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>> Matt Loesch: Good morning. I would like to call to order the board meeting for May 17th. Under orders of the day, usual runaround and rearrangement things. There's two items, request from staff. Item 1.2 would like to be deferred. Item 1.3H, change of retirement date to June 9th, 2012. And years of service, to 24.94. And then I guess under general orders as far as arrangement and structure, my thought to keep structure, if you allow, consent calendar items, then item 3.1, A B D and E for the policies but move 3.1 C and F. to correspond with 4.4 and 4.5 respectively. Those are sort of aligned. And one might be reflective of the discussion of those two items, so those taking notes quick, a B D and E will be done after consent and C and F will be with 4.4 and 4.5. Then 3.2. And then we would -- I would like to move the consent calendar to after our usual break time about tennish or so. So two closed session items, 3.3 and 3.four, skip through 4.1 and 4.6 and deal with the educational items after our closed session. So 4.1 through 4.6 and then do 5.1 through 6.4 items to the end, and then go into closed session and then educational items if that's not too confusing, does that make sense for everybody or do you not care? Okay great. Otherwise I'll entertain a motion on the orders of the day.

>> Motion to modify the agenda as discussed.

>> Second.

>> Matt Loesch: Any comments or questions? All those in favor? Opposed, all right. On our consent calendar is items 1.1 through 1.9, excluding the deferral, I'm entertain a motion.

>> Edward Overton: Move approval. All in favor, opposed, like to request a moment of silence, death notifications, for those who have passed who have served the city. [Moment of silence.]

>> Matt Loesch: Thank you. Moving on to item 3.1. We have a series of policies, Mr. Ianucci you on the phone?

>> I am.

>> Matt Loesch: Item 3.1, six policies I would like to take now and go through and hopefully approve these particular charters. So the first one up, Mr. Ianucci is the board's charter.

>> Thank you, Mr. Chairman. For the record, this is Tom Ianucci from Cortex participating by telephone. I'll begin with the board charter. The board has reviewed this document before. There are no significant changes to this document. The only item I'll just draw your attention to that received some discussion at prior meetings and at the joint governance meeting is really paragraph 1 there was a bit of back and forth on the actual election of the board. So this is where we ended up. And I just wanted to confirm, make sure the board is comfortable that this is the approach they would like to take. It essentially says at the last meeting of the calendar year the board would seek recommendations for the board chair and elect one of the nominees to serve as board chair and that would take effect at the next regular or special board meeting which would likely be in the following calendar year. Otherwise, this document really reflects the role of the board chair is to really support and promote effective meetings to help run those meetings and just support efficient and effective use of the board's time. As opposed to playing sort of a strategic role in setting the board's agenda or the direction. Or what have you. Those were sort of the two models and I think the board and the joint governance committee felt that the administrative model for the board chair would be most useful for the board. Otherwise, I don't have any other comments on this particular document.

>> Matt Loesch: Comments or questions from the board on the board chair charter. Otherwise I'll entertain a motion on that.

>> Edward Overton: Move approval.

>> Lara Druyan: Second.

>> Matt Loesch: Comments? All those in favor? Passed. Mr. Ianucci.

>> Great, this document as well has been reviewed by the board and the joint governance committee. I would just draw your attention. This was approved at the last -- by the Police and Fire board at its last meeting. There were a couple of minor changes that the P and F board made to the policy and I took the liberty of adding them to this document. I'll draw your attention to them now in case you didn't likely notice them. But they're good changes. The first one being paragraph 5G as in George, top of G-4 reviewed, we simply added the words "and respond" to findings and comments. And the next change is lower down on the page paragraph 9B as in Bob, review on an annual basis insurance coverage for the plan. And it was suggested that we add the words, "and its covered insureds." So we added that, and I think both those changes were suggested by counsel, and I thought you should be aware.

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

>> Arn Andrews: Motion to approve the audit committee charter.

>> Second. Mr. All in favor. 3C was moved to go on to 4.4, if you can kind of slide that through in your stack. 3.1D board education policy. Mr. Ianurci.

>> Thank you. Once again this document has been reviewed before previously by the board. There haven't been any material changes to it other than a couple of changes that were raised, again I believe they were raised by council at the time Police and Fire meeting so I've incorporated them into this document, i'll draw your attention to them because once again I didn't track them. On page 1 of the document G-9 is the page number, paragraph 3J this is the list of topic areas that board members should be building their knowledge on over time. We've added J, disabilities to that list. Then turning to page G-11, paragraph 7 H as in Harry, the very last sentence reads, this is concerning the report that board members will provide to the director after every educational external educational program they will attend. The very last sentence says the purpose of the report is to -- and it was suggested that we add the words, "share information" and then continue with "and help board members identify quality external education" a minor bus useful change. Then turning to page G-12 which is appendix A, this is the general outline of the board member orientation program. It was suggested that we add items F, G and H. Actuarial principles

disabilities and benefit administration. So those topics would also be covered in the board member orientation program. Those are the only changes since the board has last seen this document.

>> Matt Loesch: Any other comments or questions from the board on this? I had one on this is G 11 number 8. Just because it's a little vague as far as when staff will provide board the annual report summarizing educational activities. I think we should just add a phrase, end of calendar year, end of fiscal year, just so they know when that reporting should be known, something simple, whatever is preferred by the staff, is in a preference, end of calendar year, end of fiscal year, which one's more useful? (inaudible).

>> Financial reporting is done on a fiscal year basis so it may (inaudible) continuity.

>> Matt Loesch: Like August we would see something for the previous fiscal year.

>> Yes.

>> Matt Loesch: If we could add a phrase, at the end of the fiscal year.

>> At the end of the fiscal year, correct.

>> Matt Loesch: Other than that a simple so staff knows when to do it. Mr. Andrews.

>> Arn Andrews: Question, I'm assuming when we are contemplating international travel, more along the line of due diligence as opposed to educational opportunity, we want domestically, right? Okay.

>> Matt Loesch: We should be able to. On the rare happenstance. Any further questions? Otherwise I'll entertain a motion on the board education policy.

>> Arn Andrews: Motion to approve the board education policy.

>> Matt Loesch: As amended and a second. Comments or questions? All those in favor? Aye, opposed, okay. So we're on 3.1 E the investment policy, statement of investment policy. I had requested this get pulled from down in the policies, so this could get handled together. Investment committee meeting last, as noted in the cover letter to this. Anything you would like to add Mr. Ianucci?

>> I believe the investment committee had raised one issue and we tried to address it in the paragraph -- the new paragraph 12 on page 2 of the policy. So there was a -- either discussion on this point, the investment committee approved it subject to this new revision, new paragraph 12 so today is the first time I suppose that the investment committee members and the board is seeing this paragraph. So I just draw your attention to that. Particularly to the investment committee members. And I hope this addresses the concern that the investment committee members had. And it was simply to the effect that there might be times when it wouldn't be possible or the practical to be at the target allocation, particularly for certain illiquid asset classes so we tried to acknowledge that and recognize that with the new paragraph 12. Just so that outside observers wouldn't wonder why the board is not at its target allocation. There are going to be instances where it's just not possible to be there or it might take an extended length of time to get to the target allocation for certain asset classes.

>> Matt Loesch: Okay.

>> Thanks Tom. The language at least for me, this is Lara Druyan? Covered the concern we had discussed at the committee. So this works from my perspective.

>> Great.

>> Stuart Odell: I've seen breakouts of subasset classes and showing zero as the minimum up to whatever the max range is as another way to show that.

>> Lara Druyan: We talked about that as well, and we decided not to -- we decided to give ourselves room in terms of the language, rather than create such broad ranges that it made them less meaningful.

>> Matt Loesch: Fur thoughts?

>> Arn Andrews: Just one general thought. When reading through this, I mean, it seemed good. But when we have an existing policy I often like to see track changes so I know what we're deleting, what we're adding.

>> Matt Loesch: Sure. So to the extent possible Mr. Ianucci, when we bring not just the investment policy if you could turn track changes on so we can see which items are being changed?

>> That's a very fair point. This would be a -- this would represent a complete revamp. I was under impression that the old version of the policy might have been in the package but it's completely different. The rewrite, the track change would have been --

>> Arn Andrews: In reading that I got the impression. Which is why when it comes back again I would like to see the track changes because this does seem to be a fairly substantial --

>> Matt Loesch: I think they redid the entire document. Here's the old one here's the new one, throw the other one away, that is the concept right?

>> I do apologize. We should have included the old policy.

>> Matt Loesch: The other thing came up to the adds, things that aren't covered in the statement of investment policy. Mr. Leiderman.

>> Harvey Leiderman: Sure, thank you. Forgive me if you've raised some of these before. One of the things I would like to see included now or later would be some statement about use of leverage in the portfolio. Whether

it's permitted at all, and if so, under what circumstances. And then I think we don't need to address this now, but perhaps in the investment committee later, we can talk about the rebalancing authority. Whether there's tactical rebalancing that's permitted in the portfolio, and under what circumstances, within the ranges. I think that would be helpful. Because we have broad asset category ranges. But in this policy statement I'm not -- I don't see subcategory ranges. And if you only rebalance within the broadest range, you may find yourself out of sync high and low in subcategories within an asset class, for example.

>> Lara Druyan: Yes, we started with the subcategories defined and we decided to move that up and roll it up into broader categories for the obvious reasons.

>> Carmen Racy-Choy: If and when rebalancing, when we rebalance, Russell investments have a policy overlay implementation. When the -- we get a little bit over-allocated for example to equities, Russell will actually put in place derivatives to bring us back in line. They will actually look at the subcomponents and see where we're most overallocated and they will reduce that. So by doing that none of the subcomponents should get significantly out of whack. So -- and we do keep an eye on the specifics. So there isn't really the room necessarily for any one area to get overallocated.

>> Stuart Odell: What does excessive mean?

>> Carmen Racy-Choy: I think historically over the past couple of years, the deviations have been in the order of magnitude of 2% or 3% from target.

>> Stuart Odell: So I think this is a topic that the investment committee does need to spend a lot more time on. The rebalancing policy, when you decide to trigger your bans to rebalance, could have more impact on the portfolio than every other alpha bet you have used in the portfolio. You let it go out of the ban 5%, that could be the difference, that could be all your alpha you generated elsewhere or greater than that. I think coming up with a policy rebalancing policy that we all agree is prudent, I think is -- makes a lot of sense. You know, there's -- do you set it strictly in your bans, do you rebalance around the bans, do you have a systematic rebalancing

policy? There's a lot of things that we should probably discuss to make sure that you know, we're kind of optimizing what we do there.

>> Carmen Racy-Choy: Yes.

>> Arn Andrews: Actually I think I'm going to expand on my original just kind of track changes concept. I think it might be helpful since this is a pretty big departure from the previous investment policy if staff also gave some type of a presentation just along the lines of, the thought process of why the new format is more conducive going forward as opposed to what we've been utilizing historically, I think that would be helpful.

>> Carmen Racy-Choy: I think the rationale, the old policies were very long, and both Police and Fire had different processes for rebalancing, and pretty much everything else was also quite different. So this has allowed us rewriting the policies has allowed us to really have one policy with, we're hoping to keep most of the administrative things common, the derivatives policy common, the leverage policy common, so really, what we're hoping to achieve is rather than have to administer two very different plans, to administer really one plan. But with two legal entities. We're hoping that the essence such as rebalancing, leverage, derivatives policies, would be kept fairly similar. So this is really the main rationale for departing from the old statement of investment policy to the new one.

>> Matt Loesch: Why don't I recommend this. We can either accept the policy as-is and refer both the leverage and rebalancing topic to the investment committee. If they wanted to modify or add an addendum to the new policy or we can table this until that change is recommended. What would you like to do?

>> Next investment committee is week from Friday?

>> It's a week from Friday.

>> Carmen Racy-Choy: The 25th.

>> The 25th.

>> Matt Loesch: Within a couple of weeks. We'd have them for the June meeting if they're substantive.

>> Arn Andrews: I think personally I would like to wait for the June meeting and see the outcome of some of these others.

>> Matt Loesch: We can table the policy until June so you could have the investment committee results come back to our June meeting. No action there just tabling it. Okay. And then item 3F, 3.1F, that will go along with 4.5, possibly so if we could put that one aside. So moving on to item 3.2. Discussion and action on the question to pose questions -- questions to pose to the city administration regarding implementation of the June 5th pension ballot measure and its impact on the allocation and investment of the fund. Mr. Leiderman has 3.2 in our packet plus some slides I believe.

>> Harvey Leiderman: Okay, that worked. Through the wonders of modern technology. Good morning. At the last session of the board we had considerable discussion about from the actuary particularly about questions that the system might have regarding administration of the ballot measure if in fact the ballot murmur B were to pass on June 5th. And raises a number of questions administratively and also from the investment point of view. What we've put together with the help of primary of legal and actuarial is a series of questions that we would like to pose on behalf of the Federated board. If you agree, and this is in your agenda backup packet, and I have put it up on the screen as well so everybody can see it at the same time. And we can go through this, Mr. Chair, however and the board would like us to do. Essentially what we've done just from a formatting standpoint is trying to organize this in terms of various sections of the ballot measure itself listed on the left and then what the provision is about and then the administrative questions that arise. So the purpose of this discussion this morning is to have your review and your input on whether or not you believe it's appropriate, prudent to send these questions over to the city. And when I say the city, the city council is I think the appropriate body to receive

these. Police and Fire board approved these questions at its last meeting as well, and so -- but Mr. Chairman we can do this any way that you would like to do it.

>> Matt Loesch: Well, since folks had it in their packet to review, if there are particular questions or comments that you would like to highlight or you would like Mr. Leiderman to highlight more, we have gone through each of the questions we've talked about these briefly before and you said these were from Cheiron and yourself.

>> Harvey Leiderman: That's correct.

>> Matt Loesch: I didn't have any really set plan as to how to move through this. I would like to see what the board wants.

>> Harvey Leiderman: We have tried to highlight what we considered the most important port questions. As you can imagine, an actuary and a lawyer getting together can come up with more questions than --

>> Matt Loesch: Almost get paid by the character.

>> Harvey Leiderman: As you justice Holmes said, if only for as a concession to the shortness of life we have to stop somewhere. On the right-hand column we can go through this but perhaps we should open it up to the board at this point to see if anyone has comments, additional questions you would like to pose or other issues that the ballot measure raises in your mind.

>> One of the questions I had was timing. When will we know sort of the official time line from the city?

>> Harvey Leiderman: Well, we don't know that. What we do know obviously is the ballot measure is scheduled for June 5th. Normally, in the ordinary course, it's -- the outcome of that would be certified within 30 days. The ballot measure itself says that the intent is for an enabling ordinances to pass through the city council so that most of this can become effective by September 30th, I believe. Now there's some provisions that will either be

implemented sooner or later than that. And as Mr. Constant can underscore, the city council has stated that they intend to test or commence a legal validation action if you will. It won't be called that but some type of declaratory relief action to test the constitutionality of some of the provisions that will clearly be challenged on the grounds of members' rights. And so as I understand it, what the city council has said they will do is they will not implement this until that process has been completed through at least the trial court level. I haven't heard anything about whether they intend to wait for an appellate proceeding.

>> Pete Constant: You're correct. It's at a trial court level.

>> Harvey Leiderman: Okay. So it's very difficult Mr. Armstrong to give you any timetable on this. The fact is that the sooner that we have answers to a lot of these questions, the better off the system is going to be, if it has to administer this new regime because there are just -- we can't turning this tanker that easily. There are programming -- as we saw, I believe, staff presented at the last board meeting, a time line for implementing the number of the changes just from purely practical software reprogramming and reprogramming the dialogue, if you will, between the City's payroll department and the plan. That can't happen overnight. But there are other processes here as well. The entire disability process, for example, which is scheduled under the ballot measure if it passes to be radically different than the regime that we have today. So the sooner that we get to know these things, the better. I will make this additional comment: These administrative questions really don't include questions that we will have to address, that relate to the investment side of the -- of what this board does. Once we get some guidance on the administrative questions, particularly those that affect, that will affect the cash flow of the system, then we're going to have to dig into what's the impact of that on our asset allocation and our asset liability model. Because the liability side of that model is going to change possibly significantly. Depending on the outcome and depending on how many and who opt-in to the voluntary plan. Because if your legacy plan we'll call it turns out to be comprised primarily of the older workers with more years of service, then the cash flow impact on the system is going to be substantial. And that will get the immediate impact on how we structure the asset liability model. So the sooner we get started with this, and we hope to, and I know we will be able to work cooperatively with the City Manager's staff and others in the city to try to get some understanding, they have already suggested to us that we work together. So that we can help craft the enabling ordinances that have to go into it. Because

they want to be conscious of the administrative impact that we have to put into effect to make this work if it, in fact, passes.

>> Matt Loesch: Okay, any other comments or questions?

>> Arn Andrews: I did, I had a few comments. One harkens back to our last meeting when there was a discussion of sit a closed plan, legacy plan? I couldn't tell in here if there was a question that got to that specifically. Because to your point if it is a closed plan and then also the construct of the members whip the closed plan, the plan would be very different and the allocation would be very different. When I was reading through this I couldn't tell if any one of these touched on the closed plan question.

>> Harvey Leiderman: They're all constructed around that but not one specifically. Because of the intend -- there's no stated intent of the ballot measure to literally close the plan. So it's only going to be if the behavior patterns of the membership lead to that conclusion. So there isn't anything specifically here that asks the direct question, is it your intent to close.

>> Arn Andrews: As we start to operationalize this, that will determine -- okay.

>> Harvey Leiderman: That will tell us whether it has the effects or the indices of what we sometimes refer to as a closed plan.

>> Bill Hallmark: This is Bill Hallmark. Can I add to that?

>> Matt Loesch: How are you Bill?

>> Bill Hallmark: How are you guys?

>> Matt Loesch: Swell.

>> Bill Hallmark: We do get to questions of the assets and whether they can be commingled or if they have to be commingled separately and that gets to the idea of a closed plan. And then we also, on the first page are getting at some of the amortization questions that really also get to the idea of a closed plan. We didn't directly ask if it should be closed, considered closed. But we are getting at the principals.

>> Arn Andrews: Just to follow up, if it can't be commingled that in essence becomes a closed plan if you have to keep the assets separate?

>> Bill Hallmark: That's correct.

>> Arn Andrews: Okay, I have one concept where we start to talk about the concept of actuarial soundness.

>> Matt Loesch: What page?

>> Arn Andrews: Page 5 the last grouping and it's the section item it says are the risks limited to the current future costs of the plan or do they include risks, such as not being able to attract and retain sufficient quality workers. Is that to get to the idea of what will be the tenure of the employee once they're here? I'm not sure of the jeopardy sis of that question.

>> Bill Hallmark: Sorry, do you want me to respond?

>> Arn Andrews: Sure.

>> Bill Hallmark: The ballot measure says you have to minimize any risk to the city, as taxpayers and so forth. And so we're trying to get at what are those risks that are in that part of the ballot measure. How broadly is that interpreted.

>> Arn Andrews: Okay.

>> Matt Loesch: Mr. Overton.

>> Edward Overton: At what point do you anticipate these questions being asked?

>> Harvey Leiderman: From my point, I have no anticipation in that regard at all. I think we need to send the questions over and start the dialogue with the city. But I don't have a timetable. I -- we might be able to start that dialogue before June 5th. But, you know, with the holiday coming in, in between and just trying to get everybody scheduled, my guess is we won't start getting responses and working through some these issues until after the ballot measure is voted on.

>> Edward Overton: Okay, who's starting the dialogue?

>> Harvey Leiderman: This board, the Police and Fire board and council. The actuaries.

>> Matt Loesch: The question is, who is starting the dialogue?

>> Edward Overton: From a practical standpoint, you're saying this board, is it the board chair, the staff of the board?

>> Harvey Leiderman: Well I think that's something we ought to talk about. That's a good question. The start, the starting bell are these questions. Then I would hope that we get a response back from the city that there's a willingness to talk through these issues and try to help this board. And the Police and Fire board figure out the administration under the measure. And then that will start. What delegation you wish to put together to have those discussions with, that's up to this board.

>> Matt Loesch: Maybe we should put forth a cover letter on top of these questions requesting from both the administration and city council what their vision of the conversation is and who they would like to participate on their end, whether it's -- they want all the questions funneled through the administration and then the administration will deal with the city council, how they would like to deal with it, we could just query as to what's going to make the most efficient conversation. Put it in the cover letter as a request.

>> Pete Constant: Just wanted to say that I think these are good questions and I know that in my discussions with the administration, these are questions that they want answers to as well. And I think that the council really wants to explore all these because it will be very important as we enact the enabling ordinances. So as we move forward, after this passes, if it passes, the time line that we have to enact the ordinances and of course there's some built-in waiting periods where some things don't take effect for quite a while so that we can prioritize them and address all of these issues. Because our goal as a city is not only to create the reform, but also, to make sure it's something that can be effectively administered as well. And as I told the Police and Fire board, we're conscious of the fact that the retirement services can't just flip a switch and everything happen. We know that there's a rollout period, we know that there's programming issues and administrative issues that need to be worked through. And as we answer these questions for you, I'm sure there will be questions that the council and the administration has for both of the boards to answer, as well.

>> Matt Loesch: So maybe we just request Mr. Leiderman to prepare a quick cover letter to go on this just request the beginning of the conversation and maybe develop the forum for that to happen. Because right now, it's kind of double-barreling, folks, what to you think? And because really June 5th is the thing that will trigger whether some of these things need to be in place or not, right? So at least the questions are put out in front ahead of time, some of the questions.

>> Pete Constant: And of course some of the questions may be absenced during the process of the declaratory relief action.

>> Matt Loesch: Mr. Armstrong. In.

>> Michael Armstrong: Somewhat related to this, what impact would this have on our need to have a health trust if at all?

>> Harvey Leiderman: The ballot measure includes provisions, let me see if I can put something up here, on retiree health care in terms of sharing of costs but it does not specifically impact the 401 (h) plan. Or the proposed 115 trust plan. As far as I can tell.

>> Bill Hallmark: There is one indirect impact that could be important, which is the ballot measure presumably would reduce the future normal cost rate for the pension plan which would have the effect that would reduce the amount of money that could be put into the 401 (h) account.

>> Harvey Leiderman: That's right Bill. But as I understand the current proposal that's before the city council, it is essentially to cause that 401 (h) account to diminish and disappear anyway. So that that 25% limitation on the amount that can go into the 401 (h) account if the city council passes the change that is before it now on a second reading, will be of no consequence.

>> Matt Loesch: I mean this is the first chance at the question. This is by no means the last chance for the communication adding to it. So --

>> Arn Andrews: I agree we should I definitely move forward. A cover memo would be helpful. As one often on the implementation side, the devil is in the detail. As soon as we engage these conversations the better it will be for all parties involved and so I make a motion to move these questions forward to the administration with a cover memo crafted by counsel.

>> Matt Loesch: And to the city council?

>> Arn Andrews: And to the city council.

>> Matt Loesch: Is there a second?

>> Lara Druyan: Second.

>> Matt Loesch: Any other comments or questions on the motion?

>> Edward Overton: Mr. Chair, when is it appropriate for us to address the issue of the -- what this is going to look like? Is that waiting, did Police and Fire address that?

>> Matt Loesch: What the conversation is going to look like?

>> Edward Overton: Yeah, who the participants are. June 5th is around the corner. We meet June 18th or --

>> Matt Loesch: Something like that.

>> Edward Overton: Yeah. Are we going to wait to see what happens with the election to formulate a group or set up a strategy for meeting with the administration and the Police and Fire or is that something that needs to be addressed at this time?

>> Matt Loesch: Either if we address it now we see what happens on June 5th or maybe they get utilized and wait until the 18th to put in place once we know there's an animal to tackle. I don't know if it matters one way or the other. Any advice, Mr. Leiderman?

>> Harvey Leiderman: No. I mean you have any number of options available. This could be given to the governance committee to proceed with. If it wishes since most of this has to do with the governance of the system.

>> Matt Loesch: Does that sound --

>> Edward Overton: All right, I wanted a game plan.

>> Matt Loesch: If the city council has a different how and when to participate and what means, we could tentatively park it with the governance committee, to come up with a if and when it does, does that sound reasonable?

>> Arn Andrews: I think these questions will beget more questions. I think this is an area that's going to require continuous thought and continuous engagement between not only legal staff administrative staff, actuarial staff, I think this is going to keep coming back as more questions beget more questions.

>> Matt Loesch: Why don't we -- friendly amendment to the motion of parking it in -- sending these questions on to the city administration with a cover letter from legal and then parking the topic with the governance committee. Until further notice. Trying to help craft your friendly amendment. If that's okay with the -- who seconded it? Okay with the seconder? Comments or questions? All those in favor? Opposed? Okay. So skipping 3.3 and 3.4 for a moment, going on to 4.one. Presentation of investment performance flash report for period ending April 30th, 2012. You have on your table and received via e-mail yesterday hot off the presses the April 30th flash record. We should get our Q1 report next board meeting. Is Ms. Wyrick on the phone or from staff?

>> Carmen Racy-Choy: No we had from prior board meeting the policy benchmark be added and just given the time line, the two indices that are in the policy benchmark were not available. We will have the policy benchmark added and a new flash record issued for the investment committee.

>> Lara Druyan: Is it possible in addition to policy perch mark, I know P and F benchmarks against other similarly situated plans not what our policy benchmark is.

>> Carmen Racy-Choy: Are my understanding it takes five to six weeks after a specific date to be available.

>> Lara Druyan: I'm okay with that. But how we are doing relative to our peers in other programs.

>> Carmen Racy-Choy: That's typically provided on the quarterly performance report. Would you like it to be on the monthly?

>> Lara Druyan: To the extent we have it available even if there's a time -- I would personally like to see it so we can have a better sense of how we're doing or at least I would.

>> Carmen Racy-Choy: There probably would be a time lag. Meaning they wouldn't be able to do that for the end of April. But they would be able to provide that as of an earlier date.

>> That wore helpful .

>> Matt Loesch: Any other comments on the flash report or do you want Ms. Racy Choy to go through it? Seeing no comments it's note and file, really. 4.2, Presentation of Russell investment open be portfolio overlay successful. We have in your packet some slides, 4.2. Remind you to speak into the microphone so people in the audience can hear and they can pick it up on the recording.

>> Good morning. Just to kick things off my name is Steve Kable, with Russell, and I'm here with Steve kick things off I figured we'd just go -- sorry are we okay?

>> Matt Loesch: Close the lid, it will shut off, okay.

>> I figure I'd just give you a quick overview and maybe a recap of some of the history of when we started to work with the city. It was almost two years ago when we had a brand-new consultant here, a new asset allocation was put in place. And we contracted with the city to use the Russell trading platform to put together kind of open an ad hoc basis specific exposures where we knew it was going to take a while. Managers hadn't been identified for

certain strategies and allocation and it was going to take a while to have long term investments put in place. So we did a variety of different things. We built various portfolios that were object mixed we used exchange traded futures to gain exposure and certain of your alt allocation we used swaps in place, and again that was done on an ad hoc as-directed basis. At the end of last year we moved to a more formalized automated program which we call policy implementation. And it's rules based. It uses your investment policy and guidelines, as the rules to automatically kind of gain the intended exposures as per your asset allocation and eliminate unintended exposures. And again that was put in place at the end of last year. The -- there's a variety of different goals and benefits of the program. The first thing we're doing is, we're using planned cash and equities that cash. So we're eliminating cash drag within that plan. By nudging the plan closer to your guidelines we're reducing the potential to have an expensive rebalancing trade in physical space. It provides a platform really to manage liquidity. So capital calls and distributions and benefit payments and contributions from the city are easily managed from the liquidity standpoint. And we do the whole thing within a risk managed standpoint. So some of the discussion on rebalancing policies, Greg may touch on that but it -- again it provides a platform for you to easily implement those types of policies. So with that I'll turn it over to Greg.

>> Okay. So I think all of you have a short presentation in front of you. Where I'm just going to go through really operationally how we achieve what Steve just described, and some of the benefits, flexibility and certainly answer any questions that you may have. Because it is very different than traditional investment managers where we're looking at the whole plan and so on page what I believe should show as page five. I'm not sure why because it's the first page but it says plan level overmandate, concept idea basic plan how we operate. Each day we download from the custodian what assets your managers hold, right? That's a current market value and basically how much they're holding, how much your plan level cash and we take a snapshot of what your make sure it's all good. Going through checks. We compare that to what you've provided us as your guiding framework for where you want to be as a policy. How much do you want in each subasset class and we look at the two and see what is our difference? What is our residual exposure or what I'll call unintended drift, right? The market moves away from your policy, we want to know how far. The market dictates each asset class and that came up earlier are within your comment on rebalancing investment policy. Right now it's broad asset classes plus or minus 5%. All right? So those are pretty big moves that would be taken to trigger an actual rebalancing. In reality as I go through

this there's been some pretty significant moves in your plan that have driven most of our trading and then cash. We haven't technically rebalanced just from market moves since the program's been in place. Cash, plus or minus 5% and the plan events such as changing asset allocation and change in managers, I'll go through. Just to kind of summarize, in the inception to date results, on next page, called what and why. As we mentioned kind of that overarching driver here is to manage planned liquidity and planned cash flows which you have quite a bit coming in and out and it seems from the previous session you have even more liquidity coming in and out over coming years cost effectively gain exposure to the markets for that planned liquidity and not having it sitting in cash earning basically nothing relative to you know a return hurdle that's higher than that. Within the framework of capturing that, and investing the cash, what we look at what asset classes are you underweight than overweight? So when cash changes if you have \$15 million coming in from a contribution when you're looking at buying the underweight asset class. We keep it as moving you towards target just by the natural cash flows within the plan. When your benefit payments go down at the month end we need to sell something we sell what you're overweight. So it is natural rebalancing that keeps nudging you closer to policy. The results inception to date I'm going to give you two numbers just because of the way we have the plan set up. So these are from April 30th from November 8th to April 30th. What I'll call the main overlay is actually down about \$4 million. Go through what we're holding there but it's primarily the commodities swaps. 80 to 85% exposure and the rest is very small exposure to the other asset classes. Additionally, you have exposure to an infrastructure swap that is, well, it's basically a legacy from the initial reallocation that Steve mentioned earlier. And it was set up in a dedicated separate account. Because of the interim mandate that we have. So we haven't brought it into the main overlay yet. So we show them independently. We may actually get there in the next few weeks, if that's what's desired. But so basically, when we combine those two, we haven't added much value. It's basically been flat to zero return over that time period. Like I say, that's not to say we vice president added any value but dollars aren't there. So next framework is the rebalancing aspects as we mentioned. If the plan does move further, there would be a rebalancing trade triggered. We haven't had that other than the change in policy that happened in December. We'll go through that very quickly. So the framework of rebalancing is risk management and we've taken out about 80% of the unintended risk of the plan from over 1% to about 20 basis points of unintended risk. Which is, you know, that's substantial that you just can't do if you're -- you can't constantly move your plan in physical markets as easily as we can very cost effectively in synthetic space. And secondly, trading in derivatives

is much more cost-effective. Small savings realized to date but also, being able to manage cash at a higher level at the plan, to where you don't have to manage every nickel and dime that's coming out because of a cash plan, you can raise cash in bigger chunks so that's kind of the three high-level what and whys and I'll be mindful of your time. But if I spend another ten minutes are we good? Five? Okay. Then I'm going to go quicker. So just the next page I'm going to go through the top three lines to quickly show how we view the performance. We're different than most managers, go out and get me the return of the market. Ours is always changing because what's going underneath the plan. What we view our exposures, relative to how far was the rest of you are your portfolio off of its mark. The main plan was its physical overweights from targets was actually a positive. Every asset class not at its target has a return associated with that. We were I basically directly offsetting that. Over time you would expect that to be cash drag and asset allocation drift. So we want that little gray bar of the net between the two about zero with a small positive us adding a little bit of value, and that's what you see there. The next column I mentioned the reduction in active risk from 1.2% down to about 20 basis points. Right, very little unintended risk from the movements of your plan and that gets back to your mentioning the swamping of alpha that can occur from unintended drift. You want your alpha bets to be the driver, and that's what we're trying highlight, letting that come through as well. And then finally, in the upper right column how well did we do in our implementation versus the benchmark of the, you know if we had traded costlessly and also, at basically the prior night's close, how well would we have done? And we show that we have a shortfall of about \$1 million and I'm going to detail that in a second because it's kind of an interesting case study. Because otherwise there's one day about a week ago, otherwise we're right on target. So with that, move forward. I'm going to skip the next page. Basically it shows, go real quickly through the top panel. Basically what we show is what is the absolute deviation of your plan. So how far are you from every asset class over time? And the top line is without the overlay in place. And you'll notice a big pickup in December where the asset allocation shift took place, where you added commodities, infrastructure. And we did as well. So you see the impact of using the overlay to make that shift in late December, where we were really under about three or 4% in net difference versus your policy being about 30. Because you weren't able to fund those managers yet. That's about to take place. Let's move to the final page and just to highlight. As I mentioned, we had a shortfall in what we call our implementation shortfall and it's related to the Tradewinds liquidation. I'm sure you're familiar with this but to detail, the account was terminated at the start of April and we were working with staff and Meketa and Tradewinds to try and coordinate when that

exposure was going to come into cash to figure out their liquidation plan. They were I guess a little bit difficult to work with and communication wise. We found out at about 9:00 on the evening of the 24th that they were basically already about 30% in cash, and were going to be 98% in cash by the end of the next day. So couldn't get much more detail than that but we worked with staff and said we're going to put this on as soon as we can on the morning. April 24th happened to be the day that Apple announced their earnings after the market closed. You can see in this chart, the market gapped up about a percent. So basically we traded all that day in line with that line and in line with the estimation for how they were trading to keep you in the market. But we were basically looking back to the prior night's close in our perfect impledges scenario. That would have been perfect for you. It certainly wasn't physically possible but that's how we benchmark ourselves. So throughout this day we got you know 100% invested as the portfolio was going to cash. So that was just an interesting, both story of how coordinating these exposures are very important, and how the flexibility of the overlay when things happen, you know, unintended, around the plan that you can quickly react to them and maintain the market exposure that you want. So perhaps a little more than five minutes.

>> Matt Loesch: Well, I just wanted to leave some time if there's questions from the board as well.

>> Sure.

>> Matt Loesch: Any questions, comments from the board?

>> Stuart Odell: I just want to understand in detail, little more in detail how you're monitoring the daily exposure. You said you're getting your tracking error down to, would you say 20 basis points?

>> Yes.

>> Stuart Odell: Over, I don't know what period of time that was. But when are you rebalancing or when are you reallocating how -- do you have a model that you're following to do this? Or are you doing -- I mean obviously cash flows I understand. You know, cash coming in, or cash going on those are requirements. But let's put those

aside because you can use those to rebalance presumably or get closer to your target. But what about the rest of the time? What are you looking at and what are your thresholds for rebalancing, what are the factors you're looking at at that point?

>> Sure. The factors for triggering rebalance in trade are basically distance, right? So how far are you off of any given asset class? And we've established like I said, the ranges to the asset classes are plus or minus 5%. As well as the subasset classes. So we're looking each morning where the plan is relative to those targets. And if we were to breach what we call trigger a rebalancing trade we would go to staff before implementing that. That is something we have agreed upon just to make sure that we're on the right page in terms of is there a view that wants to be expressed to keep you outside those ranges, or do you want to bring it back. So we haven't triggered that even though we've been through some pretty rocky markets. There hasn't been -- those are pretty wide ranges. So it would take quite a bit to move through. Like I mentioned the natural cash flows of the plan are always such that we are nudging you back towards policy and keeping you relatively tight. That's the nature of the process and how we evaluate it.

>> Stuart Odell: So you haven't actually had to rebalance it, it sounds like?

>> No.

>> Carmen Racy-Choy: Part of it is also due to the fact that a new policy was adopted as of December 15th, and so the new policy was implemented through the overlay, as of December 30. So everything really was rebalanced to target at that point in time.

>> That was technically a rebalancing trade. Because the new policy made us way off so we implemented that, so.

>> Stuart Odell: My only other question was on he can equityizing cash, are you equityizing everything ?

>> Good question. We are Equitizing basically there's plan level cash so the plan cash account and then a handful of we'll call identified managers that the cash is not something that's part of their portfolio. So there's about let's say six or so mostly bond managers that aren't allowed to reinvest that hold quite a bit of cash. The cash that's held as part of other portfolios, your bond managers and your equity managers, we've determined that that is not to be overlaid. So we consider that to be fully invested and it's basically the manager's call on how much cash they hold.

>> Carmen Racy-Choy: So for mandates such as the bank loans the high yield, where they're not allowed to reinvest the cash, in reality when there's cash, it is fundamentally plan cash, it is equityized they simply want to hold larger amounts of cash, we don't go over, to the extent they are actually making a call, we don't go over and Equit rvetionze that component.

>> Matt Loesch: Mr. Andrews.

>> Arn Andrews: Can you help me with that a little more .

>> Sure, just to be clear, we have done a lot of rebalancing based on a natural cash flows. But those are one-directional trades. Money come in and we'll see the underweight, U.S.eth will buy into U.S. equity.

>> Arn Andrews: When you say underweight, beyond a 5% something less than that?

>> When your target is 17%, your target is 18, we'll nudge it back in, that's cash flow rebalanks keeps you in the right direction. What we haven't done is a -- the market moves quite a bit and you hit that minus 5% plus 5% and we do what's basically a two sided trade that says we're going to buy something and we're going to sell something else.

>> Arn Andrews: So the 80% is all the incremental differences as cash flows come in as opposed to a large standard deviation where you actually do a rebalance?

>> Exactly. On page 8 we see what that rolling risk window is and you see that due to the capping in the asset allocation that happened in December, that's when all the Rick came in, you became very far away. And we were able to then get you down towards a very low risk. So it's driven by that. We started relatively tight together.

>> Matt Loesch: Any other comments or questions?

>> The only thing I missed in the preamble is we've been doing this for about ten years, we've got 60 plans. The Russell investment notional assets under management in place right now just as another precursor.

>> Matt Loesch: Okay.

>> Stuart Odell: Do you regularly provide a transaction report on all of the trades that you put on? Do you do any sort of analysis of those trades to determine whether you're getting best execution on that, as obviously you're acting as a fiduciary and doing this which is what you're supposed to be doing. But does anyone verify that and is there any way to share that with the board so that we could get comfortable that you are doing best execution and somebody's checking your trades?

>> The -- so couple of questions there. The first one was in terms of how often do we report back to the staff. What we do is we send an exposure report weekly on the plans, basically, it shows where the physical portfolio is and where our exposures are and basically the net and the distance. What that doesn't show is trade detail. But it certainly is available if requested and you know we obviously reconcile all those positions with the custodian and do all the back-office pieces. On the trade execution, was the second half of the question. We do obviously monitor our execution with brokers in the marketplace and do analysis on that. I don't have something I can share off the shelf with you, but I can look into it and get back to you. But as you hinted at some we're a fiduciary and we're an agent only, meaning we are not a principal to any of the trades. So we are always sitting on your side of the table representing the plan for best execution in the marketplace. So that's the business model

that we operate under, is an agent rather than principal. But let me if it's okay we'll follow up on the review of execution. And route it through staff or would you like me to go directly to the board?

>> Stuart Odell: No go through instead of. Maybe you can summarize over the last 12 months what trading you've done how much it's cost what types of derivatives you've utilized. One of the things that strikes me is we don't know how much you're trading right now. We don't know if you're churning the portfolio of running a lot of derivatives in and out. Would we be better to run the my guess is no but I think you have to at least demonstrate that to us. So we're comfortable.

>> Okay. That's fair question and we'll get that analysis. The piece that I guess should also refer to in terms of our measurement versus perfect implementation is something that captures everything about the trade, so it doesn't have some of the fine tuned questions that you have but it captures time between when we could have executed and when we do. It captures commissions, it captures any transaction costs that are embedded in that. We have basically a million dollar shortfall on that but it's all driven on one day that the trade happened due to market move. .

>> Matt Loesch: Depending on what the agenda looks like maybe we can get it on one of those agendas, see if we can make a preeing recommendation for reporting.

>> Stuart Odell: I agree. I think the rebalancing, the fact that they're not rebalancing, they have pretty wide bands for rebalancing. They haven't rebalanced yet and there's a lot of other activity going on. It's letting those bands be wide is probably our biggest bet, so to speak we're making on the portfolio right now. So I think that's something that we, you know, need to be comfortable that those bands are the right bands, that the policy, you know, do you rebalance tod mid pont? I don't know, you didn't state that. But you know there may be some you know views on how we do that, should the bands be tighter? Should you rebalance systematically, those are big bets when you've got a 10% ban around an asset class and you're letting those run. So you're implicitly making an active bet on the portfolio by doing that. So we should understand that.

>> Matt Loesch: Mr. Armstrong.

>> Michael Armstrong: Could you talk a little bit to the counterparty exposure? That kind of jumped out at me.

>> Absolutely, referring to page 7, bottom right-hand corner. And it is concentrated and that is due to basically you have a couple of types of counter-party exposure. You have forwards on international futures to get the currency exposure. Those are the forward spots, and then you have two swaps for the commodities exposure and so those are put on as in the initial transactions, we had three counter parties across, across the swaps. We have these two plus UBS on the infrastructure. Which is not showing on here. Basically why they are concentrated is the efficiency of trading large blocks on the swap, whereas these are collateralized positions, whereas the others are not collateralized. These large exposures through goldman and softgen, are collateralized post collateral or they call us to post collateral with a zero threshold and a minimum of about \$250,000. So basically the market moves and we're going to be trueing up and posting collateral both ways.

>> Matt Loesch: Any more comments or questions? So we'll get this on either the week or so agenda or probably June agenda for the investment committee.

>> Carmen Racy-Choy: Yeah, probably the 81.

>> Matt Loesch: Okay, thank you.

>> Thank you.

>> Matt Loesch: Moving on to item 4.3. Discussion and action on proposed city council resolution regarding health care trust issues. And your initial reaction is why is 4.3 on the pension side as well as for the folder for the health side, the identically agenda item, there are issues on either side and as this was coming out found out about it we put it on the agenda so we could have a point of conversation. The council was going to act on it I believe last Tuesday. That's why it was set. Not knowing what the agenda might or might not have been, Mr.

Leiderman was asking questions at the agenda-setting meeting, let's get the discussion here and see how it goes. Did you want to kick it off Mr. Leiderman as far as what your thoughts, questions were that day?

>> Harvey Leiderman: I believe this is on the agenda because it is in the charter. That when the city council is contemplating changes to the benefit plans, that it will seek the advice of the retirement boards as to these matters. And so that's why it's on these boards. It is also on the agenda for the health care fund that this board administers as well and sits as trustees over. Which is scheduled sort of simultaneously and perhaps we can just declare that we're also in session on that matter too rather than separately schedule it, if that is the custom that you've been following.

>> Matt Loesch: Sure we can open up the agenda as well.

>> Harvey Leiderman: Couple of the things strike me and I know that counsel who authored the memorandum who was delivered to us, is present to discuss this as well and I would very much appreciate that on behalf of the board. A couple of issues that come up, and let me just caveat this. As you know, I'm new as your fiduciary and general counsel, within the last two months. And so I know there's been a long history open this subject matter. Just to remind everybody of the structure here. There is, within the structure of the pension plan itself, what is called a 401 hrntle account. That account is funded by contributions from the employers and the employees. Those are pretax contributions by the employees. And that money is there to help prefund, if you will, the health care benefits that the city has agreed to make available to the retirees. As I understand the proposal, there will now be established, if it hadn't already been established, what's called a section 115 trust. This is a trust that essentially is an employer trust. It is outside of the structure of the pension plan. It is not a trust fund, it is not a trust account inside the pension plan but outside the pension plan. And the proposal is to fund that 115 trust with again, both employer and employee contributions. One of the issues that have already existed with the 401.

>>> Trust 25% ceufl over time. 25% into that relative to the amount of normal cost contributions that go into the pension plan. And so the ability of the plan sponsor the city and the employees to prefund runs into that ceiling. And so in many jurisdictions, the employer will set up a 115 trust, so that you ask aggregate additional

funds to prefund employee health care without hitting that ceiling in the 401 (h) account. There are differences under IRS rules. I am not your tax counsel but I have set these things up before with tax counsel inside my office. And there are substantially different rules relating to a 115 employer trust than there are with 401H accounts inside the pension fund. Issues come up and I know these issues have come up with regard to in particular proposal. And if we are going -- I guess the first question I have is, what role is envisioned for this board, relative to the 115 trust? In other jurisdictions when I've set these up the employer has been the plan administrator and the trustee of that employer 115 trust. And then that trust enters into a pension agreement with the fund to co-invest the assets in that with the pension fund assets in essence, the pension fund is acting as an investment manager for those funds. I don't know and it would be helpful if counsel could clarify that, as to what role -- right now the board is the trustee of the 401 (h) within the pension fund, the contemplated that this board would be the trustee of those funds as well and have responsibilities over administering that plan as well. So that's a threshold question I think we need to understand. On behalf of our members I think there needs to be some air clarity as to whether or not in the first instance, whether or not the IRS will allow them to put employee deductions, employee contributions, into the 115 trust. And if they may make contributions swoo into the 115 trust, will those contributions be pretaxed as they are into the 401 (h) account. There is some discussion in the memorandum from the city attorney's office that there was an application to the IRS to get direction, on how they feel about that. The IRS apparently refuses to commit itself on that subject. So the question is who bears the risk? Who is going to bear the risk of those deductions if they are made, and they are reported on a pretax basis, there is a risk that the IRS would disallow it. Around then who bears the risk of paying the taxes. Sit born by the employees or sit borne by the employer I think on behalf of the members that would be a critical question to answer. And then the other question would be, right now, as with pension contributions, when one of our members, all of our members pay into the 401 (h) account, if they terminate their employment they have an option to withdraw their pension contributions and they also have an option to withdraw their 401H contributions that they no longer wish to be in the plan. Will the members have if they switch to putting their money into the 115 trust, will they have the same right to withdraw their contributions? So again I come back to maybe we don't have a role in this at all. It would be nice to know. But if we do have a role as trustees of the plan, it seems that on behalf of the membership that some of these questions need to be clarified. And if we are invited to comment back to the city

council on some of our concerns, these would be some of the concerns that I see that I would like to on behalf of the board be addressed by the city council.

>> Arn Andrews: I think you raised some points that in the conversations that I recall on this topic, haven't been addressed, it's always been framed as we have this cap that's inept. We need to find a way to avoid the cap and this is construct to avoided that cap. But hearing some of your comments I think it would be appropriate if someone from the city attorney's office could comment on some of the questions that were raised.

>> Sure, I'd be happy to respond to some of the comments. My name is Ed Moran. I'm with the office of the City Attorney. As all of you know, Mollie Dent who was the staff attorney, for the board, has left, both the board and left the office. So we have been trying to finalize a lot of the matters Mollie has been working on and this is one of the items. My understanding is this matter has come before the board in the past and to clarify, the municipal code provides that any time there is modification to the retirement plan, that the modification which are usually done through municipal code ordinances come to the board for comment. Any comments that you have would be considered by the council before it takes final action. With regard to this particular ordinance, the council will have a second reading of the ordinance. And then the ordinance would become effective 30 days thereafter. With regard to this particular ordinance, my understanding is that last year Mollie Dent explained that the city did request an IRS ruling with regard to the validity of different aspects of this particular ordinance. And that in fact, the IRS asked the city to withdraw two of its requests. The three requests were that the contributions would be accumulating tax free. That the city would not have to file, whether or not the city would have to file an IRS filing and then also whether the contributions by employees would be tax exempt. My understanding is Mollie did come back before the board and indicate that the IRS did withdraw two of those questions, the question with regard to IRS filing and the question with regard to employee contributions. My understanding is the board did understand the request and that did consent to the withdrawal of those particular questions and the city went forward with the one request that the contributions that the city was making to the trust would be accumulating on a tax free basis and we did get a ruling with regard to that matter. Also, I understand that this particular -- that the board is also the trust is also a trust for this new -- for the new trust is being created. It is possible for another body to be the trustee of the trust. But my understanding based on the information from Mollie is that this board accepted the

responsibility to 23rd be the trust -- the trustees for the new trust. It doesn't have to be the board. But my understanding is that the board accepted that responsibility and, in that regard, it does have an interest in the ordinance, because it is the trustee of the new trust that's being created. The ordinance did go before the council for the first reading. At that time the City Attorney did inform the city council of the actions, with regard to the IRS ruling and that in fact they had asked us to withdraw two of the requests and that the only request that they actually approved was the fact that the funds that were being contributed by the city were being accumulating on a tax free basis. The council was aware that the IRS was not going to be ruling on the two other questions and at that point, the council was informed that based on the advice of our tax counsel, Ice Miller, that this board is familiar with, they believed that the city could go forward with having employee contributions, that to the extent that the IRS in the future decides to make a ruling one way or the other with regard to the taxability of those contributions, that that action would be prospective and that the city would have the ability to deal with that issue at that time. So based on that information, the council did agree to adopt the ordinance and to send it to this particular board for any comments the board may have. And as Harvey indicated, there is a need for this ordinance because based on the information that I understand this board has also received last year, is there is a likelihood that we will be reaching the limitation with regard to the contributions available for the 401 (h). And that in order to be able to pre-fund and also to do the ramp-ups that were agreed to with the bargaining groups, we will need to start using the new trust in the near future and maybe somebody from retirement board can remind the board about the Cheiron report regard to the timing when that limitation may be reached.

>> Arn Andrews: And just to follow up, one of your comments. I think the board has always been under the assumption that we were going to administer the trust. But do we need anything declaratory from the council that stipulates that they want us to do that?

>> Alex Gurza: Good morning, Alex Gurza deputy City Manager. If I could answer that Mr. Andrews, and two boards had been receiving from their actuaries that we were going to reach the limit, the limitation on the amount that's to be contributed into the 401 (h) account. And so in the agreements that we reached we said the city would create a trust to be able to put the -- both the employee contributions and the city contributions into a separate trust. At that point it wasn't decided what trust vehicle that would be or who would even be the trustees. But in our

research again and in consultation with both the attorney's office and outside counsel, we did do a couple of things. One is decide on a 115 trust and also, the fact that these boards, your board and the other board would be the trustees. And that has already been accomplished. One thing to clarify is for the Federated trust it's already been established. It's already in place. The city has put its contributions in for approximately the last year, when we prepaid the contributions. This is only an amendment. While we researched with the outside tax counsel the issue of the employee contributions. So what this simply does is only amends the trust you are already administering, to put the employee contributions into it. Again, to allow us the time, the delay is to have allotted the time to work with Ice Miller and outside tax counsel.

>> Arn Andrews: And I knew we established the trust and I enough we had been administering it. I heard the attorney's comments and I wondered --

>> Alex Gurza: There was already an ordinance.

>> Arn Andrews: Thank you.

>> Alex Gurza: It indicates the Federated board is the administrator of the trusts. It establishes that and codifies that.

>> Stuart Odell: Did Ice Miller give you an written opinion or verbal comments?

>> I'm not aware of anything in writing. There were several conversations with our office and city staff and retirement staff with regard to the issues of withdrawing the ruling request. And so it's been my understanding only verbal.

>> Stuart Odell: Sorry, it's been what?

>> Verbal. Verbal device.

>> Stuart Odell: Is this something that we need a written opinion from them on? Given that they're relying on Ice Miller's views open this or are we comfortable taking the verbal cue?

>> Harvey Leiderman: Respectfully if this board is the trustee of a trust are you can't accept funds into the trust unless you have assurance that the funds are coming into the trust properly and legally. So I wouldn't accept an oral statement that you haven't even heard from anyone. I would strongly urge that you get written confirmation from tax counsel that employee opinion can come into this trust, that, who bears the risk of an IRS ruling that the contributions are not pretax. Because otherwise you are exposing yourself to liability as trustees. Mr. Mayor I don't -- so in respect to what that Ms. Dent had presented in the past that we were going to withdraw some of our submissions, I remember that. I don't remember any consequences being described as around that, saying basically the IRS said they weren't going to rule on these anyway so we should remove our request or withdraw our request. And it's one way or the other if this is in fact true and Ice Miller is our tax counsel and this is where the relationship between the city attorney's office and the board stuff comes always so if we request directly for Ice Miller to respond to us, in the past it's always been through Ms. Dent and through the city attorney's office. In this instance they're advising us, correct, we've hired them as tax counsel. In last rounds of hiring attorneys we hired them as tax counsel. That's where we're going to have to figure out again establishing the relationship with Reed Smith how do we establish this relationship with Ice Miller as a directly advisor? Should we request this directly to respond to them to respond directly to us, what is your version of that Mr. Moran?

>> With regard to this particular matter the counsel could accept any comments that the board has. The board on its own can ask Ice Miller through its general counsel for any information that is relevant to the action or the make would have to be made to the city council. The city council would either then agree that they also are in favor of an opinion. But for this particular matter that is on before you it's simply comments before the council. If you want to ask the counsel that they should get an opinion before they take action, with regard to any opinion the board wants itself that is something that the general counsel would have to determine.

>> Harvey Leiderman: Mr. Chairman, my understanding and I've confirmed this with staff is in our role as general counsel we do not have authority to engage other counsel on your behalf. That only the city attorney's office has the authority to engage other counsel on your behalf. And I've confirmed that through staff. And that is staff's understanding as well.

>> Arn Andrews: And is that staff's understanding from the city attorney's that no longer represent us ?

>> Donna Busse: Correct that's our understanding from the City Attorney who is not here.

>> It is correct that the general counsel cannot enter into any additional counsel with durable counsel. Ice Miller contract is with the board. And so the board can request a separate -- if your general counsel would like us to get an opinion for the board, we're happy to do that. The city council can ask the City Attorney to get an opinion for the city council, as well.

>> Arn Andrews: And if the board wanted to ask our general counsel to ask Ice Miller, are we capable of doing that?

>> It would have to go through our office. Because we have the contract. The general counsel doesn't have the contract with Ice Miller. Actually your general counsel has a contract with us.

>> Arn Andrews: Okay.

>> Edward Overton: Who's paying Ice Miller?

>> There is two contracts. There is a contract for retirement board, and the retirement board is paying for retirement board issues. And there's a contract with the city and the city council is paying for the city council matters.

>> Edward Overton: Under the render an opinion on any question regarding plan operations, unless they go through the attorney'?

>> Correct million right now the contract contemplates it was done through our office. There was no general counsel to try to coordinate, and as the chair indicated, there are some issues that need to be resolved with regard to the coordination of legal issues with regard to this board. Because of the way that the board -- the legal issues were dealt with in the past. And how they're being dealt with now. So those are being worked out with general counsel.

>> Michael Armstrong: Well I would like to hear directly from Ice Miller as to why the IRS wouldn't approve this. This has got to be a common request.

>> My understanding from Ice Miller, again to the extent it's necessary to get something in writing is about a year ago they stopped providing advice with regard to this particular issue.

>> Ice Miller stopped?

>> No, no, the IRS. The ifers IRS stopped providing advice with regard to those two particular issues and that they're just like it has in other situations, the IRS decides that for whatever reason, it's going to halt giving certain types of rulings. Without really giving any indication other than, they're reexamining the issues. And my understanding is about a year ago they stopped providing rulings with regard to questions that we asked.

>> Arn Andrews: I would just ask that whatever the appropriate conduit is we do ask Ice Miller to opine on this and have something in writing for us. And then I would also ask that whatever the discussions are that are occurring with our chair that we seek to amend the current contract to so that there's language in there that would enable us to engage our general counsel to engage any topic that the board would deem appropriate.

>> Matt Loesch: Just to be clear there's no conversation the chair is having regarding the relationship whatsoever. It's just that I know that there is conversation trying to set up the agendas and meetings. Things like that, the work relationship. So there's nothing really other conversations other than that.

>> Arn Andrews: I would ask that we agendize for a future agenda, that we seek to amend the current contract with general counsel that's currently being administered by the crivmentIO so there's language in there that would necessitate that mr. Leiderman and Mr. constant.

>> Pete Constant: Ed I wanted to ask you, can't the board directly ask Ice Miller, without going ice Miller?

>> That's what we just said. If they want to ask Ice Miller the question we would then go through, we would discuss it with the general counsel and then ask Ice Miller directly for that.

>> Matt Loesch: So it would go through the City Attorney.

>> That's the structure that we currently have because it hasn't been modified since Mollie Dent was your counsel and as I said we have been having discussions with Harvey on how we coordinate the new structure within our existing contract.

>> Matt Loesch: Potentially we could have maybe at our June meeting we could have a conversation about how we structure this contract, we have Ice Miller and -- brain freeze -- who's the other one -- Saltzman & Johnson is on. Harvey.

>> Harvey Leiderman: If I may mr. Chairman, I think it would be appropriate for a motion to be made directing general counsel to request of the city attorney's office, that a written opinion be obtained from Ice Miller, outside tax counsel, to address three issues: One, may employee money be paid into the 115 trust? Two, may employee money be paid to the 115 trust on a pretax basis, and 3, will employees have the ability to withdraw contributions from the 115 trust, if they terminate employment with the city.

>> Matt Loesch: Any member of the board want to make such a motion?

>> Arn Andrews: I will. I will make a motion directing the board's general counsel to engage through the city attorney's office a written opinion from Ice Miller that ask the three foals following questions. May employee money be paid into 115 trust? May money paid into the 115 trust --

>> Matt Loesch: Employee money.

>> Arn Andrews: Sorry may employ employee money paid into the 115 trust be tax exempt and may employee money be able to take departly the city.

>> Matt Loesch: In they withdraw their funds.

>> Arn Andrews: Right.

>> Matt Loesch: Is there a second?

>> Second.

>> Matt Loesch: Okay, further discussion from the board.

>> Martin Dirks: Is there anything we wouldons employees? Is that opinion valuable or desired now?

>> Harvey Leiderman: I think that would be included in the discussion. About whether it can be done on a pretax basis bough if the answer is no then the logical question is what are the consequences and who bears the risk of the consequences.

>> Matt Loesch: Any other discussions from the board? Any other comments from the board? Mr. Doyle.

>> My name is Brian Doyle. I'm a member of the plan, 21 years and I work in the city attorney's office. Thank you for clarifying that this board is indeed a trustee and owes the plan members a fiduciary duty with respect to the contributions made for the retiree health care. Both into the pension plan as well as into this trust. I think it's incumbent upon you as trustees to vigorously defend the interests of your fiduciaries which is us. And that would include a direction to the city council on this ordinance that you will not countenance any contribution of city employee funds into this trust until these questions are answered. They can do what they want in terms of this ordinance setting it up. But in terms of taking money out of our paycheck and putting it into the plan, with these questions unanswered, I think you as fiduciaries have a duty to appropriate. So I would hope that someone might add that to the motion. Because you are being asked, on what you think of this ordinance. It appears the city council is ready to go forward with it next week on the second reading. Thank you.

>> Matt Loesch: Anyone else? Okay. Any further comments or questions? On this topic though? Seeing then, through any questions through the tax counsel through the city attorney's office in writing, correct? That was the motion? The second was Mr. Dirks. Okay. All those in favor? Aye. Opposed? Okay. In terms of responding back to city council, is there any other comments or questions or a motion on direction, coming back to city council for the ordinance?

>> Edward Overton: I think that it's important to say to the council, that these other actions have been approved by the board, and if they, you know, think that they're important, they should wait on the ordinance.

>> Matt Loesch: If they think it's important they should wait on the ordinance, the implementation of the ordinance or the approval of the ordinance?

>> Edward Overton: Yes.

>> Stuart Odell: City council already got the advice from Ice Miller that it's probably going to be okay. Why --

>> Edward Overton: Why are we asking Ice Miller?

>> Stuart Odell: Because we are not there, we didn't hear them say it, and there's nothing in writing and later on we want to have something in writing that we're comfortable with that I believe that's my opinion anyway.

>> Matt Loesch: I think the remembrance is 12 to 18 months as far as capacity issues, if we just request city council that pending its response back from Ice Miller if they would consider postponing the actual contributions, continue being in the 401 (h) until there's a response back and the boards don't have any further comment open it. That's my kind of thinking.

>> Arn Andrews: I was going to say I believe our council liaison is present and I would ask in the report-out you try to characterize part of this conversation and also inform counsel that we can.

>> Matt Loesch: I would informally request that Mr. Constant convey that the board request that, the delay of contributions being moved into unthe 115 until the counsel's legally receive the money into the 115.

>> Arn Andrews: Right.

>> Matt Loesch: That's my thinking on it. So I'll make that motion. I'll request that city council be requested to not approve contributions to be put into the 115 trust, from employees, until the board hears back from its tax counsel on the questions that we've asked that we can properly receive, legally receive the moneys in the 115.

>> Arn Andrews: Second.

>> Matt Loesch: It's clumsy. If there's a better way to word it, it's coming off in the fly.

>> Pete Constant: I understand.

>> Arn Andrews: He's taking notes.

>> Matt Loesch: The request to city council. We have a second, any further comments or questions on that?

>> Edward Overton: So the ordinance requires these contributions to begin June 24th.

>> Matt Loesch: Correct, right.

>> Edward Overton: If the council goes forward with this ordinance and we haven't gotten the answer from Ice Miller how do we square that?

>> If I may, the ordinance would allow for contributions to start. Doesn't require the contributions to start. So the city could decide to wait until you reach the max.

>> Matt Loesch: We don't want to trigger the max. That has much more dire consequences. There's huge problems going over the 401 (h) limit as well. Anything to add?

>> This is for the pay period beginning June 24th, money would actually take place for the employees on the pay date, which would be in July. So the employer contributions will come over on July 2nd. And that seems to be -- there's not an issue with the employer. It's the employee contributions and the transfer would actually occur on July 24th. You would have that time line that you would have to address it.

>> Matt Loesch: Mr. More 's point is clear it doesn't mean the moneys have to, when the ordinance is crafted can wait for the actual implementation.

>> Edward Overton: Who decides if it will be done or not?

>> Matt Loesch: Well, if --

>> The city council who is the employer, that's going to be making the contributions on its own behalf and on the behalf of the employees.

>> Arn Andrews: I think the motion as it stands is clear that it's the board's preference that employee funds don't be deposited until we can get clarity. And I think --

>> Matt Loesch: Or to the extent that there's-d if they approve it going ahead on the 24th and try to take money out if we have a meeting in June we could refuse it, there is a statement at that time if we're still not getting any -- if there's no written response from Ice Miller and or we feel there is a more prudent action on the part of the board at that time in June we could pose some kind of comment or statement --

>> Arn Andrews: I think between now and June the motion is sufficient for myself.

>> Matt Loesch: Okay we have a motion on the floor and a second, any other comments or questions? All those in favor? Opposed? Thank you. Okay, so that was 4.3. 4.4. And tagging onto it closely 3.1 C. Have at a present as well. 3.1 (c), sorry. Just for reference, I'll read both 3.1C in and also talk about 3.1C, roles in vendor selection, Mr. Ianucci are you on again?

>> Yes I am.

>> Matt Loesch: Would you like to speak on vendor selection and we'll get back to 4.4.

>> Thank you, Mr. Chair. This policy was designed for who does what in the vendor selection policy. The board has reviewed this policy a few times as had the ad hoc joint governance committee. As a reminder, page 1 or G-7 under the guidelines section provides some good general guidance and parameters around how vendors will be selected. I destiny the heart of the policy however is the table on table G-8 and again we've seep this before. But

it tries to capture on one page for all the key vendors who conducts the due diligence, who identifies candidates, interviews, recommends and ultimately appoints or terminates. Those are the headings at the top of each column. And there are a couple of changes were made through the various discussions. And just to confirm where we ended up with respect to general counsel and other legal counsel the very first row, in the end we agreed on the board having the authority to appoint and terminate, same with the financial auditor. The board can appoint or terminate the financial auditor. And there was some discussion back and forth but ultimately with respect to investment managers which is about two-thirds of the way down. In the charter, you'll see that we contemplated having it at the investment committee, ultimately this board as well as P and F have determined that at least for now the board would appoint and terminate investment managers. With respect to the next row, under human resources, with respect to hiring HR consultants, on projects that relate to the director, most likely on issues such as executive search, or perhaps performance evaluation, it was agreed that the board would ultimately appoint those types of vendors. The question, though, comes up with respect to other types of -- sorry, HR consultants that might be retained for staff below the director. And that's something that the board may wish to just confirm or discuss today, as it will lead into your next agenda item. The thinking here is that the directors directly accountable to the board therefore the board would appoint the search firm to do that type of search reporting to the director and the director should then have the authority to hire search firms to conduct those sorts of searches. That's where Police and Fire ended up, at their last meeting, and I've just reflected that here. But of course, the board may take -- the Federated board may take a different view. Just for discussion, this is what we have before us in the table today.

>> Matt Loesch: Okay, so the reason why these are bundled, let's set up our policy so we're about to employ it dealing with a vendor. Rather than just dealing with the vendor and the policy sphralt, let's talk about them together. Any comments or questions essentially on the table as the policy is written, I have a couple but nothing major. The one thing on the I.T. consultants it refers to material projects, without a definition of material projects. Again, just so staff knows, the material projects need to come to the board for approval, the nonmaterial don't. Just to get I'm assuming a dollar threshold is somewhere where we ought to put it. What would you describe as a dollar threshold that would be material? I'm assuming probably something like five or \$10,000 replacing a server that would be immediate.

>> Russell Crosby: There are two things that go on, one the kind of server issues that you're mentioning there but there's constant updates to the software that's going on. And those tend to run certainly less than \$10,000. Kind of routine, I'm looking at Veronica, the routine stuff is often less than 5, but 10 would be a very comfortable number.

>> Matt Loesch: Put a ceiling that's reasonable now where we grow into as things kick up on cost so we don't have to constantly update it but as far as trigger that cost has to come to the board for approval otherwise we're letting staff do it.

>> I would say on average the smaller contact while it could be \$110,000 and even then it's usually for a year or two duration that you're looking at.

>> Matt Loesch: Because we'll get these through in the investment as far as monthly cost we'll get those through as far as as far as the approval the anyways. Sounds like \$10,000 is a reasonable number that they have to get approval before they go ahead and expense it. Is that --

>> How many of these per year would you want have to come to the board, if you have that threshold how many would there be?

>> Russell Crosby: You basically wouldn't see most of the kind of maintenance activity that goes on with the system. You would see and getting ready to see a very good RFP coming through where that consultant's helping us where either to update or replace pension gold now, getting to the end of its life but beyond that you basically wouldn't see much.

>> Matt Loesch: For example we had one that's \$200,000. If we have to why should the board have to approve it? We get reporting on what the expenses are for. Basically, if they can go below 10,000 they can do it, above it they can do it, report out on it. Mr. Overton?

>> Edward Overton: Is this type of action contemplated in the budget?

>> Donna Busse: Two different things. There are oughts engage any vendor without board approval so I think it's a little bit different. A lot of our purchases and expenses that are going to go along with some of these contracts are in the board but the actual contract themselves have to come through the board.

>> Edward Overton: So you would be dealing with a new vendor versus a vendor that's already on that's being asked to enhance something or change it?

>> Donna Busse: Yes, new vendor or extension of a contract, yes.

>> Arn Andrews: I think personally now that we've pulled the expenses off the calendar, I like the new format that showed up this month, breaking expenses down into buckets, I see a \$10,000 threshold on the city side all the time, is a comfortable threshold, the no longer a consent calendar item, we can always pull off the consent calendar, but it is a regularly agendized item, speak to it, I'm comfortable with the 10,000 cap.

>> Matt Loesch: In addition, material means expense greater than \$10,000. Any other comments or questions to the policy for vendor selection? I'll entertain a motion.

>> Lara Druyan: Move to approve the policy regarding vendor selection.

>> Matt Loesch: As revised?

>> Lara Druyan: As revised.

>> Matt Loesch: Any other comments or questions? All those in favor, opposed. Moving on to 4.4. Discussion and action regarding authorization for the director to enter into one or more agreements with a combined total not

to exceed \$95,000 for a search consultant to recruit an assistant director and an investment officer. This goes back, conversations going million months back in dealing with our request through city administration to the ability to hire staff and so forth and one of the requests was couldn't we have search consultants and so forth there were issues -- this is one of the actions that's tied to that. Mr. Gurza.

>> Alex Gurza: Thank you, player, Alex Gurza. We have gone through the process of looking for certain search firms, new assistant director of retirement systems position. The search firms primarily for executive recruitments. The -- which would normally not include the retirement investment officer. But as I've indicated and discussed with the other board more than happy to engage a search firm for that particular position. Since it is generally a technical position and harder to recruit. So what we went through is we have a established process where we have a group of search firms. And what we do when we look for a particular recruitment is, we put out a request to those companies to bid on the recruitment. So in other words we don't have -- we didn't do an RFP where we have to utilize one recruitment firm regardless of what it is. We also asked Mr. Crosby for a couple of firms well suited for these recruitments so we sent out a request for bids and proposals for those two firms as well. What you see in a memo from Mr. Crosby, normally by the way a department director would be able to decide working in conjunction with HR on a recruitment firm. But clearly we wanted to gage the two boards, one is the expense of it which is normally absorbed into a departmental budget, that is why one of the issues before you is the expense, but we also wanted to utilize a firm that the two boards felt comfortable with. So we did receive four responses, at interest to do these recruitment. EFL one of the firms that Mr. Crosby recommended that we contact, Avery and associates, alliance and Ralph Anderson. And the memo from Mr. Crosby recommends either EFL or alliance. They both have experience in recruiting retirement-related positions. Clearly, you might see in the memo that there is a very significant cost difference between the two. And given that, we wanted to let you know from the Department of Human resources perspective from these particular recruitments if you are asking for our recommendation we would recommend alliance but clearly either one could do a good job. Now one is as you can imagine we have to select one firm and so we already went to the Police and Fire board. We can't have one preferencing one and the other preferencing the other one. We have to end up with one. Just to let you know that board delegated the authority to Mr. Crosby to choose between those two firms. So be happy to answer any questions that you may have.

>> Matt Loesch: Okay, in line with the policy that we just approved since the positions themselves are positions that are imloa below the director, the policy that we just approved has it that the director has the authority to hire the firms, for positions below staff position. But then the board would retain possibly a different firm or the same firm in engagement on the director search if that's the way it goes. That's the way the policy was set up and that's why I'm having the discussion first about the policy, that's the policy we just approved. If we follow the policy we just approved we'd have a notion to recommend basically the director to spend up to a dollar amount per our policy to hire to do searches for assistant director and investment officer. Just going to lay the groundwork. Comments or questions, comments from Mr. Gurza.

>> Arn Andrews: One, I can't remember. Was this a reclass of the CIO position or is this a straight add of an assistant director position?

>> Alex Gurza: What we did after discussions in correspondence to both boards, department of Retirement services and we went back to what we actually had at one time, is a investment officer class that was created and the pay range was increased for the retirement investment officer.

>> Arn Andrews: And on the assistant director classification?

>> Alex Gurza: It is an existing classification that is used in many departments and it is a decision that is part of the city budget that you have approved that would be in effect starting in July. Whereas the other positions are already in your budget. But we wanted to get advance work going before that approval of the search firm.

>> Arn Andrews: I won't remember from the org chart, is it director, assistant director and CIO? I couldn't remember what we were -- okay, great.

>> Matt Loesch: Other comments or questions from the floor?

>> Arn Andrews: And one other question since we still have 3.1 F the personnel committee.

>> Yes.

>> Arn Andrews: The personnel director won have the opportunity to meet potential candidates?

>> Matt Loesch: We'll potentially go through that policy as well. Any other comments or questions?

>> Edward Overton: So the director has recommended either alliance or EFL. Is the \$95,000 going to cover either one of those?

>> Russell Crosby: Yes.

>> Edward Overton: Okay.

>> Matt Loesch: So essentially the request is have the director choose one or the other, or to choose for the hiring permit up to \$95,000 and to commence the searches for an assistant director and the investment officer. Correct? Any other comments or questions from the board? I'll entertain a motion on it then.

>> Edward Overton: I'll make the motion.

>> Matt Loesch: Motion to --

>> Edward Overton: Have the drorkt decide between EFL and alliance and report back to the board what decision was made.

>> Matt Loesch: Not to exceed -- 295,000.

>> Lara Druyan: Expenses will be additive on top of the \$95,000 from reading the memo.

>> Matt Loesch: Any other comments or questions?

>> Stuart Odell: I guess the only question is, whichever search firm you go with, can you put in a graded pay schedule and pay them over three years assuming the person we bring in stays the whole three years? I've done that before.

>> Arn Andrews: I was going to say, I know on other city items, there are some -- sometimes there's language that says you have to have the candidate stay a certain amount of time or you do get a percentage of the feedback. I don't know if that's contemplated in others but I've seen it in others.

>> Stuart Odell: We know how hard it is to attract and retain staff. I certainly would be unhappy if we paid \$100,000 out and the person walked in and walked out the door within a short period of time.

>> Alex Gurza: There are some -- in certain situations depending on the firm if we don't have certain provisions and the carnet doesn't stay a certain period of time but we can definitely keep that in mind.

>> Stuart Odell: If I gave a recommendation it would be you know trying and negotiate three years we'll give you a third each year up to your 100 grand as long as the candidate stays three years or something like that. Three years seem to me like at least a minimum commitment.

>> Lara Druyan: I've never seen that in any retained search agreement I've ever done for that length of time.

>> Stuart Odell: Oh, I don't know if they'll agree to it.

>> Lara Druyan: You can ask for it I mean --

>> Stuart Odell: They probably won't agree to it now because it's on television. But you should -- you should try.

>> Matt Loesch: So motion -- did somebody second it?

>> Second.

>> Matt Loesch: Mr. Dirks. Any other comments or questions? All in favor, say aye, 4.5 and connected to that possibly 3.1. Very cleverly worded agenda item. And depending on how the discussion goes, possibly employ and creating a personnel committee will bring in some of the discussion that Police and Fire had, just to make sure the fact that we should be similar might be important. 4.5 is: Discussion and action on whether and in what form to meet with the city administration regarding succession planning with the Department of Retirement services as requested by the administration. So we have a memo from Mr. Gurza. Did you want to kick it off since we have your memo to start off.

>> Alex Gurza: Sure, thank you, Mr. Chair, members of the board. The -- we have been meeting with both a committee of your board, as well as the Police and Fire board. In your case it's the chair and Ms. Druyan. And in the case of the Police and Fire board it's chair Kaldor and Ms. Rounds. At least from our perspective it has started a really productive dialogue to talk through a lot of the issues. It started out with an issue and challenge of recruitment and filling of the positions. As we talked about it, we felt the need to engage the board into a discussion of succession plan, having more importantly a mechanism to engage the boards. I know there's been a discussion of governance structure and any changes to it. But at least we wanted to focus under current governance structure how does the administration engage the boards in things like succession planning. So that's the reason for my memo. This was already heard by the Police and Fire board and wanted to let you know what they decided to do. They did create a personnel committee. And -- of three members. And actually, we already met, they requested to meet with me almost immediately thereafter. I had a meeting almost immediately with them. There was another meeting scheduled for tomorrow, that if you had set a member of the committee we could ask you to join that committee which is scheduled for tomorrow. I think per Mr. Leiderman's advice, that

board set it up as an ad hoc committee but we're very interested in engaging the boards and getting input from the boards on these important issues.

>> Lara Druyan: Would this be at tiff to -- we have an ad hoc governance committee.

>> Matt Loesch: The conversations that you and I have been having with Mr. Gurza has been more --

>> Lara Druyan: We call this a governs committee on staffing and salary, would it be a different committee, that committee renamed?

>> Matt Loesch: Essentially closing the existing structure ting make sure we know exactly, this communicates in particular to be joint with the Police and Fire board because that's not away was contemplated before necessarily. But the whole idea is to have the conversation in public, know what's going on behind the scenes so there's nothing seedy going on it seems like. So we have these conversations, the board set up these committees to talk, whether we set up a informal committee or an ad hoc committee. That's a discussion we need to make pros and cons. That's why I had the personnel committee charter in front of us in case we wanted to create a personnel committee. But Police and Fire wanted to beef up their folks and have at least another person on our committee as well to engage in these poppics, whether or not we would have three of us participate, that was one of the things talked about at the Police and Fire meeting to join them. The reason for the hurry up meetings is they wanted to establish a new relationship, the new member Mr. Lanza had not met with Mr. Gurza before and then tomorrow the haste of that meeting has to do with two of them are flying out of the country for several weeks and not being available. So that's the reason for tomorrow being like one of the last chances they would have been around that we would have had a chance to have a conversation. That's the reason for the haste of the meeting tomorrow.

>> Alex Gurza: Thank you for clarifying that. There was a very short window period where two of the three Police and Fire board members were available. That occurred after this board meeting. So we do apologize for the short time but did want that opportunity if you could establish a committee and could make it. I do want to care of so

you're aware, the Police and Fire board did decide to replace the committee we already had. Mr. meeting with the administration and then this other ad hoc committee would replace it. But --

>> Matt Loesch: Sort of refining, keep refining the committee and what they're doing and making sure the mission is in front of everyone.

>> Alex Gurza: These are informal meetings with the administration they're not noticed meetings so I just wanted to make sure you were clear on that.

>> Matt Loesch: So that would be one of the consequences of having a formal committee is it would be a fully Brown Act meetings. Is there good, negative to the conversation, there isn't anything that's being decided that doesn't come before the board for decision. One of the things that came out of that discussion was maybe we want to make these more robust as far as is he succession planning . do you have any comments Mr. Leiderman.

>> Harvey Leiderman: If I may, the Police and Fire board, they're a nine member board, they could have had a four people and still have an another hock committee but they realized that to have a joint committee, this committee could only end up with three. You total about six people which is about as wieldy as you want to push it to try to coordinate schedules. That was the thinking that they would hold to three and they would do it at an ad hoc basis at this stage just so these conversations could start rolling forward without great formality. And to be able to do it on a joint basis. So their thinking was to do it on an ad hoc basis for not longer than six months. I suggested that if it goes longer than six months it starts to look like a standing committee and then that quhaings the whole thing. So give it a try for six months, see if you can get things resolved in that time. And then be able to move it forward.

>> Martin Dirks: Who are their members? Hg Mr. Gurza probably knows better than me.

>> Alex Gurza: It was Mr. Lanza and Ms. Rounds. They have two of the outside members, Mr. Lanza and Ms. Rounds and Mr. Kaldor.

>> Matt Loesch: There were issues brought up that we should define the source of the representatives, meaning outside, inside concepts or personnel. Which individual people should be on the board my predilection is always I want the best people on the board that you think the board should be representing them and whoever that happens to make up within reasonability. That is my personal opinion. What are the feelings of the board of basically adding another person to that number, and who those members should be, what you'd like to have, Ms. Druyan and I add on a third person to that conversation or place us whole hog and put other people on it? What are your thoughts?

>> Arn Andrews: I think if anybody wants to join the conversation, I'm comfortable with the two of you. An ad hoc committee is totally appropriate and so like I said if someone wants to volunteer to join them please feel free but otherwise I'm comfortable with the two of you continuing to represent this discussion.

>> Stuart Odell: I feel the same way. Somebody wants to be on that.

>> I would volunteer if no one else wants to.

>> Matt Loesch: Mr. Dirks?

>> Lara Druyan: Delighted.

>> Arn Andrews: Do we need to make a motion for this?

>> Matt Loesch: Probably ought to. Yes please.

>> Arn Andrews: I make a motion to form an ad hoc committee for succession planning with the Police and Fire board and our representatives will be chair Loesch and board member Druyan and the volunteer Mr. Dirks. And for the ad hoc committee to not last longer than six months.

>> Matt Loesch: In place of the present standing committee, correct? So we're not adding another committee, we're in place of.

>> Arn Andrews: Right, correct.

>> Matt Loesch: Is there a second to that notion?

>> Edward Overton: Second.

>> Matt Loesch: Any other comments or questions? All those in favor? Opposed, seeing none okay.

>> Alex Gurza: Thank you very much. I look forward to getting you the information to tomorrow's meeting and hopefully --

>> Matt Loesch: I'll tried to ferret out from them whether they are able to participate by phone.

>> Has a time been chosen for tomorrow?

>> Alex Gurza: 10:00 a.m.

>> Matt Loesch: 4.5 -- 3.1F, establishing a committee that we are not going to be forming now, my recommendation is that we table this committee until the ad hoc committee runs its course and at that time we'll review this policy. Does that meet everybody's expectations or hopes?

>> Yes.

>> Matt Loesch: Is that all right with you Mr. Ianucci?

>> Yes it does.

>> Matt Loesch: Still hanging out in the wings. I believe we're done with you Mr. Ianucci.

>> Thank you, have a plept day.

>> Matt Loesch: , where we are pulling off of consent and so forth.

>> Harvey Leiderman: You know, when you go to a new dentist and the dentist looks around and said who did this, you know we got to change this. Unfortunately I'm your new dentist for better or worse and when I stepped in two months ago you were getting sued or at least named in a lawsuit that had to do with plan expenses and whether they were appropriate or not. So it occurred to me that it wouldn't be too dysfunctional to take these matters off the consent calendar and, for purposes of your thoroughness and for transparency from a public point of view seemed to me appropriate that the plan expenses should be their own agenda item and that you should have a certification from the director of retirement services that the expenses were incurred at your direction, or as previously approved. So that that also appears as a matter of milk record every month. So that's why the cover memorandum is slightly different. And we shouldn't take a lot of time. But it does at least focus your attention on specific line items, and make it's just a risk mitigation step. But I thought that was appropriate and the chair agreed.

>> Matt Loesch: Okay. So one thing I just want to provide also pause to give staff, board a chance to see if this breakout is the way you want to see it. It would be nice to give staff gienls how to report out, hopefully P and F won't have two different formats. Anything you would like, dislike, enhancements that you would like to see.

>> The breakout is going in line with your budget presentation as far as where the budget is approved and things flow through.

>> Lara Druyan: So I think the format is fine but given that there are numerous line items and they're not all going to be familiar to us and there are things whether it's -- there are probably things that are going to be deregulated by the city or whomever which is where we got into this to begin with, it would be useful rather than us just reading it if you could also be so kind as to point out things that are -- things that are unusual or asked for by other departments within the city so that we have some visibility to understand, to understand these incurred expenses rather than just appearing as line items.

>> Stuart Odell: And I would just add to nap I mean, I tend to agree. I don't for me anyway, looking at these numbers don't really tell me very much. Because I don't have any relative comparison to them. So I don't know, is it good, is it bad, is it under budget, is it over budget? Are these reasonable expenses? I gain some comfort by having the director sign this and say you know, these were approved by the board, I'd feel more comfortable in him saying these were reasonable and customary. But just for me if there was some relative information, here's hop was budgeted or over or under.

>> Yes, a way to flag it.

>> Stuart Odell: Some way of using it, using the information. Otherwise I personally, there's just absolutely nothing I can get out of this. So if I'm being held accountable for it in some way, I guess I should have some relative comparison.

>> Matt Loesch: What would you recommend as far as --

>> I can definitely add a budget to actual line.

>> Stuart Odell: Maybe just the big categories too, since you've now kind of broken out labor, various categories that you've broken out services.

>> Is a year to year comparison helpful for us to understand what's changing?

>> I guess it would be useful for the things that are routine, and customary and run year to year, for the items that are new or additions that have come through, then there wouldn't be any comparison for those items. That would just -- at the direction of the board on that one.

>> Arn Andrews: I think it sounded like these categories align with the budget currently.

>> They do.

>> Arn Andrews: And so I think if you use the large categories and if you just add a column that says something to the effect of, percent of budget so as we track month to month, you know what your approved budget is and you know what percentage this is, of that approved budget. Would that be helpful to people so as we're tracking month to month, as opposed to tracking a lot of stuff we're at 50% of budget, 60% of budget if we're three months of the year we see we're 70% of budget that would cue us up to start asking questions.

>> I think that would be helpful. The other thing I also want to make sure we have flagged, it may be percent of budget or something that wasn't budgeted at all so we can be aware of away that is. Right?

>> Just to clarify, anything that wasn't budgeted would come back through this board.

>> Matt Loesch: So why don't we -- so you've gotten some feedback about the reporting. Do you have an idea of what they're looking for as far as how to revise it?

>> Yes.

>> Matt Loesch: This is going to be a couple of months until we get it honed in. If we come back in June and see if that kind of answers the questions that have been brought up here, is that fair?

>> Arn Andrews: And try to make it user friendly for yourself.

>> Appreciate that.

>> Matt Loesch: We need to approve the plan expenses, so I'll entertain a motion.

>> Lara Druyan: Move to approve plan expenses as submitted by the director.

>> Arn Andrews: Second.

>> Matt Loesch: Comments or questions?

>> Clarify these expenses are historical and have been processed. Just wanted to clarify.

>> Lara Druyan: Yes.

>> Matt Loesch: So seeing no comments or questions, all those in favor? Opposed, okay. So 4.7, 4.8 are going to go after the closed session. What I'd like to do if I could is pound through 5s and 6s and then go into closed session. Is that okay? Can we do these things real quick? Is that okay? So under 5.1 there's nothing. 5.2. Investment committee. Next meeting is May 25th. We have minutes from March 28th meeting in our packet. And an update from the chair of the investment committee. Is there anything of note that you wanted to bring to our attention?

>> Lara Druyan: No we did another educational session with black rock which is interesting. They have a very established practice in doing partial outsourcing and portfolio construction for a variety of endowment pension plans and public plans et cetera, they are very credible, obviously from black rock, as would you expect superinstitutional, there would be less cross pollination in terms of learning because they feel very large and institutional. We discussed trade wins which we've already voted on as a board and had a pretty long discussion about private equity but I think we've sort of settled both at that meeting and then our subsequent board meeting that we are not going with our general consultants to do discretionary for us. We discussed, you know, hiring transition managers and that was pretty much the board -- the investment committee.

>> Matt Loesch: Okay. So both the minutes are note and file and the update from the chair. Ad hoc governance committee is ongoing in hold place in case we need to send some of these policies back. We've just abolished the 5.4. 6.1 educational programs, courses, 6.2, conferences and seminars, 6.3, research papers and articles. 6.4, note and file. Just a note, Mr. Dirks is on the stage, superstar of the committee. Nothing against Mr. Krytzer but highlighting you. if you wanted to attend the one out the 8th, at the doubletree. Agenda?

>> Martin Dirks: I'm waiting for one Bio in, and when it comes in it's ready.

>> Matt Loesch: Get your registration in on that. Future agenda items, discuss about amending the contracts for legal is in there for the next agenda item. Any other future agenda items? What I'll do is declare a recess -- let's reconvene in closed session at 10 minutes after 11:00, okay? Sorry, Mr. Leiderman should I read into the what the enclosed session should be?

>> Harvey Leiderman: Sure.

>> Matt Loesch: We're not in recess yet until I read those into the record. You guys can get walking. Item 3..3 Closed session. Conference with real property negotiators. Pursuant to government code section 54956.8, Milpitas warehouse, 746-876 South Milpitas boulevard, Milpitas, California 95035. Negotiator Stanley lezman, American realty advisors. Under negotiation, price and terms of payment. Probable value of property, exceeds \$1

million. We'll be in closed session under those discussions. And also 3.4. Closed session, conference with legal counsel, litigation pursuant to government code section 45956.9 (a). Paul Mulholand, James unland and Mary Follenweider, plaintiffs versus Russell Crosby, Mike Moehle, City of San José and does 1 through 10, defendants, the board of directors of the San José Police and Fire retirement board and the board of directors of the San José Federated city employees retirement system, necessary parties in interest. Report back when we come out. Thank you. Call recess until 10 after. [Recess]

>> Matt Loesch: Call back to order the board meeting. And of the report-out from the two closed session items is that there is no report out from those two closed session items. Mr. Leiderman, appetite for moving along we'll take one of the training sessions, recommend that we do the conflicts of interest session so we'll do that now and see how we're doing and probably adjourn for the day. Mr. Leiderman.

>> Harvey Leiderman: Thank you, Mr. Chairman. We have both these presentations, the first of one, we're not going to go through this in detail. Do I need to use this for the audio? For the recording they need this, okay. We're not going to -- in your materials under item 4.7 I've given you kind of an outline and materials including the City's ethics policies and that kind of thing. Fundamental fiduciary duties. Wanted to go over that with you. But I really want to give you an opportunity instead of sitting and listening to me talk I want all of you to have the chance to talk once we all finish eating lunch. So I want to move into the conflicts of interest discussion first. But I was thinking about this a little bit more this morning, and after this morning's conversations on a number of agenda items. And you know, when we talk about fiduciary responsibilities, the fundamental fiduciary responsibilities, and we talk about this all the time and you have to take ethics classes and are you have people like me come in and you go to Cal APRS and various programs and people are talking about what your fiduciary responsibilities are and that sort of thing. And it occurred to me, why all the fuss? What is the difference about being a trustee? Quite frankly the best explanation I can give you is, there is something in California law particularly, forget all the rest of the states. But there's something in California law that makes the pension promise to public employees the most sacrosanct promise that I can think of. I mean if you think about the ability in the private sector to break promises, it doesn't exist in this area. A corporation can make a promise to its employees on pension rights. On employment contract rights. And they can be broken. Sometimes there's

consequences, a lot of times there aren't. We have a very robust body of bankruptcy law in the United States that allow to legally break them looking in the whole foreclosure field people sign up with banks and say I'll borrow the money on my house I'll pay you back and under certain circumstances they can't pay it back. And we give them relief from that. We let people go into bankruptcy and reject their loans to their banks frequent. As I say we let corporations go in and reject their employment contracts in bankruptcy. We let them turn over all their pension liabilities to the PBGC. But with public employees, we don't let that happen. We have at least 70 years of solid law in the state of California that says that the pension contract with employees, with public employees, is sacrosanct under the federal and the state constitution and you can't mess with it. And the reason why I bring this up is, if you are going to make a promise, if the public, if the California public is going to make laws to preserve that promise above every attack on it, then you've got to put people in charge of keeping that promise who are held to a high, high standard of behavior. Because that's what is expected. To be able to keep the promise. We've talked in the past, we'll keep talking about, you don't engage in the design of the plan. Your job is to keep the promise that the employers made to the employee. In doing so, you have to follow these rules. These are the highest standards that govern anybody who serves on behalf of others. The standards that are imposed on you as trustees of a public pension fund are stronger and higher and more difficult standards under the law than are imposed on trustees or boards of directors in any other context. Primary duty of loyalty to the members and the beneficiaries, the exclusive benefit, the assets will only be used for paying for the benefits and the reasonable administrative expenses, that you'll act at a prudent investor to the highest standard under law. Which is the prudent expert rule. And that you'll follow the law. And in the materials, on the odor agenda item, that I gave you, I think I included a list. It's not just the California constitution. Yeah, it would be on, let's see, the back of the constitution and the city municipal code. That sets forth these fiduciary responsibilities. But all the other responsibilities that you have under the laws, the political reform act, to avoid conflicts of interest, the public records act, to make all your records available publicly with few exceptions. To conduct meetings under the open meeting laws, conflict of interest sections, actuarial requirement sections, California labor code impacts, we've talked about the internal revenue. I mean, this is a tax qualified plan so you actually have obligations to maintain its tax qualified status under the internal revenue code. The Securities & Exchange Commission regulates much of what we do on the investment side and what our investment managers can and cannot do. They also regulate insider trading. And lord knows, we trade lots of stocks and bonds in this business. And then you have as we go through our own

board charter and policies that we're in the process of constructing. So it's a very, very high standard and that's why we pay attention to these rules. But there is the legal, and then there is the practical. And what I want to talk to you about today is both and I want to go through a few hypothetical situations with you and get your views and use the various laws maybe as a checklist, if you want, use the materials from the other agenda item. So let's just, I think Mr. Armstrong would be a good one to start with here. Gets to be the subject of our little activity here. We're going to go through an investment scenario. So Mike, and I hope you can all see this on the screen. Mike's at the airport. Okay? And you're on your way to an investor conference, something like that, you run into the client relations officer of the global tactical asset manager. And you guys set together on the plane and at one point you say to her, you know what, I really don't understand derivatives. Can you explain that to me? And of course she's absolutely thrilled to talk to a prospective client on the plain about derivatives, she tells you about that and you anybody have a problem with him getting his education that way? You're okay with that, so far he's in good shape. You don't have any problem. I think I need to do this to you. But if anybody has got to say anything they got to talk into into the mic.

>> Michael Armstrong: I think that looks fine.

>> Harvey Leiderman: Would that matter whether this was a manager or a prospective administering of this fund?

>> Michael Armstrong: It would seem like it would be okay.

>> Harvey Leiderman: Would it be different Marty, if they were running money for the fund or somebody interested as a future manager?

>> Martin Dirks: It seems like it would be okay.

>> Harvey Leiderman: Has this happened to you before, Mike?

>> Michael Armstrong: Things like this. Sure.

>> Harvey Leiderman: Okay, it's a train, not an airplane, how's that.

>> Michael Armstrong: Can they buy me a drink? Can I accept a drink?

>> Harvey Leiderman: No, no, I get to ask the question. [Laughter]

>> Harvey Leiderman: So can he accept a drink?

>> Martin Dirks: I wouldn't.

>> Harvey Leiderman: Okay, let's stay with where we are right now okay? We have someone who is a manager or is a prospect. And is this chat okay, Matt?

>> Matt Loesch: There certainly if it's -- this is the form of education he's choosing, I it would be preferable to find an institution that's training as opposed to an investment manager specifically and it might be this investment manager's training some way to make their product look most appealing, probably frequent and also establishing a personal relationship. Then there's like a personal bond there like she's nice, she helped me out understand some things let's look at their stuff a little more than somebody else. It's the -- getting towards the edge of the slope. And where you start going down more alleys which I'm sure the slides are going to go towards.

>> Harvey Leiderman: I'm only on slide 3, already you're heading down the black diamonds.

>> Matt Loesch: No I said you'd ask if there's any concern about it, right? Certainly I'd think about it.

>> Harvey Leiderman: You want to know more.

>> Matt Loesch: Again, it's only a single incident. Single conversation, one off, but if it's a code of conduct, it's problematic.

>> Harvey Leiderman: Let's see where the conversation goes. During the flight she mentions she has a new investment strategy, Bolivian currency strategy and she mentions to get a conversation with your board, she mentions a window of opportunity is about to close and you don't want to win out. You tell her wow, this is great news because the markets killed us and we're looking for quick alpha. Okay? Lara got a problem with this?

>> Lara Druyan: Not sure, I guess everything's public but I'm not really -- I wouldn't be thrilled to tell a manager I don't know that oh we've really been hammered in the market we're looking for quick alpha. That's just personal.

>> Harvey Leiderman: Wasn't that public information?

>> Lara Druyan: It is.

>> Harvey Leiderman: You just don't like them putting it quite that way.

>> Lara Druyan: I wouldn't put it that way.

>> Harvey Leiderman: Sound a little too needy to you?

>> Lara Druyan: Yes.

>> Harvey Leiderman: Stuart what do you think about this?

>> Stuart Odell: Well, I don't think that there's any fiduciary breach in and of this. I guess what I -- the issues that come up for me are around, you know, how information is getting transmitted in what form to whom. Is it

transparent and clear, is everyone else on the board aware of how these things are transmitted from one party to another. So I think that's where I would have my issues with this portion of it.

>> Harvey Leiderman: Does it matter to you that the previous slide was kind of a discussion generally about derivatives? This one is about a specific investment opportunity?

>> Stuart Odell: I mean, yeah, in the sense that once it's a specific investment opportunity, it's a board decision at the end of the day. This is a board member who's being influenced, knowing it or not knowing it is being influenced by this person that they met. And so from that perspective, because it is a specific investment, that's where I see it as slightly different. For me, on the first slide, the only -- the only issues that I have is as a -- from a fiduciary perspective, I think someone brought this up, was if this is how this person is learning, and becoming a, quote unquote, either a prudent expert or et cetera, and this is the only way that they're -- and they all of a sudden walk out and go okay, I understand derivatives now because I've had a primer from somebody I met on you know the airplane, that's where there could be a potential, as I see it anyway for a potential problem.

>> Harvey Leiderman: The airplane wasn't part of the education.

>> Stuart Odell: It may be perfectly fine education, it may not be, we don't know but it certainly is not a systematic way of getting education out to somebody.

>> Harvey Leiderman: Arn, are you comfortable with this so far your colleague getting his education this way?

>> Arn Andrews: My take aways are right in the very beginning it's client relations so it's sales. It's not an actual person with the institutional knowledge of derivatives. They might have a cursory knowledge from a sales perspective but not a subject matter expert.

>> Harvey Leiderman: So if it was the CFO you would be more comfortable?

>> Arn Andrews: I'd be more inclined to have a broad discussion. But I know I'm sitting beside sales rep and to your discussion, the sales rep is moving into product. I would probably warn that if you ever plan to do business with us, you may preclude yourself from an RFP if you continue talking to me.

>> Harvey Leiderman: Really, is that a rule?

>> Arn Andrews: I might go that far.

>> Harvey Leiderman: Do we have a rule that says that?

>> Arn Andrews: On the city side, we get leery for engagement with potential clients, so I tend to fall on the way conservative side so I'd probably shut a conversation down with a sales rep.

>> Harvey Leiderman: Lara do you want to have to Miranda-ize people? Say one further thing and you'll have to disqualify yourself from doing dealings with this board?

>> Lara Druyan: No.

>> Harvey Leiderman: Mike, very gracious, somewhere over Chicago offers to put the matter on the board agenda, also to push the board to bypass that cumbersome process of staff and consultant review. How gracious of you, Michael. I mean that's reasonable isn't it? Suggest we'll get this on the agenda, window of opportunity is closing here.

>> Martin Dirks: As a practical matter I don't know if it's a fiduciary breach but I wouldn't do it.

>> Harvey Leiderman: What about the board governance, the vendor policy you guys just passed this morning? Doesn't it tell you who's supposed to be doing what, when, and -- so is this okay under that?

>> Lara Druyan: Huh-uh.

>> I don't think so.

>> Lara Druyan: It's up to staff. You can recommend something, interesting opportunity but to suggest you are going to railroad something through is really inappropriate.

>> Arn Andrews: In my defense, I don't like chatter on airplanes.

>> Harvey Leiderman: She said railroad.

>> Arn Andrews: I'm not a big talker.

>> Harvey Leiderman: Okay, so would a proper response to this the person would be, well, we just passed a board governance policy that says I can't talk to you. Go see staff. Is that the right thing to do?

>> Arn Andrews: I shut the conversation down 20 minutes ago.

>> Harvey Leiderman: Okay so a week before the board meeting she calls you Mike to say hi, out of graciousness to this individual you suggest getting two other members together with her at lunch so she can talk with them before the board vote. Because you know, you don't want to embarrass your colleagues, right? At cameras and public.

>> Lara Druyan: Since we don't know anything about Bolivian currency nie.

>> Harvey Leiderman: You don't want them asking stupid questions. So you invite Lara and Marty to go to lunch and she tells you that the three of you invests \$100 million into this LLC they'll funnel the money to the manager that hedges Bolivian currency. Ed, we haven't asked your opinion about this yet. What do you think?

>> Edward Overton: I think if she provides the education, it's okay to talk to her about it. But she cannot be a participant as a candidate to provide that particular product.

>> Harvey Leiderman: So she's out back at slide 3.

>> Edward Overton: Right.

>> Harvey Leiderman: Stuart, are you comfortable with that snare ye? Not a Brown Act problem is it? Less than a majority of the board.

>> Stuart Odell: It's not a Brown Act problem. You know, it's -- I think it still kind of violates our policy for how we want to vet through managers. And so I think just process-wise, this is probably not ideal to do this. So is it violating anything -- yeah, if our process document says, you go first to staff, or first to the consultant, and clearly, this is going outside that. At a minimum there ought to be some disclosure out to the staff of what the board members are doing.

>> Harvey Leiderman: Stuart's twice referred to disclosure. Michael we're the one we picked on to be the topic of this thing. At some point do you think you should be telling anybody you are having this discussion and when would you do that?

>> Michael Armstrong: On the board?

>> Harvey Leiderman: Board, staff, your clergyman.

>> Michael Armstrong: My psychiatrist?

>> Harvey Leiderman: Your psychiatrist.

>> Michael Armstrong: Yeah I mean you want to be as transparent as immediately as possible.

>> Harvey Leiderman: When would you, we're about four slides into this now four different scenarios moving along here. At what point would you feel it appropriate to pick up the phone or e-mail and tell somebody, hey, I'm having this conversation?

>> Michael Armstrong: When the flight gets in.

>> Harvey Leiderman: Just from the discussion on the airplane?

>> Michael Armstrong: Sure. I mean otherwise I might forget.

>> Harvey Leiderman: Okay. Well, let's see where it goes from here. Now, you've been so gracious [Laughter]

>> Harvey Leiderman: That she wants to be gracious to you in return and she says you know, Michael I'm so grateful that you've got us an audience with the board, you haven't promised her anything at this point. That I'm going to make a \$1,000 contribution to the mayor, in your honor. How does that feel? We've moved from psychiatrist to attorney, is that it? You should be flattered. She doesn't think you should be flattered but you're feeling pretty flattered. You don't have to make the contribution yourself. She's not paying money to you yet.

>> Michael Armstrong: Since it's a contribution can you write it off your taxes?

>> Harvey Leiderman: It's in your honor. The fact of the matter is just so you keep in mind that within the last year the SEC passed a rule that says that this manager cannot do that. Can't give money to whoever appointed you to this board, if they're a registered investment advisor or broker-dealer. We didn't say they were registered but that new rule prohibits this. They can give a certain amount of money about \$340 if they live in the jurisdiction where the mayor's getting elected but this is something they cannot do. Now, that's an interesting question, too,

Arn because, if you know, because your board lawyer told you that this violates the SEC rule 2064-5 and she tells you this, what are you going to say to her?

>> Arn Andrews: Again 2064-5.

>> Harvey Leiderman: And are you going to tell anybody else?

>> Arn Andrews: Sure.

>> Harvey Leiderman: Who are you going to tell?

>> Arn Andrews: I'd probably tell the director, since they are responsible for procurement. FYI I was approached by a vendor and among other things the vendor said something I'm pretty sure is not legal so you might want to keep that in the back of your head as you review potential future renders.

>> Harvey Leiderman: Are you prepared, Arn, to disqualify this person right now from running money with the fund?

>> Arn Andrews: Probably. She ruined my flight, she talked the whole time.

>> Matt Loesch: Didn't give you the moment's peace hmm?

>> Harvey Leiderman: Nobody told you to fly southwest.

>> Arn Andrews: You mentioned ethics training. I was getting my masters we take an ethics course so I have a very low tolerant.

>> Harvey Leiderman: For ethics?

>> Arn Andrews: No, no, no, for anything that even appears to be a breach or even close to a breach, you know, so I tend to always err on the more conservative side. So I probably in my mind with or without knowing it I already precluded this person if they came before me.

>> Stuart Odell: Can we clarify what the SEC rule is again, giving the thousand dollars to a third party, would that have been the same rule?

>> Harvey Leiderman: No. The SEC rule is: That they may -- a registered advisor or broker-dealer may not give a campaign contribution to anybody who sits on the board that they may be soliciting business from, or anybody who causes or is in the process of putting somebody on this board, okay? Appointment authority, something like that. So to the extent that the mayor, in this hypothetical city, had a -- was part of the process of appointing anybody who sits on the board, so someone who influences the selection of a board member so you can't give to a board member or someone who influences the selection of a board member. So it's two stages from it.

>> Stuart Odell: Thanks.

>> Harvey Leiderman: That's what happens. Let's see what happens, you've been gracious, she's been gracious so far. Next board agenda's prepared, investment staff says, what is this? Please. Please, Carmen, don't worry about this. I've done all the due diligence on this, trust me on this one. You trust him, don't you,.

>> Not if he does this.

>> Harvey Leiderman: Come on, the guy is an investment professional.

>> Yes, but it's the staff investment record. They get the blame if it goes poorly. It should be their responsibility to make the selection. It's their decision, not ours to make that selection.

>> Harvey Leiderman: So it sounds like once you decided collectively how you are going to discharge your responsibility that you expect your colleagues to stick to it.

>> Yes.

>> Harvey Leiderman: You pretty much stick to it? If we're going to be a prudent investor the first step is staff vets our investment managers who come through the door?

>> Martin Dirks: Yes.

>> Harvey Leiderman: And you want to stick to that?

>> Martin Dirks: Yes.

>> Harvey Leiderman: Everybody comfortable with that?

>> Lara Druyan: I have no interest in running the plan from the board.

>> Harvey Leiderman: The day before the investment meeting Michael goes to his personal broker and says, hey, I got a hot tip. I want you to sell me out of that riffraff stuff, those spiders and things you've got me in and I want you to put it all into this publicly traded Bolivian fund because I think this is this thing is going to take off. What do you think Ed? You comfortable with that?

>> Edward Overton: No.

>> Harvey Leiderman: Why?

>> Edward Overton: Because you're mixing duties and responsibilities and loyalties.

>> Lara Druyan: But your Congressman can do it.

>> Harvey Leiderman: Are you running for Congress now?

>> Arn Andrews: We used to call that front-running.

>> Harvey Leiderman: You want to explain that?

>> Arn Andrews: If you know there's a big order hitting the floor, you could be front running and would be advantaged by the price change from a big order hitting the floor.

>> Harvey Leiderman: Are you on the investment committee?

>> Arn Andrews: No.

>> Harvey Leiderman: Who's on the investment committee. Okay Stuart. And you know couple work with us in your private world, too. You learn things, you learn what -- I mean people come in and tell you about the markets, right? Capital markets projections, what's hot, what's not, what gold is going to do, Bill gross comes in and tells whoas going to happen with the bond market in Sri Lanka. You're not going to take advantage of any of that for your personal welfare?

>> Stuart Odell: You can't help but have information that you learn affect your personal decisions and what you do. But there is a point where you can cross the line into, you know, non-public material, non-public information and at that point, you've crossed the bright line. Prior to that, if it's public information, if it's just general discussion, information, education, getting views on the markets, all of that is just sort of opinion. It's not material, non-public information. So that's from my perspective where I think the line gets crossed.

>> Harvey Leiderman: Does it matter to you Stuart if the time wasn't the day before the board meeting but the day after the board meeting?

>> Stuart Odell: No. I mean it's still, in this particular case it's still a problem. They shouldn't -- they shouldn't be - - just to me, on any specific trade, if you're trading around something that's in one of your portfolios or one of your managers, you're too close to the line. So you may not have crossed it but you're close enough that somebody could view it as being crossed. So I think any trading in that manner would be not acceptable.

>> Harvey Leiderman: If Michael did this, would you expect him to disclose it at the board meeting?

>> Stuart Odell: In this case I would expect, yeah I mean he has --

>> Harvey Leiderman: Just threw you under the bus Michael.

>> Stuart Odell: He's probably not going to disclose it because he's going to realize that this isn't something you want to disclose. But yes if one would do this one would have to disclose it in advance of doing anything. I am thinking of doing this, any problems let me talk to my outside counsel first, let me talk to my board counsel and make sure this is something we can do.

>> Harvey Leiderman: Yeah, just so you know, this is pretty much a felony under state and federal laws.

>> It's theft. It is indeed theft because if indeed the plan comes and buys some, pushes it up, the plan should have had the opportunity to buy what you bought. You stole from the fund.

>> Harvey Leiderman: Unless Michael has a portfolio rivalling Warren Buffett he is not going to move this fund.

>> If the fund pushes it up to ten to 15, that ten to 15 belonged to the fund. If the fund is having that sort of impact.

>> Harvey Leiderman: So it's an unjust he be richment to April individual.

>> Martin Dirks: It's a theft.

>> Harvey Leiderman: You're not a lawyer, are you? That's too much plane-talk. Yeah, it's pretty much self-dealing and personal financial interest both under conflict of interest laws but also, the SEC is looking into a number of examples like this right now with pension funds. With front-running by trustees on pension funds on just this scenario, so this one's kind of torn out of the headlines. This is the day before the board meeting, and on that same day one of the board members who came to lunch takes another one aside and says, here's what this thing is all about, I want you to vote for this. It's really a good deal for the fund, you should vote for it. What do you think Matt, just a private conversation in the corner of the room?

>> Matt Loesch: If you are looking at sheer numbers it's a Brown Act violation. Number one.

>> Harvey Leiderman: But there's only two people involved.

>> Matt Loesch: But the four went together to lunch. I learned to count to 4 real quick. I don't want to encourage anybody to vote a certain way. That's why I mean we're individuals but we collectively as the board to try to convince somebody how they should vote, have the guts to say it in front of a microphone. And then --

>> Harvey Leiderman: In if this is what you want, you want these things to be discussed in public in front of everybody else on their mairtsdz and not start assembling cabals poops seven members, you're's present and voting, Michael bless his soul makes the motion to improve the investment. One of the board members says you didn't follow our staff review process. It's probably Marty who says something, such a stickler, okay? You say Marty, stop diterring over technicalities, there is money to be made here. The vote is 5 to 2 in favor we go forward. Everybody okay with this, I know we hit a few speed bumps, Lara doesn't like this.

>> Lara Druyan: I don't like railroading one of my trustees, bad governance all over the place.

>> Harvey Leiderman: Have you noticed at no point along the way here, has our intrepid board member made any disclosures to anybody at all about his role in this whole process? Anybody got a problem with that? Or do you think they should? These things go on all the time don't they art? Managers come up to you, you go to a Cal APRS conference, they want to go with you play golf with you.

>> Arn Andrews: Forget golf. It's understood you're in an environment that you're going to mix and mingle with representatives from the industry. But I think it's also understood that you make no allusions to any type of forthcoming business, you make no comments that even indicate that you're receptive to what they're saying. You can listen.

>> Harvey Leiderman: Do you care whether your fellow colleagues are out to lunch with manager prospects?

>> Arn Andrews: I care if they're doing and my director and staff are at least aren't apriced of it. I may or may not know the actions my fellow board members take but I care that nobody knows what actions they're taking.

>> Harvey Leiderman: How would you know?

>> Arn Andrews: I would hope we would have a process in place that would information like this channeled through staff the way it's supposed to be and they're at least apprised to it and they bring it to either their attention individually if it's a problem or they bring it to the board, if they think it's systemic. I mean Mike seems out of control.

>> Harvey Leiderman: It's a good idea. Do we have one of those things in place?

>> Arn Andrews: I hope we voted on one today, I think we did.

>> Harvey Leiderman: Let's see, what did we vote on today? Marty did we vote to say that if Michael goes to lunch with a money manager that he has to report it to staff?

>> Martin Dirks: I don't recall exactly how it's worded but if he has a bias, a preexisting relationship I would like to know that.

>> Arn Andrews: Let's start with lunch. We didn't vote open that today but I think that at least in the cities --

>> Harvey Leiderman: Is someone taking you to lunch?

>> Arn Andrews: OR help me here. I know that we have policies that stipulate, we have a dollar threshold, I think it's \$50, what are we form what reporters?

>> Harvey Leiderman: Forum 700.

>> Arn Andrews: I think it's a pretty low cap. But even after what we voted on today, there are policies that try to corral this type of interaction unless we report it in some form or another.

>> Harvey Leiderman: But when you're voting on let's say you've seen nothing, okay? You've seen nothing relating to a particular member, you're not on the investment committee, you come in here in a board meeting on May 17th, you see an agenda item to hire a new manager, you don't see any of the mountain of material behind that. What do you want to know as a board member before you vote on that?

>> Arn Andrews: I would want to know if anybody has information after that, we're all deliberating in good faith in the environment we have at that moment.

>> Harvey Leiderman: How are we going to know that?

>> Arn Andrews: I hope Mike comes to his senses, have an epiphany.

>> Matt Loesch: Should be a document that demonstrates the due diligence at this point and this is the recommendation out of the investment committee and the consultant agrees or disagrees with that recommendation and then they're here to discuss it even further. That is really how it ought to be, there's a document trail saying how this person or firm got in front of you. And I mean the trouble I see is the folks who do have investment stuff that they do now, they go out to lunch with them for their private business and so then that name gets thrown in a hopper as well for folks that we're looking at. And I don't see that necessarily as a problem. They're not necessarily going out to lunch in this capacity but as long as it gets flushed through so there's multiple eyes looking through it, I can see a person from this board at lunch with an investment manager isn't in and of itself a problem it's how they get to here before we hand dollars out to them. Just that trail needs to be clear how it got in point A to B and how many people and who looked at it and what they said about it.

>> Lara Druyan: And what's been disclosed.

>> Matt Loesch: I don't see that as a problem.

>> Harvey Leiderman: Here's what happens at times, I'm not aware of it happening here but here's what happens, at times. Managers will go through a process with the consultant and staff and they'll go through the RFP process and it will be winnowed down and all that material how they got through the process will be gone through. Each week each managers takes each of the board members to lunch and forms a bond with them. Is at a okay?

>> No.

>> Harvey Leiderman: Do we have a quiet period policy in effect that says it's not okay?

>> Arn Andrews: If it ropes runs under the City's procurement policy we do have a quiet period.

>> Harvey Leiderman: Yeah, so then it comes time for the board to meet. And each one of you have had a very nice satisfying meal at Il Fornaio or something like that with the money manager and none of you know the others have done that. Do you care?

>> Matt Loesch: That late in the game it certainly is problematic. I would say like I said if it's the idea generate and gets at the beginning of the process and it just happens to be at the lunch or conference and you run into them, you've run it through the system, they do that system and they come out the back and there they are, then - - but if it's at that point ultimately before we're about to decide something that just looks like that's the thing where it seems like it's really shady and certainly seems like it's you know too close.

>> Stuart Odell: So put the lunch aside for a minute. Because I think --

>> Harvey Leiderman: Yeah, okay.

>> Stuart Odell: -- you're maybe confusing the gratuity and pay back side of it. I meet with a lot of managers, not at lunch in my office business. So we're going to come up across this issue a lot. I have a lot of knowledge on a lot of managers, I have opinions and views that have come from years and years of meeting with them and maybe having had dinner with them or lunch with them multiple times over many years. So this is going to come up. From my perspective what I think is most important is, that the board members are disclosing the relationship to the other board members so they understand where the other's coming from. How do you know this manager how did you get to know this manager, in what capacity? In most cases board members won't know them at all, they haven't had lunch with them, they are reading the documents et cetera. In this case since we have hired a board that has investment professionals on it that is not going to be the case, you're going to be in that situation all the time. There hasn't been a manager who hasn't been discussed in the investment committee that I hadn't met with. Maybe there was one or two I hadn't met with independent from there. So I think that does come up about but I do think the disclosure of how you might know that manager, you know, do they manage money for you, have they been in an RFP for you just what is the relationship, is probably the most useful information for the

other board members to get out of that. So where is Stuart coming from, what's his bias, you know what does he know that we don't know I think are the types of things that you want everyone on an equal ground when it comes to making that decision, and not you know somebody who has some additional information that other board members are not aware of.

>> Harvey Leiderman: Stuart, what would be your expectation at the board meeting that's considering the managers in that situation, would you expect people to come forward and say I've met with this person before, I have a relationship with this person before or do you want to leave it to somebody asking the affirmative obligation to disclose or --

>> Stuart Odell: Yes, from my perspective the board member should have the affirmative application to disclose that information. It isn't sufficient to ask them, they should know, okay, this is something I should make you aware of, this is the capacity that I know them.

>> Harvey Leiderman: Does that work for you Lara?

>> Lara Druyan: Yeah, that's what I would expect. I tell staff this is how I know them or whatever so that's all up front in the first discussion.

>> Harvey Leiderman: Michael.

>> Michael Armstrong: So let me take this in a slightly different direction. In my business, the risk analytics business typically we'll sign a nondisclosure with a potential client. They will then share all the gory details of what has and haven't worked in the risk control standpoint so we'll know where they've had at files where they've had problems. If that manager then is trying to become a manager for San José, and I'm aware that they've had problems in the past, what is -- that I signed a nondisclosure, what are my obligations?

>> Stuart Odell: You signed the NDA, you cannot breach that.

>> Arn Andrews: I don't know, fiduciary trump NDA?

>> Lara Druyan: I would abstain if I were you.

>> I can tell you how I handled it. I'm curious --

>> Harvey Leiderman: Michael how did you handle it?

>> Michael Armstrong: Right up front I tell them if they come before the board I have to recuse. If you have any relationship, if I'm the coverage guy for you or we have a relationship with you, I'm going to have no involvement whatsoever in any kind of decision.

>> Harvey Leiderman: Are you going to tell your colleagues why you're recusing?

>> Arn Andrews: He just did.

>> Michael Armstrong: Sure, yeah. But if I have information that's potentially material to the decision that the board is making, and there's already a nondisclosure in place, you're the attorney.

>> Harvey Leiderman: Rock and hard place.

>> Stuart Odell: Do managers only hire you when they're in trouble so we know every time you recuse yourself --

>> Harvey Leiderman: That is the kiss of death anyway.

>> Arn Andrews: He's told us when he recuse himself --

>> Harvey Leiderman: When you recuse yourself we better know we better start reading their S-70s because they're in trouble.

>> Maybe you fixed their problem.

>> Exactly.

>> Harvey Leiderman: Interesting conundrum. That's what happens when you get people on the board who are involved in the industry. So it creates a whole 'nother layer of thinking. But that's a situation where you would want to stop and think and talk to counsel and kind of work through that process if you don't want to expose yourself of having violated the NDA but you have a fiduciary responsibility. So. Okay, well, the board voted for it, you and the client rep you call her give her the good news she invites you to fly off to New York to see the -- well I did this a couple of days ago, ma I guess the sharks aren't going to be playing. Well, anyway, you go and have a porterhouse stake and a chateau Margaux, maybe this isn't going to be so bad. You're just jealous that he got the stake in the Cabernet.

>> Lara Druyan: I'm jealous about the private jet.

>> Harvey Leiderman: So that's kind of the end of the scenario in terms of investments. And I think we've had an interesting discussion about that. Do we have a few more minutes? Because I have one other scenario that's a lot shorter than this one, but you may find interesting.

>> Matt Loesch: I think Arn knees to go to a meeting presently.

>> Arn Andrews: I'll be stepping out.

>> Harvey Leiderman: This one Arn you are going to like. You really have to leave right now?

>> Arn Andrews: I have a public safety, finance and strategic support committee meeting. I have a few more minutes.

>> Harvey Leiderman: You're an appointed board member and you get a call from the mayor who asks you to come by and talk. You okay so far?

>> Arn Andrews: Do I know that he's calling me as a board member? Do I know the context or is he just calling -- do I get a meeting invite that I know comes out from the mayor's office? Do I know the context of the meeting or do I just --

>> Harvey Leiderman: Not yet.

>> Arn Andrews: I'm okay so far.

>> Harvey Leiderman: Matt are you okay with this?

>> Matt Loesch: Sure.

>> Harvey Leiderman: He gets a call from the mayor, come by and talk. You go and see the mayor and she says, "I want to talk to you about the funding of this plan. I'm not happy with the board's actions that keep increasing the cost to the city. Just the two of you in the mayor's office right now. How you feeling?"

>> Arn Andrews: I'm not comfortable now. I mean I think once it's put into a context and once I know that A, I'ming questioned as a board member and B, I'm being questioned by the actions of a board member and I'm there in isolation I'm probably going to reschedule that meeting.

>> Harvey Leiderman: You're going to walk out on the mayor?

>> Arn Andrews: I'm not going to walk out, believe me I hold my job dearly. But I probably --

>> Harvey Leiderman: That shouldn't affect you, should it Marty?

>> Arn Andrews: No but it means I should just be tactful.

>> Martin Dirks: I would be taking notes of all the items I want to disclose to my fellow board members, what was discussed, what was perspective.

>> Harvey Leiderman: You would stay in the meeting and take gotcha notes? Way to go. You wouldn't have a hidden tape recorder on you would you?

>> Martin Dirks: I don't think that's legal.

>> Harvey Leiderman: He is practicing law. Okay.

>> Arn Andrews: I would probably say now that I understand the nature of your concerns, there probably is another venue.

>> Harvey Leiderman: Out of here?

>> Arn Andrews: To our chair.

>> Harvey Leiderman: Sounds like there's a level of discomfort on that.

>> Wait a minute. I run into my councilman all the time. He says, what about the ballot measure, Mike? Sorry, Pierluigi, can you have candid conversations?

>> Harvey Leiderman: Let's not change the subject for right now. Forget about the ballot measure. Lest talk about the plan, something you have control over , councilmember comes to you and says Michael, you're killing us. You're okay having this conversation?

>> Michael Armstrong: I hear you, you want to go down to 7% from 7.5. You realize how many people we're going to have to lay off if you do that? What's the proper response?

>> Harvey Leiderman: How do you feel about that? How do you feel about that conversation?

>> Michael Armstrong: I'm un-- I'm uncomfortable.

>> Harvey Leiderman: So what would you do? Lara what would you do in that situation? Your councilmember comes to you, this is all purely hypothetical.

>> Lara Druyan: Purely. I'd tell my councilman, I'm not comfortable having this discussion.

>> Harvey Leiderman: Can't they -- they have a First Amendment right to express their views, don't they?

>> Lara Druyan: Sure, but not to me, in this context.

>> Harvey Leiderman: Okay.

>> Michael Armstrong: I got Lara, I got my reelection sign on your lawn.

>> Lara Druyan: Since I don't live in the county, but -- yeah.

>> Harvey Leiderman: So the Councilwoman or the mayor says, she wants you to make a motion at the next board meeting to move that earnings rate back up to 8% where it belongs. Okay? You're good with that?

>> Not happening.

>> Lara Druyan: Not happening.

>> Harvey Leiderman: Matt, you're killing the city!

>> Matt Loesch: It's not happening.

>> Harvey Leiderman: What's wrong here? Don't you care about the -- you know what's going to happen --

>> Matt Loesch: Absolutely.

>> Harvey Leiderman: If you don't put that back up to 8% we're going to be laying people off.

>> Matt Loesch: I understand.

>> Harvey Leiderman: Those are the people that are paying into your system. Those are the people you have a fiduciary responsibility to look out for.

>> Matt Loesch: And if there's no plan left because we're too optimistic, that's why we lowered it from 9 to 7.5 over the last two years -- three years. Because if you're too optimistic, I mean, you could debate the issue or not debate the issue. But if they start presenting the -- look, I want you to do this, the answer is no. We're not going to present a number for board members to consider just based on your request.

>> Harvey Leiderman: But Matt, you administer administer retirement benefits, right?

>> Matt Loesch: Yes.

>> Harvey Leiderman: For our employees.

>> Matt Loesch: Yes, I do.

>> Harvey Leiderman: What good is a retirement benefit if they don't have a job to earn it?

>> Matt Loesch: There will be less -- more people laid off if there's no money, have to contribute even more.

>> Harvey Leiderman: All right. Now suppose this conversation took place in this room. Are you okay with that?

>> Matt Loesch: Sure.

>> Harvey Leiderman: What's the difference?

>> Matt Loesch: It's a public setting. Other people get to weigh in on it. All my fellow board members are with me. And I'm not individually being pressured to do one thing. The seven of us are being advocated towards heading in a certain direction. And realize really being up to the consequences of some of our decisions.

>> Harvey Leiderman: The mayor has thought about that and the mayor just doesn't want to do a one-off with you. She has spoken with the other appointed board members. They're all on the plan.

>> Lara Druyan: And we should have this discussion in our board meeting out in the open.

>> Matt Loesch: And they should have the courage as well to face the consequences of having that open public discussion that we're willing having.

>> Harvey Leiderman: All right, so you don't like the closed doors part of this?

>> Matt Loesch: No.

>> Lara Druyan: You also have a Brown Act violation if you're talking about the same thing with three board members.

>> Harvey Leiderman: Well you do now. You got four. So we can solve that, right? Because she's also spoken with the active members. And they're on board because you know, if they're not on board with doing this she can have them reassigned, right? [Laughter]

>> Harvey Leiderman: Matt? [Laughter]

>> Harvey Leiderman: That's right, are we getting you on board?

>> Matt Loesch: No.

>> Harvey Leiderman: You don't like this.

>> Matt Loesch: The conversation's fine because we've had these very difficult discussions on this topic. Not necessarily they've been approached like this but we've had the difficult discussions in milk and they're very difficult and they're very uncomfortable and I think that's where you both educate yourselves, educate the public, and you really have an informed decision, and you can stand behind that, then.

>> Harvey Leiderman: Sounds good.

>> Matt Loesch: You can sleep at night.

>> Harvey Leiderman: And can you sleep at night yeah and your colleagues can sleep at night. But she's -- also throws in another one. She says Lin, come on, Marty, you carry this one for me. You know that software contract you're floating out with the city, I can make that happen.

>> Martin Dirks: I have a fiduciary issue here.

>> Harvey Leiderman: Okay. So -- sum it up. Ask yourselves, are you acting independently? Are you acting only for the benefit of the system and its members? Do you have a personal financial interest? And we'll talk about this later, what constitutes a personal financial interest because it's very different for people who are employees and retirees because they have an interest in their salaries and their retirement benefits. It's different than the appointed members. But if you have a personal financial interest, bells should go off. Are you acting prudently? And one of the things I've heard today, and I've seen this board do today, is make a decision consciously or unconsciously, that acting prudently means acting together, collectively, delegating the staff, making collectively decisions, and not one-off judgments on investments or whatever else it is. This is a big one to me. Should my colleagues trust me? Have I earned their trust? Because this is called a trust. And if you don't trust each other, in this situation, if someone like this errant Michael Armstrong goes off cutting deals on his own, it tears apart that collective sense of trust that you should have together. Ultimately we're all in this thing together. If you don't want to be the little pecker, putting holes in the ship. That's it. Anybody got any questions about it? Matt, I think my job is done here for today.

>> Matt Loesch: Any other questions? Comments?

>> Edward Overton: Isn't there a constitutional issue with the mayor either coming here, to talk about the earnings rate, or buttonholing a board member?

>> Harvey Leiderman: There is a problem with buttonholing a board member. Because any time you got that pressure brought to bear, it depends on what else comes with it, you know? Is your job at stake? Is your

appointment at stake? You stop acting independently. The law expects you as a trustee to act with independent judgment. And so, when you find yourself under that kind of pressure, there are always pressures. You can pick up the Mercury News and not see the condition financially that the City's in. That's sort of a generalized pressure. But when it starts to impact you personally, and your work, and your income, in your position on the board, yeah, then you're compromising your ability to make an independent judgment. It is not a constitutional issue. The mayor, the mayor, city council, whoever it is, has the right to come into a public forum and express their views to you. But let me contrast that with something that actually happened in another city in this state a few months ago. The mayor buttonholed a board member who happened to be chair of that particular board, retirement board. And said I want you to vote to keep that assumed rate of return up. Because of our financial situation. And this particular board member refused to do that. And voted to drop the actuarial rate a quarter-point. And the mayor yanked her off the board. Which that particular mayor could do, because in that particular city, when the mayor appoints you, the mayor asks you for a letter of resignation that's undated at the same time. So that any time the mayor wants you out, the mayor puts a date on your letter of resignation, and it's effective. So that's how that works. So that's the kind of pressure that we have to avoid.

>> Edward Overton: But there's no interference in the administration of the plan, which is prohibited by section 16 of the California constitution.

>> Harvey Leiderman: Article 17 section 16?

>> Edward Overton: Yeah.

>> Harvey Leiderman: Well, there's nothing in there that specifically says you can't interfere with the boards. I mean that imposes the fiduciary responsibilities on the board members. Which includes exercising their independent judgment prudently. But there's no punishment on the person that influences them or leans on them under that provision.

>> Edward Overton: I thought there was a prohibition against legislative city --

>> Martin Dirks: In the L.A. case there was no consequence for the mayor?

>> Harvey Leiderman: Sorry what?

>> Martin Dirks: In the L.A. cast there was no consequence for the mayor?

>> Harvey Leiderman: I don't want to identify any particular large Southern California city.

>> Without a football team.

>> Martin Dirks: If that situation happened there would be no consequence for that interfering official?

>> Harvey Leiderman: Oh I sincerely doubt it.

>> Okay.

>> Harvey Leiderman: That's politics folks. I thank you I think we can end that on the agenda.

>> Matt Loesch: Okay, we're going to close up here fairly quickly. So we've gotten through all of the items on the pension agenda except for we've got future agenda items, public retiree comments, so we'll adjourn that meeting, I need to finish the health trust meeting very quickly. That has two items. One was the approval of retiree health care trust fund minutes from February 16, 2012. I'll entertain a motion.

>> Martin Dirks: Motion to approve.

>> Lara Druyan: Second.

>> Matt Loesch: Any comments or questions? All those in favor, opposed. We did the resolution of the health care trust issues, in conjunction with the one on the pension trust. We have no old business. Future agenda items? I recommend that we continue on item 1.22, as a result of our conversation, so we'll have another health fund, health care trust fund, and one thing I would ask for staff is maybe have the status of the investments thrown in there as well what's going on as a quick one-off. Any other future agenda items on the health care trust fund? Any other items from the trustees? We're adjourned.