually unearth or discover or bring to the attention new investment opportunities in the area. That's why they took that language out. It's up to you how you want to deal with that language as well. But that explains you know why they want that language out. So they didn't have that restriction.

>> Arn Andrews: Correct me if I'm wrong but I think one of the intents of having the new governance model and bringing individuals from the private sector with expectations that they would relevant experience in the investment world, is that they do come with history, and they do come with background and they do come with ideas. And I think to your point, as long as this paragraph says that their ideas are welcome and there's a channel to hand those ideas off, I think the whole concept behind our governance structure is that you will provide that type of insight, and so I'm personally comfortable with how it's written and --

>> Lara Druyan: So adopt the P and S?

>> Stuart Odell: Take out the language. I agree you probably need to strike the language but I do think that the conflict of interest discussion and education will be absolutely critical to how this board is educated around that issue.

>> Arn Andrews: And I think similar to the other documents you know we discussed about the fact that this is a charter, we'll move incrementally if we see areas that need refinement or improvement we can do so. But I'm comfortable striking that line because I think it's counter to the whole initial concept of why most of you are seated here currently.

>> Matt Loesch: Well I think the language that they accepted was underneath the word note, it replaces the paragraph above it.

>> Lara Druyan: Correct.

>> Matt Loesch: It wholly replaces it, striking out the previous.

>> That's correct.

>> Matt Loesch: The only thing under 16 would be that paragraph under note, the P and F board.

>> So the board would like to adopt the same paragraph that the Police and Fire has adopted, paragraph 16?

>> Matt Loesch: Until we vote, that's the direction we're going, most of the folks around the board are nodding.

>> Harvey Leiderman: Mr. Chairman, I think it would be best to have a separate motion for each charter.

>> Matt Loesch: Great. Any other comments for discussion on the communication policy? Seeing none, why don't I do this. Did you have something, I'm sorry?

>> I'm sorry Matt, I just wanted to go back to the first policy, just a quick question maybe for staff. Under vendors, and there was a list of vendors on page 3. Does the board currently appoint a medical director, is that consistent with current practice? That's just my --

>> Donna Busse: Currently for Dr. Das they selected the city's medical director to act as their director for facility purposes but they can hire whoever they want.

>> Thank you.

>> Matt Loesch: Okay so why don't we do this, since I'm closest to the plaintiff of microphone so nobody has to shout, I'll do it one at a time, I'll make a motion to accept and make current policy for the board administration charter as noted, there was a few typos in there, i.e. city and Federated, adding city on item number 22, and on 23, changing that to the Federated board. Otherwise, accepting as noted. .

>> Stuart Odell: Second.

>> Matt Loesch: Motion and second. Any other comments or questions on that? Seeing none, all those in favor, opposed none. Okay. The second one is under the charter for the director of retirement services. I don't have any substantive notes.

>> Arn Andrews: We were striking item 5. Then consistent referring to the CEO correct?

>> Matt Loesch: This is the director, this is the poll policy for the director.

>> Arn Andrews: Sorry, you're right, no, no notation.

>> Matt Loesch: Item 31 open page 12 it is referring to itself as opposed to the one above it. More of a typo and I figured that would just get cleaned up in editing but while we're there. So I'll make a motion to accept the policy as noted and to make a change on item number 31 just to confirm the paragraph that's referring to.

>> Lara Druyan: Second.

>> Matt Loesch: Have a second. Any comments or questions on the charter? Seeing none, all those in favor? Opposed, none, okay. Then going to the board communication policy. We will -- the motion -- I'll make a motion to approve the policy as noted. Removing item 5, and accepting the alternative language for item 16. Otherwise, accepting all is noted. Second, any other comments or questions? All those in favor?

>> What was -- is 3 remaining the same as original?

>> Matt Loesch: Three?

>> Paragraph 3?

>> Matt Loesch: Oh, yes, it was, so 3 is staying as original not the way Police and Fire did it. So the board chair will remain as spokesperson.

>> Great, thank you.

>> Matt Loesch: Okay? And more for note for Tom, is there a particular desire for which maybe three policies we pick up next time, as critical? Otherwise, Mr. Leiderman and I could leave it to our discretion to pick the next three most appropriate.

>> Lara Druyan: Leave it to your good discretion.

>> I'll be comfortable with whatever you two decide.

>> Matt Loesch: That's wonderful all right Tom thank you very much.

>> Thank you very much, everybody, have a good day. Bye bye.

>> Matt Loesch: Okay so we're moving to item 4.1 please, I asked Meketa to come and get prepared. So while they're getting prepared, if folks wanted to grab something to eat, let's take a quick five minute recess while everybody gets set up and grab something to eat. [Recess]

>> Matt Loesch: Okay, we're mostly back, we're going to start going because we have a few more hills to climb and time to do it. Let's do this. Okay, 4.1, a presentation of investment performance flash report for period ending March 31st, 2012. Time certain 10:00, plus or minus two hours.

>> We realize you had some other pressing issues to consider. Good afternoon, thanks for having us. I have with me today Mika Buffington, who is a consultant with Meketa Investment Group. She has been with our firm for nine years and is a principal of the firm. She also specializes somewhat in transition managers. So I thought it would be cool for her to come and discuss the issue on transition management today.

>> Matt Loesch: One recommendation if we could get another recommendation --

>> We told him we didn't have one.

>> Matt Loesch: You have to speak directly into it because this session is being recorded to pick it up please.

>> I think everyone had the very preliminary March flash report, we were asked to provide more timely reporting, so I just want to stress that this report includes a lot of preliminary unaudited information. A lot of the manager reports are only coming in this week, and some of them will be coming in next week. So some of this is based on

index performance, but we will at the next board meeting have the full first quarter report which will include audited information. I'll point out on page 1 the aggregate asset summary. One change here from past reporting is that we have the new target allocations and target ranges for the newly adopted asset allocations. And then on the next page again preliminary performance here, we're showing first quarter performance for the total plan of 6.5% so a strong start to the year. And again I won't get into individual asset class or manager performance based on the preliminary nature and we'll discuss more fully at the next board meeting.

>> Matt Loesch: Comments or questions of the board. I do appreciate the report coming out and the preliminary nature of it. The questions, what's going on, what's going on. To the extent we have you here we could have this monthly, I think it's a good thing to add as a note. Whether we put this as a communication piece when you're not here that's fine. Whenever you present before the board I think it's a good thing. Any comments by the board?

>> Arn Andrews: One comment, I don't know if it's going to matter to people. We use fiscal year to date, and the fiscal year to date is on our fiscal year. We say first quarter because now we're on a market calendar year. So I mean from me just coming from the city perspective I would expect to see that say third quarter as opposed to first quarter. But like I said it's --

>> Matt Loesch: It's going to be one way or the other. Someone has to understand it's first quarter calendar year or first quarter city fiscal year. Maybe if you put another footnote at the bottom as to which quarter? Whether you choose one way or the other, it's going to confuse whether it's Mr. Andrews respect or for someone else's, if you would just note which quarter that might be, because it does say first quarter 2012.

>> We could add calendar 1Q 12, would that be --

>> Arn Andrews: Yeah, because to me, if someone who's not as involved with what we do were to look at this, they would say fiscal year to date we're up .4%. And then they'd say but the first quarter you were up 6.5%, how is that possible?

>> Lara Druyan: The other thing that would be helpful for me is, if we, when we are reporting, we have our performance but we're not -- I don't see our benchmark relative to plans that are similarly situated and so on.

>> And that's part of the preliminary nature. Some of the components of the policy benchmark are not yet available so we'll definitely have that in the report next month.

>> Stuart Odell: What you can provide though with your early flash is just all the public benchmark numbers. So you've got some of them in here and certainly got the relevant ones to the broad asset classes. But you know, people may want to know how the Dow Jones UBS did right? Because we've got a custom benchmark there. So I think you probably ought to just include a one-pager with kind of all your major indices.

>> Arn Andrews: I guess what I'm asking if none of the other board members object, is that the quarterly nomenclature sync up with fiscal year to date, have it say third quarter as opposed to first quarter.

>> All right, we'll incorporate the changes with the monthly preliminary report.

>> Matt Loesch: Other than that it's a note and file unless there's other comments or questions. Okay, item 4.2. Discussion and action regarding Meketa's recommendation to hire additional tricks managers, Mellon transition management and J.P. Morgan transition management and to delegate the secretary authority to negotiate and execute the agreements with approval as the form of the agreements by investment counsel.

>> With that I'll turn it over to Mika.

>> As much or as little commentary on a lot of the news with respect to foreign exchange and transition managers and just other transition managers that we consider as potential candidates for mandates like this as we walk through it. But I'll focus first on the recommendation which is historically, this fund has used Russell transition management. They currently are managing an overlay from the asset allocation changes that were made in late 2009, they have been managing an overlay portfolio in order to keep you close to that target allocation as you've

moved through some different asset class searches, et cetera. Now as you move forward towards the new asset allocation you're likely going to be needing transition management services continuing on into the future. So the recommendation here is twofold. One, we think it is best practice in the industry and we certainly recommend to all of our clients that you don't solely solicit bids from one transition manager. So if you want to have a competitive bidding process there's really two ways to do that. One, every time a transition comes up you can solicit bids from any variety of transition managers in the marketplace and make it a very public search process. When you do that, one of the things that really holds up a transition typically aside from getting the necessary documentation to hire or fire a current manager, is also the legal contracts that surround transition managers. They obviously have a contract with an organization as well, a retirement system. So what we like to do is conduct a search, look at the entire universe of transition managers out there and then recommend that our clients have a panel of best in class transition managers available to them where legal contracts can be reviewed in advance so that when a transition comes up like one that you'll be having very shortly, we can go out to that smaller list of candidates, get competitive bids, and then in this case I believe that the recommendation is to allow staff to then kind of select from those bids so that you're not constantly in a situation where you come back to the board and you're reviewing a lot of transition manager bids where you have a lot of other items coming forward.

>> Carmen Racy-Choy: Just a correction, I think the bids have to go back to the investment committee and the board.

>> So the investment committee then would select from the bids. In this case we are recommending adding two managers. You already have contracts in place with Russell Investment Group, which we think is definitely a best in class transition manager. We're recommending adding two managers to that panel, one being Mellon. And I'd like to clarify that Mellon's name is undergoing a change. It will be BNY Mellon transition management going forward. I'll clarify in a minute the difference between Mellon and Convergex, which is also affiliated with BNY as an organization, I want to make that clear because they are very different in my mind. And then the other manager we are recommending to add to your panel is JP Morgan. You have J.P. Morgan which is on the investment banking side you have Mellon which used to fall under an asset manager program but now with the addition of BNY is kind of a custodial bank platform for a transition manager. And then Russell, which is really

historically a manager of managers approach, they go out and seek best in class execution from brokerage firms around the country. To give you a broad sense of some of the other managers that we solicited bids from and have some opinions on, and some of the other managers out there I also think are reasonable choices but for various reasons currently we're not recommending adding to your panel, some of those, Convergex, I'll just list first. That's the other BNY affiliated entity, although BNY just owns a minority stake in Convergex. There's been some litigation and investigation by the DOL into the foreign exchange trading practices. This is different from what you've been seeing on the custodial bank side where you have standing instruction orders not necessarily or at least allegedly not receiving best execution. At Convergex the allocation is they are trading both stating to their clients that they act as an agent which means they receive a commission and trade foreign exchange. But in actuality we're acting as a principal, which means they're earning a spread on the actual foreign currency exchange. So for that reason I think it's pretty simple to move them out of contention at this current time. With the foreign exchange issues at other large custodian banks I think that it goes without saying in addition to a couple of departures at state street bank due to some pricing issues within the state street transition management organization, that's why I removed groups like state street, even Northern Trust, some other large custody banks that I didn't feel as comfortable with just given all of the press going on with respect to those firms. We also looked at just a variety of other smaller groups able Noser which is a group in the marketplace that is really known for their transition cost analysis. I think they're a good team. Fidelity, also a good team. Some of these groups have just recently added some capability that I think for an organization your size doing the type of complex transactions that you're looking at we really wanted to go with groups that we've worked with in the past that we know very well, the team's been stable they have the international capabilities, the fixed income capabilities, the domestic trading capabilities, and act as an agent with respect to foreign exchange. And so my recommendation would be with respect to all the contracts you put into place, the only one of these three -- well, really, Mellon and J.P. Morgan have the ability, if you allow them, to trade as a principal or an agent with respect to FX. I think given all of the issues in the marketplace today, there's really no reason as a board that you need to take on any potential risk in the marketplace. So I would recommend having a contract that states that they must act as agent specifically. So that's our recommendation.

>> Matt Loesch: Questions or comments from the board?

>> Stuart Odell: I think it's a good recommendation so I'm very supportive of this.

>> Matt Loesch: I had one question. Typically as we're hiring foams we're at least giving you guidance as to how much the contract is going to be quantity dollar wise, cost, there's nothing in here obviously, it's all qualitative. Do we set the contract to be a not to exceed amount? I assume we would have to do some kind of contract.

>> There's no -- the contract doesn't include any requirement for you to pay anything at this point. It's mainly putting in place the contract so we can get bids from them and then if you choose that bid you can hire them quickly.

>> There would be an addendum to the contract every time an actual transaction is executed. So at that stage you would have full disclosure into those fees being charged for that transaction.

>> Carmen Racy-Choy: So once the bidding happens you will receive --

>> Matt Loesch: I get the point, the costs will come in for that actual project. But typically there's no cost to have a transition?

>> Stuart Odell: Just sitting on the shelf.

>> Matt Loesch: When they do the work there's the cost, right?

>> Stuart Odell: They will give you a bid.

>> Matt Loesch: My question is, because typically all of our contracts have -- this contract regardless of whatever their activity is, is not to exceed $500,000 or $500 million, not the activity itself, but the contract won't be more than --

>> Arn Andrews: I think in a pool concept, we have some of those on the finance department side, in a pool concept you can engage them and state that they are a part of the pool and if you want to contract the labor from somebody in the pool they are basically preapproved and then when you want to contract labor from someone in the pool then you do enter into a pricing mechanism similar to what you're saying. I think that's -- correct me if I'm wrong Carmen, I think that's the concept.

>> Carmen Racy-Choy: Absolutely. When you hire a plan's actuary for example you do have a limit in the contract. And the actuary will proceed and do the valuation, and the projections and all the stuff that you normally are required, without seeking pre-approval every single time.

>> Matt Loesch: Right.

>> Carmen Racy-Choy: The other process really is to have the candidates in the pool and then when there is a specific project come back to you for approval of the specific expenditures and that's exactly what we're doing.

>> Matt Loesch: I think this is just the first one we've ever had here to my knowledge.

>> Carmen Racy-Choy: Russell investments has a similar contract. Meaning that there is a contract, there's no limit. However we do come forward and seek approval on transitions.

>> Matt Loesch: Okay. Any other comments or questions? Okay, I'll entertain a motion.

>> Lara Druyan: Move to move forward as Meketa has suggested.

>> Second.

>> Matt Loesch: Motion and second all those in favor? Opposed? Okay. On to 4.3. Discussion and action regarding Meketa's recommendation to terminate trade winds mandate and authorizing staff to redeem the investment as of April 30, 2012.

>> We discussed this briefly I believe at the last board meeting, and then more in depth at the investment committee meeting, but we were asked to bring it to the board as well. As most of you know, Dave Ivan, the CIO and chief portfolio manager of the Tradewinds Global All Cap portfolio in which the retirement system is invested announced his intention to leave the firm a couple of months ago. He's actually staying there until the end of June when he's leaving to join a hedge fund. He was the primary architect of the investment process at Tradewinds with which the retirement system has about $100 million invested. He set an approved list for the firm and all portfolio managers under him had to choose off of that approved list when they wanted to purchase a security. He really had a lot of impact on the portfolio. And therefore, his departure even though Tradewinds has decided to bring -- promote a couple of other portfolio managers, we think significantly impacts the ability of Tradewinds to add alpha going forward and execute their investment process. So we would recommend terminating Tradewinds putting the funds with an indexed fund for the time being until staff and Meketa investment group and the board approve a replacement manager. It was already -- there's a 30-day notice period in which to redeem so the investment committee directed staff to go ahead and put in that notice at the end of March. Funds will be available around the end of April to move to the passive management structure.

>> Matt Loesch: Okay. Comments or questions from the board?

>> Edward Overton: Are we going to incur any excess costs in going in or going out of that portfolio?

>> Going in and out of the passive replacement or leaving Tradewinds?

>> Edward Overton: Leaving Tradewinds. You're going to sell of the portfolio, and you're going to reinvest those funds in an index fund. Has anybody analyzed the cost of that?

>> Sure. So the index fund is going to be significantly cheaper on a fee basis than investment with Tradewinds is, just in terms of management fees, going from active to passive management. Tradewinds, there are a number of clients, as you expect, that are leaving Tradewinds at the end of April, so they segregated that pro rata portion of the portfolio and kept the securities that are very liquid being very liquid and are starting to sell off some of the securities that it may take a bit longer to sell so that they can encourage few transaction costs as possible. We do recommend engaging your current transition manager Russell investment to maintain market exposure between receiving the funds from Tradewinds and going to the index funds to reduce cost as much as possible.

>> Stuart Odell: So Tradewinds is cleating the portfolio?

>> That's right.

>> Stuart Odell: Not giving us a pro rata slice?

>> That's right.

>> Stuart Odell: Have you asked them to give us a pro rata slice?

>> We did is them to give us a pro rata slice.

>> Stuart Odell: I'd -- all things being equal -- I'd rather Russell liquidate it rather than Tradewinds at this point.

>> That was something we explored, staff and Meketa Investment Group and Russell all spoke with Tradewinds. Given some of the emerging market securities in the portfolio and the fact that multiple clients are leaving at one time, we were told only cash could be withdrawn.

>> Carmen Racy-Choy: And they were consistent. NEPC also approached them on behalf of their clients, and they received the same answers. So they've told everybody that you're going to get cash. And at that point in time

they weren't even very cooperative about providing information on market exposure. So we're continuing to work with Tradewinds to really understand whether they're continuing the market exposure till April 30th, or whether the market exposure's dropping off beforehand. The last information that I had was, they really weren't clear on that. So we are continuing to work with them to try and understand what it is they're doing and when they're doing it so that we can use Russell investments to continue market exposure without having any gaps.

>> Stuart Odell: So and just one other question. So they've segregated the assets so that all -- those are only investors that have requested a redemption at that point so they're going to treat all of those redeeming investors identically and share those costs across them pro rata?

>> That's right.

>> Arn Andrews: Did I hear you correctly they're liquidating liquid assets first and then they're moving to the nonliquid bucket? And then the memo states that they only allow redemptions on a monthly basis. So is there the risk that you could be caught in the nonliquid bucket redemption?

>> There's going to be a brief period of time when they will likely -- they will likely give you about 95% of the assets that you had invested and then try cleat the less liquid portion over a week or two after that. So that they can try to get best execution instead of doing it on one day. .

>> Arn Andrews: But our pro rata share of the less liquid it's not as if --

>> It's still pro rata.

>> They'll do it ratably.

>> Matt Loesch: Further comments or questions? Otherwise I'll entertain a motion.

>> Lara Druyan: Recommend we proceed with getting cleating our Tradewinds holdings per Meketa's recommendation.

>> Matt Loesch: Motion and second. Further comments or questions? All those in favor? Post? Item 4--

>> Stuart Odell: That recommendation includes the target where they're putting the capitol, right?

>> Yes, I'm sorry.

>> Stuart Odell: So it was CMS --

>> Yes.

>> Matt Loesch: It was in there? Per the recommendation.

>> To go ahead per the recommendation.

>> Matt Loesch: Item 4.4. Discussion and action on report on implementation of the board approved asset allocation and investment structure. Okay, so what I had asked was, there seemed to be confusion and questions when I had asked about what's going on what when and how and who's doing what where and how. So I said all right, we will bring it to the board on Thursday, and we'll try to clarify what's going on what, where and how, and who's doing what. Mr. Overton had asked before about reporting what's going on with the investments and the allocation, how it's being implemented and kind of being brought up to speed. So what I had gotten confusing things from folks and said all right, I'm not going to is any more questions, we're just going to bring everybody to the table and talk about it on Thursday. So I had reached out to staff and being very clear and explicit about what's going on about the implementation of the plan, the transition and who's doing what, who's responsible and what the order of priorities are, I think that might have been influenced by some of our discussions earlier from Mr. Leiderman about, you know, we are on a path, should that path be paused for a moment and considered, and if

so, what things should be paused and considered based on what's potentially happening around the plan. So did you want to start first or did you want Meketa to start first?

>> Carmen Racy-Choy: No I'll start. So what I'd like to do is first provide you with an update on the implementation of the asset liability study which was adopted on December 15, 2011. Then I would like to describe the due diligence processing as we currently do it. I would also like to offer an alternate process specifically for private investments that would help speed the delivery of the implementation. Finally I'd like to provide an update on the time line for manager selection. I will discuss the manager selection on the absolute return allocation, and I will then pass it off to Meketa to discuss the time line for the other asset classes. So first, let me provide the update on the implementation of the asset allocation. The first -- the staff implemented the asset allocation, broadly through the Russell investments policy overlay. This was accomplished on -- by December 30th, 2011. Russell, we have received the request to bring Russell investments to explain how the overlay works and to basically discuss the cost and the benefits of the overlay. They will be making that presentation to the investment committee at the May meeting. And then the presentation with any suggestions from the investment committee will be brought forward at the next board meeting. Next in the implementation of the ALM is really developing a new investment structure, and the board has obviously approved the new investment structure in the March meeting. You have in front of you obviously today, Meketa has proposed their approach to the transition which starts with contracting with two additional transition managers, bidding the process. The next step you should expect back in June a report on what happens from the three bidders and a recommendation for a selection of a transition manager, as well as additional details on what the transition will involve. At the next meeting, which is the August meeting, hopefully, the transition would have been completed some and you can receive a report on actually what transpired. This includes basically all of the steps of the implementation other than the manager selection. So are there any questions on this, first, before I move on to talk about manager selection and the due diligence process? Okay. In that case, I'll start discussing the due diligence process. The reason I'm basically having this discussion is in part because various trustees have expressed that they're not familiar with the due diligence process. Currently the process -- and this is not written in stone anywhere -- is that staff will through internal databases and through basically our knowledge of the managers, will develop internal lists on whenever there's a search process happening, we will internally develop a

list of managers that is highly regarded coming from existing databases that we have and coming from our knowledge of the markets, we will obtain from Meketa and in certain situations even NEPC, their own list of who are the top managers in the state, and then from that discussion will happen between the staff and the consultant to narrow a list to a more manageable list. Then staff and the consultant will go onsite and do due diligence. Typically that short list will include anywhere from five to ten managers. Clearly the whole process start with internally developed kind of our best administering list through the process of narrowing it down doing the on-site takes a few months. This is the standard process. We wanted -- staff wanted to make sure that the board had the opportunity to move things quickly. In part this is due to the fact that currently, you have three senior investment professionals, myself and two investment officers, but really, to the normal staffing is myself and five investment officers. And so really, you have three people doing the work of six. What that actually means, if we maintain the process, that there will be certain delays in implementation. So if you would like to move the process a little bit quicker, what could be done? One of the options that the board could explore is to actually, in our thought, take the private market searches, and with private markets, I include private equity, the illiquid component of real assets and real estate, and simply task your consultant really to come forward with recommendations without requiring staff to be hugely involved in the process, and without requiring staff to do an on-site due diligence. This is an option that you could consider if you wanted to speed up the process. We simply wanted to put it in front of you, so that staff is not perceived as acting as a hindrance to the implementation. Meketa later on, when they discuss the liquid asset classes, will present really two schedules. One assuming staff is involved in due diligence on all the asset classes, and another implementation schedule where staff is not involved in the private markets component but involved everywhere else. Would you like me to move open and discuss time line before we discuss this point?

>> Matt Loesch: Why don't we just have the general conversation about due diligence first, it's more general then we can talk about -- because obviously that would affect the time line, right?

>> Carmen Racy-Choy: Yes.

>> Matt Loesch: What are the thoughts -- reiterate the classes that you are advocating the staff is included in. What assets are you recommending that the city-

>> Carmen Racy-Choy: Right now there are three areas where there are manager selection happening. One is the hedge fund allocation and we continue to recommend that we be involved there. The second one is the equity allocation, and we continue to recommend that we be involved there. Both of these are very significant. We're talking hedge fund 25% of the plan and the equity components are also an equally significant portion. And so the reason we're kind of making the recommendation on the private market side although that's an area where there's a huge potential for alpha, we currently have beta exposure on the real asset side. So really we're not short from our target in a very significant way. And the amount by which we are short, we would only invest maybe one-third to one half this year. So the amount that is expected to be invested in that area is significantly less or maybe in the order of magnitude of three to 4% of plan assets. 3%, probably another three to 4% next year and similarly the year after. And so really the reason we said how about -- if we're going to kind of say staff, you focus on certain asset classes, but not all, this would be the area where we feel we can you know -- that would have the least impact on the plan.

>> Matt Loesch: Okay.

>> Edward Overton: When you say staff involvement or staff focus are you referring to the internal database developing manager particular -- developing a due diligence strategy, what? What is --

>> Carmen Racy-Choy: Staff involvement usually would mean yes, that we would have our own list of who are the really good managers in the space. And not only that, our screening criteria are reality different from Meketa's from a size perspective. Meketa will typically be looking for really good managers but they will want the manager to have capacity to take on significant allocation from a good portion of their clients. When staff looks at manager, really we only require that they be able to take our -- the plan's, usual the Police and Fire and the Federated allocations which is a very small mandate. And so really, the universe could be quite different. So when I say staff involvement I mean staff goes through the process of developing a list of managers that they think highly of,

based on the criteria that I've described. And then staff will work with the consultant to say okay, this is the consultant's list, this is our list, everybody who knows the manager will go through and describe the manager. And then, in a combined effort, we will decide who are the top five to ten managers, from both lists, and those managers will be due diligence onsite in a joint effort. So when I say staff involvement, this is the normal staff involvement in a due diligence. And when I say staff not be involved in the private investment area, this would mean staff would really not be doing that. So you would see Meketa, Meketa probably have their own opinions on who is their top managers in specific areas. And they can bring those to you within a month or two, or just a handful of months. If staff is involved in the process, obviously, then, we would need to kind of add a certain amount of months to the implementation schedule.

>> Edward Overton: Are you maintaining a database of quality managers in each of the assets classes that we have?

>> Carmen Racy-Choy: We have databases for all the liquid asset classes and hedge funds. At this stage we do not have a database for private investments. So that's private equity, the illiquid portion of real assets and real estate.

>> Edward Overton: So does that shorten the process at all?

>> Carmen Racy-Choy: It does shorten the process a little bit, absolutely. But it's still -- will add some number of months.

>> Stuart Odell: So I'm going to speak up a little bit here. I have some views which maybe aren't completely consistent with the rest of the board. And that is, that I think the hedge funds at 25% of plan assets is a huge undertaking. And I have some big concerns, if staff is devoting -- you only have three investment professionals, is devoting a significant amount of their time looking at other areas, while someone else is sort of managing the hedge funds on their behalf. My sense is you need some really dedicated resources to learn these hedge funds, inside and out, understand all the complexities, this is not like long only managers, this is not like the transparency

you have in the long only space. I think I brought this comment up before. But my personal opinion is, that staff really ought to be focused on getting that right first. You have the beta exposure on the public equity side. Any of these names Meketa brings you, you might get 100 basis points of excess alpha, otherwise it's bet at a and you've got the exposure. Lastly on the private markets I thought we had put a fair amount of effort at looking at other consultants that had specialists in private markets. Giving it to Meketa we're going to get their general ideas which they spread across a lot of big public plans. Private markets is not a top, a middle-of-the-road investment. This is, you got to pick top decile managers. Some of them are capacity constrained. You got to spend time getting to know them, building relationships, getting into these managers, and building a portfolio out. And it takes years and years. This is not something we're going to flip a switch and all of a sudden you're going to have all of your private investments lined up and here's your list of managers. Precise managers come to market typically every three years let's call it so we should start building a forward calendar of who are the great private managers, guys that just raise money they're not going to be in the markets for three more years. You probably want to invest with that manager three years from now but you probably want to work on that between now and three years from now. So I think, my view as private, ought to go real slow. You ought to have the right specialists helping you, and that's beyond staff, because staff does not have the expertise in-house to do it themselves, they need help. But I'm not -- I wasn't aware we'd made a decision that said Meketa is the right group to go drive that process for us. So we've had a number of other groups come in. I don't think we'd made a decision. Meketa serves an important role to the plan around being a general consultant and providing advice around asset allocation, performance manager, performance monitoring, et cetera. But manager selection, and particularly in private markets, is a real specialist area, and it takes a long, long time. Now, long-only public equity managers, active public equity managers, Meketa's databases are probably just as good as yours. You do -- your point is absolutely dead-on. You can go after small managers that Meketa will not typically look at, because they can't get enough capacity across their clients to do that, and small cap would be a typical area where it's very difficult, you know, good managers, a good small cap manager may close at $1 billion. So how much capacity can you get? So I do definitely take a very different view on this, which is I think hedge funds should be your first priority and where you spend the bulk of your time right now.

>> Lara Druyan: Well, but I think, Stuart, part of the confusion came out of investment committee, you expressed that view, and then this was interpreted by staff that they do nothing -- they don't evaluate anything else. And that -- that --

>> Stuart Odell: Well, I think I just made the point that you've got the beta in your portfolio right now. Right? The overlays are in place, the beta is there. They're building the alpha, they're adding the hedge funds. The question is, do you want them to run three programs simultaneously with three people? And that's where I get very uncomfortable doing that. And particularly, just sort of dropping it on Meketa to deal with the private markets, the long-only active managers. And hedge funds all going on simultaneously simply because this board has said, we've got to get this done right away. You know you've got the exposure. The market exposure is in the portfolio right now. You're not going to get a material change in things by adding a bunch of long-only active equity managers. Or fixed income managers. So I think I would be very careful about how quickly you push this along. Just simply to get something done.

>> Carmen Racy-Choy: My only comment is that the Meketa time lines, the one where staff is involved, we did assume that staff would be at least for the next six months, dedicated to implementing the transitions. We're going to have transitions to implement on both plans as well as the hedge fund allocation. And so really, that's why the equity searches would be, if staff is involved, would be deferred by approximately six months which is the time that it takes for the IO, who's currently on assignment on the hedge funds to roll over to his equity searches. And the private investments, we've pushed that back by nine months, staff is involved because the individual on that component is more involved in the hedge fund allocation. Now, just to address the comment, does that mean staff do nothing else. I don't think staff is deferring anything that we can do. But I do want to emphasize the point that currently we do not have a person on staff with expertise in the area. So we rely on the professionals that the board has hired in that space. So that's a very key comment that I want to make.

>> Lara Druyan: We only get half of your staff time. So on the other side of the house, how are they spending time? Because we -- you know we only get half of their time.

>> Carmen Racy-Choy: The staff really will have to do fundamentally very similar searches in all the areas. So we're hoping that what we do on Federated we can leverage on Police and Fire. Meaning, as we select managers for the hedge fund allocating, we are hoping we'll simply transport that on Police and Fire. As we find equity managers, we're also hoping that we can transport that pretty much across the line. So the reality is, right now, the staff is very fully dedicated to the Federated plan, because you're ahead of Police and Fire. Police and Fire is now at the stage of redoing the asset allocation, which is done by NEPC, not by staff. So really, the staff is currently pretty focused on what is transpiring with Federated. And we are moving forward the transitions, the implementation of the ALM and the hedge fund program at full capacity.

>> Edward Overton: You know I assume that a lot of the issues that Stuart brought up would be addressed at the beginning of the whole process after the allocation itself was developed and recommended to the board. Now, I'm hearing that we need to go slow, and the staff has said we aren't going any faster because we don't have a staff. So the strategy for implementing this whole thing seems to have shifted.

>> Carmen Racy-Choy: Nothing really has shifted. We have been working on the implementation of the ALM. Basically we worked very hard on implementing the overlay and then we worked with Meketa to develop a structure. And we are currently working on the transition managers, putting them under contract, and doing the transitions. So we -- there's nothing -- there hasn't been a shift. It's just after the transition is completed, the next step is manager selection. And really, staff does not want to make the decision on how the board's resources are being used. We're bringing the decision to the board for you to make. And to give us direction on that front. So there has been really no shift. And this is very much the timely -- this is the time to have the discussion. Because really, the manager selection has not started. Does that make sense?

>> Edward Overton: Yes, it makes sense. But what I thought I heard a meeting ago or two meetings ago, whenever it was, was that the asset model had not been fully implemented because of lack of staff and lack of time to focus on you know, complete implementation. And so my thought, in asking that we be kept abreast monthly, is to find out where the issues are, where the pitfalls are, what we're doing about them, do we have a plan in place. Not necessarily to rush through the thing but to do it in a prudent manner, as long as it's timely.

>> Carmen Racy-Choy: Absolutely and that's really where we've described the process. The asset allocation, I just want to be clear, we have implemented the asset allocation I would say probably faster than most other California plans.

>> Edward Overton: Yes but we're doing it with overlays and data exposure rather than from an alpha standpoint.

>> Carmen Racy-Choy: Well as a first step, we are doing it with a beta exposure. But then the intent is to add the alpha exposure. And we are basically giving you two options. For alpha exposure. We're kind of saying you can do it quickly, by using your consultant, directly on at least some of the asset classes. Or you can state that, no, you do want staff involvement. But then, you know, we can only rush things so much. So we've provided a time line, if you wish staff to continue to be involved in all asset classes, and we've provided a time line where you could potentially use a consultant, it doesn't have to be Meketa, for some components of it. And use the staff on some of the other asset classes.

>> Edward Overton: So now we have to go and look for another consultant.

>> We've actually been -- and so on things like private markets, Stuart's right. I mean, I've been on numerous calls. I think Stuart has been on some, Marty has been on some, with specialized consultants in say private equity, not so much on real estate, but certainly we've done some of that. I just meant because Carmen and Heidi asked me to with one in private equity who I hold on -- the first one I met where I really hold them in very high regard, was impressed with what they had to say and so I think it's something we could discuss. But this search, that's sort of last summer just so you know Ed I was on call, there were three scheduled last July I was on with various consultants and I think Stuart was the same.

>> Stuart Odell: I mean we have met with some but no -- there's been nothing that's been brought up to the board for approval. So you'd still have to go back through the process and you know --

>> Matt Loesch: Is it too much to add -- maybe this could be approached at least on the private market part. Maybe the board could say investment committee in your May meeting can you guys hash this out and come up with what direction, whoever it is on the private market side, whether it's this is who we're going to choose what we can do, so just in June we would know the approach that the investment committee is recommending? Okay, we need to look at more stuff, we need to have -- do a search on more managers or consultants or we have seen enough, we think we can pick some, and we can do that and get a recommendation, do you think that's reasonable?

>> Stuart Odell: The private market consulting area specialist is relatively small, so it's not -- there aren't 25 names that I would view as institutional quality private market specialists. I think there's a small handful. But --

>> Matt Loesch: Is that reasonable do you think? So we take that chunk and say in May the investment committee is going to talk about it and come back in June as to what they're recommending we do around private markets. Not who necessarily but this is the process the investment committee has hashed it out either it's -- it might be who on particular aspects not to preclude this but push this to the investment committee --

>> Stuart Odell: This is a process.

>> Matt Loesch: This is a process. If there's an area and say look we've seen enough on this area, we can make a recommendation on that area, we can make it in August. That kind of comment. You can hash that out, talked to folks maybe you can get people not at the room but the list of folks you've spoken to, where you think there is voids and what you need to make a decision. Is that reasonable?

>> Lara Druyan: I think it's completely reasonable. Much of the work has already been done throughout the year, in fact. We got a couple of respondents but at least one of those is a relatively new name that you guys introduced me to the other day. We can certainly go through that again and we have already somewhat. Just to be clear I'm with you Stuart I don't think in private equity you don't have to be in the top decile of managers they

don't come to market all that often and it's all about relationship and access. I'm certainly not in a big hurry to put a lot of money to work in a bunch of funds. It's not something you can do randomly, you have to be careful in portfolio construction.

>> Matt Loesch: So take one-third of the chunk.

>> Lara Druyan: But the only thing they are working, I know staff is working on an opportunity now and that's based on you starting that sometime ago and it may come to the investment committee soon.

>> Stuart Odell: You mean investment. That can happen.

>> The opportunity you don't want to walk away from it (inaudible).

>> Carmen Racy-Choy: Absolutely. And I think staff and Meketa are doing analysis on, it's the secondary opportunities that has come forward and we would have potentially -- we feel it's a very compelling opportunity. And at this stage I do believe that a bid has been made to the seller. We don't know if they would accept our bid. They may not accept our bid but we will come back to the investment committee with more details.

>> Arn Andrews: And I would is if all goes back to the investment committee with the expectation you come back to the board, the hedge fund component you know seeming to be one of the areas where we could operationalize that quickly yet we had the other conversations, so some sense of time line, not quickly but first priority, sorry.

>> Lara Druyan: And that has come up in investment committee, we discussed and there was a time line laid out in the last investment committee of due diligence trips, who was going what weeks, and frankly to what geographies, Carmen and I go to Greenwich, Carmen goes on her own to Dallas, so that was already laid out in our last committee, and so we actually have time lines, staff assigned, so we actually have some clarity to executing on the hedge fund piece.

>> Arn Andrews: So we know how that time line is going to sink up with the other time line from the other conversation so we don't move to 25% too aggressively if the other conversations are making us think we circulate pause.

>> Matt Loesch: Well, not pause, it might be pause on the full 25.

>> Arn Andrews: That's what I'm saying.

>> Matt Loesch: There's probably an agreement that hedge funds are going to be part of the portfolio. Whether it's going to be 25% as quickly as possible or what things we need to pull back on, if need be, that's another discussion.

>> Arn Andrews: That's what I mean but the time line will see how incrementally we'll start approaching towards that 25 and to get a sense of how it's going to roll out incrementally and then we know if it's going to sync up with the other conversation.

>> Carmen Racy-Choy: I can give you the high level of the hedge fund time line implementation. The board should expect some recommendations from the investment committee, starting in September, and ending in March 2013. That's going to include approximately 18 managers. So I think we are planning to start working with the investment committee sooner, and just hope that by -- so you should expect to get potentially, a handful of managers at a time.

>> Arn Andrews: Incrementally as we're moving along.

>> Carmen Racy-Choy: Exactly, exactly.

>> Arn Andrews: So between September and March you think you would be able to recommend somewhere in the vicinity of 18 managers with that, getting us to the full 25% quotient?

>> Carmen Racy-Choy: Well I think once the 18 managers are in there you should get to the 25%.

>> Arn Andrews: Perfect, that's what I wanted to know.

>> Carmen Racy-Choy: One thing I would add is that the issue, the investment issue to the extent that the assets of the second tier are not segregated, are not -- are not as significant. Where there will be significant investment repercussions is if in fact the assets for the new tier are segregated and the old plan is closed. If that happens then you would want to go back and revisit potentially the asset allocation. But again a lot of the hedge funds we would enter, you know, would be quarterly liquidity and at most, at most, a one-year lockup.

>> Arn Andrews: Right.

>> Carmen Racy-Choy: So that's going to be really the profile of 90%, maybe 95% of your hedge funds. And so to the extent you do another asset allocation and you decide well, okay, maybe the appropriate allocation is slightly lower then we could easily then target to over time, just decrease every quarter the allocation appropriately.

>> Lara Druyan: But for example if we ended up in the situation where we had these segregated plans, you would end up doing a lot more analysis around what potential gates could a hedge fund put up in terms of limiting liquidity, right, so it may alter the mix for sure.

>> Arn Andrews: The time line you are providing makes me a little bit less concerned because it's going to happen incrementally at a time when we're going to start having a lot more clarity on the other conversation and we'll be able to as a board assess what we think at the time so thank you.

>> The question I had, in terms of resourcing, we approved a budget this morning that I think assumes seven investment staff.

>> Carmen Racy-Choy: We have, other than the investment officers we have analysts as well which I didn't really count because they typically would -- they would support the due diligence effort but they would not go due diligence.

>> Michael Armstrong: I guess my question is, are we recruiting, what's happening?

>> Carmen Racy-Choy: I have been waiting really for the city to move on the salaries. The city has moved up the salary to basically the level that it was at when we were recruiting unsuccessfully. So I'm not very hopeful. But I think ultimately, if you go out, the five top individuals you could recruit are smart individuals, without necessarily a huge amount of experience in investments. And so my capacity really to mentor five junior individuals, at the same time, while making sure things are running smoothly on various investing aspects, is limited. So I would like to at least get the hedge fund allocation in place, and moving in the right direction. And then diverge my efforts to recruiting.

>> Matt Loesch: To follow up on the discussion again, it's earlier in the month there was a meeting between Police and Fire chair and myself and a member of the Police and Fire board with the representatives of the City Manager. They did raise the salary, they did change the salary scale for the retirement investment officer, they changed the specifications on the position itself and they are going to reach out to the recruiting firms that they have under contract to see who has experience on this matter. Apparently a couple do. And we're due to meet with them again, probably in the first week of May. So in a couple weeks here, once they've done their outreach to folks and get back to us as to when we can do that. It's gone to council, it's gone to the civil service committee, the whole thing, so they should have -- and we can have the recruiting firms dig out some names and see if we can have anybody that can fill some of those positions, hopefully within the next couple of months -- I mean, that's -- and have a pool for the folks at retirement to look at.

>> How do the new salary ranges compare to the median California salaries?

>> Matt Loesch: Again, their comparison compared to the Cortex numbers or compared to -- the city wanted to do their own salary survey, which they're doing, and they're supposed to report that back to us as well in May. And so all they did is raise the top end to $140,000, and then they also changed the specification of the classification.

>> Carmen Racy-Choy: When we were last recruiting, the top end was 143, 144. So fundamentally they have gone back and raised it. After there was a 10% pay cut, which reduced the salary range they have gone back and raised it to back where it was.

>> Matt Loesch: If I can kind of keep it on track so we can be clear, so it sounds like we don't really have a decision point we need to make on hedge funds, seems like we're all kind of comfortable with that process from what I'm hearing of that discussion, the time line seems reasonable, when it's flowing through, that that's a priority to start working on that fulfillment, and private markets, the investment committee's going to look at it in May and come back to us probably in June with what they think we ought to be doing on it and we'll have further discussion then. On the equity pieces where we're presently passively managed, passively allocated, right now it's basically waiting until the hedge funds go through, because we're waiting for staff available if we go through a current traditional due diligence model. Or we could have Meketa do some of the searches and provide those things to the investment committee in the interim while the hedge fund stuff is going on and make some of those fulfillments -- or some of those allocations as well. That's kind of, seems like to me, the decision point, either let it set, or let Meketa do those and bring them to the investment committee for the recommendation. Again it could be a nondecision you want until later on or you want them to go ahead and present to the investment committee while this hedge fund stuff is still going on. To me that's where it seems like the decision is.

>> Stuart Odell: I really feel pretty strongly that we ought not to be doing a lot of long-only active searches until this board and the staff understands the hedge funds and what we're investing in.

>> Lara Druyan: I agree with that.

>> Stuart Odell: And I just don't think, unless you understand what that portfolio looks like, and you're making all these other active bets in the portfolio, I mean, they're going to have long-short equity managers in the hedge fund portfolio. Some of them are going to be small cap. There's going to be a tech fund or a biotech or health care, a lot of stuff it's the same data. You really need to understand this stuff pretty well. This is 25% of the plan assets. These are two in 20 type fee structures. I mean really critical. In my opinion, all the staff, the investment staff, really ought to understand these hedge funds. As they're investing. This is your opportunity to learn to get in these meetings, to understand these structures. Once you understand hedge funds, doing a long-only manager is a walk in the park so to speak. I mean, you know, their structures, their administration is much easier et cetera, it is much easier to understand what they do. But I think when you're picking 15 to 20 managers because that's really what's going into this hedge fund portfolio, that's where I would be not just staff, consultants, board members, understanding, starting to understand what they're doing, I mean how much leverages leverage are they putting on the portfolio? Do we understand leverage? We're going to have education and discussion around this. All we've approved at this point is an investment structure, a 2 in 20, and lack of transparency. What's inside that 2 in 20, if 25% assets, could be all over the board. They could be doing illiquid private investments, they do that in hedge funds. They could be doing macro, long-short equity, I mean these are completely different strategies. So I just feel very strongly that this is -- this is the big area that everyone needs to understand much better as we move forward on it. And if it's going to distract our time, where we're looking at the typical benchmark, long-only manager or trying to find the next great private equity manager who by the way isn't going anywhere. He'll be back in the market three years from now. You know, we're kind of -- we're missing the ball. The ball is right here and I think that's, my opinion is that's where you ought to spend -- and having built an over $2 billion portfolio of hedge funds for Intel, I know what it takes to build this and it takes a lot of resources and time to understand what's going on behind the scene itself.

>> Arn Andrews: So I mean as someone who's sitting here listening, I think I'm hearing both our members on the investment committee kind of reiterating the same point unless I'm missing something and it seems like the point is to move incrementally, and to maybe separate this into buckets as opposed to an all-at-once approach. I mean,

unless I'm missing something, it sounds like I'm hearing the same thing from both members that hedge funds should be our focus, our initial focus and have it be isolated to that, in the initial term. And I think I'm seeing nodding from both.

>> Lara Druyan: Yeah, I think the only exception is occasionally -- and it doesn't happen often -- there are things that come up. Marty found a net-one, or whatever bet, that are shorter time frames that might be interesting and to pass that off to staff and they're not -- it doesn't happen every week, it doesn't happen every month, but they come up. And not to have staff go, oh, God, I can't touch that for another six months. That, you know, I understand that leaves some gray, but I think it's important to have that flexibility, because occasionally you will find something that is interesting, that is on a shorter time frame, for whatever reason, because it's an attractive secondary or whatever that doesn't come along every three years.

>> Arn Andrews: But with the exception of those one-off items, am my hearing that it seems to be uniform, the consensus is from the investment committee, to just move on hedge funds at this point?

>> And I'd had serious comments that the S&P 500 sort of long-only managers are a really efficient market and it's really tough to add alpha there. I don't think we're missing a lot by deferring that decision.

>> Arn Andrews: Then I, I mean, personally as somebody who is sitting here taking all this in, I mean, it makes a lot of sense to me, what I'm hearing. I'm an incrementalist by nature. This is an area that's very arcane, and is going to require a lot of diligence and a lot of effort, and to focus staff efforts on that, or as a board to focus our efforts on that, and by extension staff focuses their efforts on that -- I don't want to dictate to staff, but it makes a lot of sense to me what I'm hearing and so I don't know if the way this item is agendized it says discussion and action, you know we're looking to provide action, I would say I am hearing fairly clearly what it seems the direct is.

>> Matt Loesch: Right and that's one of the reasons I'd actually asked Mr. Leiderman, when we were putting the agenda item, because my initial idea was to provide direction but I wanted to leave as much strength behind what

we were trying to do, whatever it might be. I don't know what the decision is, but I think we need to have the discussions that I've been hearing from multiple areas, differing things. Have the discussion make sure everybody is clear about the discussion, what's going on with staff and consultants and what we're intending to do so there's ambiguities removed --

>> Lara Druyan: And especially important for you guys who aren't on the investment committee who don't necessarily watch all the -- you know, listen to all the tapes so that you are in accord with this, that is really important.

>> Arn Andrews: And I think you know the word from both of the members, from the investment committee are well heeded, you know 25% of the portfolio until we see what the composition of that is, that could be you know have determined what the rest of the decisions are. And so I think -- I think it's prudent that this has to be the first decision point before we make other decision points. So if you're looking for action, I guess the motion would be --

>> Matt Loesch: You need to speak into the microphone.

>> Arn Andrews: Accept the report and provide direction that staff and consultants should focus on the hedge fund due diligence, and allocation process, primarily. And then, we --

>> Lara Druyan: And I think you're also going to direct the investment committee --

>> Arn Andrews: To private markets yes.

>> Lara Druyan: To consider private markets.

>> Arn Andrews: And refer private markets back to the investment committee.

>> Matt Loesch: With the idea that roughly in June they come back with their recommend as to how we deal with that?

>> Arn Andrews: How we deal with that.

>> Matt Loesch: And we have maybe a similar discussion around in June about the private market piece and that will roll out, who we do what, everything.

>> (inaudible)

>> Matt Loesch: That's probably true. We didn't really walk -- I'm sorry.

>> Carmen Racy-Choy: One comment that I just want to address, because what I'm hearing is that staff is sitting on other opportunities, which is not the case. I think there were two opportunities, one which was the secondary opportunity in private equity, which basically is now at the bidding stage. And the other opportunity which really was identified to Meketa and Meketa has already had a preliminary meeting with the manager. To try and make an assessment, Meketa has determined they need to have further meetings with the manager. So really, in the area of private equities, staffs, if currently Meketa says this is not a manager that we think highly of, staff doesn't have the expertise to offer you a different opinion. So really, our role at this stage is to pass the message to Meketa, and say, could you please look at this manager and can you please look at this opportunity. And that, we have definitely done.

>> Matt Loesch: Okay.

>> Stuart Odell: And I think at a high level, getting a first pass on a private manager coming through to throw them over to Meketa to is their opinion, you know, is this someone we should pursue further or not until you get a specialist in place is a prudent thing to do. I mean they may have a opinion, they may have a report on them, they may at least tell you, not worth your time or we're taking a meeting, we do that all the time and that makes

sense. But that may not mean that Meketa is systematically running your private equity program which is sort of where this first discussion is headed. And I think that's what we want to try and kind of clarify is what is Meketa's ongoing role really going to be? I mean, they provide a great deal of value for this plan but I think we want to make sure that we're all comfortable that you know, in other areas of investment management that's what we want to use them for. But in the interim basis certainly you need an avenue where you can -- because I'm sure having the same job I do at Intel, you get inundated with this. And many times it's just you need a quick way to say no in a lot of cases and need to run things by a third party. So I would be supportive of letting Meketa continue to do that for you, and be a sounding board on these investments.

>> As your -- sorry do you mind if I add -- as you're determining how to handle the private markets piece would it be acceptable for Meketa to suggest certain one-off opportunities as well, for example, you're currently you're getting infrastructure exposure which is 5% of your plan under your new investment structure, through a swap, S&P global infrastructure. Whereas we have a pretty robust history, Meketa's been one of the you know the pioneers in infrastructure investing and we have a best-in-class manager who is one of our highest conviction names closing in June. Would it be acceptable for us to say, bring you that manager in the may investment committee meeting as a one-off opportunity that we think you might want to evaluate?

>> Stuart Odell: Yeah, I think you could bring it up to the investment committee. Infrastructure will be one of the areas you're going to go head to head with me on probably a little bit because because who's made money in that space in the past. But yeah, I think absolutely, if you see something coming through, you say this is a limited opportunity, again, this is to the same point that Lara brought up which is, some things will be opportunistic and we'll need to take advantage of them when they come through. So I don't see a problem with that. I'm just -- I'm not sure we've signed on to say you guys need to do all of our private market work for us going forward and let's build a schedule and get it built out in nine months. That's what concerns me a little bit. I'm like let's slow down a little bit on that.

>> Agreed.

>> Matt Loesch: So --

>> So do we have alignment with Police and Fire on this, too? Because they take staff's time.

>> Matt Loesch: Well I --

>> Lara Druyan: they do but they have a different consultant and I think are going to operate in a slightly different fashion.

>> Matt Loesch: Well, I don't think we necessarily need to be in alignment with them. What we need to do is provide direction what we want them to do on our behalf and if it's in alignment with Police and Fire then we can find even greater efficiencies. But we can't control what goes on over there. We can only control what goes on here and what we want to be doing. If they want to choose a slightly different direction, that's their prerogative.

>> Michael Armstrong: Yeah, but they have three people. I mean, mixed messages. What do I work on today?

>> Stuart Odell: Well, you know it's a joint investment committee. So you know to some extent there's an ability to try and influence them to kind of try to think about this a little bit. I haven't had the same conversation with this group, with the Police and Fire investment committee but we could certainly try to say, hey guys, you know, 25% of these assets are in hedge funds. Don't you really want your staff focused on this? And by the way, don't you want to be focused on this, as well? And so maybe we can convince them.

>> Arn Andrews: I think Michael brings up a good point and I find both you and Lara very convincing. So I think to the extent that you can you know share those thoughts, at the next joint meeting, because I think from an administrative point, I mean Mike, he brings up a very good point. Because to the extent that we can all align their efforts it does get rid of that ambiguity. So I would say from my perspective, I'm not on the investment committee, but I would say, try to have that conversation. Because it's probably in all our best interests.

>> Lara Druyan: Well, we are using the same hedge fund consultant, right? I mean so that's all the same. I think the way they've set out some of the diligence may be different. I don't know how they asserted themselves.

>> Matt Loesch: So my question, is the direct clear from the Federated board? I'm not going to pretend to control the Police and Fire board's direction. Is staff clear with what the Federated board wants you to be working on and what you should be working on?

>> Carmen Racy-Choy: I think staff has basically received direction to continue working on all the asset classes, that we have been involved and due diligence and to pursue a specialist in the area of private markets. And then to have the discussion, at the investment committee, about how to move that forward.

>> Lara Druyan: And to not do anything in, you know, in public equities. Just to be clear.

>> Carmen Racy-Choy: Absolutely. So public equity will really take a back seat for probably --

>> Matt Loesch: And scheduling-wise it moves back to the list and the hedge fund pieces we're working on now.

>> Stuart Odell: Unless there's an obviously problem, right? I mean if there's an investment issue that comes up on the public equity side and you go jeez, we've got --

>> Lara Druyan: Clearly. But that we're not executing on --

>> Matt Loesch: Manager search.

>> Lara Druyan: Manager search, just so we're really clear.

>> Matt Loesch: I know this sounds seems like completely snack in the forehead, but I've heard so many different things, I just want to make sure everybody's on the same page. And we have Meketa's presentation here

and we've kind of talked about all that's going on here so we're not going to go through it if that's okay. Any comments or questions for the board? We had a motion, right, very long motion?

>> If I recall.

>> Matt Loesch: And we had a second from over here, and it was along the lines of, the direction here provided.

>> Arn Andrews: Right. I think the motion was, to provide staff the guidance, when it comes to pursuing new managers, to put primary focus on the hedge funds, put the private equity portion last, and to direct the private market portion back to the investment committee, for additional guidance of how to pursue those opportunities.

>> Matt Loesch: There was a second from -- who was the seconder? There's a motion. Is there a second? Yes, Mr. Dirks. Any comments or questions? All those in favor? Opposed, splendid. Okay, thank you. Especially thanks for moving your flight.

>> Lara Druyan: What are we doing now?

>> Matt Loesch: I know, this is a great question. Let's do this. We're going to lose a couple of focuses fairly quickly and I think the closed session stuff we're going to have is very critical. I know we've had folks waiting for a very long time for the training portions. Can we bump those until a little bit later or until maybe next month? Oh, I did not, I apologize. Can we move all the educationals until next month? Is that horrific? Is that -- I mean -- are you sure? Because we're going to go into closed session and some folks need to be out by 2:00 for sure.

>> Arn Andrews: I'm going to push mine.

>> Stuart Odell: I have mine --

>> Matt Loesch: We need to have the closed session. We can come back by 2:00 or before then. And have the educational stuff. But I don't like doing that, it's simple, is that okay?

>> Yes.

>> Matt Loesch: Is that okay? Okay, so why don't we do this: So I'll do the death notifications, presently which is on which page? On item 2, I'd like to is a moment of silence for those who served the city and have passed. [Moment of silence]

>> Matt Loesch: Thank you. And I worked with two of them which is kind of amazing. And so all of the educational pieces which would be items 4.8, 9, 10, will be deferred to -- you don't know how bad -- trust me, this is -- I don't like doing that, I really do apologize, I know you could see the exciting deliberations.

>> Harvey Leiderman: We're going to come to your house tonight and make a presentation.

>> Matt Loesch: You're welcome to. Be glad to. I've got a two-year-old that would be thrilled to hear from you. Things would get thrown at you.

>> Harvey Leiderman: This would put him to sleep.

>> Matt Loesch: That will be deferred to next month. We've gone through 4.10. We've got everything covered here 1 through 4, discussion and action, okay, there's nothing on item 5.1. 5.2, the investment committee meeting, could I get a motion on the minutes from February 29? Note and file minutes from the meeting of February 29th. Update from the chair, we've had a very lengthy discussion of what's going on in investment committee. I assume that will construe as our update for item B. Ad hoc governance committee, that was something we talked about, so the governance committee is the items we just talked about with Cortex. The ad hoc staffing and salaries, I did not kick that off because of the conversations that are going on and things are moving around so I'll probably call a meeting in the next month or so on that. Item 6.1 through 6.4 note and files,

future agenda items from anyone here? Public retiree comments? Okay. So I'm not going to -- Mr. Leiderman, do I call adjournment now or and then go into closed session or how do we do that?

>> Harvey Leiderman: No, you'll adjourn after we come out of closed session. (inaudible).

>> Matt Loesch: Okay, I'll read it. Item 3.1, we're going into closed session on conference with legal counsel on litigation pursuant to government code section 45956.9A, Paul Mulholand, James Unland and Mary Follenweider, plaintiffs versus Russell Crosby, Mike Moehle, City of San Jose and does 1 through 10, defendants, the board of directors of the San Jose Police and Fire retirement board and the board of directors of the City of San Jose Federated city employees retirement system, necessary parties in interest. And we'll go into closed session. That's enough to adjourn. Seeing as all I have to do is move adjournment. Okay. Letting the guy in the video --

>> Harvey Leiderman: Does he give you a signal or send you a shock or something?

>> Matt Loesch: Very good. All right coming out of closed session the report is that the board directed counsel to respond to the committees as referenced here in 3.1 and the response will be filed with the courts, other than that we're adjourned. Thank you.