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>> Matt Loesch: I'd like to call to order the Federated city employees retirement system, both the pension and the health care trust fund. I'd like to call them both to order please. Under orders of the day, all of the items under the health care trust fund will be dealt with after the agenda for the pension trust fund. Additionally, we're going to take item -- we're going to do items for the closed session, we're going to do items 4.1 and then as a note, 4.2 is listed as a time-certain for 9:00 with a potential nonattendance of the City Attorney, based on some events that are going on.

>> Mollie Dent: I'll still do the presentation at 9:00.

>> Matt Loesch: Presentation at 9:00, it is noted that the City Attorney will be here but possibly not. Presentation at 9:00 -- actually we need to do 4.1 first, so Mr. Richeda can participate in the closed session then the closed session. 4.1 first then closed session. And then I believe 4.4 would be after that. That's the Russell limitation stuff. And then 4.7 and 4.8 should be taken together. Not that I need to note that. I have one connection William 1.2N, Michael Mojica, effective date September 17th, 2011 not September 11. And then I would need a -- do all this stuff in order if it's all right Mollie, waive sunshine as well on items 4.4 and 4.7. Items are not readily available at the time of posting. Items 4.4 and 4.7, hard copies distributed at the board meeting. If I could get a motion on those orders of the day.

>> Motion to accept provided agenda and the waiver of sunshine for items 4.4 and 4.7.

>> Section the motion.

>> Matt Loesch: Any comments or questions on those? All in favor, opposed, so up first is item 4.1, the approval of a second continuation agreement with Saltzman and Johnson for conflicts counsel services to extend the term of the contract through December 31st, 2011 with no increase in maximum amount payable under the contract. Do you want to make a statement Ms. Dent or at all?

>> Mollie Dent: I thought I had put a memo in the packet. I'm sorry. The Saltzman and Johnson contract expired on June 30th. We're proposing to extend the term of the contract through December 31st. We are not asking for more compensation. And I do see that the memo is in the packet.

>> Move approval.

>> Second.

>> Matt Loesch: Any comments or questions? All in favor, opposed, none, let's go to the closed session. Is the room available? This will be a quick one. We'll be back very shortly.

>> Mollie Dent: We'll be going into closed session to discuss two items, William Meyers versus board of administration and Raul Guerrero versus board of administration of the city employees retirement system. [Closed session]

>> Matt Loesch: Call back to order, back into open session. Do we need a report-out after the closed session?

>> Mollie Dent: There's nothing to report out of the closed session.

>> Matt Loesch: How close can we get to the time certain? We could take up 4.4 --

>> Mollie Dent: If Mr. Doyle comes to the meeting then we can go to that item but if he doesn't then can I do mine in order.

>> Matt Loesch: We'll do that then, very good. Okay, so we are here for the 4.4, right, the 4.4 is the discussion and action and implementation -- do we need to do that?

>> Russell Crosby: Probably not going to be here in the 9:15.

>> Matt Loesch: Are they present? Are they available or do you want to -- we could --

>> Russell Crosby: Okay. Why don't we do consent calendar while we're waiting for them. How does that sound? All right, we'll take up the consent calendar. It's items 1.1 through 1.10. To we need to pull any of those or I'll take a motion to approve. Motion on them?

>> Edward Overton: Motion.

>> Matt Loesch: I'll take a motion.

>> Arn Andrews: Motion to approve the consent calendar.

>> Edward Overton: Second.

>> Matt Loesch: Any comments? All in favor, opposed, done. Anything else we can get done? Item 4.4, discussion and action on implementation of portfolio overlay services provided by Russell implementation services for a cost between 150 and $350,000. I believe you were at the last meeting and you know the drill.

>> I believe I didn't do well last time.

>> Matt Loesch: Do you need another mic,.

>> We can share, we will be fine.

>> Matt Loesch: Slides put on the deck here. This is your show. Take it away.

>> Thank you for having us. My name is Steve Kable, and I'm responsible for large plan sponsors on the West Coast. I'm here withton Tom Spencer who runs our overlay program. I think we can get through fairly quickly. As a little bit of background Russell started building multistrategy, multimanager funds for plan sponsors back in 1980. And we quickly realized as we grew our business, and today it's about $170 billion, in about 200 different multimanager funds that implementation of those strategies, we could have the greatest managers in the world, the greatest lineups around, but if we didn't -- if we weren't very efficient with reducing transaction costs, trading very efficiently from one manager to another, we could have an enormous amount of performance slippage. So with that, a little bit of background on what we've been doing with the San José folks for the last couple of years. The staff worked very closely with Mikita to set up some new investment guidelines to introduce new asset classes and what we've been doing on more of an informal basis is quickly getting you to that new asset allocation. So plugging gaps with regards to commodities exposure or infrastructure exposure and also running some passive -- some passive investment options for you. And what we're looking to do today is kind of now that we've fleshed that out and you guys have got your guidelines in place, move to more of a formal or an automated process to do a didn't strategy. Eliminate the cash drag, to move you back to your guidelines to eliminating or avoiding any of those expensive rebalancing trades and lastly helping out Ron and Carmen with liquidity management and your private equity portfolios, capital calls, distributions, cash contributions that come into the city, benefit payments would be greatly simplified by what we put in place. With that I'm hold it over to Tom Fletcher who runs our overlay services group.

>> Thanks for having us here. Slide 3 goes into the details of cash in the Federated pension plan. And looking at what this graphic is showing, it is showing the loss or slippage from cash drag. So in a given year, based on the structural cash within the pension plan, and when I say structural cash I mean cash that's within the liquidity account at the plan level as well as cash that is sitting idle within equity manager accounts. That total cash characteristic, we've gone back with the policy returns for the Federated investment policy. And these red bars or negative are years where that cash would have coughed a slippage in performance. -- caused a slippage in performance equityizing doesn't pay off every year but the blue charts would be market down turns where there was the tech bubble or the financial crisis and market corrections occurred. So real simple. What this analysis shows, that over the long haul, which is what we're trying to correct, is equityizing cash structurally to get you

structurally close to policy is what we're suggesting can add approximately 10 basis points at the plan level or $1 many 9 million. The next slide goes into the characteristics of what Russell does with its policy implementation programs. It's a little different than straight equitization m desired asset class, as Steve said we're being look at the policy that you know you strategically want to be at and as cash changes or goes up and down on a given day, we will adjust the futures overlay exposures accordingly by that change just to buy the underweight or sell the overweight depending on the direction the cash changes. So you know you want policy exposure rather than cash exposure. And as long as you're doing that you might as well have the trading that do you nudge you back towards your desired policy targets. Around that we also have a futures rebalancing range. So as long as we're within that futures rebalancing range we're just doing the trading like I said, a one-sided trade whenever cash changes up and down. But if it exceeds that tolerance or that range which is settle by staff and laid out in guidelines when we launched the program, then we would have a trade that synthetically rebalances or buys futures in the underweight and sells futures in the overweight, to bring you back into tolerance. Having this program in place, it allows you to reduce rusk from and doing it in this way is cheaper than could you possibly run it with physicals. And as a result you can run less risk in the program and capture return. Having the program in place, you know as Steve mentioned, there's a lot of flows within a pension plan. And when you can anticipate those flows and coordinate your movement together, you can be more efficient and further reduce transaction cost. Looking at the next slight is kind of characterizes how you run rebalancing now versus how can you reduce it and run it with the Russell program. The black line here is showing various rebalancing plans. If I look at rebalancing in isolation or you know back-test over time, how you would have to rebalance when you get far enough off policy, that 10% band is relatively inexpensive to maintain, because you don't rebalance that much. But the problem with the 10% band is, you have about 75 basis points of tracking error to the policy that is your desired target. And in risk budget terms 75 basis points is very large, in comparison to you know a successful plan running a -- you know a 1% excess over their policy benchmark would be a good year. So 75 basis points, in comparison to that, from an unintended risk, is rather large. So the blue circle here shows that, as you introduce futures, if you were solely viewing it as a rebalancing program in isolation, you can cut the cost of maintaining a 5% band in half from what you could do with physicals. And then as we move over to the orange triangle here, that's depicting what happens when you kind of synergistically combine the benefits of cash equitization and trading changes in cash, as you're putting a risk premium on them with this rebalancing function by always buying the underweight and selling the overweight. So that cash equitization has rebalancing power as well. So the net result is, on less costs you can cut risk in half yet again. So I wanted to kind of wrap up after that, just go back over the highlighted benefits. First and foremost, capturing risk premium, almost $2 million per annum estimated over the long term here, to put this program in place there's a kind of monitoring cost that's there, that's covered by $150,000 per year base fee. To take the custodian data in, monitor it, validate it, aggregate the he exposures, watch the trade levels and trade as necessary. In addition to that there's a variable fee based on the size of the overlay positions. Based on the characteristics we see, we would estimate that to be between 50 and $200,000 per annum, depending on how big the positions used and how heavily the overlay's relied upon. So all-in the annual fee is not expected to exceed $350,000 and in the range of where we think that will be it will be one to two basis points at the fund level in terms of cost. So five to ten times the cost is recouped in benefits. And unlike most manager decisions that you make, this is a chance to add return and reduce risk both at the same time. You know, that's a rare opportunity to have both of those going in the same direction. In risk terms, futures, tighter bands at much less cost than physicals as I showed. Most policies are tracked at 75% kind of lower tracking error, when we introduce these programs in place. So the risk consideration is key. And then finally, when this program's in place, staff can focus on other things than liquidity management. More, higher value-added activities, manager selection and the cash aspects can be kind of coordinated by an outsourcing partner like us.

>> Is the modeling of the $1.9 million assuming a zero tracking error or is there some tracking error assumed in that cost savings assumption?

>> You mean tracking error from the futures baskets?

>> Right. The -- you had historically looked back and saw that if we didn't -- if we implemented a program like this, that we'd have roughly $1.9 million in benefit. Is that assuming zero tracking error? Is that how that number was calculated?

>> In the futures basket tracking error?

>> Yes.

>> That's assuming an implementation with zero tracking error. It's using underlying index tracking returns.

>> What error would you aiment to track for?

>> What we've talked about with Carmen is putting up futures rebalancing range at -- at 5%. So it would be half -- you know, as wide as the 10% band that's in place now. The rebalancing action of the cash equityization activity helps to keep that tighter. So we would anticipate that would actually hold it within two to 5% even with the futures bands at 5. What we would see from the sheer beta of asset allocation aspects of drift, we would expect that to go from 75 basis points elaboration to about a quarter of that.

>> So if you have a 3 to 5% tracking error how much would that bring down that $1.9 million, cost savings, if you model it historically? I mean is there some way you can help us gauge that?

>> Yeah, well, there's -- we have an estimated tracking error on kind of each asset class that we track. So each asset class in the program is traded independently of the other. And we manage to minimize tracking error on each futures basket mix. So it varies per basket. You also have the diversification across the three as they're not necessarily tied or correlated to each other.

>> I just wanted to make sure we weren't looking at the benefit based on zero tracking error. But then the -- yeah, benefit we expect based on zero tracking error but the implementation would be based on something different and the cost would be something different. So the ratio of cost to benefit is a little bit different than the numbers right here.

>> There will be some degree of tracking error within a year, you're absolutely correct. We don't see a directional bias to the tracking error.

>> Okay.

>> So that's a good aspect. And one -- in our reporting, we moarnt you know in our monthly and quarterly reporting we report in relation to a paper benchmark. So we call it perfect implementation. So it references the close the night before, in the underlying physical asset class benchmarks for each trade that we make. So we basically monitor slippage very similar to a transition implementation short fall and then we sum that up. We can monitor where there is slippage in our atary bugs history. .

>> Thank you.

>> Matt Loesch: .

>> Carmen Racy-Choy: I would say there is two pools of cash one within the managers accounts although managers try to be fully invested they typically are not. That is approximately 1% of the total assets. There is another pool of cash which is obviously what staff uses to pay benefits, and to pay capital calls and so forth. And that is approximately.5%. So we find there is approximately 1.5% of totals that is in cash over a long term horizon.

>> Even if we change managers on it, it's pretty stable?

>> Carmen Racy-Choy: Yes, yes, I mean it's significant enough that this has a very -- over long periods of time, this will have a positive impact on the plan in that it will generate money. Clearly in a year where you do plus 20 on the fund, you're going to have a very positive impact from the -- a revenue perspective. In a year where you're -- the return on the fund is negative, it's actually going to work against you. Over long periods of time we think it's going to be beneficial to the plan. In the risk perspective it is helping us track the policy benchmark much closer.

>> Edward Overton: How are we intending to measure the effectiveness of this overlay program?

>> We report monthly and quarterly. And one key thing to understand, in looking at the effectiveness of the program, is the overlay is there to complement the physical exposures that are already in place. So in looking at the overlay in isolation, sometimes you might look at that performance in isolation and say that doesn't make sense. Why did I have bond exposure over the course of this year, and you know, why didn't I get the equity market return? Or why did I have equity market exposure, and the equity market went down? In actuality, when the overlay market has equity exposure on, that's because you don't have enough of it in the physical -- the rest of the plan. So we look at the performance, and report it in two ways. We report it in isolation, because you know, you need to see what that impact is ped, and that kind of ties out to the kitting of what is flowing through that account and the performance monitoring that runs for the plan. But we also look at it in terms of this complementary whole-plan view and in that case, we look at where you're underweight and we kind of offset the market impact of the physical benchmark exposures that you were underweight and what that impact was and measure that against the derivative impact which we were trying to make up that gap. So that's more of a relative performance. how effective we did at doing what we were attempting to do in tracking these benchmarks.

>> Carmen Racy-Choy: In laymen terms what that means is you typically know the amount of cash that are held both at the manager level and at the plan level. So to the extent that it's -- and it's fundamentally giving you the return of your total asset allocation, your policy portfolio, on the cash. That's fundamentally what the overlay is doing. It's also at the same time helping you manage the risk of the tracking error to the asset allocation better. But that's a complementary benefit. So fundamentally in a year where, for example, you know that you had 1% between the manager accounts and between the overall cash, and the return on your portfolio was 20%, then you know you've earned this, paid off 20%, on that 1 percentage point that was in cash. And the trading costs are also very clear in that we will be receiving reporting from Russell. So to the extent that the cost and benefit in any given year can be analyzed, quite simply, typically you will not want to make any decisions based on the benefit in any one year. Because in a year where the return on the fund is negative, obviously, it's going to look like a bad deal.

>> As Tom mentioned, we report monthly. We roll that up quarterly and then we'll give you an annual snapshot. And typically we come down and present to your board if invited and give you the annual performance and walk you through how the overlay performed for the year.

>> Matt Loesch: Thank you. I have a question for staff. What was the selection process here and how do we get to Russell as the one presenting this option as opposed to any others or --

>> Carmen Racy-Choy: That's a good question. Fundamentally, this is -- this ties into the transitions. And since Russell is fundamentally the transition manager that we use, we went directly to them. So this is de facto tied to that process so this is why we basically went directly to them.

>> Russell Crosby: And there was a selection process back in the beginning, that RFP and selection process that led to Russell to do the transitions.

>> Matt Loesch: I remember the transition search but I didn't remember this being the effort. Granted that was times ago and we covered a lot of ground. Was this topic one of the things we talked about at the time using Russell for and how do these in terms of fees and/or process compare to others?

>> Carmen Racy-Choy: To be honest, I don't know he very many providers, at the time we did that transition, there was one other company that was merging that could do an overlay as well. And we basically felt that it wasn't a great fit because it was a merger of two organizations that wasn't as competitive as Russell in the bidding process.

>> Matt Loesch: Then I've been pleased on the Russell performance on the transition stuff. That's a wholly different process than what we're doing here. I know you're saying it's connected somewhat, but we're asking them doing something else that I don't remember we were talking about at the time. Again it's not that I'm opposed to Russell, the performance has been fine on the other items. So my only hesitation is the issue about not knowing what else we can compare to even as fees or anything else or performance. So --

>> Carmen Racy-Choy: To be perfectly honest, I'm not sure there is an organization out there that can do this. This is not necessarily something that -- where there are ten providers that could come in and do this.

>> Matt Loesch: I guess the question to Russell then, what public funds do you provide this service for in California or nationally? I mean you don't have to list all of them but what organizations do you current provide these services for?

>> We have a list of about ten different state funds that we provide this service for. We do the service for San Diego county, San Bernardino county, within you know the California county pension plans. You know, state of Oregon, state of Wyoming, Virginia retirement system. State of Rhode Island. Kansas.

>> Matt Loesch: How long has Haase this service been provided?

>> This team actually come into existence in 2001.

>> Matt Loesch: Performing the service or --

>> The team came into existence in 2001. Kind of basis single class asset putting cash exposure, over the past two years it evolved into this asset platform the timing of technology improvements in the industry with custodian data allowed for more interaction in the way we do it. Whereas prior to that I don't think the custodian data was of quality or the ability to you know kind of automate and take that into the asset base wasn't available for the provider to do this.

>> Matt Loesch: Can you tell me about please?

>> We have a team of 23 professionals. It's broken up into portfolio managers and analysts. We've got within our client base we've got approximately 60% U.S. client exposure. 50-50 between public and corporates. So we're

heavily -- most heavily staffed in our Seattle headquarters. We've also got about a third of a client base over in U.K. and Europe. So we have a team of four portfolio managers over there. And then we have a relatively small, but growing, presence in Japan. Out of our Tokyo office where we have one team member, mainly on the ground to consult with pension plans. So it's not a production center there. The team is split into portfolio managers and analysts. The analysts handle the kind of data input, data validation processes, working to prepare the views for the portfolio manager, to make the investment decision. So there's a separation between analysts and portfolio manager, in kind of a two-party control aspect to what we do. And then from the time the trade is released we have a separate futures trading desk. So there's yet another kind of control aspect. All-in, we have 80 clients globally, with you know approximately 700 billion assets represented by that client base of 80 clients, globally.

>> Have you tracked cost versus benefit for this past five years your actual experience and how has that gone?

>> Cost versus benefit is challenging to do because cost can be an implicit benefit that's embedded in.

>> I realize the market's gone prettyy irrattic in the past couple of years.

>> Including today.

>> I assume the cash is always a long position?

>> Cash is always a long position. The rebalancing can put a long or short overlay position in any given asset class. That's correct.

>> Thank you.

>> Matt Loesch: Questions from the board, any further ones? I'll entertain a motion.

>> Arn Andrews: I move that we approve the proposal from Russell. For the overlay services.

>> Matt Loesch: Okay, do I have a second?

>> Edward Overton: Second.

>> Matt Loesch: Any further comments or questions? I'll be watching closely because I'm hesitant about just thousand presentation seemed kind of thin. And most times that we get staff stuff and information on the backgrounds of teams and how long they've been together and all that kind of thing and this is more just about the product and going a bit on trust here and that's one of the things that's my hesitation. I'll support the motion but I'll be paying attention closely to this, to see if it's something we should be hanging around. Any further comments or questions? All in favor? Opposed, none, thank you. Do you want to take care of 4.2? We just covered 4.4 but now that -- it's entirety up to you. We can surely hang on.

>> Mollie Dent: I'm fine to move forward with it.

>> Matt Loesch: 4.2, discussion and action on options related to delivery of legal services to the plan and the board.

>> Mollie Dent: You have the presentation in your packet. I'm not going to do it. It's a PowerPoint. The short summary is that due to staffing cutbacks in the city attorney's office, our office is no longer going to be able to provide, through just attorneys in our office, the full general counsel services that we have been providing to this board and the Police and Fire board in the past. So the Police and Fire board did see a similar presentation in July at their special meeting. And we are going to be moving forward with an RFP to secure outside legal services for the board. We are under the city charter obligated to find legal services for you. We do contract-out some of the services now. We are going to have to contract-out more of the services. I mean our office certainly does support the financial -- does appreciate the financial support that this board has offered in the past to our office for the service. Our Police and Fire board is unable to provide financial services to our office due to the collective bargain agreements that apply to that board. But we've had too many cutbacks in our office. We just don't have

enough attorneys to cover the delivery of legal services that we have to provide to the city and this is one area in which we feel like it's specialized work that can be contracted out. The RFP that we're proposing to put out would allow Mr. Richeda to propose on all or part of the job if he wanted to. It would allow your current outside investment counsel firm, Hanson Bridget to propose on all or part of the job. Your current real estate council, being McCutcheon could propose, they are not really doing any work for you now because of the current way in which that -- your only real estate project is being managed. Your Ice Miller, the tax qualification com, they will be kept on board through the tax qualification purpose, will be kept on board because that is a single purpose contract. They could propose on more if they wanted to. They are indicated at Indianapolis and they're federal tax specialists. So -- the firm does other things but they will continue to do your tax qualification work but we will include some general tax advice in the RFP too, because we do that now. There will obviously have to be a lot of management in interface with our office and we are going to structure an RFP, that will allow firms to propose for both boards, for one board, for all or only part of the services. Ideally we would like to combine the conflicts council and general counsel services so you only have one attorney sitting at this table. That's up to the board of course. But we're going to ask for the firms to propose that way. We will be trying to get -- well, we will be asking firms to propose both on an hourly basis and for some services on a flat-fee basis to give the board a better sense of what the cost will ultimately be. Some of the services that our office does might be very amenable to a flat fee reviewing domestic relations orders, even appearances at the board meeting might be able to be flat-fee quoted. But we'll get it both ways so that we can come up with a -- a cost estimate that the board can look at. We would expect that staff would sit on an RFP screening pant with us. If the board wants to have a board member sit on the screening panel we would be amenable to that. But the full -- the recommendation will come before the full board. And as can you see from my time line at the end, we're trying to accomplish it by the end of the year. I don't know if we'll get all of this in place by November 15th. I'm still working on the RFP. So getting the RFP out before September 2nd is going to be a challenge. But I mean that's really -- that challenge of trying to get to this RFP is, I think, indicative of the problem that we're facing. So I'll be glad to answer any questions.

>> So is the RFP to cover Police and Fire and Federated?

>> Mollie Dent: Yes, but it will allow firms to propose on just one board if they want or even on just part of the work. For example, you may have firms that could easily handle the domestic relations orders, local firms that could easily handle those, that really don't want to do any of the other work. The -- you may have firms that only want to do the investment matters. You have an investment counsel now that only does investment and you may decide to keep them only doing investments, with them -- with the firm that does investments only coming to board meetings when there are investment matters before the board. On the other hand, there are full-service firms that do all of the legal work for retirement boards. And then, a full-service firm like that would have a person that would be the general counsel that would sit here as the attorney for the board, due the Brown Act, public records act and that kind of advice that I do, and the code sort of matters. While you're at the board meeting and would bring in specialists from the firm they needed to on investments or on real estate or on tax. So we're going to try to cast the net as wide as we can, so that we can get a good pool of candidates and that so we can get some competitive proposals.

>> Would the proposals be submitting bids for each category, so can you pick and choose?

>> Mollie Dent: I would like to do it that way, but what we like to do is to say, is to ask them, to submit on all or one. I mean some firms they want to say well if I only get this piece this is what I'll do. If I get the whole thing I'll give you a break and this is what I'll do. So --

>> You just couldn't break out a category unless you do that but they may want to do give you a total package --

>> Mollie Dent: The only reason for me to break it out is if it's cost-effective to do it that way or if it's really a niche specialty. The sort of two niche specialties, there's three sort of. The ongoing tax advice but any general counsel for a retirement fund, any large firm that is general counsel for the retirement firm should be able to handle the ongoing tax advice and may have the investment expertise. And so --

>> Thank you.

>> Mollie Dent: Oh and Police and Fire does want to have an option for their outside attorney to be more involved in the disability review process. I wasn't going to include that for this board. They want an outside attorney to sort of screen sort of similar to volume, Police and Fire, they didn't want to assign it to staff. That will be the only difference, the investments are different and the assignments are different but that is the only service that a committee have indicated they might want us to include. Not the full board, a committee.

>> Edward Overton: Mollie, on page 8 you have a sentence there that says the CEO will manage the outside counsel's contract. What does that mean?

>> Mollie Dent: Because our -- because we have a charter function, in providing the counsel, the contract will be through our office. So our office executes the contracts now for your outside counsel. So this will be the same. Our office will execute the contract for outside counsel. This contract, because they'll be providing the general counsel's services, we would expect there to be more coordination with our office. In the sense that there -- we have a lot of history, as you well know, with representing the board. So -- and we've issued numerous legal opinions over the year for the board. So we expect there to be some communication but, for example, someone from our office will not be attending the meetings. Someone from our office will not be preparing the contracts. The outside attorney will be preparing your contracts. The outside attorney will be appearing in the domestic relations matters. The outside attorney would be handling writs of mandate if you had them. The outside attorney will be coming to the board and advising the board at the board meeting.

>> Edward Overton: Wouldn't it make more sense given the statements you just made, that the attorney is selected and actually hired and evaluated by the retirement staff? I mean if you --

>> Mollie Dent: They don't have the -- we're stuck with the charter.

>> Edward Overton: Yeah but the charter you know we've argued that for years. The constitution provides plenary authority for the retirement board to manage the plans.

>> Mollie Dent: I understand that and we're --

>> Edward Overton: And there's plenty of legal precedent for that constitution in this particular area jumps over the city charter.

>> Mollie Dent: Well, the Municipal Code doesn't authorize the board to hire attorneys either. And our charter function is to provide legal services for the board. We are definitely going to have the board -- I wouldn't be here today talking to you about it if we weren't going to have the board involved in it. We are going to have staff involved in selecting the attorney. We would welcome the board to be involved in selecting the attorney. We don't -- we're going to bring the recommendation to you. We'll bring all of the candidates to you. We're looking for your input in the selection process. We are not expecting the outside attorney to run everything past us. I mean it wouldn't say -- it wouldn't achieve the result that we need it to achieve if we were expecting that. But we do feel like we have to manage the contract from the standpoint of being responsible. We have a responsibility under the charter for the provision of legal services and we want to make sure that you are getting quality legal services.

>> Arn Andrews: But in essence you are subcontracting out your charter function which will become an expense for the plan which in the past hasn't necessarily been an expense. I mean a minimal expense.

>> Mollie Dent: It's been a minimal expense to the plan in the past, that's true.

>> Arn Andrews: If you are subcontracting out your charter authority and we will have financial responsibility, why wouldn't we have the opportunity?

>> Mollie Dent: we hire outside counsel all the time for the city, for various city functions, just like work is contracted out for this board. We hire outside counsel all the time. If -- another option, if we -- if it weren't for our own internal staffing problem at this time, another option would be for this board, would be for this board to fully fund our office. You don't fully fund our office. I mean you can look at the chart and see that you're not fully funding our office. So yeah. That would be another option. Because you do -- you are responsible for paying the

administrative costs of the plan. This is an administrative cost of the plan. We do think this board -- we do think funds should bear the administrative cost of the legal services and it's not. So --

>> Edward Overton: Well, why wouldn't we be responsible for evaluating, selecting, retaining and compensating the lawyers outside of the city attorney's involvement? Whose -- who's this person going to work for?

>> Russell Richeda: , Ed, if I may, Mollie.

>> Mollie Dent: Sure.

>> Russell Richeda: You may want to speak to it, Mr. Doyle made it very clear that the client of the attorney that's eventually selected, in this case, would be this board. It would not be the city attorney's office. Here I may be not stating it correctly Mollie. It almost sounded to me that the administration phase of the contract would be slightly ministerial. Now, if that outside attorney weighs in the eyes of the city attorney's office probably just billing like crazy, inappropriately excessively, I bet they'd step in. But in terms of actually managing the work ited like the city attorney's office would not manage the work at all, that you would be the client.

>> Mollie Dent: That's correct, you would be the client on this contract. You're the client on our existing outside counsel contracts. So as I say, it -- you have outside counsel now. We've hired your outside counsel for you. We intend to hire more outside counsel for you because we need to, and you will be their client. If you are dissatisfied with that attorney, we will have no problem with looking for other counsel for you. You're going to be involved in the selection process. We're not going out and just hiring them on our own. And you will be involved in looking at all of the proposals that we get.

>> Edward Overton: Well, that's fine. I'm still troubled by the fact that the attorney, knowing he's selected, he or she is selected by the City Attorney --

>> Mollie Dent: I wouldn't say that the selection is just by us. We're going to be on -- we're going to do it with staff. The board can be on the panel if you want to. Mr. Richeda, assuming he wants.

>> Edward Overton: I want the board to be the selection panel.

>> Mollie Dent: You are going to be.

>> Edward Overton: Not be on it and not be -- you know --

>> Mollie Dent: We're going to be -- once the selection process is done, we will have to bring the contract here for you to approve it.

>> Arn Andrews: I would ask that during the RFP process since the plan is going to be the client if we proceed with this recommendation, that between staff and board members we're a majority of the RFP selection panel so that whatever gets brought before the board has been brought in a way where we know between staff and the board members we were the majority of the selection. So if we proceed that would be my recommendation.

>> Mollie Dent: So if board members are interested in being on the selection panel, it obviously can't be a majority of the board.

>> Matt Loesch: Majority of the board? Majority of the panel is I think what he's saying.

>> Mollie Dent: I understand. If you want to let staff know that you'd be interested in being on the panel we would certainly -- I put it in there we welcome having you on the panel. And if that's the desire that you be -- I'm not sure how many people from -- I don't know how many people from our office were going to be on the panel. I hadn't -- hadn't decided that yet, so -- the actual I'm working on the actual RFP. As soon as I get it ready, the Police and Fire board wanted to see it. So they're next -- so it will need to be posted if I get it -- if I'm going to get it out by the

2nd their meeting is on the 1st so the RFP is going to have to be posted sometime next week. And we told them that they could see it so you can see it, too. And it will describe the panel.

>> Russell Richeda: I'm not sure if I'm repeating something you already said Mollie. But my recollection is that Mr. Doyle said any selection even if there's not a recommendation would not be put in place until each board agrees to it.

>> Mollie Dent: Right, the contract has to come to each board.

>> Arn Andrews: But even before a single contract comes to each board during the selection process I would just reiterate that between staff and board members we're a majority of the selection panel.

>> Mollie Dent: Okay, I understand.

>> So I'm trying to get my arms around what the financial implication of this is. I mean, looking at page 3, is this sort of the total of what Federated spends on legal services?

>> Mollie Dent: This is the amount that was paid in fiscal year 2010-11, for 11-12 I think the $25,000 flat amount is still budgeted for our office. I don't -- I don't know what and Ice Miller is the flat -- is the maximum amount of their contract I think. The real estate services I don't anticipate there being any of those this year. And the investment counsel services, staff actually would be able to tell you better about that. That's a good example of the way the relationship works. I'm involved with your investment counsel when they need advice on city policy matters, on code matters. But your outside investment counsel works directly with staff. Staff handles the billing. And I don't review the bills. I track them, but that's about it. So -- I mean that's a good example of the way the outside counsel services work. It's an interface with our office as needed to just ensure that things are being done in consistent manner with past practice and the code and that sort of thing.

>> I guess my question is going a couple of directions. One is this just Federated or just --

>> Mollie Dent: This is just Federated.

>> Just Federated, okay.

>> Mollie Dent: And it will -- I very sincerely doubt that you are going to have an outside attorney that will provide the services that are currently City Attorney services for $25,000 a year.

>> So I guess that's sort of where the second part of my question -- where --

>> Mollie Dent: I won't know until I get the second part of my proposal, but it will be more.

>> Is the city going to bid?

>> Mollie Dent: Our office doesn't intend to. As I say, if -- if the board wanted our office to continue to provide the services, and wanted to provide additional financial support to our office, I'm sorry, that my boss, the City Attorney, wasn't able to be here today. But he would be the one that would have to make that decision. Because as you can see, from the cutbacks in our staffing, I mean, it -- there would have to be a conversation around that. Just simply because this is not my only client at all with the city. I have another large city client. And I have, as a result of cutbacks in other areas, had to take on more work from other areas. So -- but if we want to go ahead and get the RFP out, it doesn't preclude the board from having a further conversation with our office if you want to.

>> I just wanted to make one comment. On the $25,000 amount that is in this presentation that's not currently the amount that's being allocated to the fund. I'm looking at last year's CAFR, and this is for 2010. I'm sorry I don't have 2011 numbers to us. This plan was about $25,000.

>> Mollie Dent: To the city attorney's office? Prl I thought it was a percentage of an FTE or something like this.

>> Mollie Dent: I thought it was only 25. I'm sorry I didn't mean to make that -- that is my recollection.

>> Russell Richeda: Maybe litigation is outside of --

>> Russell Crosby: It is half of Mollie or some percentage of Mollie.

>> Matt Loesch: If I recall it was .4 FTE or .2 FTE.

>> Mollie Dent: I take it back, you might be able to get somebody doing that. I'm sorry, I worked on this with staff and I thought I had it right. I worked on it with Jennifer.

>> Russell Richeda: Matt, I'd suggest that the board, if they're interested, ask Mollie to include in the RFP the people respond on a retainer basis, for things that are more regular.

>> Mollie Dent: That's what I did flat fee.

>> Russell Richeda: No but you're saying flat fee per project. But many of the general counsel services, I think many of my clients are much more comfortable with retainers because then they don't feel like the harm rate is just continue going and therefore they minimize their use of the attorney at a time when they might be more useful for the board of.

>> Mollie Dent: I will ask for both.

>> Russell Richeda: It doesn't look for litigation, it doesn't work for complex cases that you have a specialized attorney for. But for many things, a wall to wall retainer might be in the board's best interest. Even though you have hourly even though it has risk is financially better. At least you have an option where the legal fees are capped regardless of your need for those fees. Something to consider.

>> Mollie Dent: That is my intention to ask for what I would call fixed fees. I will ask for fixed fees for a variety of services including the general counsel services but I will also ask for an hourly rate. Because if someone quotes a really, really high fixed fee and you just don't think it's going to pan out, that they need to spend that much time, you may want to go for a lower fixed fee, with an hourly add-on or something. So you want to -- you want to try to get the best price possible. And so.

>> Arn Andrews: The posting of an RFP doesn't commit the city to anything? I'd be curious to see what the market will bear. So for myself, I'm willing to entertain, make a motion to move forward with legal services, and posting the RFP. Do we need to make a motion or --

>> Mollie Dent: You really don't. I mean I wanted the board to be aware. I wanted to get your input. I want to build this thing so that it is something that hopefully when it comes forward you'll have what you need in front of you. And board member Andrews is right. It doesn't commit us to anything.

>> Matt Loesch: In a contracting out situation many of the other services of the city, the bargaining units get involved. I don't know if the association of legal professionals has had an opinion and whether they would like to have a voice. Street painting or something like that, they wanted to put in a bid themselves to maintain that service. Is it solely at Mr. Doyle's discretion whether he would like to have, okay, this is what -- for Federated this is what it would cost for to you pay for the city attorney's office to provide this service, continue to provide these services, is it solely at Mr. Doyle's discretion whether he would want to put something like that in as a response?

>> Mollie Dent: Yes, I mean he's the -- yeah, he is the City Attorney under the charter and he's the head of our office. I would say that I will take the message back and, again, I'm very sorry that he wasn't here. I will take the message back, that some members of this board -- I don't think all -- but some members of this board would be interested in perhaps engaging with our office on whether or not we could continue to provide the services that we've been providing to this board, and what level of financial support we think we would need. And I am going to

have to go back to our administrative officer on the amount. Because I obviously did not have the amounts correct.

>> Matt Loesch: That would really help us to compare to what the amounts were also knowing what features are available and what other things are available when you have someone outside doing the same work. But also, I'd like to have that if they are in fact going to bid for lack of a better word, the bid should be in at the same time the RFP respondents are, not after. Try to beat the bid. That's gaining the system and that's where sometimes people would get --

>> Mollie Dent: I think it would be likely you would get something from us before, not afterwards. But I don't --

>> Matt Loesch: I just wanted to get that out just to make sure.

>> Mollie Dent: This is not something the employees, the employees as a group are going to propose on. It's something that it would be more a matter of a budget action, really, if our office wanted to bring forward some proposal for additional budget for our offers. That would be the way it would come forward to the board I think.

>> Matt Loesch: So we have a motion. Do we have a second on the motion? We don't need a motion, I apologize.

>> Mollie Dent: Thank you. Mr. Mayor.

>> Matt Loesch: Round and round we go. 4.3, the CIO update on asset liability modeling. Ms. Racy-Choy.

>> Carmen Racy-Choy: Thank you. Basically the intent of this item was just to provide an update. Currently as you might already know we have lost Mr. Michael Moehle. He has since the end -- since the beginning of the month joined Cheiron and left the City's employee. We would like Mr. Moehle to be involved in the liability modeling that's required for the asset liability study and so we've asked the city attorney's office for direction on

this. As you might be aware, the city, the Municipal Code has a charter which fundamentally typically referred to as the revolving door ordinance. And I'll let Mollie discuss it further but just to inform the board that Mr. Moehle individual within Cheiron to do the work. And so we support and encourage him to do so .

>> Matt Loesch: How would that get paid for, straight to Cheiron?

>> Carmen Racy-Choy: Straight to Cheiron.

>> Matt Loesch: Or within the contract?

>> Carmen Racy-Choy: No it is within the contract .

>> Matt Loesch: Do you have a comment?

>> Mollie Dent: Just that there is a process for the revolving door process and the new process is pretty expedited. The waiver should go to the rules committee next week and if the waiver is recommended on to council it should go to council the following week. And I believe the waiver's been filed.

>> The waiver has been filed. It went to Rules yesterday and was approved on Tuesday's council.

>> Mollie Dent: That quick, okay.

>> Matt Loesch: Because I'm eager to get this thing moving. if we will take months to get this done, and things are marching on. What I'd like to do, few minutes to 10:00, call a quick recess, then call 4.5. Quick ten-minute recess, please. [Recess]

>> Matt Loesch: Like to call back to order. I apologize, I did miss all of item 2 and there's quite a few of these. The death notifications. So I'd like to request a moment of silence. Those who serve the city and have now passed. [Moment of silence.]

>> Matt Loesch: Okay, thank you. Being item 4.5. This is the approval to invest $15 million in DRA's gross and income fund VII and for the secretary to negotiate and execute the agreement. There are represents from Mikita here and I don't know if there are staff introductionary comments or go right in.

>> Carmen Racy-Choy: Sure, I would like to introduce Mikita just conveying that DRA is the best manager in the current real estate portfolio. I think the Federated plan has investments in three or four of their real estate funds. Their performance as of December 30th was actually about 600 basis points positive median. So this is a manager that Mikita thinks highly of. This is a manager that staff thinks highly of. And basically, we are investing in their next fund. So with that, I'll ask Mikita to step up.

>> Thank you for having us.

>> Matt Loesch: Just make sure you pull the microphone flight front of you.

>> As mentioned before I'm Laura Weirich, and Kim Rose heads Mikita's real estate investment effort. And as Carmen said, we are here to discuss the fund VII. And I will -- does everyone have the manager search document we put together?

>> Matt Loesch: Yes we do.

>> Okay, with that I will turn it over to Kim for a quick review of DRA.

>> Thanks Laura. If I could have you maybe turn to page 7 of the documents that you have, I'll just spend a bit of time on the organization and obviously feel free to interrupt me at any time to ask questions. So DRA was

founded in 1985 by David lucky and Franz Tanzy. The firm currently has about $9 billion of assets under management which consists of almost $4 billion in equity. And the firm has executed one strategy since its inception which has been a value added real estate strategy. They currently only execute one strategy and the series of funds have all been executing that strategy. The firm has 77 employees firm wide and three offices with their headquarters in New York. And two other regional offices for asset management purposes. The firm has been managed by 13 officers who on the average have been with the firm about 15 years. Moving on to some information about the fund itself. As Laura mentioned this will be the seventh fund in their series of value-added funds. The firm is targeting $1 billion which is consistent with its previous two value-added funds. Worth mentions the fund is currently oversubscribed. They have currents over $1 billion of retention and weaknesses. The GP commitment is 1% an worth noting is that will be a cash commitment versus any fee offsets which you commonly see with private real estate managers doing. And the time close will be September. So they've currently closed on about $670 million to date. Expecting a close at the time end of September. They have made one investment to date, and it's a multifamily property in Memphis Tennessee that they have joint venture Wednesday an operating partner that they have done 12 previous joint ventures before. It is very consistent with the strategy that the fund will execute the value-added play that's currently fairly well occupied but their plan is to go in and renovate the property, increase our improve tenancy and increase the value of the property and sell three, four years down the road.

>> Edward Overton: Excuse me, before you move on from that.

>> Sure.

>> Edward Overton: Under the operating costs are you going to talk about that? Or did you --

>> So I think you are a couple of pages ahead. So are we on page 10?

>> Edward Overton: Okay.

>> No, that's okay, I'm happy to. Operating cost is actually fairly unique structure, different than what you see from any real estate managers out there on closed end vehicles. The memght fee is tiered 90 bits of gross asset cost and tier down to 60. You generally see more of a 1.5 or 2% of commitments over the life of an investment this structure while unique has been beneficial to LPs and the typical spread for their total fee structure has been about 300 to 400 basis points versus almost 500 basis points for other more traditional fee structures. Also interesting to note is 20% for most private noncore real estate vehicles, so again it's favorable terms for investors such as the retirement system. And there's no catch-up structure. So all of these things, it's been consistent with our fee structures historically and are favorable for LPs in the fund.

>> Edward Overton: So historically they have had carried interest? They've been around for a while and I wasn't remembering that.

>> Yeah so it's always been 15%. Even with their strong performance they haven't increased which you'll find more on the private equity side rather than the real estate side. As moving up in the structure from 20 to 25 almost 30% sometimes in carried interest.

>> Edward Overton: Okay.

>> So moving on to the strategy of the fund. As I mentioned it will be a traditional value-added strategy. One thing that's somewhat unique to this fund, relative to some of the other value-added managers in the market as well as in your portfolio, they have a very strong focus on current income and they've always generated approximately 50% of their downturn with regards to you know servicing debt and continuing to operate in the properties. They just JV patterns for most of their investments historically. It's been about 80% of their investment. So you know which% they have operated internally themselves. These jointly venture partners extend to be a very good source of deal flow for the fund and they have a very good economic arrangement with these joint venture partners. Being that the promote that they share with these joint venture partners is usually, joint venture partners don't participate and promote until they have actually made returns that the fund is looking for. Meaning that they generally do not get any profits until the fund has received 17%, 15 to 17% IRR which is unique to many other

outventure operating structures out there where partners with it get promotes over 8%. So much lower hurried many verse in the fund. In terms of areas they will specifically target or distressed sellers they'll also do transactions with REITs which they have done historically. Those would be kind of twofold. One would be doing joint ventures with REITs as many of the local REITs are seeking to divest or they will look to firms like D RA to invest alongside of them where the REIT manager would still operate some of these properties and they've done a number of these portfolio transaction in the past. They'll also look at some of the smaller REITs and look to potentially take them private which is something they have done a couple of times historically, they have served them well, where they are find ugh value in the 2006-2007 time frame when valuations for a single property assets were extremely high. And that I think relative to some of the other value-added managers in your portfolio specifically served them well focusing on areas where they saw value. So I covered operating costs. I'll move on to performance which is page 11 in the presentation. And just some highlights. You'll notice that four of the six historic funds have been top quartile performers. Fund III -- I'm sorry fund I which was not in the top quartile fund VI worth noting has moved into positive territory. Aves 3-31. These reports are of 12-31 pps so while you've seen many managers recently increase their valuations across their portfolios given what you're seeing in the market specifically on the core assets, DRA has been somewhat conservative in their valuations and there's probably much more hidden value in these returns and these are actual. So they actually have provided projected returns for their funds and would I say the three funds that are unrealized will definitely end up in the top quartile relative to their peers. Moving on to our overall analysis which is our swat analysis, which covers the strength and weaknesses, most of which I've already mentioned on the strength side. But you know DRA is a well established platform that's been executing this strategy since the mid '80s. They've had little turnover at the senior partner level and it's a very large organization with 77 employees. Strong returns over a period of time, as well as over several market cycles. The terms are obviously very favorable relative to their competitive set in the marketplace which I went through more detail. And they focus on one strategy which is fairly unique relative to one of the many other relates organizations out there that has value added opportunistic core seats they do it well DRA. Some of the weaknesses. They do have a fairly large unrealized portfolio which is somewhat offset by their use of the operating partners who take more of a lead day-to-day operational responsibility for those assets. In addition, they have been liquidating many of those assets which will continue over time as the markets start to improve. So you'll continue to see more assets selling off which will deplete some of those unrealized investments. And the double-promote which is, you know, consistent with using operating partners where they get paid as well as obviously LPs and fund paying promote to the general partner. This we think is offset by the structure that they engage with their operating partners which I mentioned which is not having them participate until the participates in the upside . The next page is some opportunities for threats we really see an opportunity now in the noncore real estate space. Obviously in the markets you've seen core prices increase quite significantly over the past several quarters. And you know we think it's trifn more by the demand in exap chasing those assets versus fundamental improvement. We think there's an opportunity in the noncore specifically value added space versus excelling valuations. So we think DRA is a great manager to be able to take advantage of some of those opportunities. And obviously you know there's the general effect threats that there could be either a double dip or a continued slow recovery in the real estate market. You know we really think that's offset by DRA's focus on current income which they've focused on in the past which I mentioned served them well over the last downturn. So being able to generate that cash component and they actually offset some of the risks associated with a prolonged recovery in the real estate market. So moving forward. With that all said, we think summary points, DRA is a established manager in the space, we think one of the strongest managers in the value-added space on an absolute basis it's obviously an over subscribed fund. It's in very high demand and we think at this point a commitment consistent with the investment that you made to their last fund of $15 million would be reasonable and you know DRA in general should be considered one of the key relationships in your portfolio.

>> Matt Loesch: Okay, questions from board members? Mr. Dirks. Being.

>> Martin Dirks: What is 20% I would say would be average .

>> Martin Dirks: Thank you.

>> Arn Andrews: And considering currently they only have any type of geographic distribution on density levels they won't go either below or beyond you know just a little more sense of what's anticipated to be populated in the fund?

>> Sure. They don't have any targets and they don't have any restrictions on geography. It is a U.S.-only focused fund so it will all be U.S. but if you look historically what they've had diversified across the United States and various markets as well as by property types. So we're kind of going on history serves itself there but they don't have any targets, stated targets. They're really more driven by deal flow so the deal flow that comes in versus taking kind of a top down research approach and then they work on the bottoms up analysis after the deals come in. So there's no target allocation per se but based on history they've all been well diversified. In terms of number you're looking at anywhere, close to 100, you could be over 100, if you are looking at some of these REIT privatizations, one on its own. So it will be a very diversified and when you look at those types of transactions you'll see you know when you are looking at 150 assets it's going to be well diversified across the United States and markets.

>> Matt Loesch: Further questions from the board? With.

>> Edward Overton: What's your assessment of the real estate market in general? Good sure. You know, obviously the real estate market has -- has seen some down turns or seen some effects from the recent down turns in the markets. That said, we see the market as somewhat bifurcated between kind of core assets and noncore assets. So you're seeing in the past six quarters I believe you've seen an improvement in the returns for core assets, of looking at both the odyssey and the MPI indices of anywhere from five to 6% of that three to 4% in appreciation. As I mentioned before, and I'm sure you read in the news, much of that has been driven more for demand in the market fundamentals. You know we think that core real estate has a place in a portfolio for a large diversified portfolio but it's not an area that we're currently seeking as being attractive. Where we're seeing more of the opportunities and it still remained in the more distressed an noncore space. You know you're all seeing, everybody talks about this wall of debt that should be coming due this next three years, it should have been three years previously, it gets bumped up banks willing to get rid of some of this debt, so you're starting to see some those opportunities increase. You're really seeing the opportunity more on the noncore side whether it's from distressed praishts or from assets in a distressed state. So that's where we currently see most of the opportunity both domestically and internationally.

>> Edward Overton: Thank you.

>> Sure.

>> Mayor Reed: Mr. Armstrong.

>> Michael Armstrong: Who are the larger investors, who would we be accompanied with?

>> Some of the large Texas teachers, some of the large public funds are investors. They also have a lot of support from smaller investors. It's primarily public pensions. To be fair they don't have a lot of fund to funds, they don't have a lot of endowment, it's concentrated in the public pension serk.

>> Michael Armstrong: And with their success why this very kept this fee structure?

>> I guess one thing that would test the fee structure is they have an 85% reup rate. They don't go out, they don't spend a lot of time on the road. They went right to the market. They will be done investing in the next five months.

>> Carmen Racy-Choy: I will say they didn't come to the real estate, and the private equity portfolio and basically, we felt that DRA had I would say fairly low fees comparatively to others of similar track record. And their performance has been excellent. And so it was very much kind of the thinking that this is one of our better manager and we went to DRA. We told them we want to invest in your current fund and they said well it is oversubscribed. However since you're an existing client we will basically grant you the $15 million approximately the same amount that we invested in their last fund. So this is not a manager that's going to come and tell you please buy into my fund. This is a manager where you initiate and you go you say, can I please invest some money in your fund.

>> Matt Loesch: Further questions? I have a couple. Where is the money coming from, the $15 million?

>> Carmen Racy-Choy: Currently we're slightly over our target in fixed income. So depending on when we actually manage to complete the contract. If we were to do it in a week's time, we're currently a little bit overallocated to fixed income. So we'd probably bring that more in line.

>> Matt Loesch: Okay.

>> Carmen Racy-Choy: But I mean if it were to be called tomorrow that's where we would liquidate. Typically we would liquidate basically wherever we are overallocated.

>> Matt Loesch: Need to rebalance out of.

>> Carmen Racy-Choy: Absolutely. We try to rebalance at the same time as meeting the capital calls.

>> Arn Andrews: (inaudible).

>> Carmen Racy-Choy: Yes, it's a good time to be overallocated.

>> Matt Loesch: You sort of answered my question. I had a question of why onow? How does this fit into our other real estate stuff, are we under, I think that's one thing we've talked about before, whenever we bring managers in even funds that are existing managers, how does this fit into the whole puzzle, what piece is this and what piece is this trying to fill? Whether it's just because they have another fund open, you want to maintain the relationship, what piece is this plugging into and how does that fit into our overall real estate allocation?

>> Carmen Racy-Choy: One of the recommendations that's going to come forward from the real estate committee is the fund should predominantly move out of core real estate. This is predicated on a couple of things. One is the fact that typically pension plans have core real estate as a protection against a high inflation scenario. Since the plan already has a real asset allocation to commodities infrastructure and TIFs of roughly

20%, the role of core real estate, the role of protection that core real estate typically plays is not really in demand. In addition, core real estate only responds to inflation in the long term. You typically need something that responds to inflation in the short term. Because if you wait until real estate responds to inflation, the city could go bankrupt. In addition, core real estate is currently very significantly overvalued. So it's a good time to reduce the allocation to core real estate. Currently, the portfolio structure is 50% of the real estate allocation is in core. 50% is in value-added and opportunistic strategies. So the -- this fits in exactly into that view, that we need to move away from core and emphasize opportunistic and value-added and maybe some deft investments.

>> Matt Loesch: Foirlly I'll request that any time we are doing this more, analyzing and looking at so that isn't anything we have to ask for.

>> Carmen Racy-Choy: Sure.

>> Matt Loesch: I think it's some of my trouble going on manager looks great, Russell on site, or DRA sounds fantastic. But how does this fit into the whole puzzle? That's something I need help on continuing.

>> Carmen Racy-Choy: I apologize. I think we should have brought that recommendation forward at this meeting but due to time constraint we ended up deferring it to next meeting but we'll make sure we do that in the future.

>> Matt Loesch: Any other comments or questions for the board? I'll entertain a motion.

>> Edward Overton: Move approval.

>> Arn Andrews: Second.

>> Matt Loesch: Motion to approve the investment of $15 million in DRA. Further comments or questions? All in favor? Opposed? None, thank you. Items 4.6, this is discussion and action regarding selection of a governance consultant based on responses to the RFQ for an amount not to exceed $100,000 for the period ending June 30,

2012, and for the secretary to negotiate and execute an agreement with the selected firm. We have a memo here from Mr. Kumar.

>> Received three responses for the RFP that we conducted in June. Received responses from Cortex moss Adams. Huett and fiduciary services comes from consulting and investment management have one of the highest fee structures. Moss Adams is an accounting firm and governance is also not one of their primary businesses. And they had the second highest fee structure. Cortex which is established -- which was established in 1991, strictly specializes in governance structure. And they are regarded as the pioneer in this field. They had the lowest fee structure and they're the ones that had recommended to the city to change the board structure which we have currently. So staff recommends hiring Cortex based on their staff experience as well as the firm experience.

>> Matt Loesch: Thank you.

>> Can you ask any questions.

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

>> Arn Andrews: No I believe this is in line with some of the conversations we've had in the past where the board is looking to formalize our role, document our role more. This appears to be the next step in trying to achieve that. So I have no questions.

>> Matt Loesch: Okay. I think it's a must. So I think we're at a point where we've got the new folks on, we need to get some little better structure as to what we're doing, either the committees that we're dealing with or overall procedures. So if we can formalize this and get things moving, I think we'll talk more about it in 4.7 and 8 if we go forward. So I'll entertain a motion.

>> Arn Andrews: I'd make a motion to approve the hiring of Cortex for an amount not to exceed $100,000 for the period ending June 30th, 2012 and to negotiate and approve the contract with Cortex.

>> Second.

>> Matt Loesch: Any further comments or questions? , opposed, thank you. 4.7. I'd asked to do 4.7 and 4.8 together. If I can call them open at the time and combine. This is a discussion and action regarding the board governance including a teleconference with Cortex incorporated if 4.six was approved, it was and discussion regarding remaining recommendations from the Cortex report. Are we going to have them on, are they going to do the full presentation, is that the plan?

>> Yes.

>> Russell Crosby: We have Tom Ianucci who is the president of Cortex at this point.

>> Matt Loesch: So we had a report that was sent out to us, and it's here. Tom, this is Matt Loesch from the board.

>> Good morning.

>> Matt Loesch: I think we're in a position for you to walk through your plan.

>> Thank you very much. Mr. Chairman, members of the board staff and members of the milk. My name is Tom Ianucci and I'm with Cortex applied research. I suspect you have a heavy agenda so I'll try to be as efficient as can I with the presentation. The purpose of the call is really to serve as an introduction to Cortex and the project and to really kick off the governance policy project. And I want to thank you for retaining us to help with you this what we think to be a very important initiative. I hope you all have the PowerPoint presentation in front of you. I'll just walk through those slides. Looking at slide number 2, the agenda. Thought I'd tell you, give you a little bit of

background about the firm. I know we've had the opportunity to meet some of you. Some of you we hope to meet very soon. I'd also like to give a bit of background on our thinking and our philosophy of what we call governance and organizational effectiveness. I'd also like to talk briefly about the whole concept of strategy for a public retirement system such as yours. And it closely relates to governance. It's not really the focus of the governance policy project. Although one of the policies we will be working with you to develop is going to be a planning policy. So I think it's relevant in that sense. And then lastly I thought I would take this opportunity to just review quickly the scope of the project, review the deliverables, how we intend to approach it, and provide you a general sense of the timing we expect to follow in completing the project. And please, if anybody has questions at any point please don't hesitate to ask. Now, a little bit of background about our firm. Cortex, in an industry that's really dominated by investment managers, investment consultants, actuaries and lawyers, Cortex is what we believe a very -- quite a unique firm. We're really a management consulting firm that about 17 years ago, decided to focus strictly on one issue which we calm board governance. And within that issue we decided to concentrate on one sector and that would be the pension world, corporate and public sector pension plans. And as we look at board governance, under that bream of board governance we work with our clients on the issue of board policy work, strategic planning board education, clarifying rules and responsibilities and then specialty projects that come up, and again that related to that issue of board governance. We were created in 1991, by Dr. John Porer who is the founder of the firm and is still with us. We've worked with well over 100, probably we're getting close to probably 200 different pension plans across North America many Canada and the United States. Defined contribution, all types of sizes from some of the very largest to funds that are quite a bit smaller than your plan. And our staff, we're a small group, we have a variety of backgrounds. Law, general business, engineering, and even someone who used to actually administer a pension fund, corporate pension funds. So we have a variety of backgrounds that we bring to bear on all the work that we do. Turning to slide 5, again a bit of background on how we view the whole issue of organizational effectiveness and where board governance fits into that. We've identified really four issues that are a number of perhaps the most important building blocks or the cornerstones of organizational effectiveness are really as follows. We believe a clear mandate is critical and what we mean by that is that the organization and the board, by statute, have a clear focus on what they're supposed to do. Meaning that ideally they should be focused on the fiduciary role of administering the benefits and try to minimize the -- any room for sponsor-time roles or settler type roles. The mandate should be clear enough and focused enough that it shouldn't include things such as investing as an example but really be focused on the members and the beneficiaries of the plan. Second, we believe a truly effective retirement system must have a strong board and what we mean sphwhai is a qualified board an expert, a board with the knowledge and the expertise and the backgrounds and the perspectives that are needed to effectively administer the system. Equally, that the board has tall necessary authority that it needs to carry out its fiduciary responsibilities. And just some of those would include ideally, the ability to hire staff, set their compensation, establish the operating budgets chtd system, hire their advisors, their legal counsel, their actuaries, their investment consultants, et cetera and have complete discretion over the investment program, that they have the authority to truly manage the assets again in the best interests of the system. The third piece we would identify would be what we call effective internal board governance. So that you operate effectively as a body, as a decision making body, that you've got the documented policies, processes, structures and systems and reporting, that will allow you to carry out your job effectively, carry it out efficiently, et cetera. And equally important that you've created a culture of performance and ethics within the organization and that's much more difficult to do. You can write it up but documents don't necessarily make a culture. So that's perhaps the more challenging and difficult thing to create but we think it's critical to the long term success of the organization. And thirdly, fourthly, to truly be effective you need the best possible staff that you can find to help run the system. And be accountable in reporting to the board. And within that you need to be able to provide a sound and reasonable compensation, and ideally, some sort of incentive system as well. So those are four building blocks we believe are essential to the long term success of any retirement system. Yours included. And you'll notice of course one of them relates to internal board governance and that's really the focus of the project and the contract that you've just approved for us to undertake on your behalf. Switching to -- turning to shrike 6, a quote I thought was interesting, it's by a gentleman named Claude Lamaru who used to be the CEO of the Ontario teachers pension plan. It's a system some of you may be waiver or heard of. It's widely regarded around the world as being a leader in effective pension management and administration. He made an interesting comment which we agree with wholeheartedly. And it's that on their board as they were creating their board governance structure and they were only created back in 1991, so they essentially started from scratch about 20 years ago. That from them governance was always simply a means and that the goal was performance. And we agree with that statement. That although governance is important from a legal point of view it shouldn't be the end point. It's not the essence of what we do. It's really simply a tool to help us ensure the best possible performance for the organization. And I just thought that was an important point to keep in mind, and it reflects our of our philosophy as well. Turning to slide 7, the benefits of effective governance, we could spend quite a bit of time talking about that. But the only point I really want to make here is that and it really is the lower points on the slide, the true value of dealing with your internal board governance practices and processes are really that, if it's done well and if you come out, with a framework that everyone agrees with, understands, and agrees to live by, it can truly make your decision making processes more efficient. And the reason we want that is because it freeze up your time as a board and as a staff to focus on what we would call higher value-added activities, those performance issues I mentioned in the earlier quote. Examples would be strategy, long term organizational strategy, policy decisions, not just investment decisions but its benefits decision on the policy administration and customer service side. Risk management not just on the organization side but governance processes and internal governance you don't have to rehash things or unnecessarily spend time on issues the prior boards have dealt with. You can spend more time on these value-added activities in our view. Once again, turning to slide 8, this is not necessarily a strategic planning project but I just thought I'd just comment on strategy and how it fits in with the governance policy work that we're going to be doing. The challenge for your board is an interesting you are essentially a newly constituted board but it is not a new organize. You have a very mature organization with a new board organization. Your challenge is to set out a new vision or a new culture for the organization or confirm your culture and vision as a group, as a new body, while at the same time running a large organization with, when you combine it with the other, with the Police and Fire about $5 billion of assets and a number of challenges which we're aware of and I'm sure you all are aware of. You've got various organizational and governance constraints in terms of the authority you have to run this system. You've got we understand some critical organizational challenges environment an investment environment that just seems to grow increasingly complex and volatile. What are some of the strategic issues that a system like yours might consider, slide 9. Well, autonomy would seem to be a important one, autonomy vis-a-vis the plan sponsor in your case the city. Staff plans, public plans across the country. Closely tied to that staff compensation. Resources, I saw on the agenda you dealt with legal services. That's a critical issue. Obtaining the right resources. The independent resources and ensuring the oversight of those resources. And accountability of those resources and then of course governance and stakeholder relations issues are always important. I tried to put myself in your shoes and think through what sort of strategy might make sense for your organization given where you are in your life cycle as a new board. And I boiled it down as a suggestion three points very simply, set the bar, and I'll talk briefly what I mean by that. Secondly, take the lead in creating division for the organization and all the details to support and clarify what that vision means. And then third, promote that vision among the stakeholders. Now what do I mean by those three points? Slide 11 elaborates a bit on that. First of all set the bar. What I mean by that is as a new board, it's very important to let the world know just how serious you are as a board, about being the very best fiduciary body you can be, that you are going to structure yourself and highest standards of fiduciary practice and standards and to consider the clear roles and responsibilities, both within the board, your committees and vis-a-vis your staff and outside parties potentially. Ethical standards and culture. This is an issue that's been getting increase being -- an increasing amount of attention across the country with various unfortunate scandals that have arisen around the country. But as part of this project we're going to work with you to code of conduct. Board training, a critical issue to let the world know that you're serious about ensuring that your members, board members are going to have the resources and a program in place to ensure that not only do they come to the board with appropriate knowledge and training but that knowledge and training will continue to build as they serve on the board. A commitment, a performance evaluation, transparency in disclosure, I believe is critical. Again in this environment when public funds are increasingly under scrutiny, what kinds of information are we going to make available to stakeholders on a routine basis, how transparent are we going to be. I think that's an important discussion to have and to document. Once you set that bar or sent a message to the world and documented it, as to how serious you are about being the best possible board you could be intentionally? I think there are other issues that need to be set out and I called or grouped them under the heading of vision. And because of a lot of your stakeholders won't be familiar with some of these terms I think it's important to be clear about them. Especially if we are going to be seeking increased autonomy vis-a-vis our stakeholders, we need to legality them know how we are going to use that autonomy and how we envision that organization working once we look like structurally what would our division structure look like if we're interested in reviewing our staff compensation what would that compensation structure look like? Would it include incentives components and how would those work? I think these need to be thought-through in advance before perhaps requesting their or asking stakeholders to go along with some of these new ideas. Performance and risk management, how are we going to assure our stakeholders that we have processes and policies and procedures in place to manage all sorts of risks that are inherent in a public retirement system. all important questions I think that speak to the vision that you all have I'm sure in your minds as to, if not documented already to some degree, what kind of an organization we want to be in the future. And once that's been thought through, discussed and documented where appropriate, I think at that point you would be ready as an organization to begin promoting that vision among the stakeholders, the members, the retirees, the unions, the city and letting them know why it makes sense, why it's appropriate, why it would benefit all involved, all stakeholders, why it would benefit them, financial risk, reputational point of view, et cetera. I think it's difficult to promote the vision set out those details. Turning to slight 14, what are some practical first steps before we each broach some of those strategic issues. I think we've put them down and set them out in the RFQ, two steps, both develop that internal board governance framework. I'm going to talk a little bit more about exactly what that means and we're going to get through that immediately and try to get through that phase as quickly as possible because I'm sure you're anxious to turn your attention to some of those value-added activities I mentioned earlier. And secondly to help you through thinking about staff plan in the country public plan that's an important issue as well. So with that as background I'd like to now very quickly just give you an overview of the current project that was set out in the scope of the RFQ. Turning to slide 16, news so we're all clear as to exactly what we all expect to come out of this project by way of deliverables. One important deliverable would be that we're going to work with you to come up with a committee structure. I know you have committees in place and you all might be perfectly comfortable with that, and at the end of this process we might confirm that that is a reasonable structure. However I think it's important that we analyze it and structure that makes sense for your circumstances. The second deliverable would be clear -- a clear set of documents that set out the roles and responsibilities of the key internal players of the system. And that would be the board, the board officers, those board committees once we've agreed with you awhat those committees would be, and of course the director and the CIO. So that would be a set of documents, ultimately you'll end up with a manual or binder or some sort of electronic binder that lays this owl in detail. The third deliverable would be a set of what we call board governance policies. And in your RFQ you identified I believe seven or eight policies. I've listed them on slide 17. We have developed similar policies for many other organizations and we are looking forward to working with you to help you and I think some of the issues are critical. Board operations, what we mean by that is exactly how you function as a body. important to review and have some you perhaps identify any changes or suggestions you might have. The ethics policy I mentioned, the planning policy, the education policy, all of them I think constitute a really, really solid baseline for your new governance policy manual. The fourth deliverable looking at slide 18 would be an education plan for the board. This would complement the education policy that we'll develop as part of the manual and you'll all have an opportunity to provide input into what that plan would look like. It's going to reflect and it has to reflect your interests, how much time you prepared and able to commit to education and then working with staff we'll come up with a short to medium term plan to help guide your education resources. Education resources and lastly we are going to be working with you to review your staff structure and review the compensation currently being paid to staff and identify any recommendations for improvement or change. Turning to slide 19, I'm not going to go through any sort of detailed work plan but I thought I'd just high lie some of the key elements of our approach. We will be reviewing various dowmghts that how you operate but nevertheless there's a you know variety of documents we'd like to review from your investment policy to your current policies we've reviewed your charter once again. That would be a first step. We think it's critical that you all be involved in this process and we'd like to interview each and every one of you. Confidentiality we will summarize the data, on an anonymous basis that will help us to make sure that the resulting dossments meet your needs and meet your circumstances. We'll administer survey as well to the board members. That will help us design an education plan. We will also be looking to peer data. We've done a lot of benchmarking in recent years. We've collected a lot of data on California plans and other plans across the United States and even Canada which we will try to bring to bear in our analysis. In terms of how to bring these things forward, we would be working on all these documents concurrently. We would suggest and we'll talk to staff later but we think that it ought to be a two-step process in terms of bringing the materials and the deliverables forward. It should go -- they should go first to a committee for reviewing and discussion, and ultimately we think all of these requires demands, ultimate board approval and of course buy in. All would go to the final board for final approval . I'm sure you're aware this project is being -- we're grateful that both boards retained us. That allows us to coordinate this process through an efficiency point of view, we'll be working with staff in connection with both boards but I just want to assure the board that while the analysis will be coordinated, some of the efforts will be coordinated, the resulting deliverables will be unique to each board. We will be -- they will reflect the input that you provide, and of course, at the end you'll be able to see these documents before you approve them to reflect your needs. So while we're working with Police and Fire as well we view you as two completely separate client. We have the bflt of being able to apply a more efficient process but again we view these as completely separate deliverables that will hopefully be significantly different and reflecting the difference between the two boards and the individuals serving on those boards. By way of time line, slide 21, we would like to begin immediately this month with some of the preliminary steps by way of data gathering. In September-October we forsee preparing the various draft individuals, ready for presentation to the committee whichever committee you designate in October or November. And we hope to complete the entire project before the end of the year. So it's a very sketchy high level sketch of the time line and I hope that's appropriate. Because once again we want to get through this as quickly as possible because we think you have other frankly more important things to determine as we think this is, we think you have other equally important if not more important issues to attend to in the areas of risk management and overly long presentation. That completes the formal part of the presentation and I'm happy to take any questions that the board members may have at this time. Just in closing let me say thank you for retaining us and we all look forward very much to working with you again.

>> Matt Loesch: Okay, thank you. Comments or questions from the board members?

>> Arn Andrews: Hi, this is arch Andrews. I have one question for you. In the beginning when we discussed the building blocks you speak of autonomy and I've read this in one of your earlier reports and it talks about you know the board having the authority to establish budgets compensation, I'm sure you're aware that currently that is not a process that is capable of happening.

>> That's right.

>> Arn Andrews: When you talk about stakeholder outreach I mean do you help us in a sense to be able to articulate to our primary stakeholder our sponsor why it would be in their best interest to allow us to have budget setting authority and compensation authority, and do you have experience with similar clients, you know, working with their sponsors to articulate that?

>> We -- the initial steps in this process are focused on preparing as I described in that first piece setting the bar and creating the board governance manual. We believe there will be some budget and resources left over which we would then like to help you turn your attention to some of those strategic issues. The one you just mentioned

being one of them on the question of autonomy. So we would be happy and prepare to try assist you in that area. That's obviously a challenging issue, a very difficult issue. It doesn't, frankly, come up very often. In all we've been at this business for 17, 18 years, and the vast majority of our work is on the internal board governance where we take the given big G governance structure as a given and try to help the boards be as efficient as possible within that structure. But from time to time there are cases where a board or a sponsor wants to think about some of the larger G, the big G issues, for instance autonomy. And we have worked with, you know, some boards over the years to think through some of those issues, think through the governance, develop material on certain issues. But I must admit it's a small portion of our work. We do have some reason for that is very few boards every really tackle that issue in our experience. We've worked with some boards when they were being creative at the outset, to think through some of those issues, for instance, our founder John Paul Worth, when the Ontario teachers was being created he was advising the government on some of these issues. That was about 20 years ago. I was involved when the public sector pension investment board was created, which is the equivalent of your Social Security system, about ten years ago. It is rare that brand-new boards are created and it is rare that some of the existing boards tackle some of these issues. Why certainly have our thoughts and our analysis that we're very happy to bring to you to help you think through those issues in your situation. I hope that answers your question.

>> Arn Andrews: I did, thank you.

>> Matt Loesch: Mr. Dirks, do you have a question?

>> Martin Dirks: Yes, would part of your work cover the structure how would we generate alpha during the time we are staffing up and then also the optimum staff structure, for example do we want to do fund to fund investing or do we want staff to internally be able to do direct-fund investing?

>> I must apologize, I couldn't hear your question very clearly.

>> Martin Dirks: Let me speak closer to the microphone here. Would you speak directly to starting from such a small staff? And also, what the ultimate target staff structure should be, for example. Do we want to have a larger staff so we could do directly fund investing or would we have a smaller staff such that we would be investing more likely in fund of funds?

>> I see. Well, once again I think the -- the core or the first element or phase of the project is going to be focused on the current structure and the current compensation. However as I mentioned earlier, we believe there are going to be some efficiencies and the budget automotive approved is larger than what we actually quoted. So I think there's some excess budget for dealing with some of these issues. And we view those as strategic in nature and we'd certainly be happy to work with you on those secondary issues or longer term strategic questions, or that mix of short and long term that you've just described.

>> Martin Dirks: And would there be some at Laos East internal staff versus external responsibility for selecting funds?

>> Yeah, I believe that would be a core part of the strategic thinking on that issue. And there are different options out there for staffing up of public retirement system and everything from completely outsourcing it to completely internal to, as you all know, variations in between. So I think that would be a part of the thition that would have to go in to answering those questions. And again, we would be happy to help think those through with you.

>> Martin Dirks: Thank you.

>> Mayor Reed: Mr. Armstrong.

>> Michael Armstrong: What do you do if you have a situation where it's hard to build consensus within a board on these issues? I'm not suggesting that's the case here at all but sort of what's the process you can go through, to get agreement with board members?

>> Well, the -- we've -- as we say we worked with probably pushing 150 or more plans, and a large share -- large number of those cases we've gone through that interview process and we've always found that board members have been forthcoming and open with their thoughts, ideas, concerns, et cetera. Interesting we've always found that there's actually a lot more commonality than we expected, sometimes the board expected when we bring the issues forward. I think the process of just obtaining all those different perspectives and presenting them in a constructive way has -- we've been very successful with it. We don't -- you don't always necessarily get unanimity in an issue that's necessary but we've been successful in presenting the views and the rationale behind the views so that even when there's some difference of opinion I think people have always respected those views and gone along with the majority. I think that's the best you can hope for is the majority will prevail and the minority will understand that view and support it.

>> Matt Loesch: Further questions? Any other questions or comments from the board?

>> Edward Overton: How many other systems have you worked with that are like the San José system?

>> That are like the San José system in the sense of your current structure?

>> Edward Overton: Yes.

>> Well, many -- well, there's one interesting element of your structure, which is quite fairly unique. And that is, the fact that you're unable to hire your own staff. So your director does not technically speaking, report to you directly and is not account annal is not hired by you. That is quite unique. The other system we worked with that was similar I believe was another municipal plan, that was the City of Norfolk, Virginia I believe. But just about every public plan we've worked with lacks some level of autonomy. Similar to you. I mean you're probably a little more extreme than the average, or you have a little less autonomy than the average. But most plans around the country, public plans lack some authority whether it's complete budget authority, certainly on compensation, that's almost universal across the country. We've worked with some Canadian plans where they're structured quite differently and have much more autonomy. Almost complete autonomy, about as close as you get to full

autonomy. That's interesting to us from a learning point of view to see what's out there. But to answer your question almost all public plans which number in the probably 50 or 60 or more, they're all similar to you in that they lack some autonomy that in a perfect world they ought to possess. We've worked with other municipal plans we've worked with the City and County of San Francisco, I believe they are actually our first U.S. client. I believe they're similar to you, in that they're a much larger asset size but somewhat similar to you as being a municipal plan. So I think that a lot of our public plans are similar to you in various ways, of course there are many differences as well. But Norfolk, Virginia is one that jumps out that's similar to you in that they lack the ability to hire their staff directly. And we did some work with them when their CIO retired. And we did some strategic planning with them to think-through how we might want to deal with that issue. We did some fiduciary education and training with the board. So some similarities there.

>> Edward Overton: So that your situation in Norfolk resulted in a change in the overall strategy of the plant sponsor?

>> Oh, no, no, we didn't get to that level in that situation. No, we just simply helped them think through strategically how to deal with the loss of the chief investment officer and we looked at alternatives such as outsourcing, an outsourced CIO approach to an in-house CIO, and to some -- to offloading the responsibility to the existing investment consultant. But no, we didn't get to that -- as I said it is pretty rare that those sponsor autonomy issues arise in our projects. Except when we've been involved in thinking through, advising on creating plans from scratch.

>> Edward Overton: Thank you.

>> Sorry go ahead.

>> Matt Loesch: Any other further questions or comments?

>> What can we do to help ensure that this is a successful project as board members?

>> Well, I think the -- I've worked with your staff before and they're incredibly responsive and supportive and helpful. So I'm sure we'll get everything we need by way of staff support. The most important thing frankly, and I know you will is to make time on your calendar to spend a bit of time with us on the telephone, or in person if we can schedule to be in San José soon. And typically those interviews last up to an hour. But we're prepared to go -- sometimes they go much longer. Sometimes we have two or three interviews when the same individual. They just continue. But feel confident and secure enough and comfortable enough to share whatever thoughts, ideas, suggestions, concerns you have. We will provide discussion guides to help guide the discussion but we really home that you'll feel free to go off topic. Because -- to any area that concerns you and we find that often when you feel you may be going off topic generally it generally turns out to be generally helpful for the public. The main point is be frank and share your thoughts with us and trust us that we will maintain the anonymity of the results and in terms of sculpting and tailoring results to you. There are basic principles that we strongly believe in and any recommendations would meet those but there is a lot of room for tailoring perhaps the most important things that you as board members can do is simply we'll send that discussion guide in advance so can you think about it, prior to the call. And then please just be as comfortable as possible, and share your thoughts.

>> Matt Loesch: Okay. Any other comments or questions? Okay. It seems like we need to do a couple of things here time line wise. So you're due to start immediately, essentially.

>> That's correct.

>> Matt Loesch: And it looks like we need an opportunity or request an opportunity to possibly have a smaller subset of us to have a discussion to draft deliverables and then an opportunity to present to the larger group. Thinking a bit here about what we're doing. We talked a bit before about having retreats last session, going through what's being presented and contemplate and to hash through what that looks like. As opposed to doing it necessarily at a board meeting but spend a good bit of dedicated time to that. But prior to that maybe create an ad hoc governance committee to deal with just this interaction. Structure of which might be one of the employees,

the retiree, one of the outside folks, so that we could have that initial interaction they are requesting. What are the thoughts there of what I'm saying?

>> Edward Overton: Yeah, I think that we should skew the committee in the direction of the new board members. And I, you know, I don't know how you feel about that. But I think we've restructured the board, and we did that for a reason. And there is the greatest opportunity for new, fresh looks at this, and perhaps a methodology for moving forward. And not just staying in the same circular pattern.

>> Matt Loesch: Okay. So what does that structure look to you skewed to the outside folks?

>> Edward Overton: Well, if you are going to have a committee of three, which I think is the maximum, right, Mollie?

>> Mollie Dent: Yes.

>> Edward Overton: Then I think two should be outside, I shouldn't say outside, new board member.

>> Matt Loesch: Any other thoughts or comments about that idea? Since we don't have Ms. Druyan or Mr. Odell, whether appointing you or selecting you fob the two folks, I'm not really objecting to that. Who makes up the third and fourth, do you want --

>> Edward Overton: The chair.

>> Matt Loesch: The chair?

>> Edward Overton: Don't ask a question unless you know the answer.

>> Matt Loesch: Fantastic. Eager to serve. Eager to serve. If that's the desire of the board I'd be glad to but I'm also not necessarily chomping at the bit. If that's the desire of the board --

>> He's not here I hate to volunteer someone who's not but Mr. Odell does have experience in governance from a corporate standpoint. And I think that could provide some --

>> Matt Loesch: Maybe what we could do is have Mr. Odell, one ever you may be and have either of you be the alternate in case Mr. Odell is not available, does that sound amenable?

>> Sure.

>> Matt Loesch: I'm I'll make a motion to create an ad hoc governance committee the structure of which will be --

>> Michael Armstrong: I'll do it.

>> Matt Loesch: Mr. Armstrong will be on the committee, Mr. Odell and myself with Mr. Dirks being an alternate. Can I get a second to that?

>> Arn Andrews: Second.

>> Matt Loesch: Any further discussion or comment on that? With the idea that we would meet mid to late September on that discussion and October time frame meeting. So all in favor, aye, opposed, okay. Sounds like we have an ad hoc governance committee. And then we need to work on when that deliverable will be -- do you like the idea of having a dedicated meeting whether it's a study session, retreat or whatever you want to title it.

>> Arn Andrews: Do I.

>> Matt Loesch: There may be other things we tack into it does that seem like something we would be interested to do?

>> Arn Andrews: I think that would be a focus of a single session.

>> Matt Loesch: That would be the full group, yes. Mr. Ianucci when do you think that would be the time would you have the present draft dlirvelings, October, November, what are you looking at?

>> Sir by way of the first draft deliverables?

>> Matt Loesch: Yes, so we would have the full board together, we're talking about a retreat or special meeting just for that purpose or majorities for that purpose.

>> Right, and do you already -- you have not set a date for that retreat?

>> Matt Loesch: Correct, I'm looking for some guidance for your deliverable for that to happen. Maybe a window of opportunity.

>> Right. Well if it's not pushing it too far, November would be reasonable I think.

>> Matt Loesch: Okay. So right here it says October, November, of course so if I could get a two-week window of when we'd be reasonable because we have many people's schedules we need to schedule around plus other things. So you'd say early November would be reasonable, like the first two weeks of November would be reasonable?

>> I think so I could immediately later get back to you, I believe that's reasonable, first half of November.

>> Matt Loesch: So we're looking at a special meeting, whatever we want to call it, first week in November. Looks like we need to have people fire schedule ideas or objectionable dates to staff for those first two weeks and Mr. Ianucci will do the same thing for his firm. Does that seem reasonable?

>> Yes.

>> Matt Loesch: Any other action or comments that need to come out of this discussion, is up as board member or staff issues we are missing. Great, looks like we have our motion to move, we don't need a planning discussion. Mr. Ianucci, thank you.

>> Bye-bye.

>> Matt Loesch: 4.9, approval of Macias, Gini & O'Connell's 2011 audit service plan.

>> It's usually an informative packet about what's things coming up in pension audits, any kind of changes, any new government, any GASB change that are happening. There's usually a time line that's also in the packet. I realize you haven't had a chance to go through it but it's a pretty standard annual report plan you received from the auditors before they come out and begin their audit work. And it typically goes through what their plan is for the audit portion. And so there is a schedule that is on page 5. So as you can see, the auditors are actually on site now. They've begun their field work. Accounting due to some lack of resources, we're a little behind schedule but we're working with the auditors to try to get them all the information that they need to continue on with their audit. So I understand you haven't had a chance to take a look at it obviously and I apologize.

>> Mollie Dent: If you want to take action on it (inaudible).

>> Matt Loesch: Did we understand kind of what the concept is here? I just want to make sure that board members are satisfied since they haven't had a chance to look at it and this is the first time for the new folks to

have seen this type of document. We've seen it those of us who have been on for a little bit have seen this type of document before. We could discuss without -- we can do sunshine waiver in a moment but --

>> What are we being asked to do?

>> Matt Loesch: Approve the schedule and the plan they have in place. The schedule is on page 5 as far as doing the audit and so forth. There's nothing we're really approving as far as seems to make sense, similar to ones out in the past. It's nothing dramatically different. We could certainly hold this over to next meeting, we could tentatively approve it. It's certainly --

>> Russell Crosby: It's not a document we're going to proceed on anyway. The formality of the board should know what their plan --

>> Matt Loesch: Know how they are proceeding.

>> Edward Overton: It is pretty standard, right, Veronica?

>> Yes.

>> Arn Andrews: Little background for the two new board members, MGO city side, the airport as an enterprise fund and other entities, it is fairly standard, we have good familiarity with them, they're a firm we have contracted with in the past and potentially contract with in the future.

>> And they're proud to be boring accountants.

>> Edward Overton: Come on, that's my chosen profession.

>> Matt Loesch: We'll hold it against you. So what's the pleasure of the board, would you like to accept the report, approve the report? I think we'll need to do sunshine waiver to sell the report.

>> Arn Andrews: I'll defer to the new board members. I'm fine either way.

>> Matt Loesch: Sunshine waiver for the lateness of the report?

>> Arn Andrews: Make a motion to waiver sunshine on item 4.9 as it was just presented to the board.

>> Edward Overton: Second.

>> Matt Loesch: All in favor, opposed. Okay, I'll entertain a motion on whether we're going to approve the report as-is. The plan, I apologize.

>> Make a motion to approve the --

>> Audit plan.

>> The audit plan as presented.

>> Second.

>> Matt Loesch: Okay, all in favor. Opposed, thank you. Item 4.10 report on --

>> Edward Overton: Excuse me, did we roll 4.8 into 4.6?

>> Matt Loesch: Into 4.7. I apologize, you're right.

>> Mollie Dent: You did say you were going to at the beginning.

>> Matt Loesch: I apologize, Mr. Overton.

>> Edward Overton: That's all right.

>> Matt Loesch: What was not complete on the previous Cortex report that is presented in our packet. The reason I tried to combine them is in case there were discussion items of didn't you do this in the past and so forth I wanted the availability to open up both points of conversation at the same time.

>> Edward Overton: Okay.

>> Matt Loesch: Is there anything on 4.8 that people wanted to discuss? Okay. So item 4.10, report on the city's prefunding and required contribution for fiscal year 2011 and 12 and reconciliation for fiscal year 10-11.

>> I apologize, this report is going to be a verbal update. I'll have a formalized memo similar to the ones I presented in the past in the next board meeting. But this is pretty much the city has decided to prefund the new fiscal year that we're in, 2011-2012 and the prefunding amount was $108 million, $109 million which includes the OPEB portion that was sent over to our new OPEB trust, that includes approximately $20 million of the 109 million. There was also a reconciliation for the close of fiscal year 2010-2011 where an additional $500,000 was sent over from the city to reconcile out the prefunding amount for that year versus the actual amount that was done. Now the amount that came over for the new fiscal year is the dollar amount that was in the resolution for the prefunding amount that was on this board's agenda in June of 2011.

>> Matt Loesch: Okay. Any questions or comments for the boards on that? Okay, thank you. Item 4.11. Discussion regarding retirement services department staffing.

>> Russell Crosby: You have a short memo in your package, that there have been a number of questions about open positions. If you look on page 2 we've got the open positions currently highlighted. Let's start with the right-hand side of the page. The administrative officer retired, and we're in the process of getting that position regraded into a project manager/supervisor. The second one heading to the left, the administrative assistant was filled on Friday of last week. Donna and Sonia is our new administrative assistant. The is now open. Now in the accounting area we were able to lay off one of the accounting positions and we've now got a temporary outside -- go ahead.

>> We actually reclassed upgreated that position. It was an accountant 2 series. That after some evaluation, that classification didn't hold the skill set that was needed to continue on with the way the plans are developing so there was a budget request to replace the accountant 2 claspings with a senior accountant classification which is high near this city and has more capacity and has a higher classification base than we are needing in accounting.

>> Russell Crosby: We are currently having an outside temp doing that work and very happy at this point. Made a big difference in Veronica's ability to get this out the door.

>> It is actually posted and we will hopefully have applicants in later in the month if not into September.

>> Russell Crosby: And the others are reclassification of Veronica's position and another senior accounting position. Now in the investment area at this point, last week we made an offer and he started yesterday, I saw him floating around -- no. When does he actually start?

>> He is starting August 29th.

>> Russell Crosby: Gotcha. We have one more investment officer coming on board. J.P. Morgan background.

>> Carmen Racy-Choy: In total, currently we have one investment officer in Heidi Poon and we hired the one additional one who is starting on August 29. His background is investment banking. He spent a little bit more than 75 years with goldman Sachs quarter of what he was making with Goldman Sach-s.

>> Arn Andrews: What area is he covering?

>> Carmen Racy-Choy: Expertise there .

>> Russell Crosby: And the other positions are open. Questions?

>> How does -- how -- the recruiting process, has it been challenging or what have you seen? For the investments.

>> Carmen Racy-Choy: We've done a major recruiting effort in the past. Currently we're more focused on getting the ALM and the other work that needs to be done to be honest then on recruiting. Because when you do a major recruiting effort it very much takes up all of my time. And right now we feel that my time is better spent on investments. In the past, when we've done major recruiting efforts, we came up fundamentally fairly short-handed. We've had at least two positions or three positions you that we've just never been able to fill. In the recent, obviously we've lost three investment officers in the last two months. We've been able to hire one. So obviously, there's a lot of challenges on that front.

>> Arn Andrews: And trustee Armstrong, if you look open the third page, this is a standard city posting of employment opportunities. It was originally posted 7-twin of 2010. So over a year this posting's been out there will still no ability to actually fill the positions.

>> Matt Loesch: So what to do? What's the -- we need the positions, we need the services. Some of the thought might be to kind of drag through as much as we can through the fall as we get through the Cortex stuff to see if there's an advised different structure. Once there's an advised different structure we agree to do that in December

and how long does that take to put that in place and we're talking end of the fiscal year before there's something that's actually functional. Is there a Band-Aid? Is there a hiring of a head hunter that helps? What is it that --

>> Russell Crosby: Well, couple of problems. First of all our biggest single problem is the salary. And quite frankly yes, we -- and in the big recruiting effort last year, we literally received I don't know, 200 resumes. Massive numbers. The problem is, once you distill it down to people that actually have an appropriate background, a CFA and some experience, we cannot get them in the door for that price. We find occasionally like the guy who is coming, he left New York, he's tired of the trading desk at Goldman in New York. He wants to come back to California, wants to come back and live in San José where he grew up. He's willing to come play with us. Now I know that we're just a holding position for him until he finds something else in the Bay Area because he was making you know like Carmen says, three, four times as much as what we're going to be able to pay him. When you look at some of the other cities, that we compete with talent for, San Francisco, Los Angeles, those plans pay significantly more for an investment officer. And they still have problems. I talked to -- I've talked to two of the top head hunters in our business. And basically, their come-back to me is well -- they're currently recruiting investment officer positions all over the country and at significantly higher salaries, they're still having problems.

>> Arn Andrews: And I think this relates back to trustee Dirks comment earlier on the Cortex question, once we determine realistically what our structure is going to be, that will determine if we're a fund to fund type scenario or if we're direct fund placement. Because if we're going to be left with a situation where we'll continue to not necessarily have autonomy and I believe the Cortex folks said that might be a long road, they currently don't have many clients with that type of autonomy, if we're going to be constrained with salary ranges that make us uncompetitive, that might dictate what our business model might be. Otherwise, we will continue to have vacant boxes and ooments.

>> Russell Crosby: Misconception what Cortex was actually saying. What they said is in some form or another public plans always have an issue around autonomy. But when it comes to certain positions within the trust fund and within the support staff, the investment positions the CEO and certain other positions those tend to be under

the control of the board. And in fact, what they said is that other than Norfolk, they're not aware of a situation like San José.

>> Arn Andrews: Thanks for that clarification. Thank you.

>> I think also if you do a study you would find that you're paying more by using for example fund to funds vehicle rather than having those analysts on your staff internally. It will cost you more, even if you compensate at industry-standard rates within your plan. I think it's a better structure, we can't get there in a day, and there will be a lower cost to the plan.

>> Russell Crosby: And often with better performance.

>> With better performance. You have much more control. Otherwise it's give it to them and you get what you get. You can't make changes in the interim, your monitoring is much more difficult.

>> Arn Andrews: And this is part of helping with our communication strategy with our stakeholders. Once we conceptualize and document all this.

>> Period of time.

>> Martin Dirks: I don't know if better performance and if there's enough data points you could show clearly that that would be the case. I just don't know if that's you know figuring out how much autonomy they have and quantifying this would be very difficult.

>> Matt Loesch: What was -- there was supposed to be conversations with the administration about the salaries. Have the salaries been moved?

>> Russell Crosby: Salaries have not been moved and my understanding is the HR department will be doing a review of compensation for these positions.

>> Matt Loesch: What's the process of getting that expedited?

>> Russell Crosby: Well, I have another meeting with them next week. So I will be pushing that same subject again.

>> Matt Loesch: Is there something that would help from the political end that we could use our council liaison in that process?

>> Pete Constant: I've been actively involved in discussions moving this forward.

>> Mollie Dent: Well I think, too, going back to what you approved for Cortex, part of what, really early part of their work product is going to be the staff and compensation review.

>> Matt Loesch: But it still gets to my point. Like we're going to get to it, it's going to be either approved by the board, something is going to be approved by the board in December, right, and then we start rolling from there. And then we put the thing in place and how long does that take to go through and last time the Cortex report came back with some interesting responses from folks that eventually came around to being supportive of things that were very similar to what Cortex exactly reported, pushed the first time. But we need to do things this fall. We can't just sit here and wait, and you know as talented as the individuals are here, before they scurry away as quick as possible, what do we -- is there something we can put in place urgently, is there anything can do urgently to get temps as you've done? I know it's --

>> Russell Crosby: I've never heard of a temp in this kind of environment. And why would you want somebody in the classification like that? I mean that's kind of scary.

>> Matt Loesch: I don't want.

>> Russell Crosby: Yeah.

>> Matt Loesch: I don't want, but I want to be able to provide the staff report so that we're not --

>> Carmen Racy-Choy: It is rare to have a that has a CFA. The people recruiting you are in fact temps, they are only coming here for a year until they get a better offer.

>> Russell Crosby: You are hiring.

>> Carmen Racy-Choy: You are hiring temps. The reality is that that's what you're doing, currently with the current salary range.

>> Russell Crosby: Quite frankly Matt if you look around the state at other public plans everybody and oftentimes it's the CEO position that's open. Everybody has this same problem because in large mush the compensation even at Cal PERS there was a court case, I don't know, four or five years ago, Wesley that was exactly on this point that the plan sponsor can determine compensation. I mean, lawyers can give you a better summary on that case. But it was about a bunch of things. But one of them was at Cal PERS they were paying portfolio managers outside the civil service system and the state went after them and got a judge to say you can't do that. So you know it is a problem everywhere. And everywhere in public plan space and you're not going to get it resolved other than to get our salaries at least competitive with other public plans. And they're not at this point. I don't know what else you do. It's slow, and even with a headhunter, you're going to pay, okay, 30% of each one of those positions, yeah, one of them, one of the head hunters I talked to would be willing to do a volume discount if we gave her all of the investment officer positions she'd be willing to do a volume discount.

>> Matt Loesch: 29 first.

>> Russell Crosby: Well, about 25 instead of 30, yes. So I don't believe that hiring a headhunter is necessarily going to get you in fact Carmen came to me through a headhunter. And everybody else in that group of interviewees was unacceptable in every way, shape and form except for this one candidate that showed up. Having arrived in the United States shortly before, and not really knowing anything. We took advantage of her.

>> Arn Andrews: Well, the good news is we got another person in the door to replace Ryan. The bad news is it took sings July of 2010.

>> It is not a long term solution, we do need something more durable. In the industry standard is a performance based standard. Because generating alpha's very hard. It's sweating blood sometimes. And if you don't put in that extraordinary effort you get mediocre results. And I know because I've done mediocre results, I've done good results. It takes a lot more work. I just think it's something that we'll have to figure out how to do.

>> Russell Crosby: I'll just one other kind of example of, there was a plan in California, San Bernardino, had incentive compensation. And as soon as the county got into trouble in 2009-10, they abolished that. The first thing they did is reach in and reduce the salaries for the investment staff and as a result the plan lost its CEO and a bunch of the other staff even down to administrative-type folks are leaving. But the county -- that was the one example in California of an incentive compensation plan in a public plan, and as soon as the county could, it dismantled it.

>> It's just one data point but did they have exceptional performance up to that point?

>> Russell Crosby: They had very good performance. They were generally seen as one of the top public plans in the state.

>> I would almost certainly say that the bonuses whatever they were were very well spent money. The returns were much bigger factor then.

>> Russell Crosby: And the plan was doing very innovative things not unlike some of the invocations that are going on here but as soon as there was financial difficulty in the county the county intervened and eliminated the program. So it's something you have to take into consideration. If this board is going to create something like that, you have to recognize that there's great potential for the plan sponsor to intervene. And there are court cases that say that the plan sponsor can indeed intervene.

>> Martin Dirks: Well if the plan's performance was exceptional hopefully they wouldn't. If it wasn't then they managing part of the endowment and their approach was sort of employee industry based salary for the comparables but the bonuses could be exceptional and it was a percentage of your alpha generated. And it truly was alpha generated. If you were just average, you got no bonus. If you made a $1 million bonus one year you got paid $200,000 over that underperformed over the next 12 months you started losing it. If you made a millional probably didn't keep your job. And you know it was a very fair system, and it was not trivial. Because it's difficult to be lucky for two years in a row. It just doesn't seem to work that way.

>> Well, do investment staff have to be employees of the city?

>> Mollie Dent: Currently, yes. That's the point that Mr.-- Mr. Crosby was addressing with the Wesley case, San José's current structure is that they do have to be employees of the city. And so there is case law that says that the city can insist on that if it wants. That's not to say that the city has to insist on it. But right now that's the current structure.

>> Russell Crosby: And I've had some discussions with city management on the subject. And there is at least some willingness to look at, if you pulled us out of the pension plan, and, you know, did something different around the investment group that potentially there could be a justification for a different salary structure. But that's about as far as it's gone at very high level.

>> I've read some of the material that's been circulated on CIO in a box. I was wondering if there was a hybrid approach that we could take or a modified approach where it's a different group of people but we have more control.

>> Russell Crosby: Another example. San Diego, San Diego county had an internal staff CIO, civil servant, making modest salary. And the board determined that they were going to hire a CIO in a box and they went out and paid $1.7 million for a CIO. That is sort of your extreme range. There are lots of issues going on in San Diego with unions not happy with that whole arrangement . But boards do have discretion to hire outside consultants.

>> Matt Loesch: So similar to the Harvard management company kind of the way it was, you could have the San José management company who is managing just the investments funds for this Police and Fire plan, have San José investment management company whatever you want to call it be similar to that structure, be similar to what you're saying, focused solely on one mission, rather than on many missions, it's a possible conversation. How do we get there? Do we, again, sit idle? Wait? Do we make proposals, do we sit down and have conversations with folks about making something happen? Because is the plan in jeopardy, as a result of the structure we have with all these vacancies?

>> Russell Crosby: In jeopardy, no. Because quite frankly there was no staff when I got here. Most public plans of this kinds of modest size don't have robust staff but they leave money on the table. The difference is do you want to be a mediocre middling middle of the road public plan with that mediocre performance or do you want to set yourself apart and do something that actually generates some alpha in your view or just sets you apart from other public plans. And that is kind of the strategic question for the trade, and nothing's going to fall apart today. You've got consultants, you've got -- you know the pieces are in place. It is a vanilla indexed plan. But you are giving up alpha at every turn and potentially having some people around here who could make a call at the margins, it's potentially hundreds of millions of dollars that are left behind by not having qualified, competent staff available and on the project, on the task.

>> Carmen Racy-Choy: And in private markets that's especially the case where you look at strong teams with internal staff. Private, really good portfolios can generate 700 basis points over equity. This is an area especially where you can give up very significant alpha by not having people with appropriate qualifications. In private markets, the approach of bringing a general consultant, and having him lead you into those spaces, is a bit challenging and it does not yield the same return as having basically an internal staff doing it. That's -- so that's -- there's definitely, and the pension equation is very simple. Every dollar that the investment program doesn't make, the city has to pay back with interest. So if you leave $100 million on the table annually, the city will have to increase its contribution by 100 million plus interest in future years. It really is that simple. So given that this is the pension equation, the city is -- they should be very motivated to maximize their return on the plan so that it can minimize the cost of providing the benefit.

>> Arn Andrews: I'm personally inclined to just wait and let Cortex lead us down this path because I think it's going to end up being a more holistic perspective than if we try to attempt something in a one-off fashion in the next month or to. While I never like leaving alpha on the table I mean the director has stated that we're not in jeopardy, we're not in trouble, we do have sufficient support in place currently to keep us in what sounded like the middle of the road. And I think maybe Cortex can lead us down a path that will get us out of the middle of the road if we choose to to get us to a level something more than that.

>> Russell Crosby: And to kind of just elaborate on that, my big concern here is that in both portfolios, but hereto you are not fully invested as you should be in asset valuation. In part because you don't have the staff to do the due diligence in some areas that need to be in the portfolio. so when I say yeah, okay, if there's a big crash out there, we're going to crash just like everybody else. Because we haven't done those things to set ourselves apart. We'll be just like every other public plan going down 30% or 28% or whatever that number is. Because we haven't been able to get in place some of those asset classes that will help balance the trust during, say, a crash or during some other kind of catastrophic event.

>> Arn Andrews: In the interim if we are not able to do the due diligence internally because of staffing constraints, is due diligence of hedge funds something we can outsource to our investment advisors or do we

always want that level of internal review also? I guess I'm asking in the way personnel constraints we have until we can you know get to the end of the Cortex process?

>> Carmen Racy-Choy: I think you could, if you wanted to, but everything has a cost.

>> Arn Andrews: Right. But there's also a cost to not effectuate our asset allocation plan I think it's two years ac now.

>> Carmen Racy-Choy: I think what you internally is the view of how the specific investments fit into the portfolio is sometimes lost. And the purpose of the program is also lost. So this is something that typically staff, because you know, you only have one employer, you understand how this should fit, and that element is sometimes not as strong when you outsource it. However, having said that, there are definitely outsourcing solutions out there.

>> Arn Andrews: I guess I'm going to have to push the question back. I mean what's more of an opportunity cost to us at this point, the little bit of lack of oversight that we get if we go to an outsourcing model so we can continue down our asset allocation path? I guess I'm going to defer to you to --

>> Russell Crosby: Actually you have -- there's an upcoming meeting next week it's a joint meeting, the Police and Fire has now formed an investment committee and your alternatives committee will be meeting jointly to look at some call it alternative structures. And we've done an RFP.around getting some additional help in the alternative space. So --

>> Arn Andrews: Right because while I'm in my earlier statement I'm inclined to wait until I see where Cortex goes but --

>> Russell Crosby: We're going to continue to try moving there in next Thursday or Wednesday I can't remember --

>> Carmen Racy-Choy: Next Wednesday.

>> Russell Crosby: Yeah.

>> Because the opportunity cost is so great I think this is a really urgent issue. Being realistic things take time but I think we really have to push to make this happen as soon as we can. There's just a lot that is lost by time just going by and not having this opportunity yield results.

>> But push to do away, exactly? That's what's not clear.

>> Arn Andrews: Push to get our asset allocation as currently defined actually in place, and then, there's the other side of the coin, from the earlier conversation, which is push to try and determine what our future business model is going to be, and then figuring out a way to make that feasible, whether it is salary structure whatever it requires and that's the portion that I think is probably best evolved out of the Cortex portion. But the asset allocation thing is a different thing and I agree with you, whatever we can be doing that provides us with a comfort level that continues us to push for an asset allocation portion we should be doing consistently and continually to make sure that happens .

>> Russell Crosby: That is, that is going on now.

>> Carmen Racy-Choy: Staff initiated an alternative consulting RFP and we have received various responses that will be discussed probably at the next two investment committee meetings.

>> Arn Andrews: Because to your points it came up again. We continue to have the overweighting in fixed income, we continue to not have the full diversification which is away we wanted because we were looking for things that would be negatively correlated to the market, in case the market does a swing again. And to the extent we don't do that, we're being remiss.

>> Matt Loesch: Okay. Think we talked it quite a bit. Seems like there's no direct action for what we're -- we'll wait to hear back in September what the alternative committees talked about.

>> Russell Crosby: Continue to push HR.

>> Matt Loesch: We're going to speak to HR and maybe our staff can prep the counsel on once this Cortex stuff comes through and there's good buy-in that we can hit hard implementing as soon as possible come the beginning of the calendar year. Okay. Item fop 12, update on electronic board packets.

>> Councilmember Pyle: .

>> Donna Busse: This issue first came forward on Police and Fire side notion open getting our packets into electronic format. Our I.T. staff has been meeting with different vendors and looking at different applications and there's enough out there, where now I think they've gained enough knowledge now to put out an RFI I think which is kind of a lower level RFP. She is prepping that now. I don't think we confidential information, there's ways that we need to be able to pull stuff back from you. So along with the RFI and getting an application out, how it's going to work we're probably going to have to develop some kind of an internal I.T. policy for the trustees to make sure all of our security needs are met.

>> Matt Loesch: Are we coordinating with city folks so we can get -- I'm sure the council, I know that the City Clerk's office is looking into something as well for the council. Are we attempting to coordinate, thereby getting cheaper fees and so forth?

>> Donna Busse: Didn't know that council is looking into electronic packets as well. We're not coordinating with them.

>> Matt Loesch: I.

>> Pete Constant: Board meetings that the clerk's office is looking into that as well .

>> Russell Crosby: We can check in with Dennis.

>> Matt Loesch: There might be I.T. resources that could be shared or I.T. investments that could be shards to bring the cost down overall.

>> Donna Busse: We'll check with them.

>> Pete Constant: Can I ask a question?

>> Matt Loesch: Absolutely.

>> Pete Constant: Just had a question. You mentioned the pulling back of some of the documents or deleting of some of the documents which I assume you're talking about the disability retirement paperwork.

>> Matt Loesch: Correct, yeah.

>> Pete Constant: Why is that -- that's different than what happens currently with the actual printed paper. We don't have a policy for that now.

>> Donna Busse: We do -- we do ask that the board leave it and we do pick it up. That has been part of our policy.

>> Pete Constant: I notice my dps I took mine took them back and shred Ed them myself.

>> Mollie Dent: The point is they do need to be shred. As an accommodation a member of the staff will take care of them if you leave them here.

>> Matt Loesch: Any further questions on electronic board packets? Item 4.13, discussion and action regarding a trustee's role in an environment of discussions and negotiations on vested benefits. Kind of a convoluted item, I wonder who wrote that? I did. It was purposely worded to be somewhat gentle. I'm of concern to what status we're going to be in. There's discussions between bargaining units that are members, discussions about things going on with retirees and their benefits that they're receiving between the political group and the negotiators on their end. And what that means to us. I guess my question is, what does that mean to us? At what point do we need to act? And Cal PERS which is a little bit more politically active, than we've been, and I guess we don't want to proceed down the way of being more politically active as Cal PERS is, seems like they want to jump into the fray, and I guess I'm looking for leal guidance and possibly formal legal guidance what is our role in this? And could we responsible for individually vested rights of our members, do we have to proactively voice an opinion as a group or not what are our obligations under the California constitution under our resumes under our roles if there's a ballot initiative do we, are obligated to speak out, does it matter? When do we order give direction to staff to act upon decisions that are made at the negotiating table or at resolution or based on a ballot initiative result. I'll speak for just another moment. If for example hypothetically speaking a ballot initiative goes to reduce X to the members and we give direction to our consultants to change whatever they're calculating and then there's lawsuits ensue and we've given direction to reduce whatever. And let's see that lawsuit overturns whatever was negotiation whatever and we've shorted the plan, because we've given direction and we've told the city your obligation is now X, as your contributions should be Y, whatever, what cost that do to us? Kind of preemptively try get in and have the lawyers give us guidance as to what our role is, in this, if at all. And I think I'd -- and so that's kind of what -- that's why I put it on there. The Cal PERS thing had kind of spurred it because they had taken a very Cal PERSian aggressive approach. But I wanted to have that in our pocket so when and if things move through, we are informed. And advised. So if I could just have other board members chime in and then lawyers if that's okay. Mr. Andrews.

>> Arn Andrews: I was going to say when I read the Cal PERS piece the politics aside it also did stimulate in me the question of just technically you know. Because there are so many conversations going on in the city right now. And a lot of the conversations also allude to the fact that there could be potential lawsuits. And so for me it

started the debate within myself, at what point do we you know advise actuaries to change a benefit structure, is it if we receive a council memo, is it if a ballot initiative passes, is it when the dust has settled from any legal challenges? You know at what point do we need to act to effectuate whatever change may or may not come? So that's kind of where my thought process went to when I read the Cal PERS piece. All the politics aside this is new territory for me as a board member and I just wanted some help in understanding you know at what point does my legal role kick in to then advise an actuary to change a benefit structure? And I'm glad this came up as a piece because it's something I've been wondering myself because I don't know when our role kicks in. And so to Matt's point it might be helpful whether it's the city's attorneys or if it's outside counsel kind of them preemptively giving us guidance in the event that some of these conversations do come to fruition. Everybody knows not just ourselves but even the administration knows when and how we will act, you know and I think that will help provide clarity to all parties. Because you know I wouldn't want ourselves to do anything that would put us in legal jeopardy. On the administration side, I wouldn't want them thinking they're contemplating something that might give them budgetary relief when in fact they're told that oles settled I just think it will provide clarity for all parties.

>> Mollie Dent: So I'll jump in and say that our office thinks that this is an appropriate thing for you to ask your outside counsel to do. And you can have your outside counsel provide that advice to you. We will be gad to look at it, if he wants us to. We will of course review the ultimate advice too, because it will be provided to the board and we may not share his opinion. But I think it is something that you would want him to do anyway and so I think we will take a back seat on it.

>> Matt Loesch: Mr. Richeda.

>> Russell Richeda: Just on that point. We do have a somewhat interesting case study that is somewhat analogous to some of the issues I think that are boiling here and I summarized it. It was in one of my legal updates, 3% at 50 provision at orange counties. You may or may not note that OCERS, the board for that county system studiously did not participate in that litigation. It was the employee organization, the association of Orange County deputy sheriffs who actually contested the action of the county. And at least assuming you authorize me to do it, it's going to be very important to coordinate with both their in-house counsel and also their fiduciary

counsel. Because I'm pretty sure they had the at least on that dimension, the issue. I think the issues you're considering are even broader. But that's at lease one piece. And what did they do on these both in setting contribution rates? Remember the Board of Supervisors, I'm sorry, the Board of Supervisors what in 2000, enhanced the retirement benefit for a subset of the participants in that plan. Then we jumped forward about eight years and the Board of Supervisors undid that action and they purported to do it legally or they felt they were impelled to do it, and litigation ensued and subsequently the court said you were wrong, the action you took first is the lawful action. Going to Arn's point, what happened between the second action of the Board of Supervisors and the subsequent decision, three or four years spread, so they have some concrete experience on how -- what they felt their legal obligation was in light of this kind of eventuality.

>> Matt Loesch: Bull more of what are our duties to act based often procedurally.

>> Russell Richeda: But that's a category that you would probably want to address.

>> Matt Loesch: It's talked about but whether it's an action to the retirees or an action to the existing, even if it's the SRBR. I mean it's been discussed and I would like to be prepared pending decisions or vote of the people or whatever, what our role is so that when it comes through, as what Mr. Andrews said is we're not shocking people and we're not shocking the system. So this is what the present guidance is and Ms. Depth I appreciate the city attorney's office let pling Richeda present it first because then if you have a rebuttal that is different than that I think that would be an interesting contrast especially if there's an agreement to it provides a little more solidity as well. Probably staffing as well.

>> Mollie Dent: A little bit of both actually. I do think that just to suggest that you may want to tie it to looking at what some of the proposal -- I think it's going to be -- I understand you want it done at a conceptual level. But it -- doing it at a conceptual level may not be at which time as efficient as actually looking at what some of the proposals actually are.

>> Matt Loesch: Right. My concern is one we get really close to helping the negotiations along one way or the other by seeming to, oh, well if the retirement board's lawyers say that the retirement board can't do that then okay we're not going to go that route. And that's why we've been --

>> Mollie Dent: I think you're going to have to look at the proposals and kind of back out the specifics but take that to a conceptual level. Because it sounds like what you are --

>> Matt Loesch: Modifying the cola. 2% cola or 1% cola or getting rid of the SRBR or nofg an SRBR is that what you mean?

>> Mollie Dent: Yes that's what I would mean.

>> Arn Andrews: I would reiterate from my personal perspective I'm interested in procedurally how we Woo would move forward as opposed to politically how we would move forward. So if you think we have to look at specific items to figure out what we would do procedurally, that's my intent. But my intent is just making it abundantly clear to ourselves as board members and to any other interested parties what our procedural role is.

>> Matt Loesch: Any thoughts?

>> Yeah, I mean I read through all your material and so for instance is it appropriate for us to conduct an analysis of a reduction of colas, and then to think through what that might imply for how much risk we take on the asset side of the balance sheet. And kind of lay that out for people to look at. See what the implications are. Can we?

>> Russell Richeda: And I would think -- I think it's fairly clear, Mollie chime in if you disagree. That you can play a educational role education is not a self-defining term but it has been employed by Cal PERS to hopefully provide you know an objective analysis and one element of an objective analysis of a proposal, let's say it's on the ballot and we at least want to offer from a technical perspective implications. That seems thoroughly appropriate

we're not individualsing on the policy issues, we're not trying to say if it's a good or bad idea. We're trying to say what it means if it's adopted or if it's not adopted.

>> Mollie Dent: I think historically whenever actual proposals have been evaluated by the actuaries, I believe the city has sometimes paid for that. Yeah. I don't think plan funds have actually been used. So I -- education is one thing, actually having your plan funds spent on an outactuary, think your question is would that be appropriate for the plan funds to be spent on that so maybe that's one thing you want him to address, historically plan funds have not been spent on that.

>> Arn Andrews: If outside counsel determines anything comes under the scope of our legal fiduciary responsibility, I would like to be apprised of that. But my initial comment was more following in step with the chair which is just this is new territory for a lot of us. However outside counsel thinks they need to educate us first that was my original goal, educate us as to what our prowl role is on what may or may not be something transpiring in the future. But if along the way, outside counsel thinks there's anything we're supposed to be doing based on our legal fiduciary responsibility we should always be abriesed of that.

>> Russell Richeda: In many cases I bet without prejudging anything there's going to be a range of reasonableness. that is not a breach of fiduciary duty. On the other hand if the Ocers being an active defendant uphoeding the prior formula but if it decided other things were appropriate that was probably in the range of reasonableness you and that would probably be fiduciarily responsible too. There is not just a bright line answer here that tells new all cases what you have to do. Instead it will be what you can do if you otherwise in the exercise of your judgment find it appropriate to do so.

>> Matt Loesch: Are there bright lines to anything we do?

>> Russell Richeda: Yes. The Muni code does have some bright lines. If I tried to pay you $one,000 to select me if I respond to the RFP I think you know the answer to that one. I think there are some bright lines. In many areas there are not any bright lines.

>> Arn Andrews: If your counsel bright lines that in itself will be a part of our education. I just want to make sure we are educated on this topic and it is open and transparent and everybody understands where or where not we may be coming from in the future based on legal counsel's advice.

>> Matt Loesch: Mr. Overton anything you wish?

>> Edward Overton: No I've stated many times in the past that I think the role of the board is to administer the plan as it's presented to them by the plan sponsor and the bargaining groups and not to get into advocating for or against benefits. And unless we're requested to provide actuarial data, which can within our purview, then to in my mind we're outside of the transaction.

>> Matt Loesch: Mr. Disc.

>> Martin Dirks: That would be my thought pretty much as well.

>> Arn Andrews: And I concur with Mr. Overton. That's 80 keep trying to phrase this as a procedural education process for myself as opposed to any other aspect .

>> Matt Loesch: Mr. Richeda are you clear what the board --

>> Russell Richeda: That is clearly a broad area and I'll do my best to flesh that out and provide it to the board at its next meeting .

>> Matt Loesch: I think that's reasonable to expect October delivery would be find. That's one of the reasons my thought was to get it to you as quickly as possible so there's time to chew through all the things. So doo do we need to make a motion on giving that direction?

>> Mollie Dent: Staff, let's have an action on it, direction from the full board to request outside counsel to be looking in on this.

>> Matt Loesch: Since I've been rambling so ches on this, I'll make that motion to seek an outside opinion from counsel.

>> Second.

>> Matt Loesch: Any further comments or questions from anyone on it? All in favor, opposed, okay we're getting there,, somebody is really hungry. 5.1 policy committee there's nothing. On 5.2, the ad hoc alternative investment committee, I believe there's a quick oral update from Ms. racy Choy although there is none.

>> Carmen Racy-Choy: The alternative investment committee came to the concluding that allocation into opportunistic added value, and stepped real estate and we'll have a memo coming to the full board at the next board meeting.

>> Matt Loesch: Okay and there's minutes and stuff coming from those meetings.

>> Carmen Racy-Choy: Yes.

>> Matt Loesch: And the next scheduled meeting is when?

>> Carmen Racy-Choy: Next Wednesday.

>> Matt Loesch: Okay. Next board meeting for the 5.3, next board meeting for disability hearings is in November. This is, remember August was our first official quarterly go at disabilities and there weren't any. If there's -- again if there's urgent ones they'll come up. But the next scheduled time for disabilities will be at our November meeting. Okay, item 6, all of item 6, 6.1, 6.2 are notifications for education and training. Any future

agenda items. From anyone? I have one, so I would like to add the fund -- in line with prefunding topic that we've had in the past, and we're going to get an update on, I would like to know whether that has been beneficial to the plan. It's been beneficial seemingly to the sponsor because they've been able to pay at the beginning and then reap the benefit of the investments. But has the analysis been done, is the lump sum beneficial to the plan? As opposed to getting the biweekly contributions as it was done in the past. We've had a couple of years now of getting it under our belt. So you don't need to answer now, but is the request clear about the analysis? If it can't get done by this next meeting if maybe by our October, October meeting, would that give enough time to put some kind of general analysis together?

>> Carmen Racy-Choy: Okay.

>> Matt Loesch: Any other general topics?

>> Arn Andrews: No, I just think it would be interesting to see if dollar cost averaging annually comes up with a different result than dollar cost averaging biweekly.

>> Matt Loesch: Negligible then, the information I think would be useful, a couple of years under our result. All right, we're adjourned. I'm sorry.

>> Mollie Dent: Adjourn the Federated board meg.

>> Matt Loesch: No comments frm public, no retirees here except for. I'm not asking for any more comments from him. Sorry we have one more board meeting, you're right. Long agenda. Orders of the day, there are none. Sorry, we've already opened the Federated retiree health care trust fund, board of administration meeting. Fir ever, the inaugural meeting. Congratulations on your attendance. Item 1, new business, selection of the chair and vice chair.

>> Arn Andrews: If the existing chair is able to serve in that position for consistency sake I nominate math Loesch for positions on both chair.

>> Second.

>> Matt Loesch: My approach did not work, always debatable. I'll give it a shot, at least for the next couple of months. We'll see how the election goes. Vice chair.

>> Edward Overton: I'd nominate Mr. Andrews as a vice chair.

>> Arn Andrews: I respect your nomination. You seem to have a wealth of institutional knowledge on this subject, based on my participation with you on the disability ad hoc committee so I will respectfully decline but nominate Mr. Overton as a subject matter expert in the area.

>> Edward Overton: I tried.

>> Matt Loesch: You did try.

>> Arn Andrews: Do we have a second?

>> Matt Loesch: Okay, Mr. Overton, do you want to defend yourself?

>> Edward Overton: Just call it real road.

>> Matt Loesch: Happens to the best of us. All those in favor? Opposed, don't even oppose, okay. One.2, update on the status of receipt and investment of funds. I assume that's somebody over there.

>> On July 1st, received $21.4 million for the retiree health care trust fund and based on our asset allocation we invested $2.7 million in commodities and the remaining 18.7 is current in TIFs. We are work in tax advisor he ant state street corporate advisors to invest the remaining in global Aqui i'll defer to Mollie.

>> Mollie Dent: The low amount of the remaining money an the need to invest it independently of the pension fund has made it somewhat difficult to get into our normal investment vehicles but staff is working diligently trying to get it invested. I do think that the authority for the director to invest the funds expired with the first meeting day. So I think we want the authority extended for staff to be able to go ahead and get those funds invested as they can consistent with the authority that was delegated in the ordinance which was to invest it consistent with the Federated investment policy, but in liquid assets. So I think staff wants to continue to be able to do that.

>> Carmen Racy-Choy: I mean, clearly you can't have the same structure as you have for a $2 billion pension plan, almost as you would for a $20 million. So we simplified the structure. So one mandate for equities, one mandate for fixed income and a small mandate for commodities and these are the liquid components of our asset allocation. We had significant difficulty, the only managers that accepted to take the allocation was the commodity managers. At this stage we haven't been able to convince either passive or active managers that are in our roster to take on the equity and the fixed income pieces. Also, our view that long term, there should be a master trust, potentially that combines both pieces, what this does is, rather than go to a manager and say we'd like you to take on a $2 million mandate, in which case he's going to say, go to my mutual fund side and pay 2.5 basis points a year for the investment we feel the master fund trust would require an amendment of the contracts so the contracts are with a master trust might be a better solution. This way the managers don't see the two mandates one for $50 million, one for $1 million, they see a total of $51 million coming their way. So this is kind of a long term solution that we think would work and this is really the only way to get the plan into alternative space. You can't go to a private equity manager and say, take $200,000. So it would provide better diversification, I think it would ease accounting and general administration, and provide the exact structure that the big plan is invested in. Whereas what we're trying to do now is really just a simplification, a big simplification of the structure, and is limited to the liquid components.

>> Arn Andrews: Have you a prized our managers on the equity and on the fixed income side, the passive managers, that as a board, we won't bifurcate how we view them, that we will view them as how they approach our total relationship, if they are reluctant to accept moints for this new plan, that we will view them in aggregate, not in segments?

>> Russell Crosby: You sound just like me, now, explain it to him, Ron, why that doesn't work?

>> One of the investments we had health care trust funds.

>> Russell Crosby: Just right off the bat prohibition.

>> Mollie Dent: It is part of their trust arrangement doesn't allow for the OPEB funds.

>> Amend it.

>> It is the commingling of funds.

>> Russell Richeda: They still retain the right to amend it. All of thousands who joint don't have the right to amend anything.

>> Carmen Racy-Choy: The general answer the organizational rules that I have as an employee to abide by, that unless you give me $25 million I can't do this. And if you are not happy to my answer clearly go to my supervisor, but the supervisor is going to back me. So it's -- you know when you are dealing with Pimcos or some of the bigger companies, they are going to say you're free to do whatever you want. But we can't go around our internal policies. Descroz you might have a waterhouse or a Schwab account?

>> Mollie Dent: There are a couple -- the master trust is one way to do it. In conversation with your outside tax council, they have been working with ways to do it with the custodial bank with state street . But the piece of this

that I do want to get across is that there does need to be some authorization from the board today to extend the staff authority. To continue with the efforts to invest these funds, without having to come back to the board with the investment contracts. They want to get this -- they have the authority, up until you met, to do that under the ordinance.

>> Arn Andrews: When you say extend the authority, we were extending them the authority with the existing investment policy --

>> Mollie Dent: The unliquid asset classes just exactly the authority --

>> Carmen Racy-Choy: A simplified investment structure clearly if you look at the equity structure for approximately a billion of Federated assets, you can't have seven equity mandates for you know $10 million.

>> Arn Andrews: I just wanted to know how to word it. I make a motion to direct staff to continue with the existing investment plan based on the existing ordinance to try and utilize liquid investments for, what are we calling this, the Federated retiree health care trust fund.

>> Matt Loesch: Second. All those in favor? Opposed? Only request I have is, I know we're short on staff and timing, can we get some of these things in writing? Just hard for me to keep track of all the numbers and the sheer quantities both that fund and this fund so we have more formalized reporting.

>> Mollie Dent: This meeting is going to be co-scheduled with your regular board meeting for a while. And at your next board meeting there should be something more on how the investments have been. Who your cussed toial banks.

>> Matt Loesch: Maybe the schedule of getting to a master trust and what procedural hurdles are underway of making that happen.

>> Mollie Dent: Yes. Mr. Mayor.

>> Matt Loesch: Okay, I guess that goes to future agenda items, but that's okay. Item 1.3, discussion and action on tax filing. Do I need to read all of that A and B?

>> Mollie Dent: You have the memo and I would just request that you take the action that we've recommended.

>> Just the 14,000.

>> Matt Loesch: It's to authorize --

>> Mollie Dent: The request is that you just move staff apples recommendations, move the recommends 1.3 A and B.

>> Matt Loesch: Comments or questions? I'll accept a emotion.

>> Edward Overton: So move.

>> Arn Andrews: Second.

>> Matt Loesch: Motion is to move A and B, authorizing Ice Miller and the authorization. Out of the health care trust fund. All those in favor? Opposed? Future agenda items, I already have one, any others? Public or retiree comments? Are you a retiree?

>> Edward Overton: The only comment I have is why didn't we do the master trust concept from the beginning?

>> Carmen Racy-Choy: Sorry, what was the question again?

>> Russell Crosby: Why didn't we do the master trust in the beginning.

>> Mollie Dent: Well, there are a couple of issues surrounding the master trust, in terms of who the settlor of that trust would be. There are, I think initially we have the ability to have a master trust, we did include that in the tax ordinance. The -- it is obviously an additional administrative layer. There's some administrative issues with it. But we may wind up having to do it.

>> Russell Crosby: And quite frankly Ed from my own experience at the USCW where I had ten individual trust funds under management or the mine workers there were six. It was in the Arnstyle. You've got 300 million over here you're going to take the $one million and the managers did but that's not working in this environment and I've never seen the use of a master trust.

>> Edward Overton: The strategy with this master trust.

>> Russell Crosby: We didn't know we were going to have this level of problem until we got into it and tried to invest with the managers and they turned around and said no. And that's where the whole master trust kind of discussion arose. But as Mollie says there are issues around the master trust in this environment.

>> Mollie Dent: If it turns out to be the only way to invest the funds --

>> Russell Crosby: Then we may have to go down that road.

>> Does it have to do with the number of parnls you may have the 99 limit or they are restricted about minimums?

>> Russell Crosby: It seems to be minimums more than any clts. The way Northern Trust is set up they can't.

>> And where Northern Trust charges you to hold their cash.

>> Arn Andrews: And with the managers where minimums are an impediment I will reiterate we will view them in aggregate in the future.

>> Russell Crosby: I've already twisted that arm. I nearly broke his out of the socket.

>> Matt Loesch: Anything further? We're adjourned again. Thanks.