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>> Sean Kaldor: Good morning. This meeting will be a little bit different than others because from here on forward we're having two meetings simultaneously. We're formalizing the health care trust board of administration as well. So each meeting we'll open both meetings. I have them currently for new and old business so we're the same board for all meetings. Call to order the Police and Fire, health care trust and the board of administration. We have present myself, Sean Kaldor, the chair, Dick Santos, the vice chair. Trustee Sean Bill, Trustee Damon Krytzer is absent, Trustee Drew Lanza, Trustee James Mason, new trustee, in a moment here, as soon as he's sworn in, Nick Muyo welcome aboard. Trustee Elisabeth Rounds and Trustee Vince Sunzeri. We also have present our nonvoting member Councilmember Constant. We'll be vote covering new business under each and old business simultaneously. We do have changes under orders of the day. So there are quite a few. First thing under orders of the day we'll bump up the swearing-in of newly appointed trustee Nick Muyo and the trustee Vincent Sunzeri, who we appreciate joining us again. I'll turn it over to the City Clerk's office. You may stand. And repeat after me. I, state your name. [States names]

>> Do solemnly swear that I will support and defend the constitution of the United States and the constitution of the state of California, against all enemies. [Repeating] against all enemies, and that I will bear true faith and allegiance to the constitution of the United States and the constitution of the State of California. And that I take this obligation freely. [Repeating]

>> Without any mental reservation. [Repeating]

>> Nor purpose of evasion. And that I will well and truly discharge the duties upon which I'm about to enter. [Repeating].

>> Sean Kaldor: Congratulations. This is a huge fiscal responsibility this plan huge administrative time commitment, mental commitment. And there's a lot to be done for the plan so I appreciate both of you stepping up and agreeing to do that in the coming years. Thank you. Okay under orders of the day we have five items that require waiving sunshine. You should have them on the desk in front of you. I'll take a motion on those as a group. The first item was 1.4 which was received late, plan expenses for October 2012. Second is item 1.6 which

was received late. Item 2.2 received late is Cheiron's preliminary valuation. Item 2.6 the annual financial report. Which is also needing to waive sunshine and finally under the health care plan item 1.3 the health care trust expenses.

>> Richard Santos: Motion to approve.

>> Sean Kaldor: We have a motion from trustee Santos and a second from trustee Sunzeri. Seeing no discussion, all those in favor, opposed, none opposed, waive sunshine on those items. In terms of other items item 2.4 is deferred to next month. Item 4.1D, has a change of the effective date, to January 26th, 2013. Item 6.5C is deferred at the request of HR. And item 7.D has been revised changing the date of the investment committee meeting from January 9th to January 16th. Final new date. So we have an updated version of that and finally under -- do we need to waive sunshine on item 1.2 also? Probably was received late enough to require sunshine.

>> Donna Busse: I think that's note and file.

>> Sean Kaldor: The flash report for investment is an item you should also have on your desk. Also under agenda or orders of the day, the closed concession item 1.1 we will hear along with our other closed session items. We will have closed session once for this entire meeting. We'll finish the entire open agenda and hear the closed session items, we made arrangements for the consultant to present to us at that time, we play or may not have report-out and adjourn the meeting. Open session item 1.2. Discussion and approval of modifications to the Police and Fire department retirement plan's investment policy statement.

>> Good morning. In your packet you'll find three items relating to this presentation. One a memo from me, 2 an IPS that has been reviewed twice by the investment committee, once in April and recently, and 3 the most recent board approved IPS. To give the board a bit of a background, Carmen actually took the lead on this project working with Cortex in coming with an IPS. And NEPC's feedback, we incorporated their feedback at the April IC meetings. (inaudible) actually taken to the full board but the process was halted when Carmen resigned earlier

this summer. Back in August board meeting the trustees approved a new asset allocation because of the major change to the plan we decided to take the IPS back to the investment committee. Along with Cortex and NEPC we also worked with Reed Smith, our legal counsel and Alborne, our hedge fund consultant in designing an optimum IPS that will ultimately protect the plan and the trustees. We brought the IPS back to the investment committee two weeks ago and were instructed by the trustees to work with NEPC to make some minor edits. I plan to highlight the major modifications made to IPS based on a request received at the April IPS meeting and the one two weeks ago. I'll be referencing the second document so please follow along. Turning to page 1, paragraph 5 has been added to further clarify paragraph 3 in regards to how we choose our assumed rate of return. And please, interrupt if you have any questions. As we go along. Turning to page 2, the chart asset allocation chart has been updated to reflect the new asset allocation that was adopted by the board back in August. Staying on page 2 paragraph 13 was added, to provide trustees some flexibility in rebalancing this paragraph was actually suggested by the Federated trustees and their consultants and we thought it would be prudent to add it as well. Paragraph perform an interim asset allocation study. Going to page 3, paragraph 19 was added per trustees request at the 'IC meeting, further clarification on the portfolio and measure concentration limits. Going to page 7. This is a red line version of the long term policy benchmark. You will see this defers from the one adopted by the board in August but the investment committee approved the red line version to better reflect the asset classes. Going to page 8. This is our interim policy benchmark that was proposed by NEPC to show our -- the plan transition to its long term target. We plan to update this benchmark quite frequently as we move close to our target. And page 9 appendix C this is the hedge fund policy guidelines that the investment committee adopted beginning of the year. In conclusion, staff investment committee and NEPC seek approval from the full board.

>> Sean Kaldor: Any questions or discussion? Seeing none we'll take a motion.

>> Richard Santos: So moved.

>> Sean Kaldor: We have a move from trustee Santos to approve the recommendation. Do we have a second?

>> Second. Being.

>> Sean Kaldor: Second from trustee Mason. Discussion on the motion? All those in favor? Any opposed? Seeing none the motion passes unanimously. Item 1.3. Presentation of the third quarter 2012 performance report by NEPC.

>> Good morning. Last quarter's report very good news. This is a report for periods ending September 30th, 2012. Since then, the markets have been up and down. They're off about 3% through yesterday. For October the markets were off about 6%. We do have the flash report for October just to give you the latest data. In October in a down market, your fund was down 20 basis points. A 60-40 portfolio would have been down about 1%. We think the median public fund and we don't calculate this data on a monthly basis, but from what I've seen, the typical public fund was down somewhere in the neighborhood of 80 basis points. So your conservative risk strategy in those down markets worked very well. This was a period of extremely positive market activity. If you turn to page 4, starting off with the economy, what you have is an interesting phenomenon, where the economic outlook and the economic realizations haven't varied a lot for a while. What has varied a lot is the market reaction to changes in economic outlook. So for the economy as reported on page 4 you see we're ticking along at a 2% or so GDP growth. Modestly positive. It's been in the 1.5 to 2% range for a while. You see consumer confidence rising. You have genuinely seen some improvement in the real estate markets. We didn't go down as much as the rest of the country did. But the real estate markets are firming around the country particularly in some of the hardest hit. Inflation remains very, very muted. Interest rates at historic lows. And corporate profits very, very stable. The problem is: The growth in the economy is not sufficient to generate job growth. And so you have this continuing drag of relatively high unemployment. And that's been the case for a long time. We are definitely in a slow-growth economy around the world and we're vulnerable to shocks, whether they are geopolitical or otherwise, deteriorating situation in Europe. So the economy hasn't changed. What has changed if you turn to the next page is the market reaction to that economy. The blue bars are the results for the quarter, the black bars are the results for the year. You just go down this page and this is what we call a risk-on period. The quarter results you can see from top to bottom are very strong and positive across the board. They're better at the top where you have the riskier assets and as you proceed down the page, they become a little lower. If you take the S&P 500 which is the

measure of the 500 largest U.S. equities, up 30.2% for the year. You may remember when I came in here in June, for the June report, through June, the one-year figure for the S&P 500 was up a modest five-plus percent. And you look at the quarter we've added, 6.7% you go, how does that math work? We added a quarter at 6.7 we were at 5 but the quarter we dropped was a quarter that was down 15%. So the math of compounding works out that this has been a very strong year, even if it didn't feel like it because as we will talk about in a minute, we had up down down up, it has been a very volatile period. When you cut through it all it was a good year. You'll notice that U.S. equities, the S&P 500 did substantially better than non-U.S. equities. That is a very unusual issue better the return so small caps do better than large caps. International stocks because they have the additional risk element of currency, typically in a very up-market will do better than U.S. stocks and emerging does even better. This is a little unusual because you see the potential for ongoing serious recession or inflation in Europe and you'll see that international markets did not participate nearly as well as domestic markets. Credits where you are promptly invested did very well in this period and you look at the alternative asset classes which also did fairly well. Despite that optimism for the one year period we are long term investors. If you look at the five-year column there is no asset class that generatesufficient return to get you even above 7%. And when we talk about going forward, we are talking about a muted economic environment. It is wonderful to say we did well in this year. It's hard to believe that we're going to have more years where we're going to see this kind of up-market equity performance. The remaining few pages which I won't take you through in great detail talk about each of the markets in terms of what drove them and what happened. So pages 6, 7, talk about the markets in general. We go to page 8, this is just looking back to give you the perspective we just talked about. First quarter, risky asset price recovery, if I put the fourth quarter on here it was a down quarter. Second quarter, renewed concern in Europe, slowing global growth. Third quarter, unlimited stimulation. It isn't clear that the Fed very accommodative policy of holding interest rates low, that is supposed to stimulate ultimately private sector lending which will lead to business growth which will lead to corporate profits which will lead to jobs. That's the theory. It isn't clear that that's working. What is clear is, it's causing equity prices to do very, very well. So this ongoing stimulus, we haven't seen evidence yet that it's produced the kind of private-sector lending which we need to effect a real substantial recovery. But it clearly is influencing globally equity prices. Despite all the volatility, if you measure this to the end of September 30th we've had strong markets and we've had that despite, as I described earlier, nothing in the economy says the markets should have done as well as they have done. If you turn to the next page again the summary of looking back, risky assets have done well. Monetary policy has helped. There are, and this is what keeps us all up at night, several items out there, lurking, that have the potential to produce fairly negative returns in the markets. The U.S. fiscal cliff I won't spend a lot of time on. I don't know that anybody has any real view as to whether this is going to get resolved in a way that doesn't have serious negative consequences. But we profiled that later on. But in addition to the fiscal cliff you have Europe and you see that every day. You know you read about a riot in Greece and it looks like they're not going to pay their debt and the markets in Europe drop and then the global markets drop and then three days later Drogge, the chairman of the European central bank says we have a deal here and the markets react and the markets bounce back. U.S. fiscal cliff, China, China has been growing in growth rates in the 12 to 14% GDP growth if you believe the way they calculate that but it's certainly been a driver of global growth. The Chinese build buildings, the buildings require steel. The Chinese import iron ore, iron ore comes from different parts of the world. Shipping iron ore, goods purchased all of that has been a contributor to growth in the world and there is significant worry, that the Chinese growth rate is not sustainable. You read in the paper about cities that were built that are empty. Or shopping malls that were supposed to have thousands of shops that have, in the 20s and 30s. That means they're not going to be building a lot more of those until they fill the ones they already build. The issue in China expects some diminution in the growth rate, the question is how much. Do they get a soft landing where they come down to 6 or 7, 5% or do they do worse than that and have a negative effect on the economy. And then inflation. We still have very little indication of inflation. You have a strategy, as do a number of public funds that anticipate the possibility of inflation by having some assets that will do well in an inflationary market but there's been very little indication that inflation is coming. So that was the kind of looking-back summary. On page 10 we talk a little bit about looking forward. Put the crystal ball in place. We have had strong market returns. We'll continue to have a strong up and down market moves. That shouldn't be confused with the structural debt problems being solved. They're not. That will have a major impact on future growth. It is our belief that growth will be slower going forward than it's been and the market returns will be more muted. We don't think we'll see much up-30 returns. There are going to be limited high-return opportunities so we continue to advocate risk-aware approaches. Later on today you're going to talk about your assumed rate. As you know we each year develop forward-looking five to seven-year and 30-year forecasts. We're in the process of doing that right now. Dan and I did chat with our head of the asset allocation group and the expectation looking forward, retaining the same asset targets you have currently is, our numbers over a 30 year horizon will probably drop in the neighborhood of a quarter basis point, for example. So it is a very difficult environment for investors. Lots of volatility. Not a lot of strong direction. And of course, our endeavor to fully fund our pensions is to generate returns north of 7, 7.5 your current 7.5 return. That gets very challenging. You don't give it all away in a down market and do as well as we can in an upmarket through good manager selection and good timing for asset classes. We emphasize, you've done that but even in the areas where we think there is opportunity there are caveats and we've listed a few of those. How do you deal with this? Page 11. I put this in here because this is our advice to all our clients. You have strategies that indeed capitalize on almost all of these and Dan will talk a little bit later today about the significant progress we've had in implementing the targets you adopted. So using GTAA strategies, that is global tactical asset allocation, attractive and when not versus your long term targets and tactically move your target portfolio, hedge liabilities where you can, the particularly local currency debt, credit, you will recall you've made a number of credit-related investments. Europe, a month or so ago, you committed to a European draw-down funds, greater utilization of passive strategies, indeed your domestic large cap equities are indexed and using active strategies where opportunities and exist. Doesn't have reflection in the strategies you've adopted. That was about all I was going osay and then Dan was going to get into the details of your portfolio, what's done well, what's done poorly. The results as you see for the quarter and for the year ended, are quite a bit better both in absolute numbers and indeed relative numbers against other funds.

>> Sean Kaldor: There are questions on what's been presented so far? Trustee Santos.

>> Richard Santos: Do you have any firms on probation or so on? I asked did you have any firms on probation?

>> In yours?

>> We -- so to address that, in your report, sorry, getting to the page now. Starting on page 38 and this has been a part of our reporting on a quarterly basis historically as well. But there is starting on page 38 you see a summary of what our due diligence recommendations are internally on our manager basis. So on page 38 you see our due diligence recommendation key. And so ranging from no action, all the way down to terminate with several steps in

between placing a manager on watch placing a manager on hold their client review and the rationale or the reasoning behind each of those. And then on the following page on page 39 what you've got there is a summary of all of your managers at a high level. And we've added columns there to say, one, whether there were any changes or announcements at the firm level or maybe someone left the team, maybe there was a change in the CIO or management level, we want to address there. The second column there are there any performance concerns we want to address that there as kind of a checklist. And to the right there are any comments based on any of those actions. On page 40, 41, should something come up, we've provided comments.

>> Richard Santos: give us prewarnings and discussion do you come to the board for us to make the final decision or do you guys recommend or does your company make a recommendation to us to terminate somebody? I I'm not look forward to that, I want to do well but I want to find out how to go about it.

>> We will absolutely be proactive in make recommendations should we find a situation that is unresolvable or detrimental to the future performance of the strategy. We are not you know going to sit on the fence and opine about oh well this could go one way or the other. We've been very proactivity with clients about making recommendations and we'll do so with you as well.

>> Richard Santos: Do you first go to the investment committee and then come to the board --

>> That's the protocol yes. (inaudible).

>> That's right.

>> Richard Santos: Thanks.

>> So these pages were inserted to try to address that question for you and we'll continue to include it in our reporting on a quarterly basis as we move forward. Should something come up intraquarter that needs to be

addressed before then we'll bring it to the point of the investment committee and have those discussions entered. That's how we plan to address this going forward if that works for you.

>> Sean Kaldor: Any questions on the presentation so far? Okay if you want to continue.

>> Before I continue on to the fund I just wanted to point out because a lot of times we end up skipping over this page. I know you've heard it. Allen my mentor was voted as the number 2 most influential investment consultant by AICA magazine earlier this year. I just wanted to make sure it was known. Somebody discussed it before. This is a slide we typically breeze over. To follow up along with Allen, Eric Knudsen was also named to the list and we were the only U.S. based firm to have two members on the list in the top 20. It is something we are quite proud of and me again having Allen as a mentor a great deal of happiness that it brings me along with him. So just wanted to bring it up.

>> I wasn't going odo that. [Laughter]

>> Sean Kaldor: Thank you for highlighting, it does speak highly to the quality of people we do business here and it reflects the business we do with you.

>> Sean Bill: We're probably your smallest client right Allen? Your next firm is probably 6 billion.

>> The fund experience gain of about $370 million which includes a gain of around $159 million during the third calendar quarter. Assets increased from about $2.6 million a year ago to $2.9 billion on September 30th and there are about $55 million in net distributions for the year. What you see for the quarter is a strong both absolute number and relative number, open 5.8% on a gross of fee basis which greater than a billion so 2 is, that's where you want to be. Number 1 is the best, number 2 would be considered the second best and I would argue I don't know who number 1 is, a lot of times the way these universes are there may not be a number 1, so you may be the top performing fund right there. I think more importantly you're outperforming by 1.3% and what you're starting to see as you look over longer time periods the one-year number return of 14.7% ranking in the scientist

percentile, below median but reviewing the June report the one year number was in the 98th percentile of your peers so that strong third quarter really contributed to the performance and as Allen alluded to in the market performance you're dropping off the third quarter of the year as well. What you drop off the absolute basis in the one year number. And again for the one-year outperforming your policy benchmark by 1.3%. I know historically some discussion he resolved around the performance of the fund relative to the benchmark we're now seeing some positive performance relative to the fund's policy. Over longer time periods you see the five year 1 many 6% kind of in the bottom third of its peers over that period the conservative percentile still slightly outperforming the policy benchmark. The ten year period and longer the fund has 23rd peers over those time periods. Moving on to page 15. What you see there is a snapshot of kind of the asset growth over time. What you see on the blue, at the top part of the chart is how the market value has changed over time. What you see on the bottom, the red piece is the net cash flow out of the fund and what you see over in the red is there's a period of down and then kind of a tick up. That tick up is the City's annual contribution to the plan that you seize each year. You seize over the year there's benefit contributions coming out and then there's zero for the period but over the one-year period about 55 million in net distribution out of 370 million of investment gains over that period. Moving on to page 16, this is just a compliance snapshot of the fund's current asset allocation. I think this is important to note that this is the last report you will see with this kind of asset allocation or these asset allocation targets. We've been moving late in November and this week as well on the large implementation of the new asset allocation with Russell investment and you'll see again a change in what the long term policy is that we're measuring as well as a change in the asset allocation as we move forward here. But this snapshot everything was in compliance with the current policy targets or the I guess what are now the old policy targets with the exception of real estate which continues to be under the lower range and has been for some time. But everything was in compliance and that's something that the trustees have been aware of over the past year or so. The next several pages are kind of a risk-reward chart that I could address any questions that you may have. But I wanted to move to maybe page 25 next which is the total fund performance attribution. what you see there in the dark blue bars so the negative is the policy benchmark impact. So that is a measure of the plan's policy benchmark relative to the median plan, in the public funds greater than $1 billion universe. You can see over time the performance of the plan's policy has lagged the median fund. And that's largely due to as Allen alluded to, you know the one-year numbers for your U.S. equities are up over 30%. Your portfolio is a lot less equity than many of your peers so in a market where risky assets have really dominated performance particularly in equity performance we would have expected your plan's policy to trail. Looking at some of the other bars there, that kind of greenish bar there, you know, what you can see over the long term the two- and three-year plan reengaged is to eliminate some of that drag from asset allocation drift and you can see, over the near term time period, that's really been muted kind of a 20 basis point gain for the quarter, 10 basis points for the year. Detracted 10 basis points, consume positive 10 for the year-to-date, detract 10 basis points for the one year period but really minor deviation as a result of -- deviations from your asset allocation actual implementation versus your policy. That is something we have been actively keeping an eye on. And then, you know look at the gray and the light blue bars, those are impacts of the manager outperformance relative to their benchmarks. The plan has actually terminated many of the active investment managers in the plan and so what you're seeing there is really one, the fact that a couple of investments within the plan have performed quite well over the last year, notably the investment in Pimco disco, your core exposure those have all performed well but also your equity investments which are passive in nature but not purely passive in that track area target relative to their benchmarks those portfolios have actually added a fair amount of value relative to the index so you're seeing a boost there that we wouldn't have necessarily expected going into those markets. So the following pages show the attributions for the quarter, the year-to-date and one-year periods. And can you see for the quarter looking at page 26 -- you can see for the quarter looking at page 26 that really within the total equity the third year down the blue bar is documenting so what that's showing is your overweight to equities in the quarter really contributed to performance. The fact that there was no red bar shows relative to the index but your overweight positioning did help. Within fixed income the line below what you can see there is a slight addition to performance from the overallocation but really the large red bar showing that the outperformance of your managers relative to the benchmark was really driving the performance within the fixed income sector. And you could see within moving down the page as well within your opportunistic those are your senior secured direct lending strategies. Those have all started to perform quite well in the past couple of months and you are now starting to see some of the performance expectations come through in those strategies.

>> And we didn't start to talk about this page last time. This is a new page that was able to be done, given the new performance system. So I did want to take a moment. I see some confused looks there. Just to walk through in a little detail what this page is actually doing. So on the quarter if you look at that, sort of khaki line that says

total, the actual return is the actual return of the portfolio. The target return is the target. And what this report is attempting to do is to attribute that, in this case, positive number, into how much is due to selection effect, which is really how the manager in that asset class did versus the benchmark. So that's the manager outperformance piece and how much is due to the fact that you are overallocated to a high-performing asset class, or underallocated to a low-performing asset class. So it's trying to separate the asset allocation effect from the manager effect. So if you look at that bar, then, total fund, you'll see that you've outperformed your policy by a little over 1.5%. The blue is the effect of asset allocation being over or under. You could make that number zero by rebalancing at the end of each quarter, slavishly. It would cost you transaction money but you could make that number zero. So what you would like it to be is relatively small. In this case it was a relatively small positive. The red line is what your managers across all of your portfolio contributed because of outperformance versus the benchmark and the red line is the infamous fudge factor. We calculate this by in effect freezing the portfolio at the beginning of the period. You know that transaction happen during the period and so that orange bar is sort of the measure of the imprecision in the methodology. Now you go down the page and say where did all that good red stuff come from? Fixed income was particularly good. Opportunistic credit was particularly good. Good call on overweighting the equity but not a lot of manager contribution. So the quarter, I would also say, is rarely worth looking at. It is random noise, almost. But it gives you a feel for the numbers, where they come from and as we now go through time some we'll be able to compound quarters over longer periods and provide insight for longer time periods. So I just wanted to make sure everybody kind of knew how to read this chart. You want those bars to go to the right. You'd like the bigger pieces to be manager contribution because that is a little bit more reliable than the asset allocation effect. So everybody's okay on that.

>> So to the point maybe not wanting to focus on the quarter, page 28 has the one-year number and it's a similar story to what you see elsewhere. The only addition there being the detraction within the real estate portfolio by being underallocated to real estate which is something that has been well-known in prior discussions. So unless there are any questions, you know I'm happy to walk through the flash report in detail. Though I would point out, again, many of these strategies have been turned over, several of these strategies have been terminated as a result of the implementation of the new asset allocation which we'll touch on here shortly. So there's one not only have a lot of active managers been terminated you know kind of late last year early into this year, but now even

some of the strategies this were put in place on an interim basis have now been replaced with a secondary set of portfolios that will provide exposure, you know over the next call it six months or so as we move forward to identify active management to fill the new asset allocation.

>> Sean Kaldor: Questions, comments? Vince.

>> Vincent Sunzeri: Well I'll just make one comment and I have a question for the consultants. On page 16-17 where they went through the fund's policy benchmark, their long term policy benchmark, just to reiterate, with what we just reviewed with the investment policy statement and the new asset mix, we will have for our next report a new policy benchmark and also an interim policy benchmark which we've never had before which will help us as we look at performance going forward. Something I want you to be aware of. Going back to page 14 I think it would be valuable if you took a moment to just explain the results in the last three to five years for the classic 60-40 benchmark. And really how misleading that could be to trustees in making or restructuring a portfolio, using that as your proxy and why those results will likely not continue in the same manner going forward.

>> Yeah, it's interesting you mentioned that Vince. Because less investment savvy boards look at this data and say, do you mean to tell me if we had put all our money in an S&P 500 index fund and a bond fund on the bond side and just rebalanced we would have done this well? The short answer is that's exactly true in the environment that we saw. You can't fight last year's war. You can only position a portfolio going forward. And that portfolio is a highly volatile portfolio. And you've seen the difference in one quarter, in terms of the S&P 500 performance. So you could do that. You'd have a highly volatile portfolio. While it's at particularly bad I.D. going forward is the factors that drove that performance are not there now. The simpler view and another one I get, a lot, ask long bonds. You know in the last five years, one of the best-performing asset classes was long government bonds. You made a lot of money. And not to go too far public I had a trustee often one fund who was advocating that we adopt a policy of putting 50% of our portfolio in long government bonds going forward. In the argument that that was the safest asset class. And of course what made long bonds perform ask when you buy a bond you get a promise to pay a fixed income rate for the duration of that bond and at the end you get the par value of the

bond back. If interest rates drop during that period, you get a capital gain associated with holding that long bond. Because the bond that you have that you bought when rates were higher is now paying a higher coupon rate than a newly issued bond of a maturity say five years less. So it is axiomatically true, you did better in long bonds. Going forward, why that might not be the case. A newly issued government bond we just talked about has a yield of 1.6% on it on a 20-year bond. So five years from today you will have a 15-year bond that has a coupon on it equivalent to that 1.6%. If interest rates rise at all, the newly issued bond will be more attractive than the bond you hold, and so your bond will have to experience capital depreciation. The amount of that depreciation is easy to calculate, that's called duration, which is for the mathematically inclined, the change in the price of a bond given a unit change in interest rate. So if the duration is 5, if the interest rates go up 1%, your bond will drop 5% in value. You're collecting that 1.5 so you're down 3.5 on, quote, this very safe instrument. Now same thing is true of the equity markets if we are looking forward on a more muted equity market we do not think you should be at 60-40 or 70-30. We think a diversified portfolio that has elements in it that will do well in all kinds of possible economic outcomes and market outcomes is a better place to be than rolling the dice and hoping that you get a repetition of what we have seen in the last five years. So is that -- it is for a lot of people they look back and say, I could have done it. Yes, could you have done it. A strategy is not good because after the fact it performed well. You adopt a strategy to position a portfolio, to have the greatest possibility across an uncertain range of future outcomes to do well. And it may turn out after the fact as was this case that your strategy didn't do as well as the 60-40 but this was a very unusual set of outcomes where you've had global economic declines and yet fairly, fairly consistent positive equity markets.

>> Vincent Sunzeri: And also add to that if you look at the longer time frame of ten years or even the most recent quarter you'd see the results not only move you to the bottom 25%, of large plans, but also, you don't meet your actuarial rate of return assumption.

>> And that is the most important point. You know what we're trying to do is if the markets are up 30, we're not going to be up 30 but we're going to be well before 8 but when the markets drop we're not going to give the all away and compounding that less volatile return stream through time, that's what we're trying to do is consistently

make the assumed rate. Whether we are in the top quartile or bottom quartile of other people, in the other strategies is less relevant than achieving financial goals that the plan has set up.

>> Sean Kaldor: Any other questions or comments? Seeing none acceptance of that, 1.4. Presentation of the October 2012 flash report by NEPC. I think you touched on -- go ahead.

>> You were going to say what I was going to say. We touched on this largely. The fund was down about 20 basis points in the month of October relative to the policy benchmark in the month overwait to equities that helped during the third quarter, actually detracted slightly in a down quarter for equities. Though the strategies that you have did outperform so the manager value-add for the month in equities was positive. And again, within fixed income, you see positive attribution to performance, notably due, again, to your long duration fixed income as Allen just alluded to and your investment in Pimco disco, which is a senior structured investment I will say in the month of October there were three investments approved recently, the marathon European opportunities fund was funded in the month of October, the TPG distressed debt within the private equities was funded in October and one of the actually funded in October so we're making some progress there starting to ski some of the investments that have been made recently implemented into the portfolio and we're chugging along on the rest as well.

>> Sean Kaldor: Any questions or comments? Seeing none we'll, jump over to the health care trust presentation of the health care trust 2012 report, item 2.1.

>> I could go through this very quickly. The markets backed up obviously the same. The health care trust was funded in July of 2012, and so if you turn to, I don't mean to skip over page 2, that's a high level snapshot of asset allocation, the reason you say no for cash, there was money earmarked to be funded in one of the commodities managers so you were moved to within compliance in the month of October, which as of quarter end that money had not been distributed yet from the cash account. What you see there on page 3 a lot different than the Police and Fire the large red relevant to the relative to the blue, the contribution to the plan, consume that went in. Just a minor increase in the market value, slight blue uptick but that's what you're seeing there and again what we did

from an asset allocation standpoint is, we took the asset allocation, the long term policy benchmarks of the pension plan, and tried to replicate them to the best we could, using really largely passive investment vehicles, to come up with you know, consume, to come up with an asset allocation for the health care trust that one was cost effective and two would replicate as he best we could the pension plan's asset allocation, you know with current strategies, as well as some new mutual funds that were getting exposure from Vanguard, which are indexed funds. Quarter was a strong quarter up about 2.4% though trailed the policy benchmark by about 50 basis points for the quarter. And that's the reason you see a quarter number there for the total fund but not for the underlying investments except for cash is because cash was the only investment that was there for the full quarter. The rest of those investments were funded really in early August and so you'll start to see full quarter performance across the board as we move forward there but that's the rationale behind that.

>> Sean Kaldor: Any questions or comments? Okay, we'll accept that and presentation of the flash report for the health care plan .

>> Again this is more of a note and file item. The performance for the month which is what we would expel to see as we move forward. What you will see is kind of the outperformance relative to active managers because we are using passive investment vehicles in the health care trust at this time, you won't see a lot of value-add but you should see the performance of the health care trust track the performance of the pension plan fairly closely on a monthly basis as we move forward. And I don't -- I'm sorry I didn't print, I didn't pull it up but the performance of the month was 20 basis points pretty close to the -- I apologize. Sloppy. Down about 40 basis points relative to the policy benchmark of 70 basis points, the policy lag there and that's largely due to the active management or the active you know the attribution, some of the active managers you don't get right now within the health care trust.

>> Sean Kaldor: Any questions, comments? Seeing none we'll accept that also. Thank you. Let's then return to our main pension plan agenda item 1.5 discussion and action regarding the portfolio transition, item A, discussion and action to continue authority to delegate the selection of passive equity, fixed income, and real assets

strategies for the current pending portfolio transition to staff and NEPC and for secretary to negotiate and execute agreements with the selected managers as appropriate.

>> So this is just a similar memo that you have seen at past meetings. Again as we moved forward with the implementation it was requested by the board that we make this request at each meeting as we move forward. The thing we did differently within this particular memo was to request that we get the authority to move forward with passive investments, rather than having to do this on a monthly basis so we would come back in April with an update of where we were with the implementation of the asset allocation. I will say that we are through yesterday, the implementation of the asset allocation is more than 99% complete. There is still some residual trading to be done but it is really a fraction of the total implementation that we went through. Largely all of the passive vehicles that were going to be incorporating have been incorporated. So there's really not anything new to report on that front. But as we move forward it's very possible that some of the exposure we have currently will be moved to maybe an index provider as we conduct the search there to provide some passive management. Russell is providing oversight of those assets over the long term so I think we're at a comfortable spot from the implementation of the asset allocation right now but we're requesting or making the request that we made at the past several meetings to delegate the authority to invest in some passive vehicles to staff and to NEPC and to the investment committee but rather than do it on a monthly basis do it on a quarterly as we move forward.

>> Sean Kaldor: Questions or comments? I just have the comment that I think I sparked the thought of moving to us on a quarterly basis because the investment committee seeing at a monthly basis. I'm thinking of the agenda if we save five minutes or ten minutes a month we still have good fiduciary supervision of it on a quarterly basis.

>> Richard Santos: I'd second that if there's no objection he.

>> Sean Kaldor: So I'll make the motion to approve them and to come back to us on a quarterly basis and a second from trustee Santos. Any discussion on the motion? Seeing none all those in favor? Any opposed? None opposed, the motion passes unanimously. Item 1.6. Authorization for the secretary and the City Attorney to

negotiate and execute the second amendment to the agreement with Hanson-Bridgett to increase the compensation for the remaining term of the agreement to end June 30, 2014 by $250,000 for a total contract amount not to exceed $500,000.

>> You have a memo in the packet regarding Hanson-Bridgett's contract. We have a number of contracts that are in the pipeline as well as we expect more coming up next year. The investment committee discussed this and stated it's best practice to have a number of firms to choose from based on the expertise, capacity, as well as to obtain competitive pricing so staff recommendation is to add the funds to the contracts that are able to use them.

>> Sean Kaldor: Any questions?

>> Richard Santos: I would --

>> Sean Kaldor: Trustee Sunzeri.

>> Vincent Sunzeri: My only question is do you feet this is sufficient in providing the resources that you need to move the plot plan forward or would you need in addition to that go any further and deepen the bench through an RFP process?

>> It is possible at this point as we have a contract with Hanson-Bridgett we can go ahead and use them. We can discuss this at the investment committee level at the next meeting to see how much of a deeper bench we need. And we can, you know, the investment committee can certainly recommend to do an RFP.

>> Sean Bill: I would say that typically you will have a private equity specialist, a real estate specialist. He might have an alternative specialist, if you look at CalSTERS or Cal PERS or some of the other funds out of there they will have several different firms available depending on expertise and availability.

>> Vincent Sunzeri: My only concern is if we wait until the investment committee meeting, now we're going to be looking at January which is a further delay and we have a pretty big pipeline that we're building up as we're trying to commit some capital to some of these alternative funds. I just wonder if it would make sense for us to make a motion to grant them the RFP and expand that .

>> Sean Kaldor: This would have to be done in the coordination with the city attorney's office right?

>> Vincent Sunzeri: We would also want to coordinate with Federated's board as well since they would be using the same resources.

>> Exactly.

>> I'd support that.

>> Vincent Sunzeri: So I make a motion that we request staff do an RFP to expand the pool beyond these two firms and come back.

>> I'll second that.

>> Sean Kaldor: So I just want to be clear we have the motion recorded. Have staff do an RFP on these two firms and to also increase the amounts beyond the 250,000 to the 500,000 as requested.

>> In addition to coordination with the city attorney's office.

>> Sean Kaldor: And coordinate with the city attorney's office and the Federated board as well.

>> Vincent Sunzeri: Uh-huh.

>> Sean Kaldor: Trying to help out the people that are always keeping track of what is it we decided on? Okay. We have a motion, do we have a second?

>> Sean Bill: I'll second that,.

>> Sean Kaldor: Second from trustee bill. Seeing no further discussion, all those in favor? Opposed, none opposed motion passes unanimously. We'll move on to new business. And just for simplicity to close out our last agenda item on the health care plan, let's tackle that one very quickly. I can think quickly.

>> Veronica Niebla: So in your packet you have both the expenses for the pension plan and on item 2.1 on the pension plan agenda please keep in mind that you're looking at the pension plan assets which also include the 401(h) assets, so there is still the assets that are in the pension plan that are for the 401(h). All the expenses that you see reported here are for the pension plan and the 401(h) and then all of the expenses that will be related to the 115 trust will be over in the health trust report that will come over. Since the health trust doesn't have as much cash flow changes in it, I was proposing in this memo to the board to have a quarterly report, instead of a monthly report, just due to the activity that's happening in both the -- happening in the health care trust. On the health care trust memo I also went into some detail about municipal code and how the health trust is going to continue on a go-forward basis as far as expenditures. The expenditures for anything that's health related at this point is going to run through the 401(h) until that account is depleted with the exception of the expenses that are related to the health trust only and in that case we have to run those through the health trust. With that I'll take any questions you have on this issue.

>> Sean Kaldor: So sorry, I admit to being stoned here for a second or thrown off. This was item 1.3 on the health care agenda or is this the plan expenses, 2.1 on the --

>> Veronica Niebla: 2.1 is the plan expensed an 1.3 is the health care trust. If we had expenses it would be similar. Instead what I did was give a summary of what the municipal code has for the health care trust and on a going-forward basis.

>> Sean Kaldor: Are there any questions?

>> Sean Bill: What is LRS?

>> Veronica Niebla: LRS is for pension gold.

>> Sean Bill: Is that an annual fee of $93 thousand or is it --

>> It is an annual fee of $93,000. This is the portion that only is for the Police and Fire plan .

>> Sean Kaldor: Any other questions or discussion? Okay so I'll take a motion on both those items simultaneously.

>> Richard Santos: So moved.

>> Sean Kaldor: Motion from trustee Santos, discussion on action on the health care on regular agenda 2.1 the plan expenses for October 2012. Any discussion? All those in favor? Any opposed? None opposed motion passes unanimously. Okay. No more bouncing back and forth. Item 2.2, Discussion and action on Cheiron preliminary valuation results. including item A, memo from Alex Gurza deputy City Manager, regarding supplemental retiree benefit reserve dated November 29th, 2012.

>> Bill Hallmark: Good morning. For the record I'm Bill Hallmark and with me today is Gene Kalwarsky.

>> Sean Kaldor: Welcome back for another year's cycle.

>> Bill Hallmark: So today we have the preliminary valuation results for the pension plan. We're going to talk briefly providing some background on the actuarial valuation, some of the historical trends to set this valuation's

results in context. We will go through the summary of the key results, and I want to point out with no assumption changes. And then, after that, we will review some of the key economic assumptions, and look at the projections and stress test. So we always start with this analysis for the pension fund and the valuation process. The tank here represents the size of the liability, in our valuation, we are measuring the size of the tank, the green inside the tank represents your current asset level. That goes into account. And what we're looking at is the rate of flow of the benefits and expenses out of the tank, compared to the flow of contributions, both employer and employee, into the tank. And adjusting for investment earnings. So each year, we do this assessment, and look at where we have to tweak the knobs. And in particular the employer contribution knob. And to a certain extent the member contribution knob. Just some issues around this valuation. I wanted to touch on first, measure B was passed by voters in June of 2012. And it would make some changes to the Police and Fire plan. No changes have been put in the municipal code yet. And so there are no provisions of measure B reflected in our actuarial valuation. The other issue I wanted to point out is the timing for funding and accounting. This valuation, the 2012 valuation, is used to determine the contributions for the fiscal year ending 2014. It's also used for the city accounting requirements for that year. But because GASB has adopted new standards, GASB 67 is effective for the plan reporting for the fiscal year ending 2014. So whereas in the past we would have used this valuation for the plan reporting fiscal year 2014, we will not be using this valuation for that. The new GASB, GASB 68, effective for the city for the fiscal year ending 2015. So --

>> Sean Bill: Could you just tell the trustees what those rules are and what they do?

>> Bill Hallmark: Yes, GASB 67, 68 set the standards for how the plan reports on its financial statements and how the city reports its pension obligations on its financial statement. We have been using statements 25 and 27, which are being replaced effective as of these dates for the plan and the city. There's a very significant change in the way amounts are reported, particularly for the city. And effectively, one of the biggest changes is that the unfunded liability, or as it's termed in GASB's terminology, the net liability will go directly on the City's balance sheet. So currently, they do not report a liability on their balance sheet for the pension plan. I'll let Gene go through some trends here.

>> Gene Kalwarsky: I'm going to go through some historical trends prior to Bill presenting this year. I think this helps put in perspective this year's results. The chart on slide 4 is showing a projection, not a projection, a historical disclosure of the liabilities by the gray bars and prior to 2009 valuations will done biennially. The gray bar showing the size of the liability and the two lines that are shown show the market value of assets and the smooth value of assets. So before I get into the funded ratios, if you look at the market, the green line, where it spikes up and spikes down, you could see the effect of the smoothing. When markets spike up we carry -- clearly value of assets is typically lower, the true spike down as we stand now, they are very close. market decline was pretty much at 100% or more and now we've dropped into the 80% range. Slide 5 is now showing contribution rates. That's the contribution dollar amounts divided by the payroll for the city. The green bars are what the members pay. The members pay 3/11 of the normal cost and the city pays the 8/11 plus they have to pay the unfunded -- any unfunded liability component. Bill mentioned in his slide that valuations used to tweak the rates I think from 2010 to 2014 is a little bit more than tweak. What happened in 2011 through 14 clearly the market spiked, the contribution rates increased, but in addition there was a significantly and significantly payroll reductions. Those payroll reductions for given amount of contribution he made that rate be even higher. Later Bill and I will be showing projections going forward that focus on the dollar amount as opposed to these rates.

>> Sean Bill: So then if we had not had that significant surprise last year, we would be somewhere below 80% on our funded ratios?

>> Gene Kalwarsky: When you say significant surprise you mean payroll?

>> Sean Bill: Your next slide, the big gray bar in the 2011.

>> Gene Kalwarsky: Yes. Super Bowl not much below 80.

>> Gene Kalwarsky: I don't recall but it wouldn't be probably below 70 I don't think. But maybe when we get to the model we might -- we have an interactive model and we can play with that. Bill might be able to do the calculation while I'm talking. But yeah, that's a good segue. Turning to slide 6. These are -- we attempt to

establish a contribution or funding level that's a level percent of pay. But each year you have experienced deviation both on the investment and liability side. And that's what causes the employer rate to go up or down. When the bars here, gold bars are investment the gray bars liability experience, investment I think everyone understands you earn more or less of the assumption, the liability, it has to do with whether people retire earlier or later, die earlier or later. If it's above the gray line it's a good result, below the gray line it's a bad result, cause test rate to go up. 2008 markets asset smoothing method, we don't reflect it all in one year, phased up over five years. And on the gray bars, we had that big spike in 2011, and that is the reduction of the payroll reduction, so we lost a lot of liabilities. And that did significantly impact the amounts that have to go into the fund. Other than that, the liabilities are probably pretty close to expected. In fact they were this past year a slightly gain here. But again, the investments are really what are driving -- investments and payroll are what are driving the results. So that's an historical look on where you are. Now we are going to hone in on the numbers and what's happened since last year.

>> Bill Hallmark: Before I jump to that based on a quick calculation, that gray bar in 2011, we were 84% funded. And if that gray bar had been zero, it would have been approximately 76% funded.

>> Sean Bill: Thank you.

>> Bill Hallmark: So this slide shows a quick summary of last year's valuation results and this year's valuation results both calculated using a discount rate of 7.5%. You can see that the actuarial liability increased about $130 million. And the actuarial value of assets remained relatively level resulting in an increase in the UAL to 619 million from 5 ten and a decrease in the funded ratio. The actuarial value of assets that's the smooth value where we only recognize 20% of the deviation from the expected return each year. So it gets recognized over a five-year period. On a market value basis, the assets declined from 2.6 billion to 2.58 billion resulting in a decline in the funding ratio on that basis from 82 to about 78%.

>> Sean Kaldor: What drove up the liability?

>> Bill Hallmark: That's just the earning of additional benefits. So the actuarial liability represents the value of the benefits attributed to service prior to the valuation date. And so each year there's --

>> Sean Kaldor: Another year's worth of service?

>> Bill Hallmark: -- another year's worth of service and interest.

>> Gene Kalwarsky: Sean that's why there's a gray bar at the end.

>> Sean Kaldor: Thank you.

>> Bill Hallmark: So this slide shows a summary of the aggregate contribution rates. So these are not split between Police and Fire. We have that a little bit later. But you can see, the total member rate decreased just slightly because we have a slight decrease in the normal cost rate which really drives the member rate. The city rate has increased from 57.7 to 64.9%. There is a slight decrease in the normal cost rate but the UAL rate increased. And we'll talk about that in a little bit here. Expected payroll, we had a slight decline. We assumed for this year that there would be no change in the total payroll. So we were assuming going from 190.7 to staying at 190.7. We have a slight decline. The city contribution amounts on the beginning of the year basis increased from 106 million to 117.7 million. This slide summarizes the changes in membership during the year. Last year, we saw very significant changes here. This year, much less significant, a slight reduction in the total number of active members. And a slight reduction in the total members, based on that. We have quite a few more retirees, and actually, you see a large percentage decline in terminated vesteds. I think that was largely because there were a lot of people who left employment in June of last year, and did not either get cashed out or categorized into their retiree categories into they made their elections. The payroll, again, declined just slightly, and the average pay per active member declined just slightly. So if you look at the gains and losses by source, the big one is the investment experience which was about 173 million loss compared to our expectations. All the other gray bars add up to a gain of about $39 million. Part of that is the SRBR because we put in an assumption about an amount to be transferred to the SRBR each year, and there was nothing transferred this year. So that gives us a gain. We

had gains for the salary being lower than expected on an individual basis. And some other gains offset by higher than expected retirements. Now, this slide shows how each of those things affects both the contribution rate and if contribution amount for the city. And before we compare to just the fiscal year 2013 contribution we want to note that we had expected in our prior projects for the 2014 contribution to increase from 106 million to 118 million. And so we start the reconciliation from there. And part of that, the major part of that increase was recognizing additional losses as part of the five-year smoothing of assets. So we were expecting to have an increase, due to the recognition of those losses. The investment experience in the last year added additionally to that, another $5 million or 2.8% of pay. And then the other items some the SRBR and the demographic experience reduce cost, the payroll change increases the rate, because we're collecting on a smaller payroll. But it actually decreases the dollars. Because there are fewer people earning additional benefits. So that's the very confusing item in this list. But the end result is, a city contribution of 117.7 million compared to our prior projections of 118.2. So very close to our prior projections. This slide shows the breakout of the contribution rates between Police and Fire and they completely the change to the overall system. Slight decreases in member rates reflecting the slight decrease in normal cost and increases in the city rates largely reflecting the change in the UAL. These two slides, these two tables show the actual SRBR calculations. The key thing was, in the top one there are no excess earnings transferred to the SRBR and no distributions from the SRBR. So the only thing that came out is when there's an increase to the city rate due to poor investment earnings, there is a charge from the SRBR that goes to offset the City's contribution. And so that was 1.3 million last year. The table 2-5 at the bottom calculates that charge for the upcoming year. And it would be 1.5 million, which would decrease the City's contribution rate by .84%. So with that Before we get into the discussion of the assumptions, I want to show quickly the projection assuming no assumption changes . In the top chart the gray bars represent the liability. The orange and green lines are the actuarial value of assets and the market value of assets. They're very close at the beginning, and if all assumptions are met, they become the same. So you just see the green line, and you see us projected to go from 81% funded to 100% funded over the projection period. This is if all assumptions are met. The bottom graph shows the contribution rates with the teal bars on the bottom, the member contribution rate and the gold bars, the City's contribution rate. The red line is our baseline projection from the last valuation. And so you can see the contribution rate for 2013-14 is right on what we had projected but later on you see higher contribution rates than were projected. And that is primarily due to the investment performance this year that gets recognized over the next five years. So as we recognize that, that will increase contribution rates beyond what we had expected. Let me, before we move on let me quickly switch the bottom graph to show a dollar projection. It's the same graph, but just expressing the contribution rates as dollar amounts. And the projected growth in payroll. So again -- and these dollar amounts are middle of year dollar amounts so where we had said about $118 million for the city that's because that's a beginning of the year number and this is showing 122 as the middle of the year.

>> Sean Kaldor: Just a quick question on the previous one, the percentages if you can go back to that. Go out to when a plan is fully funded in 2032, on June 30th, 2032, be exactly there I'm sure, the 36.7%, from 2005 to 2010 is around 20% contribution for the city, 20 to 25%. What's different in the future, that means that when everything gets back to full funding and there's no unfunded liability and the world's good, the required city contribution rate would need to be so high?

>> Bill Hallmark: That's primarily the normal cost rate. Let me go back to --

>> Sean Kaldor: I'm wondering why the normal cost would be so high in 2032 versus where it is now. Assuming there's no UAL payment for the city in 2033, right?

>> Bill Hallmark: Right, there's no UAL payment. It's the normal cost rate is growing a little bit from where it is now because of the SRBR charge on the normal cost and so as assets grow that SRBR charge grows.

>> Sean Kaldor: Didn't we state --

>> Bill Hallmark: We set the -- the assumption is .22% of assets. And so the larger the assets, the larger that charge. And so that's the assets growing faster than payroll.

>> Sean Kaldor: So you think it's -- in your estimation it is the SRBR that causes it to be -- I'm just asking, the plant is funded we're great it seems to me we still have a benefit package that's growing faster or that's significantly higher than where it is now but I don't know why we're projecting more benefits in the future.

>> Bill Hallmark: So right now, we're showing a normal cost rate for the city of 33%. And in 20 years it's projecting to grow to 36.

>> Sean Kaldor: Obviously 2010 we were at -- the city was paying 22%.

>> Bill Hallmark: Well from 2010 there have been significant changes.

>> Sean Kaldor: So with the discount rate change --

>> Bill Hallmark: The discount rate change, adding the administrative expense and the SRBR. And the other assumption changes.

>> Sean Kaldor: Payroll and --

>> Bill Hallmark: Yes.

>> Sean Kaldor: Okay, okay.

>> Gene Kalwarsky: Also, Sean is looking at slide 5.

>> Sean Kaldor: Exactly.

>> Gene Kalwarsky: Slide 5 shows a rate of 22.5. That was indicative of where overfunded so it had a negative UAL.

>> Sean Kaldor: So looking in the future would be consistent with where we're now, it would be 3%, okay, thank you.

>> Pete Constant: On the model you showed us, (inaudible) determined?

>> Bill Hallmark: Yes.

>> Gene Kalwarsky: And we're probably going to do some other modeling on the next topic. Last year there was a very spirited discussion here about the discount rate. And it was a very close board vote about lowering it to 7.25 versus 7.5 and it was agreed upon 7.5. expectation a little over 8. So I'm going to talk about the discount rate and where we feel that we stand on it. But I do want to mention that one of the things we don't want to do, and I think NEPC would be in total agreement with this, is if the actuary recommends a discount rate based on the investment assumption expected earnings and the investment consultant achieve those earnings we are chasing each other. We don't want to do that and I don't think they want to do that. So what I'm going to look at or talk about are different things. The history of the fund, the future expectations as NEPC sees it, what pressures factors going on in the industry. This board's risk preference and what's happening elsewhere, with large public sector plans. Slide 14 is showing the historical returns on market value of assets. And that's shown by the blue line net market net of investment fees and the current assumption is shown by the red line and that's at 7.5. Over this period which is an 11 year period, if we were to average these returns, you would get a return something less than 7%. Maybe 6.8 or 6.7. And really, the average isn't really indicative of what the assumption is, that should be a geometric returning even less historically over the last 11 years it doesn't point to increasing a discount rate. But then again you're talking about an 11 year period that had some pretty bad markets. Future expectations between last year and this year, last year, the retirement services staff came up with expectation that 50th percentile of 7.26 and this year NEPC has it at 8.01 and then shows the distribution of returns around that, there's 100% guarantee that the return's not going to be exactly at the 50th percentile. There's other factors going on --

>> Consume, didn't you say that your guy had knocked that off by a quarter?

>> Gene Kalwarsky: Yes.

>> Doesn't that include that knock off by a quarter? sorry.

>> Gene Kalwarsky: I didn't have eyes behind my head but -- yeah,.

>> Drew Lanza: If you were to ask NEPC that question this afternoon they would say it was 7.75.

>> Gene Kalwarsky: I did ask them -- I'll let them speak.

>> That's exactly right.

>> Drew Lanza: I did hear you right.

>> If we were to do that today and we haven't finished the analysis it would be at least (inaudible).

>> Drew Lanza: Great, super.

>> Sean Bill: And you're saying that this is the 50th percentile, the median, this is a coin-flip basically 50-50 probability that you may hit 7.75.

>> Gene Kalwarsky: Or 7.5. That is theirs, yes. There's other things happening in the industry, there's been a controversial actually debate that's been raging for I don't know the past five to ten years where a group of actuaries call themselves financial economists, they follow financial economic theory say that liabilities are like bonds and we should be discounting these liabilities at low bond rates and there's studies out there pew and a few others that start, you start reading in the papers that public sector plans are underreporting their liabilities and you have got another side of actuaries that say no, the discount rate ought to be reflective of the expected

earnings. GASB itself, while it is not going to impact you it will impact many plans. Plans that aren't going ofund their unfunded liabilities in the future based on their funding policy for the portion that's not going to be funded GASB is going to force those plans to use a lower discount raid for that portion of the liability. Moody's recently came out with a suggestion that they want to compare all public sector plans relative funding levels by discounting all these plans at 5.5% and that caused a bit of an uproar. The government funding rules already for single employer plans use what's called segment rates which are very low bond discount rates. I'll get into what other PERS, I have a special chart on that there's been a national trend of declining rates and I mentioned already the press and the scrutiny that public sector plans are getting. I think what I'm trying to say by this, it's pretty -- I don't know of anybody that's considering increasing their discount rate at this day and age.

>> Sean Bill: Just saw an article yesterday on I think it was Pennsylvania one of your clients just dropped their rate to 5.5%. Could you give us a background what's going on there?

>> Gene Kalwarsky: That's unique and it shouldn't be compared to this. It's a totally different environment and it is our client. Pennsylvania municipal retirement system, that's not the state, consists of 3,000 -- either 1500 or 3,000 small entities. Very small, many of these entities are two or three lights and the straight set up a program. And things we're going to assume all the risk and you guys don't have to pay any UAL, we're just going to charge you and as a result the state wants to have a very conservative discount rate because it's absorb being all the risk. So it's a different animal than what we have here so the 5.5 is not based on anticipated earnings or anything, it's based on the fact that the state doesn't want to be on the hook for any potential UAL.

>> Sean Bill: If not San José is basically back stopping the plan like Pennsylvania state right? On unfunded liability?

>> Gene Kalwarsky: Yes. Another factor to consider is the board's risk preference. I said at the beginning we don't want to set an assumption equal to the expected earnings and leave it at that and then have the investment consultants base their allocation on what they assume. The two lines you see this is a normal distribution of returns and the two lines you see there show the assumption 7.5 and it shows the median of 8 which is what New

England had or 8.01. Now we know that's lower. And even if you have the expected earnings rate and the assumption the say I think somebody already said it's flipping a coin. You're going to be wrong half the time. And so we've advised boards to consider lowering discount rates so they can be right more often than wrong.

>> Vincent Sunzeri: Is there a particular probability that you think they should be more right than wrong?

>> Gene Kalwarsky: No. I think maybe we'll get to it with the modeling. I think what we'd like to see not the probability that the rate is right or wrong but the probability that the contribution dollar amounts won't exceed an unsustainable level.

>> Vincent Sunzeri: Let me rephrase the question. The probability of achieving your discounted return. We've looked at the scales you've given us --

>> Gene Kalwarsky: As soon as I put the model up I'll answer that question. We do look at the probabilities but not the probabilities of getting your discount rate. A couple more slides and I'll get to that one.

>> Vincent Sunzeri: Okay.

>> Gene Kalwarsky: Page 18 is a pretty interesting chart. Nasra shows the result of their survey from 2001 to the latest one which is November 2012. And what this is showing back in 2001, there were plans that were, if you look at the top of the bar in the red that were above 8.5 and as time went on by the time we got to 2006 there were none. And then it shows the plans that were at 8.5, the next hash bar and how that is shrinking and between 8 and 8.5 that is shrinking. The 8.5 always considered the average of all plans. You go across now, that's now no longer the median. The median is 7.8%. And we even have some plans at 6.75 and Pennsylvania municipal is not part of the survey. So the way we like to look at it, go to the model. We showed you, Bill showed you a projection earlier, the reality is that left-hand column, 7.5 is 100% guarantee that that's not going to happen each and every year. We are showing you projection that we guarantee won't happen. That's one prediction that we're actually pretty good at.

>> Sean Bill: What is the 70% equity at the top, is that your risk factor? 70% of that portfolio is reflecting equity risk?

>> Bill Hallmark: What that is, when we click on historical returns the returns we bring in are based on a 70-30 portfolio, 70% S&P 500 and 30% an aggregate bond just for illustrated purposes.

>> Sean Bill: So that's very different than our portfolio.

>> Gene Kalwarsky: If I can ask NEPC, we're just trying to show historically how this plan would have fared with different markets and back in the day. If you were to take the current portfolio and you tried to mirror it to an S&P bond index is there any ratio you would use up there? (inaudible).

>> Gene Kalwarsky: Right, yeah. So just change this to 60 because that's the -- but the point is --

>> Sean Bill: Listed on a forward-look basis here, we're looking forward not backwards.

>> Gene Kalwarsky: Do you see the left-hand column there? It is forward, left-hand column all those different numbers. This is showing from the period from 1930 through 1950. Because I think it's a 20-year projection. If you had your fund invested 60% in equities, and 40% bonds, those are the kind of returns you would get each year. And this is not a predictive exercise. This is a stress-testing exercise. So we're trying to show how, you know this takes you through the great depression in the early years where you see the minus 100%.

>> Sean Kaldor: Industrial buildout and having fundamental different economic times in America's history. GM can you change the bottom chart Bill to dollar amounts? We'll look at the dollar amounts. You can see the spike that could happen one year to the next in the City's contribution. Now Bill if you could just go through history and get out of the greatly depression.

>> Before you do that could you change it to 50-50 because that would show how we are derisking our plan and maybe improve your ratios.

>> Gene Kalwarsky: Actually show, put that at 10% for a second, Bill, the impact of asset allocation. All right, 50%'s fine. So now, we're going to get out of the depression years. One year after the depression. Is that one year out? I want to go one year, year after the depression.

>> Sean Kaldor: This is the trick of what year you pick and how you start it.

>> Gene Kalwarsky: You just had 91, go there. Look how the starting point and ending point how dramatically different your projections are. And then go to 1950. And you see, the contributions down below, extremely low, go to 1960, and then 70.

>> Sean Kaldor: And that's the challenge with this and you can run, you have that stress testing where you run it against all these year scenarios, it still the challenge always is what happens you know if there's a prolonged 20-year economic uptick, everything could look great for us. But are we expecting a prolonged 20-year uptick, that is always the challenge with this, right?

>> Gene Kalwarsky: Yes. And before this meeting we're were talking about two different analogies, setting the discount rate or whatever. One analogy I used, if you are a navigator of a large vessel navigating lisbon Portugal at exactly the certain time, then a storm is coming, you are constantly making adjustments. Another analogy I think Bill came up with, you are building across the country but you only see a mile ahead at one point, you cannot seize recycle mountains or deserts or whatever. No one can see the future . I want to get back to your question on probabilities. What we like to look at, is our scan set up? This now, instead of just -- that black line from the middle is like the prior projection, that is the 50 percentile distribution. But the distribution around it show the likelihood that the results could be -- that is showing the 80th to the 95th are the red, some of the bad results. When we run probabilities we'd like to see that we can minimize the rate from ever going above let's say whatever the maximum sustainable level is. And I assume the maximum sustainable level is already breached

because you have proposition B. Our theory is when pension plans reach that unsustainable level bad things happen. So we can't predict the discount rate or whether you meet it 50% of the time or 60. What we want to do is avoid having contributions go to a level that breaks the plan sponsor or destroys the benefits. And that's the whole notion of taking risk off the table. Bill if you could -- I don't know if this could run but if we could by miracle down below in that gold row it shows New England's assumption of 8.01, expect a return in 10 point -- if we could miraculously, or actually change the discount rate to 6, the assumed return, not the discount rate, the assumed return, yes, that one. And let's say miraculously that would drop -- I know this is wrong but trying make the point, it could drop the standard deviation down to 4. Yes. Now we're going to run -- no, no. Oh yeah, you can change the discount rate. Yes, (inaudible) okay. What it's going to show, he might have set us up with 10,000 runs we don't want to sit around and wait for. But it's going to show those bands narrow but show that black line be a little higher. So one of the theories behind discount rate, yes pay a little more but shorten the tails here.

>> Sean Bill: You adjust it where say you have your geometric return at 8 but your discount rate at, say, 7. So in other words, you're lowering the rate increasing the contributions building the base but we still expect that our investment returns will come in somewhere around an 8?

>> Gene Kalwarsky: And that will show more favorable results, both on the -- the black line will decline and the bands will go down. Did this run in complete in comparison?

>> Sean Kaldor: I can see the numbers ticking up, 600, 700.

>> Gene Kalwarsky: Still calculating, right?

>> Bill Hallmark: It's running 10,000 trials. We have it set for a couple thousand for presentation. I think that didn't get changed.

>> Gene Kalwarsky: The notion, getting back to your question about focusing on probability of your discount rate, that isn't what we look at. We look at trying to avoid contributions being too volatile and escalating to levels

that can't be supportable. We like to set discount rates based on that analysis as opposed to seeing if the rate is achieved or not.

>> Sean Kaldor: It would be interesting to see this with the 8% current discount rate and other options.

>> Gene Kalwarsky: You don't know what thousand it's on?

>> Sean Bill: Maybe we could run a thousand simulations rather than 10,000 and we could see what it's like.

>> Bill Hallmark: If you all will bear with me for a moment. I'm going to change --

>> Sean Kaldor: Ah-ha.

>> Gene Kalwarsky: Don't show them.

>> Drew Lanza: Pay no attention to that.

>> Gene Kalwarsky: The curtain has been opened.

>> We see Oz.

>> It's a random character generator right?

>> Sean Bill: So we could see 8% --

>> Gene Kalwarsky: Before you go there, I want to compare the prior one, hit the compare button. That is showing, the gray bars are the 8.01 or the 10 point something standard deviation and this is showing if you drop

everything to 6 with lower standard deviation yes you have a higher cost but a lower band. Now I'll do what he asks, the --

>> Sean Bill: I'd say 8% with probably something like 10% standard deviation. And then a discount rate you could either do the 7.5 that we're currently at or --

>> Bill Hallmark: This is the current situation. Let me get this situation into the black bars so that we can compare. This will run pretty quickly with just a thousand. Now I've transferred that to the black and gray bars.

>> Sean Bill: And if we increase the contribution and lower the discount rate to 7 how does that compare?

>> Gene Kalwarsky: The current being gray, this run would be in the colored bars.

>> Bill Hallmark: Yeah, and I think this has an effect. But not nearly as powerful an effect as reducing the standard deviation on the asset portfolio.

>> Sean Kaldor: Just slightly higher the pink lines are now a little bit higher than the thick black and the color bars a little bit reduction.

>> Bill Hallmark: Yeah, and the median line starts higher but over time it works its way down. Because we're amortizing the gains.

>> Gene Kalwarsky: So the far right in the long run, same respect, long term smaller variance.

>> Sean Kaldor: If we did that then the 2013 rate is --

>> Bill Hallmark: The 2013 rate is fixed because it's from last year's valuation. The first year you see a change is 2014 rate this year's valuation.

>> Sean Kaldor: The difference is 65% contribution rate versus 70% approximately? 68% versus 65?

>> Bill Hallmark: 68 versus 67.

>> Gene Kalwarsky: What is the (inaudible) discount rate.

>> Bill Hallmark: That is 65.

>> Sean Bill: I think if you run it with a standard deviation of say 8%.

>> Bill Hallmark: Still with the 8% expected?

>> Sean Bill: With everything else the same?

>> Sean Kaldor: Bring everything.

>> Sean Bill: So this I think is very illustrative of our attempt to reduce the volatility of the portfolio. (inaudible).

>> Vincent Sunzeri: Can you go back to slide 4? So as I look at this, it took us less than 10 years to go from being 100% funded to 81% funded. And when we first ran those models that you ran, it would take us 20 years to get back to being fully funded.

>> Gene Kalwarsky: That was based on this prediction that I said was possible. 7.75.

>> Bill Hallmark: When we got the huge return coming out of the depression you went back just like that.

>> Vincent Sunzeri: My question is trying to weigh the health of a plan that's only 80% funded roughly and getting back to being fully funded versus laying this liability on the backs of current participants in the city and breaking the bank if you will, how do we massage this?

>> Drew Lanza: So the problem with that is whether we're funded or not is also a prediction of the future. Everything here is a prediction of the future. So when you say we were fully funded back then, we were fully funded back then given a prediction about the future and we're not fully funded right now given a prediction about the future. All you're really saying is people ten years ago were very optimistic and people today are very pessimistic. There is some variation in the markets but we're looking ten, 15, you see the horizon here. I'm not sure if we're mathematically underfunded, we are predictably underfunded but it is not clear whether we are in fact underfunded.

>> Bill Hallmark: Yeah, let me clarify, we are using funded percentage. That is not -- we call it the actuarial liability but what that means is given all of our assumptions that's the level of assets we would target to be on track, today.

>> Drew Lanza: Given all those assumptions.

>> Bill Hallmark: Given all those assumptions. And so I just want to be careful about using the termfully" funded" because it doesn't mean you're done. It means you're on track given all the assumptions. And 80% funded just means we're 20% short of where we would be if we were on track given all our assumptions.

>> Sean Bill: I think it's also important to look at the Trent. The Trent is 115% down to 80, conservatively estimating. The trend is very clear.

>> Drew Lanza: But we caused part of that trend by lowering the discount rate for one thing. Whether the city caused part of that trend by the action he they've taken. I agree overall we should react to trends. Decide do we want to go up or do we want to go down.

>> Sean Bill: And the easy way to frame this would -- if I asked you Drew would you accept a 50-50 probability of being able to retire, at your expected retirement? You would say hell no, I would not. I personally plan mine at 85% probability.

>> Drew Lanza: You know I love this because there's such a conflicts feedback. Then the challenge would be we should ask conservatively, which our members would like. The city is asking for confirmation. You and I both know if we can get this damn thing back to 100% funded, the city prudence does not get rewarded. Gentlemen tell me if I'm wrong.

>> I don't know that they can, number one.

>> Drew Lanza: Overfunded plan the politicians start to lick their chops, yes or no? So there's all these feedback loops right ?

>> Sean Kaldor: Sean.

>> Sean Bill: The simple way of looking at this is, if I said to you 50-50 chance you can retire or you can't, would you accept it?

>> Drew Lanza: I agree, I tend to be more conservative too. I'd like to see those bars go down, too. I agrees with Sean.

>> Sean Bill: We are saying retirement is going to be what you think it is.

>> Drew Lanza: You're really saying that to the taxpayers but I hear you.

>> Sean Kaldor: We're not successor agency to a point, we're saying it to a group of 3,000 people. Over time. Their investment fund, 50-50 chance of your risk of retirement. When you take a whole group this year maybe we won't make it but next year we're going to make it and over time we'll hit some number, that's a challenge to it.

>> Sean Bill: Historically you're not hitting it, 6.8% not even using geometric numbers here.

>> 11 years you're under seven last 30 maybe you're over 8.

>> Sean Kaldor: Again it's a time frame. I'm not disagreeing with you but I feel both sides of it. Harvey and then trustee Mason.

>> Harvey Leiderman: Mr. Chairman, I wanted to offer one fully funded status until today, was that when the systems were fully funded benefits were granted by the city and they were granted substantially to both safety and general members. With and they were made retroactive over the past years of service and that was the biggest contributor to dropping that funded ratio from 115 or whatever it was to where we sit today. It's not just all investment returns.

>> Sean Kaldor: Trustee Mason.

>> James Mason: , some of this 50-50 to something significantly higher?

>> Sean Kaldor: That was in one of the slides.

>> James Mason: I'm sure it was, I just didn't quite understand it I guess.

>> For 65 it was 7.1%.

>> Bill Hallmark: The 25th percentile is 6.1 that means over a 30-year period using the assumptions you would expect a return 6.71% or greater.

>> Sean Bill: That's not knock off another quarter or what have you --

>> Bill Hallmark: Yes.

>> Councilmember Oliverio: Our question isn't 30 years right? We're not asking if we could discount based on 30 years?

>> Bill Hallmark: Well, yes and no. We use 30 years as a proxy for a long term rate.

>> Drew Lanza: Right.

>> Bill Hallmark: Yeah.

>> Drew Lanza: Right.

>> Gene Kalwarsky: When I did the history thing before I didn't mention to you do you have the model there, determine --

>> Sean Kaldor: When we finish up this topic we'll take a ten minute break, those that are showing up for disabilities. Councilmember Constant.

>> Pete Constant: I wanted to weigh in on the probability discussion. If you look historically as Drew pointed out, you know, the bill got dropped on the taxpayers. But as we look forward, with the implementation of the new tier, that, when we miss the mark, it's going to be 50% on the member, 50% on the city. And that's really going to change the dynamic as well. I think that's something that are keeping in mind. That's something we have to keep

in mind on where the risk is and how much capacity to accept risk is and I think the discussion you just had Sean about the difference between one person and a pool of 3,000 you know has weight on one side, but the ultimate risk being born, 50-50 has to be made part of as well.

>> Gene Kalwarsky: One comment. I think board 9.5% right? Well, that projection up there is showing 9.5% over a 20-year period yet during that period the fund he ratio drops to 80 -- as low as 78%. And look how high the contribution he are in the middle. So even if you achieve your long term rate it's that volatility from year to year that's the problem. That's why he everyone in the industry is talking about taking risk off the table.

>> Sean Kaldor: That shows 9.5%?

>> Gene Kalwarsky: That number in the bottom left there.

>> Sean Kaldor: Trustee Sunzeri.

>> Vincent Sunzeri: Just a few thinks to point out. On the investment side we're intentionally trying to de-risk the plan. We've intentionally lowered our exposure to equity in general we're trying to add absolutely return that would have a lower volatility. So hopefully that would smooth out some of the volume estimate that we might be looking at here even on a historical basis. Talking about things from a historical basis, as our consultants pointed out there's been a drastic shift in interest rates. And that had been a large driver for investment portfolios. If you go back 20 years ago, the guaranteed ten-year treasury yield was discount rate. If we shorten the time frame, where we go to a 5% yield and today we're at 1.65 for that guaranteed safe investment, it makes it that much more difficult to accomplish these returns. Just thinking back to the discussion that we had at this time last year, we were talking about going down to 7.25. We didn't want to make such a significant move at one time. We said you know the plan looked pretty good, and its investment results as of June 2011, flip the coin, here we are as of June 2012, and the plan didn't mead its actuarial return. It would seem that we want to really move this plan closer to a more fully funded status, we want to have a higher probability of achieving our goal and incrementally

continuing what we discussed and agreed upon last time seems to make sense which would be a gradual shift to another quarter-percent reduction in the discount rate. Ask.

>> Sean Kaldor: Is that a motion?

>> Vincent Sunzeri: I'll make a motion that we make a shift to lower the discount rate another quarter percent to 7.25%.

>> Drew Lanza: I'll second that motion.

>> Sean Kaldor: Discussion and action under valuation, and they're looking for our input on the discount rate. I would say that is on our agenda tell me if I'm wrong. Okay.

>> Harvey Leiderman: That's fine. Mr. Chairman, point of information with the board. I went over this point with the Orange County board. Just to let you know the Orange County board had stayed at 7.75 because last year for an additional year because they wanted to study this even further and go into their new asset allocation and those of you who have seen the Kume study over time the Orange County board's performance has been at the very top even though they have what's otherwise known as a rather conservative asset allocation, but over time they've performed extremely well. And they voted yesterday to go to 7.25. And to do it in a two-year increment because they're off-cycled of their three-year cycle so they only have two years left in their cycle so they're going to step it down 7.5 next year and 7.25 the following year. In terms of probability that Mr. Sunzeri asked about it was assessed at a probability of 55, that is five points over a 50-50 proposition in terms of building in some risk cushion. So that especially based on the new laws that do have 50-50 sharing with employees, there's an acknowledgment that you want to have perhaps a little bit more recognition of taking some risk on the -- of under-performing off the table. Even if you may overperform. So it was a spirited debate, went over three months' time at that board and ultimately and it was a split vote but ultimately they decided to go to 7.25. And that's the first system in the state of California that has done that. Cal PERS has stayed at 7.5.

>> Drew Lanza: In the split vote did anybody argue to keep it where it was?

>> Harvey Leiderman: No.

>> Drew Lanza: They were argue to go from 7.5 to 7.25.

>> Harvey Leiderman: 7..75 is oh so 2008.

>> Sean Kaldor: Trustee Bill.

>> Sean Bill: Orange County has trustees down there. I think it's very interesting that they're doing it in a two-step process because it kind of of gifts the ability to forecast forecast for the members and the city and I do think with this cost-sharing going forward it is -- if I were a member I'd want a lower rate. In case you do miss. So I would make a friendly amendment to trustee Sunzeri's motion, that we lower the discount rate a quarter-point this year, and that we lower it another quarter-point the following year. So we're on a path, a glide path. And take it to a 7.%.

>> Sean Kaldor: Does the seconder of the motion accept the friendly amendment? Does the make are of the motion accept a friendly amendment?

>> Vincent Sunzeri: I do appreciate that path. I would prefer to revisit it on an annual basis and I'd prefer not to accept that motion, amendment.

>> Drew Lanza: But there might be something to what Sean Bill is saying which is that as we listen to Cheiron and talking about taking some of the volatility out and so on that we are -- we should notify -- Pete's here we should notify the city that we're trending in that way. That's probably a smart thing. I don't know how do you that. You're right, you're saying orange county is right to signal it. We circulate signal it, there is a lot of heads nodding. Especially about expressing that volatility you get a lot much heads nodding.

>> Sean Kaldor: Councilmember Constant.

>> Pete Constant: This is almost an exact repeat of the discussion last year the discussion that I reported to the council was that the thought was that we should be at 7.25 but it was too big of a move and that we would be making a step in that direction and continuing that progression and there was even discussion of at some point even look at a high 6.something so the council has been advised of that and I view it as you took the intermediate step and this is next logical step just from that perspective.

>> Sean Kaldor: To that point last year we had that discussion and I have a feeling of wanting to be careful where we're going there was talk 6.25, 6.0, I just want to move gradually and evaluate it every year. I think it is a great discussion to have each year and think it through. I support what we're talk about. Is there any further discussion on the motion? All those in favor of the motion to reduce the discount rate to 7.25%. Any opposed?

>> Sean Bill: I'm going osay no with the caveat that I want to go to 7.

>> Sean Kaldor: Okay, motion passes there's eight in favor, seven in favor one opposed, trustee Bill.

>> Gene Kalwarsky: I can say it's the first time in my career that the board voted to lower it without asking us what our answer would be.

>> Drew Lanza: What are the numbers?

>> Sean Bill: We try not to let that influence our decision.

>> Gene Kalwarsky: These are middle of the year figures higher than the beginning of the year add 7.5, 122 million at 7 and a quarter,ing.

>> Sean Kaldor: At the end of the year --

>> Bill Hallmark: That's a rough adjustment not based on an actual calculation.

>> Drew Lanza: I think you did foreshadow if I can quote you, you said earlier in your presentation, no one is increasing your discount rate. You did sort of hint at your outcome.

>> Sean Kaldor: Were you looking for further input from us on assumptions?

>> Bill Hallmark: We just need to also to finish covering economic assumptions, look at wage growth, and remind the board, last year we adopted an assumption that had a select period of zero percent followed by 3.5% long term wage growth. We have one more year on that zero percent assumption and then 3.5% growth thereafter. We're not recommending a change but wanted to bring that back. And then the SRBR we're continuing the assumption of .22% of the market value of assets getting added to the normal cost. That adds a little over 3% of pay to the normal cost.

>> Sean Kaldor: So does any want to revisit any of those assumptions? Councilmember Constant.

>> Pete Constant: I would just ask the question, if the city council has already -- the voters and the city council has already taken measures to eliminate SRBR including the passage of the municipal code to terminate it, why would you continue to have that in the calculation?

>> Sean Kaldor: I know your point of the question. My thought is, if measure -- first of all the city said they didn't want to implement this until they had a ruling from the court so we don't want to perceive that, second we don't want a municipal code who where the money would be credited so until we get clear direction on it and thirds if we eliminate it it will reduce the city's contribution or everyone's contribution and my gut instinct ask until it is officially gone away, let's take the money and put it in the plan. If it goes away we can deal with it but if it doesn't go away I would rather not have not taken that money to better security of the plan. Those are my thoughts.

>> Vincent Sunzeri: Should we be doing adual calculation so we could see what the impact would be if we didn't have the SRBR? Kind of like a regular tax code and an alternative minimum tax? We're looking at it side by side and I'm not sure how much work that would be for Cheiron to do that.

>> Sean Kaldor: Just to clarify what you bring up is exactly what deputy City Manager Gurza has asked in an attachment to this. He has asked requested the board to future elimination of the SRBR in the valuation.

>> Drew Lanza: Harvey, your opinion on this?

>> Harvey Leiderman: Seems to me it's not a question of if, but when. I think it makes some sense to run the numbers. I don't see any harm in that. The Federated ordinance passed Tuesday by the city council on its second reading for the elimination of the SRBR and all it did was in the ordinance, was to say oh, you know that part of measure B that says, SRBR is hereby eliminated, SRBR is hereby eliminated. So the ordinance didn't add anything to the elimination of measure B. I have specifically inquired of the attorneys for city who are handling that to give us some clarification. And they said that they would try to get me clarification today, before this meeting, as to just what the intentions are. Because we've heard you know rumors, rumor has it that the city doesn't want to implement these things until they get a declaratory relief. The city has filed in court on SRBR and all the other aspects of measure B for declaratory relief then we hear that no they didn't really agree to hold off everything and now we start seeing some ordinances coming through. I think at the minimum we ought to look at the numbers. Quite frankly, the SRBR is entirely within the control, the distributions, that is, are entirely within the control of the city council. Not this board. The board is authorized to distribute but the city council for the last three years has suspended distribution. So the reality of the situation is right now, that for three years there's been no SRBR distributions allowed by the city council. Measure B has passed by 70% of the voters that says SRBR is gone. What we're talking about would only be eliminating a liability from the balance sheet, from our system's cap or not the assets, the assets are still there. I think reality is staring us in the face. I'd feel more comfortable advising you on it if the city had been forthcoming in telling us what their intentions are, about whether they want to implement measure B or not. Absent that, I honestly think SRBR distributions are dead. And I don't see any

reason not to go ahead and recognize that. But it's up to you, to instruct the actuaries how you want them to take. They've taken a very defensible position he as actuaries to say, until you tell us officially that the body is dead, we're going to assume that it's only AWOL. Because we don't know how to pick and choose between those portions of measureB that are alive living dead breathing not breathing we can't do that triage for you. That is a fair statement from the actuaries but frankly I don't think we're ever going to see any more distributions out of SRBR. We haven't for three years and the people have said it's gone away.

>> Sean Kaldor: Trustee Mason.

>> James Mason: So I would ask on the vote we just took, on lowering discount rate, how would this on removing the SRBR from calculations, how wow would that impact that vote on top of the fact the calculation he as far as I'm understanding don't take in all the aspects of measure B. So should we be deferring that vote realistically for at least a few months to the point where we can see what the potential impact of what of measure B is being implemented, what part is not and then those calculation could drastically change. So the vote we just took may or may not be really an educated vote concerning the things that may occur over the next two, three, four, five months.

>> Harvey Leiderman: May I comment -- oh I'm sorry.

>> Vincent Sunzeri: My comment is we don't know what the outcome is going to be. We only have facts in front of us now, once measureB if it is in fact implemented we can make decisions all the more reason why I didn't feel comfortable with the friendly amendment. I think we should sort of go progressively year by year. We voted, we've approved it, I'm comfortable with it.

>> Drew Lanza: That's true but we still have to direct the actuaries whether or not to produce their final report with or without the SRBR in there.

>> Sean Kaldor: Mr. Leiderman.

>> Harvey Leiderman: For Mr. Mason. If the assumed rate of return is based off of our asset allocation and the discount rate we're going to match up with the assumed rate of return, I don't see how anything in measure B will change with the capital markets projections that we are basing the assumed rate of return on. So it may affect a whole bunch of other things including rates ultimately but unless the actuaries tell us there's something in measure B that would affect calculation or projection of capital markets for setting the assumed rate of return and therefore the discount rate on liabilities, I don't think there's any impact on measure B at all.

>> Sean Kaldor: I just have one question for Cheiron. There's no extra cost to calculate the SRBR, do you have that dollar amount?

>> Gene Kalwarsky: That was marginal cost a few hours of doing and checking.

>> Sean Kaldor: I don't have problems with seeing the visibility of what it is with the SRBR and without the SRBR. I wouldn't look to implement that until we had a full discussion as a board.

>> Drew Lanza: So then I would move that we ask Cheiron to prepare the numbers both with and without the SRBR. So that we can pick which one we're going opass along to the city.

>> Sean Kaldor: I'll second that. Motion by trustee Lanza, seconded by trustee Santos.

>> Bill Hallmark: Do you want that in the valuation report or do you want that separate?

>> Sean Kaldor: Drew, I would ask we do the official thing the right thing and we would have side notes if the SRBR is out. If that takes effect before the contribution are made following the law as it stands right now that's my --

>> Drew Lanza: And Harvey would you agree with what Sean just said?

>> Harvey Leiderman: That's up to the board. I'm out of it at this point.

>> Drew Lanza: Okay from what I heard you advised the council is it's kind of a done -- the SRBR thing we can kind of read as kind of a done-deal.

>> Harvey Leiderman: You just all have to collectively decide how done is done.

>> Drew Lanza: Oh thanks Harvey.

>> Harvey Leiderman: There is no right or wrong on this. That's all. I mean this is within the discretion of the board to decide what you want to count, what you want to assume. I mean we're making assumptions. Going forward. So you know what the facts are. I just wanted to bring the facts to your attention. But you'll make a judgment on whether or not you think that that's sufficiently a done-deal, that you want to calculate your -- the rates without the SRBR.

>> Drew Lanza: So Sean I tend to agree with you instinctively that the high are of the two numbers is the one that we should stay generally focused on it will both numbers I mean off chant that we already know it won't be that the higher number is highly offensive to the city and may kill the host. We don't think it will but we would still like to see both sets of numbers.

>> Sean Kaldor: Trustee rounds.

>> Bettina Rounds: 43rd has already assumed that the SRBR is gone could you repeat that Harvey what's going to happen?

>> Harvey Leiderman: They agreed with Mr. Gurza's memorandum to run both numbers but they did not make a decision on how it would affect the rates. Isn't that what they did?

>> Bettina Rounds: So why don't we just do the same?

>> Sean Kaldor: They have an ordinance for Federated but not for us. I'm just sensitive to following the law, that's been our dividing line. If they pass an ordinance we know what to do, if they don't --

>> Harvey Leiderman: Then it's a gray area.

>> Drew Lanza: I think you're right Sean I would agree with what you said earlier.

>> Sean Kaldor: Mr. Spence did you want to address that?

>> Yes (inaudible).

>> Sean Kaldor: Too tall for our microphone.

>> It's on now.

>> Association of retired police officers and firefighters. The memo I agree with what you just said is directed at Federated and not Police and Fire retirement board. The other thing I would say is that the fact that the city has walked down this road before where they've asked you to spend money on some things that is not in place right now. In any manner. And it might be as a member of the plan if the city wants us to spend board money on an idea that has not come to fruition as far as the amendment or the ordinance or whatever else that the city should pay for that two hours that have to be paid out of our fund, I don't think that the board should okay that money to go out of it based on it's going to happen in the future. And you've had several presentations the last two months of the city saying, we're going to do something in the future, and nothing's happened. So I would say that the board is already embroiled in some litigation about whether the funds were used appropriately. I would say to you that I don't think this is an appropriate use for the fund if the city wants to see those numbers, I think then they

should kick in different from the fund money to fund that, the time that Cheiron takes to do the report. It is going to take report time, as I said. Thank you.

>> Sean Kaldor: Thank you. Any comments or discussion?

>> Sean Bill: Well I think it would be that you know the (inaudible) prepare an ordinance so I'd be curious to see how it does impact us well informed I don't have a problem with it. If there was another one that's being prepared I wouldn't bother with it.

>> Sean Kaldor: Do you see value to us as a board knowing that calculation just intrinsically for ourselves, so there's value to us beyond what the city is asking for.

>> Sean Bill: I hate to say it but I do think that, you know, SRBR potentially could be gone and it would be interesting how it's going to impact our future number.

>> Sean Kaldor: I wasn't aware it was 3% of pay. I wouldn't mind seeing the numbers. Okay, any other discussion? All those in favor? Aye. Any opposed? Seeing none opposed motion passes unanimously. With that, we will take a ten-minute break and then we will commence with our disability. We'll reconvene at 11:05. [Recess]

>> Sean Kaldor: Few agenda items I'll point out very quickly. The last thing on the health care agenda was a communication item. I juts want to draw as you the trustees attention to that item. It is if fiduciary insurance waiver, and the fees associated with that so please make sure you check for that. For rest of the meeting as we go through any section agenda items, public comments whatever, will apply to both meetings simultaneously. So now, for our somewhat time certain events. We'll pick up with item 4.2. Service connected disabilities. Item 4.2A. Tina A. Boales, police officer, police department, effective December 6, 2012, 25.27 years of service continued from the October 30th, 2012 special board meetings.

>> Applicant Tina Boales a police officer applying for a service connected disabilities due to injuries sustained to right and left shoulders, current age 49, with 25.27 years of service, medical reports including supplements are in your packet. Work restrictions reflect Ms. Boales should avoid shoulder level and above shoulder level activities with her right arm, she should not carry a firearm and she should not drive a city vehicle. At the time of application Ms. Boales was on temporary modified duty. Currently Ms. Boales is on part time modified duty restricted to five hours per day. No permanent modified duty is available.

>> Sean Kaldor: Dr. Das do you have anything to add since our last discussion on this?

>> Dr. Das: Nothing to add.

>> Sean Kaldor: We heard on a special session for trustees the have a volt on this they had to have reviewed the tape or the minutes from that session. Since then we've received a legal opinion from our legal counsel which you now have on your desk, this is a confidential legal opinion, Mr. Swift.

>> Thank you. It is my understanding the only issue rage which was raised, two, one by trustee Sunzeri, was she in fact on her way to physical therapy, wee submitthe card on page 86 that shows that she had a physical appointment on that day, at 2:00 and the auto accident was at 1:57. I think that resolves that question. Then trustee Rounds asked, was a legal counsel and I don't have the opinion so I don't know what it says.

>> Sean Kaldor: So Harvey do you want to summarize the key aspects you felt need to be met?

>> Harvey Leiderman: Thank you, Mr. Chairman. Fishes of all, I think it did in fact review the transcript or the tape. I can't recall who that --

>> Sean Bill: So I was not present and I have not reviewed any transcript or tape.

>> And I was not a trustee at the time but I was in fact in the audience and did hear the case.

>> Harvey Leiderman: I don't know if there was anyone else --

>> Sean Kaldor: Trustee Krytzer is not here either.

>> Harvey Leiderman: Then in terms of what the board asked of me was to advise you whether or not, under applicable law, if an injury causing a permanent capacity was incurred while seeking medical attention for an injury that occurred on the job, whether that could be considered to be a service-connected injury. And the answer, generally speaking, is yes, it is. Most of the law in this comes out of workers comp arena. Frequently, workers compensation is a different system, and has different requirements of proof. In this situation, the service connection situation, it's the same really, and so we can look at the workers comp law for that. The only issue is a factual issue and I would ask for the chair and the applicant's counsel to make a statement on the record, the cases say that if the applicant is leaving from home or from work seeking medical help for an injury that occurred on the job and they go from those locations to seek medical assistance, that that is proximately, if they are coming from you know, Chicago if they were on a trip or something and coming here, to seek medical assistance, then it would break that connection. If they were out doing something else on their own personal time. And so the question that, through the chair, that I would pose to the applicant and applicant's counsel is to simply describe where the applicant was at the time that they were -- that she was -- was she leaving from home, was she leaving from work, where was she leaving from, en route to physical therapy? In order to get that -- to satisfy the connection with the job-related nature of it.

>> I left from home.

>> Sean Kaldor: There you go.

>> Harvey Leiderman: And presuming it wasn't your second home in Jackson hole, Wyoming. If that's the case, Mr. Chairman, and members of the board it would satisfy that element of proof. And the issue of law that you asked me to look at.

>> Sean Kaldor: Thank you. Trustee rounds.

>> Bettina Rounds: I wanted to clarify, my question had something to do with what you just said Harvey, because frequently we hear the workmen compensation laws as though the two are the same. In this case, they're the same but not in all cases, correct?

>> Harvey Leiderman: That's correct.

>> Bettina Rounds: And that was really the clarification I was seeking.

>> Harvey Leiderman: On the issue of service-connection, they are aligned with the law that applies here.

>> Sean Kaldor: Trustee Santos.

>> Richard Santos: Yes I'm glad that Bettina brought that up because during my time on the board years ago that was asked then and the same answer Harvey gave was the same. This is a new board based on information I have in front of me, in terms of you can't carry a firearm, you can't drive the vehicle, there's not many options to what someone can do. Then the department, good better or indifferent can't offer modified duty. I would make a motion to grant the service connected disability.

>> James Mason: Second.

>> Sean Kaldor: Motion by trustee Santos, second by trustee Mason. All those in favor? Opposed? Motion passes unanimously.

>> I did have the pleasure of working with her on a few different occasions so thank you very much .

>> Thank you.

>> Sean Kaldor: Just to be clear trustee Bill abstained from the vote because he did not hear the full case. Item 4.2B, the application for service connected disability for Kenneth D. willey. Police sergeant. Police department. Effective December 6th, 2012, 21 many 89 years of service.

>> 28.89 years of service. Medical reports including supplements are in your packet. Work restrictions reflect he cannot chase and apprehend suspects. At the time of application and currently Mr. Willey is on disability, no pa permanent modified duty is available.

>> Sean Kaldor: Dr. Das do you have anything to add?

>> Dr. Das: No I don't.

>> Sean Kaldor: Mr. Boyle.

>> Thank you, Mr. Chair. Sergeant willey has almost 22 years of service for the San José police department as a police officer. His right knee is the body part we are claiming disability on. It seems like there's a work related question in this case and Dr. Das has said that the medical records don't clearly describe the relationship between the mechanism of injury and the disability. I don't believe Dr. Das had all the information on the mechanism of injury and so I want to talk to you about that this morning. Also, Dr. Das does say that the surgical intervention that Mr. Willey underwent knee arthritis and we know he had two surgeries. Before you decide if further medical workup is needed, I would like to go over the mechanism of injury and the treatment and try to demonstrate the work-relatedness on the present record. Before the injury sergeant willey had worked 13 years as a police officer for the City of San José. Doing full duty patrol, chasing suspects, jumping out of cars, climbing over fences. Landing on your feet and jarring your knee, fighting with suspects and the like. He had many injuries, and always returned to patrol. The history of the mechanism of injury for the June 22nd, 2003 injury, does not seem clear from the medical reports. I refer you please to look at page 65 of the materials, the form 5020, signed by

lieutenant Falalo, sergeant willey's supervisor on June 22nd, 2003, the sedate of injury. On section 28 it says, while wrestling with combative suspect twisted back and slammed right knee into cement. This denotes trauma to the right knee and not just a twist. This document was probably not available to Dr. Das at the time of exam and report. And this history of slamming the right knee into the cement seems to have gotten lost in the subsequent medical reports, and I don't believe was available to Dr. Das. If you look at page 13 to 16 of the materials, that's the operative report for the first surgery on the right knee. On July 18th, 2003, 25 days after the injury. On page 15, Dr. Blats notes an osteochondral lesion with disruptive . On page 17 the second surgery to the right knee took place on August 22nd, 2003, 35 days later and only 60 days from the date of the injury. Cadaver bones were inserted to improve the joint surface. It indicates that the articular cartilage was cut and a section was cut out of the cartilage and the bone. In the history portion of the report Dr. Blats described the first surgery of July 18th, 2003 and said there was a lot of loose bodies that were present and multiple cartilaginous lose bodies. Recall that sergeant willey had slammed his right knee into cement only 25 days before this. On page 34 to 44, Donald pang, an orthopedic surgeon reporting for the City of San José on October 25th, 2004, says about causation on page 41 of the materials, that based on Mr. Willey's history and review of the medical records it is my opinion that he sustained specific trauma to his right knee. I propose to you that the nature of the injury, slamming his knee into the cement, the two surgeries, one, 25 days after, and a second one, 35 days after that. And the discovery of the loose bodies and the defect and the cutting of the bone and cartilage and the progression of his symptoms potato surgery leave no doubt of the work relatedness of the surgery dr. Blats described him on page 61 and maximally medically removed and his only option is a total knee replacement which will not change his work restrictions. Page 7 Dr. Das and page 62 Dr. Blats both provide the work restriction that he cannot chase and apprehend suspects. sergeant willey. We would ask that without the need for further clarifying reports from Dr. Blats or other doctors sergeant willey be granted his disability retirement. And sergeant willey would like to address the board.

>> Sean Kaldor: Please.

>> Good morning members of the board. From the first time I was old enough to dream about what I wanted to be when I grew up, right up until this very moment as I sit before you today, being a police officer was always my

only choice. I have a long family history in law enforcement with eight of my family members having answered the call to protect and serve. I started my career in law enforcement with the Alameda County sheriffs office in 1988. Since the San José police department was always where I wanted to have my career I transferred my first opportunity in 1990. Over the next 22-plus years I enjoyed multiple assignments and always gave them my all. Being an assertive and ambitious officers apples brought bumps and bruises and more serious injuries. injuries nine of which required surgical treatments and resulted in periods of time off from work extensive rehabilitation, doctor issued 63 and a half% thus far with multiple other claims still to be settled. Despite the limitations and restrictions placed on my by my doctors because of these injuries my yearning to continue on as a police officer drove me to overcome them enough to return to work. Often times my work weeks event. Part of coping with these injuries included daily pain control medications and icing. These injuries affected my ability to sleep and deprived me of many opportunities to play with my four kids. While at work medications, ace bandages and gun belt the most series of these injuries occurred in June of 2003. While I was fighting with a man who had already assaulted two of my officers I broke one of my fingers, injured disks in my back and slammed my right knee into the cement sidewalk. After we got him handcuffed I meld immediately two surgeries on it the last one placing cadaver bone implants in two different places. As the father of a newborn child I struggled through rehabilitation. My surgery was so extensive I was unable to provide even the basic level of care for my special needs child. I was unable to limitations but I pushed myself hard to rehab my knee to allow me to return to work. Even though I was cleared for full duty I returned to an administrative job for almost six years helping to spare my knees from further trauma. Unfortunately during the nine years since the first surgeries on my knee decrease my doctor now tells me my knee will never be any better than it is right now and will continue to get worse further limiting my functionality. I possibly reducing my pain. That surgery is currently schedule for January 16th, 2013. My doctor has clearly told me that even with a total knee replacement I will never be able to return to work as a police officer. Reluctantlily duties as a police officer and trying to do so would only endanger me or others whom I swore to protect. I thank you for your time here today and for your service to our city.

>> Sean Kaldor: Trustee Santos.

>> Richard Santos: Based on testimony and like a lot of our board members who are new O&M many, many years of service somewhere else and then come over here also so sometimes the whole picture is painted when you say maybe 21 years when the person has 30, 40 years. In this case it is obvious sergeant willey has something like nine surgeries and in administration for nine years. I know what it means to be a police officer and the firefighter. No one wants to work the desk, you have to be out here. But the restrictions here, we have no choice, he can't work the job, they have no work for him. A person with a new child definitely wants to continue to be a police officer. With that I can go on and on I feel for this young gentleman here and my motion would be to grant him a service connected disability.

>> Sean Bill: I'll second.

>> Sean Kaldor: We have a motion from trustee Santos and a second from trustee bill. Any discussions on the motion? Seeing none all those in favor? Any opposed? None opposed the motion passes unanimously.

>> Thank you.

>> Richard Santos: James.

>> I might defer to you that you worked with him a little bit longer than I did.

>> I did have a pleasure of working with Ken. Ken, on I wish you success and good luck in any future endeavors. Thank you .

>> Sean Kaldor: So we are going to lose a trustee at noon. So I think with everyone's approval I'd like to bump up item 2.8 before we return to the actuarial discussion. That's the election of the chair and the vice chair, is anyone opposed to having that resolved before losing a trustee?

>> No.

>> Sean Kaldor: 2.8 election of a chair and vice chair.

>> I make the motion that we keep the current chair and vice chair for the following year.

>> Second.

>> Sean Kaldor: We have a motion and second. Thank you for the show of support. Okay. So discussion on the motion or comments? Vince. Trustee Sunzeri.

>> Vincent Sunzeri: So the two trustees that have made the motion and seconded the motion, were not on this board last year when we had the exact same discussion. And at that time, we had talked about creating a rotating schedule of chair, vice chair, where we start to have an opportunity for the independents to be involved in the leadership. And it's been two years that we've been on the board. So it will be three years that we'll be on the board without any leadership position at all. I think Sean's doing a great job and I'd love to see him continue as chair for another year but I do think that we need to put in motion a process where we start a rotation, taking place. And I think that changing the structure where we have the chair as a laborer and the vice chair as an independent in this coming year would be favorable. Does that mean that Sean continues as chair or Dick Santos steps up as chair, I think that's what we need to decide upon. But I think that the structure I'm proposing makes more sense. Additionally, in 2014, we are looking at, hopefully, major governance change. And the governance was changed to start with to essentially bring on independent board members to help with governance and to help with investments. And the significant part of governance we're talking about is really creating an independent board. And if we don't start to demonstrate now, to the city, that we can work effectively together as a team, I think it's going to be even more difficult for us to have an opportunity to change our governance structure. I've been a big proponent of that. In 2014 I would love to be chair. And be in a position to drive that mission. And finally, I think as chair of the investment committee, you've seen the hard work that we put in, the change in the performance of the plan, we've gone essentially from a bottom-performing plan to at least in the most recent quarter, a plan that's performing in the top 2%. I would hope that my leadership would have been somewhat

responsible for that. I think if you look at our sister fund, Federated, they're already doing this. They have a chair that is a labor person. Their vice chair is currently an independent. And it's time for us to start to work together and move in that direction. So I would like to see a structure where we currently have labor continue as the chair whether it's Sean or Dick and I would like to be nominated as vice chair.

>> Sean Kaldor: Other comments? Trustee rounds.

>> Bettina Rounds: I agree with Vince's terms of the structure and the need to have us move to have and independent, and a safety person, working in tandem, together. I'd like to ask Harvey, Harvey, what you have seen on other boards, that are -- that have independents and you know union members around.

>> Sean Bill: Perhaps management and labor would be more common.

>> Bettina Rounds: Thank you. Sean.

>> Harvey Leiderman: Would rather the board vote on whether to ask me that question. It is very typical, and first of all, especially in California public funds, cities, counties, PERS, Sters, there's representatives from labor management, better to say appointed, elected, most of the funds are split that way. I've worked with Cortex with many other systems as well, and coming with -- it's funny we didn't address this, we should have addressed this in the charter.

>> Sean Bill: We tried.

>> Harvey Leiderman: In the board charter, really. Cutting through it, it's really universal, that these positions reflect the balance of the board, and that they rotate. Most people consider it healthy to do that. And so it's -- I think if you looked at almost every public board up and down the state of California, cities and counties, as well as the state, well, I can't say that for PERS so put that out. Just municipal boards. If there's somebody from the electeds who's serving as chair, there's usually somebody from the appoints who serves as vice chair with the

understanding that they will succeed to the chair. Different ways of dealing with succession, in terms of can the chair be reupped for another year, or is the initial term one year or two years. But I would say that I can't think of any system that I'm familiar with and I represent probably a dozen systems now, that they just -- that they don't rotate and that they have a planned rotation where they go from elected to appointed, elected to appointed and move through it that way. So that is the typical model. There may be legacy reasons not to do that. But I leave that up to your deliberations.

>> Sean Kaldor: Trustee Bill.

>> Sean Bill: I would add I'm affiliated with two other public pension plan boards. And every year it is rotated. It's not even really much of a discussion. So I -- this is the only board that I'm affiliated or hasn't in the past, I'd like us to move away from my experience last year where the vote was called while I was in the bathroom.

>> Harvey Leiderman: You're welcome.

>> Sean Bill: Because I think that you would have to ask yourself why are the independents on the board? As a member of the board I don't even take the $150 stipend. We are brought in here to improve governance and to improve results. It's clear when you've done the latter I'd like to see us continue to move towards a more equitable arrangement with the board members. In terms of leadership.

>> Sean Kaldor: Trustee Santos then Mason and rounds.

>> Richard Santos: We've had a transition tradition, we reflect our shareholders, they have confidence in our ability and trust in our ability. I've served in government for over 44 years so where you come from that's fine. Where I come from there has been rotations but the majority of committees and boards I've sat on you're elected and nobody has to get up on the podium and tell the board members who they should vote for. You already know what you feel and what you trust. This is pretty simple. This is an somebody because you would have said it yourself. So you know, we have demonstrated teamwork. When I got -- when you all got here you

didn't even know what independency was and what was going to go on and I was the first to say hey, let's may sure your time is valuable and let's make sure we're fiduciaries. I've helped that along one person doesn't make a difference, this team does, this team is making a difference. I would say this: I home you will keep whatever made this motion for this year. I haven't even got to use all my cards yet as vice chair. But the thing of it is I've been 12 years 14 years of experience. That's not the point. Let's do a study with Cortex, let's find out what boards do, let's take a look in January, whatever have you, have Tom in the future take a look at it, bring back, if this board chooses to change something then go ahead and do it but right now let's see what we got and by the way maybe the shareholders, you're the ones that receive the benefits, now 44 years and I think they reflect what you should be doing. They feel confident, and very comfortable with what we have. But again, change is going ocome. I'll be glad to work with it. We can do that in January, you know send that RFP out and say hey let's take a look and bring a report back. If that's what everybody wants then go do it because on the other hand we got people who retired here. You are going ohave to -- don't have to enhance their resume or anything. When you're active what are you doing? There is a possible conflict, you should look at this. So I would say uphold the motion and let's go and do some business, thank you.

>> Sean Kaldor: Trustee Mason.

>> James Mason: My only comment in response to trustee Sunzeri about leadership, my short term experience here so far is the independents obviously you yourself are a chairman on the subcommittees. And the subcommittees in a lot of ways drive what this board does. So I would argue that there is some leadership involved and certainly, the investment success has been largely due to the addition of you folks. So my motion had nothing to do with attempting to keep independents out of leadership positions. My only other comment, I can't speak for any of the independents, but what I've been hearing at the meetings is a real concern about time commitment. And in talking with the chair, the chair position obviously is a huge time commitment. So my only concern with that, would be how much time commitment do the independents actually have for that position? And I'm not saying that you shouldn't have the opportunity to have the position. I'm just -- my only concern would be, would be that time commitment and with given the things that are going on right now, and the major things that

could be occurring with measure B and going forward, I'd like to see leadership that's currently there, or leadership even in the future, be there long enough to actually facilitate some change.

>> Sean Kaldor: Do you want to speak to that?

>> Vincent Sunzeri: I will address it but go ahead.

>> Bettina Rounds: My point, I just wanted to make sure that before you know we vote or say anything that I had wanted to say to both of you you that I think you both have done an extraordinary job. Whatever the outcome of any vote. So that for me the issue is really one of governance, and of structure, and I think your point, James is well taken, and anyone --

>> Sean Bill: I would echo that I think you guys have done very well and this is really a governance question.

>> Bettina Rounds: So anyone who would want that position would have to be willing whether it's safety or independent, would have to be willing to make the time commitment, that Sean and Dick have made.

>> Sean Bill: I wouldn't touch it with a ten-foot pole, personally.

>> Bettina Rounds: I was going to 68 I for one wouldn't be interested. But I do think it's a governance issue and I do think that moving forward particularly as we try to move forward on most governance issues, it's something that we need to serials consider.

>> Sean Kaldor: Trustee bill then, Sunzeri then Lanza then Councilmember Constant.

>> Sean Bill: Yeah so I would just reemphasize I think it's important that the board does continue to work together. I do think that Dick, you left one big shareholder out and that's the taxpayer and that's who we are representing here. We were appointed to represent taxpayers. And I think that we have to, you know take a long

horizon here. If we ever want a plan that's independent we have to be able to show that we have a convict alignment on the towards independents.

>> Sean Kaldor: Trustee Sunzeri.

>> Vincent Sunzeri: This is really a continuation of a discussion we had a year ago. I suggested we create the structure and now we would be going a second year without creating the structure. So either we're going to reach across the aisle and work together as a team, we've heard our legal counsel say virtually every other system does that, rotating structure. Once again, a year delayed, I'm suggesting that we continue with labor as chair. I'm not asking to be chair. I'm asking for 2014, the consideration that at that point in time, being a chair would make a lot of sense. And if we can't demonstrate today, that we can move this thing forward, why would the city ever have any confidence in having an independent board if we can't move in that direction? As far as time commitment to answer your question, we have been without a CIO for nearly six months. And I've worked with the investment staff. I've had conference calls and meetings with our investment consultants outside of our meetings that we've had. I demonstrated that I've committed the time that's needed. And you know, I'd like to see the support that we would all work together. I think it's a structure that we should be putting in place today. And rather than talking about how we work together, we can use words, or we can take action. And I'm suggesting now is the time that we take action and put this in place.

>> Sean Kaldor: Trustee Lanza.

>> Drew Lanza: So yes James what you said really resonates with me I saw Bettina and Sean, I would recommend i've seen how hard he works so I think it's pretty unique that Vince is willing to say I'm really willing to make that level of commitment and as he says he's kind of made that level of commitment on the investment committee. I think there are two things that we all could start with that we all agree on. I think the first thing is that we all agree that Sean Kaldor has done an excellent job and we're happy hopefully that he's willing to go for another year, he's kind of right in the middle of a lot of things that he's working on. I think we could all agree he has done a spectacular job of being chair. I think we can all agree that Vince has done and his committee has

done a really spectacular job at times without a CIO and so on. I support Vince running for chairman in a year. I think that makes a lot of sense in the context that Sean has done a great job we want him to go for another year. I liketh this concept of an independent rotating in. He has demonstrateon his works on the investment committee that he really can take a leadership role my issue is how do we get there? I think we just should be debating how do we get to that point where an independent comes on. I'm sensitive to the fact that we have a governing structure in Sean and Dick that's working very effectively. I think Vince has probably got the second most important role on the board behind Sean in chairing the investment committee and I'm probably somewhere in the top three or four working through the personnel issues with two empty slots so I'm supportive of us getting there in a year, and how do we do it? Vince has hung up on that since you've already got Vince what is certainly the second most important job on the board and through that you've demonstrated leadership skills and a real commitment to time. My fear simply is that at all times we have to avoid this union-nonunion, independent, nonindependent thing. Any time we get caught up in that it tends to create some ill will that takes some time to get through. So that's my position and I thank you Vince for being willing to take the step of saying you really would be interested in being chairman. Because you know what a commitment time this is, you know that from the investment committee and you -- I know you've worked closely with Sean closely this year and you know what time you're talking about.

>> Vincent Sunzeri: We also be sensitive to time here. We have trustees with a four year term.

>> And we went through this last year.

>> And now a third year where we don't have any rotation created. I reupped for another two years, you can question my sound mind right now.

>> Or mental reservation.

>> Vincent Sunzeri: That would mean 2013 obviously is the third year of being on this board and I wouldn't be in a chair position. Again I'm not asking to be in a chair position. How do we create the path for 2014? That would be

potentially the last year unless I again chose to try and remain on the board.so I'm just trying to put in place a structure. I think the question more specifically is if we put that structure in place does Sean continue as chair, or does Dick step into that role? I think with what we're dealing with on the measure B side, having elected as opposed to appointed, in that position, makes a lot of sense. So I totally support that. I just feel like if we don't put the structure in place now, it's going to be very, very difficult for us to get there.

>> Sean Bill: I want to add last year it's my understanding that an independent would be moving forward this year. I want to see progress on that because I've not seen that.

>> Vincent Sunzeri: And yes on the Federated side the vice chair is also the head of their investment committee at the same time and you have to understand the vice chair role is somewhat ceremonial. Unless we create a structure that creates a glide path for this rotation. At this point, we haven't had to have the invitation chair run a meeting. That could always particularly happen. I think relationship there is important. But it becomes important if we create the rotating structure and that's what I'm proposing.

>> Drew Lanza: If I can answer that Bettina. I have sat on boards that do both. Make a couple of observations. It is unusual to see it rotate in a one year increment. It takes a chairman two or three years is a more normal increment given how hard this is two or three years is probably the right number. I've also pointed out chairman but I think more commonly in my experience this is also on the private side, it usually is through significant committees because that's where you really do the heavy lifting and on boards in private boards that's usually the audit committee or the compensation committee, those are usually the two heavy lifting boards. I would point out Sean Bill that obviously we've been trusted with great power, you and I Vince, you clearly chair the most important committee on the board and I think I can pat myself on the back and say I chair what I think is the second most important committee for the board your hard work has paid off in the report we saw today from NEPC and I think a lot of my hard work and our committee's hard work that you're on the that committee is has paid op off with the recent meetings we've had with the City Manager. We've stepped in those roles of independent members of this board are capable of understaying these task force and are rising to real leadership on this board. So I don't see that it's necessary that this get rotated through the vice chair position. I think you have said that you would like --

you're interested in takings on the great responsibility a year from now and I think we have a year to work to get these processes and procedures in order so that when we get to that point, we know how we're going to do this again and again and again, years and years and years until none of us are left on this board but we leave future boards with a mechanism that is rock solid that people agree to right from the beginning and it's not in the least bit contentious.

>> Sean Kaldor: Councilmember Constant.

>> Pete Constant: Just want to make a few observations. First, you know we heard from Harvey about other retirement boards but I think it's also important to look at other government boards and virtually every government board that consists of mixed bodies and I serve on several of them outside the City of San José there is a clear rotation between stakeholders. Whether it's the City of San José along with other cities where we're the elephant in the room, we alternatively or when it's the county of Santa Clara and the City of San José they alternate, it could be like the Water District board that Dick sits on and they have a joint meeting with the city council and they alternate. One year our mayor takes the lead, the next year their board chair takes the lead. It's the best practice in government boards. And I think it's important and it's important because of the message that you put out. And I will respectfully disagree with Dick about the stakeholders being police officers and firefighters. The largest stakeholder on this board is the public because they're the ones who put the largest contribution into this fund on an ongoing basis. They're the people who bear right now 100% of the risk of this plan. And that was the reason that independent board members were brought on this and there was a specific highlight of the Cortex report. And I think that when, to echo Sean Bill, when we had this exact same discussion last year and we said well, we'll deal with it next year and then to come here this year and hear the same discussion, we'll deal with it next year I think is a little bit disingenuous and the message that it puts out not only to the city council but I think to the public, is that we don't want to embrace the best practices. And I think that that's a serious thought that you guys should have as you're looking at this and taking the vote. It's easy to count how many people we have on each side of the appointed versus elected positions. But also, if you're looking at Sean Kaldor I think you're the one who mentioned long term stability. And two people were appointed today who have the longest term stability of anyone on the board because they have the furthest expiration date on their term on the boards and that would provide

you with the long term stability. I do think you guys should weigh this carefully. I don't think it's good to say you are going to do it one year and next year put it off again and I think the message you send to the public is pretty significant and you got to remember that the public is the greatest stakeholder in this.

>> Sean Kaldor: So myself and then trustee Mason. First of all there's been a lot of complimentary words, I appreciate that myself.

>> I forgot say that too.

>> Sean Kaldor: And often behalf of trustee Santos. It's a lot of work. It's a very logicallal job. I don't set the goals or the vision for the board but I want to make sure we figure out what that vision is going to be and then I just try and drive the meetings and the agendas and get people making sure everyone's operating and doing what they need to do. I think Donna can tell you when it comes to setting agendas, I'm not the one that calls in and tries to squeeze things or cut things out, I want to make put it in the proper place and move it through the process so I appreciate that. When it comes to who's the chair and who's the vice chair, I don't have any preference or opposition to anyone coming from either, what did you say appointed versus elected role. What I look for are someone who will ensure a full, fair hearing that everyone has their chance to say what they want to say, that everything's aired and we move through and make a decision on what we're going to do as a board. That the chair and vice chair hear the direction the board wants to go, come to consensus on what our goals and objectives are going to be and then help facilitate that but not bring their own personal goals and objectives saying here is where I want to see us go. They set the agendas without any bias to them and that they work with anybody so working with the city, being able to sit with the City Manager and retirees and be able to sit in their meetings and talk to them to talk to the leads of the unions and hear their inputs and their concerns and their discussions, being able to interface with all those different people and having meetings with them on the same basis because they are all interested parties in what we are doing as an organization, those are all porn a bringing to it. I don't think the vice chair is a necessary step to the chair. I do see the major committees as being the big thing and certainly on the investment committee, just look at the results today, this last quarter we were what, second-ranked and several months ago we were 98th ranked and I know these things fluctuate but the trend is

certainly in the right direction. Vince has had a tremendous amount of time committed to meeting with staff to filling in we still don't have a CIO we haven't looked at the books for a CIO.

>> Drew Lanza: Not for lack of trying on Vince --

>> Sean Kaldor: He's leading the effort with the investment committee to actually go through those resumes and find the right person and get them in. So that's been a huge effort and a huge step to stay. My preference is to see that through, get the CIO on board and finish all that transition off. And I have no problems with discussions that you've said you want to be chair in 2014. I don't have any reservation about that discussion. I don't see no you weren't vice chair first we need to go through steps or things like that. That would be my preference for where that goes. As far as prescribing that the chair or the vice chair are rotated or however it works the concern I raised about that earlier is you can get into a situation where you have say four employee representatives One has to be the chair, all four is saying I really don't want to do it. You could have an appointed member who said, I'd love to do it again, well sorry, the charter says you can't do that. We may go that route but that's my concern in going there. In terms of the process and being disingenuous, we absolutely had the discussion a year ago, many were new to it and so it came as a surprise so we said we need to figure out how we're going to do this. So we had a governance committee with representation from everybody. We brought forward documents discussing how we're going to do this. How we're going to nominate who they're going to be and in that process we all decided as a board months after this decision was made a year ago that we weren't going to specify these roles and be prescriptive about it. I don't see it as December we said we were going to do something and now we're not going to do it. governance process and we didn't implement that. I'm fine with having that discussion again and putting that out there if we want to be prescriptive about it. But it wasn't that it was discussed once and dropped and showing ill faith to the taxpayers by not doing it so those are my thoughts. Trustee Mason, trustee Santos.

>> James Mason: You kind of touched on respectfully I might disagree with Councilmember Constant as far as stakeholder. Biggest stakeholder be the taxpayers. They may be the largest number but our responsibility is to the plan member so as board members, our primary stakeholder should be the plan members. I think that goes to what trustee Santos was saying. Second to that I would echo what chairman Kaldor said. About you already had

like this whole side of the table saying I don't want any part of that job. So if we put some plan in place, I think there is some potential concern for the future, where Vince you've been doing an excellent job, I don't disagree, you would be an excellent person for that position. But in the future when you're no longer here, that may not be the case. Like Sean said, I'd hate to be it's got to be somebody. These two guys are willing to do it but I really don't have the time or Bettina doesn't have the time but we have to do it that way. That would be my only real concern about putting something in place.

>> Sean Kaldor: Trustee Santos and then trustee Sunzeri.

>> Richard Santos: The difference here is I've never said I forgot about the taxpayer. That's why you have five civilians here i'm invested in this position, I'm not going otake a hike or get my resume or whatever I'm going to do and so on. So that's reliable. I've always taken direction from the board and carried out that no matter what it is. I'm used to the military process as a firefighter, been with the police department, for all these years, we make sure the job is done. The key you all don't know it was years ago, it's always tradition, years ago, we had a five-member board there was no councilperson that wanted to speak on the issue about chair and so on. They allowed the Police and Fire to be both chair and vice chair. We did make one change, we had a civil service person that we supported years ago. But that person had experience on the civil service working with all the government and so on and the employees and labor and brought that expertise to the board and we did make that change one time. I have no problem with switching and so on but the main thing is this, I'm invested in this system, I believe we should work this thing out and talk about it and the personnel committee should have took this on during the year if that was so vital. The most important --

>> Drew Lanza: Governance.

>> Richard Santos: Personnel, governance, whatever, it can be looked at. The idea is that changes could be made and again the role of the council in the past said they didn't get involved in this, when people come that want to take the job that's fine and dandy. we are taking things in increments and it's going well. There's no

violation of the trust of City Manager's office or any of our politicians. , we have to get a chance to finish this out I hope for one more year then make the change if it's necessary.

>> Sean Kaldor: trustee Sunzeri.

>> Vincent Sunzeri: So to your point, about the Cortex governance and the board chair position, that's exactly why we didn't adopt it in a formal policy is we didn't want a forced situation. Where it's a rotating schedule if we were in a situation where someone didn't want to step into that role. This is more of an informal decision to move in that direction and that's 80 think we should consider it as opposed to having the governance changed. As far as the current appointed board members, not a single one lives in the City of San José. I lived in San José my entire life, I'm a taxpayer here so I have a huge vested interest. And after going through the first two years of being on this board, either I'm committed, or I'm crazy. But I just reupped. So there can't be any question about my commitment to this board, and wanting to make a difference. And I do. And I want to work with everybody to move this thing forward. In a unified fashion as a team.

>> Sean Kaldor: Trustee Rounds.

>> Bettina Rounds: Well, Drew is about to depart.

>> Drew Lanza: I have to there's a plane waiting for me on the tarmac.

>> Bettina Rounds: I can speak on his behalf, I feel as he described it what I don't want to see is anything happen to the team that has been built. Because I think that we, as appointed and elected, human beings, have worked extraordinarily well together. With each other, with the city, and that we've really made a great deal of progress. Having said that, I still feel strongly that we really should move forward to have a more balanced representation in terms of independent and sorry, in terms of -- appointed and elected.

>> Sean Kaldor: We're actually appointed so it's a little --

>> Bettina Rounds: You know, the mix. And I say that again with so much respect for the two of you. So that that has nothing to do with --

>> Sean Kaldor: Understood.

>> Bettina Rounds: With either of you but more with a strong feeling in my role as a trustee, that the balance is something that just helps further a lot of causes, especially in how we appear as a board. Not public.

>> Sean Bill: Would I add to that, I mean I think that you know, we talk about the teamwork here and last year, safety resisted having an independent participate in leadership. It appears this year safety is again, meeting against independent participation. And I think that we are trying to reach across here, to do, be more of a team, and it feels to me like it's being rebuffed. And I would like to see us try, you know, get past the, you know, some for safety always voting that way on leadership.

>> Richard Santos: James.

>> Sean Kaldor: Trustee Mason.

>> James Mason: I would just comment as the active safety guy I respectfully disagree with what you guys said. Like Vince said I wasn't here last year, I wasn't part of the let's maybe do something different next year. My position is not saying I'm trying to keep the independents, whatever we're going to call them off as chair or vice chair.

>> Sean Bill: Would you support moving Vince into one of the two roles and keeping one of the other two?

>> James Mason: My concern not having been here my concern being part of that is being new, is that we are in a position where I think things are -- have been going very well. With what we currently have. And although I

would not be opposed to Vince saying he was interested in the chair position in 2014. Vince also indicated that with measure B coming up it maybe is a good idea to have Sean remain as the chair with MURF measure B as the chairman of the board, and it certainly as far as perspective to the plan members, with the implementation of measure B or however that may or may not be implemented. The perception from the plan members who our responsibility is to, certainly with Sean and Dick as the chair and vice chair I think the perception is at least they're getting certainly represented during that transition. Again, my only concern about putting some plan in place where we automatically make one or the other you know an independent, has to be vice chair or chair, I think that has problems in the future. But I certainly don't -- Vince said he's interested in 2014. I think that that's certainly something we should be looking at next year because we're look at 2013 right now.

>> Sean Kaldor: Trustee Bill.

>> Sean Bill: I just I go back to you know, I any this is really easy, we could settle this and do it right now if we took a friendly amendment to your motion to elect either, one of you two, as the chair. And elect Vince as the vice chair.

>> Sean Kaldor: So we've got a few parliamentary things that might make this very simple. You made the motion, you seconded the motion okay so they're both here. Anything we do requires, this was checking with Harvey requires a vote of five. So if we're not going to get five people to agree on a certain direction my recommendation would be either if the discussion is about the vice chair I was also advised that we have to have a clean vote on the chair because it is we shall elect a chair and the vice chair would be a separate vote. We could resolve the chair thing if you would like to do that or we could defer both to next month.

>> Donna Busse: If you didn't have a one one more month and bring the discussion back. What I was suggest to Sean is if you wanted to bring back the board charter and have it say that you're going to elect a chair and then a chair-elect for the next year at the same time, you can maybe come back and do that and then you're not saying what type of person it's going to be. It will allow you some -- you know, I'm just trying to give you a little bit of flexibility but still get to where you guys want to go. There is also talk about the term limit, you were saying maybe

not a maybe just elect a chair for one more month, bring back the charter and make some changes and then go from there.

>> Vincent Sunzeri: And maybe you want to consider having a motion where you elect the chair, and you elect the chair-elect for 2014.

>> Donna Busse: Yes, yes.

>> Vincent Sunzeri: If you are sincere about wanting that to happen in 2014, you can make it all happen by making that motion. So what I'm saying is you're electing your chair for 2013, your chair-elect for 2014 and you can also decide on your vice chair. It doesn't necessarily mean that you are going to create this rotating structure.

>> Bettina Rounds: Harvey is this something that we can actually do? I mean it's pecular, but I like it.

>> Harvey Leiderman: Maybe we should go back to what we have on the book. We have a board chair charter. That's already been passed. If we are going to vote on changes to the charter that's not agendized. That has to come up at the next meeting. Right now we have a board chair charter that says that this board shall at this meeting elect a chair for next year. That's what our charter says. It doesn't say anything about a vice chair. So I know that the pending motion is to name a chair and a vice chair. There's nothing mandatory about naming a vice chair in the charter. It is mandatory about naming a chair for next year. I would recommend that the board consider a substitute motion, or somebody make a substitute motion to follow the charter, and take a vote on board chair. And then decide what you want to do, if you want to change the charter going forward next month or something like that or elect a vice chair or not elect a vice chair. The only thing that's mandatory at this meeting according to your current charter is that you elect a chair for next year.

>> Vincent Sunzeri: And if you don't have the five votes to elect the chairs --

>> Harvey Leiderman: To go forward until you elect a Claire.

>> We're required the?

>> Harvey Leiderman: Listen --

>> Donna Busse: You can interpret.

>> Bettina Rounds: Can I ask a follow are up question Harvey?

>> Harvey Leiderman: Yes.

>> Bettina Rounds: We can follow the charter and do the right thing to elect a chair and then we can come back next month and change the charter and elect a chair-elect. And a vice chair.

>> Harvey Leiderman: You can elect a chair-elect, can you elect a invitation chair --

>> Bettina Rounds: as long as we agendize it?

>> Harvey Leiderman: Correct.

>> Bettina Rounds: That is sort of appealing to me.

>> Sean Kaldor: Trustee Mason.

>> James Mason: I would amend my motion to elect Sean Kaldor to remain as chair for the year 2013 and that we move to -- I don't know if the governance committee is having a meeting but we throw this to the governance committee to certainly hammer out some information to bring back for next meeting whether we want to address

the change the charter or we can have some discussion at that point. But I think we should take care of what we need to take care of which is we have to elect a chairto so my motion would be to elect Sean Kaldor.

>> Sean Kaldor: I'll leave it to that, our governance committee is myself and Richard Santos and Drew Lanza and Bettina Rounds, probably adifferent group of people would be a better way.

>> And I second it.

>> Sean Kaldor: The make are of the motion amends.

>> Harvey Leiderman: Sean Bill was the seconder.

>> Bettina Rounds: I was.

>> Harvey Leiderman: I wrote that down.

>> Bettina Rounds: Sorry I don't know what the motion is now.

>> To elect Sean as the chairman we'll deal with everything else after that motion.

>> Donna Busse: So not going to the governance committee?

>> Sean Kaldor: My concern is, Dick and me are on that meeting although it is also Bettina and drew. I'm fine with making this an agenda item in the strategic session.

>> James Mason: Should I amend it again?

>> Donna Busse: Or clarify. It's going ogo to the strategic planning meeting.

>> James Mason: I agree that it should not go to governance, if Sean and Dick are sitting often the governance committee. 50% of the committee is two of them. It should be --

>> Sean Bill: I have a question. Can we have a five-minute recess because I think I have a possible solution.

>> Sean Kaldor: Sure.

>> Sean Bill: If I could talk to the two independents for a moment.

>> Harvey Leiderman: Madam Chair, Mr. Bill, unfortunately this is a public fund. It is not a majority but these kind of conversations among board members have to take place here.

>> Finance it's over a majority or a majority, we are free to discuss twin ourselves as long as we're not breaking the Brown Act.

>> Richard Santos: Well, through the chair first of all -- first of all I know but I thought we were all teamwork we need to get it out here, we're a team. Here is something you may want to consider.

>> Sean Bill: Let me get it out there. So Dick and Sean have both done a very nice job for us, okay? You know I think Dick you bring a tremendous amount of institutional knowledge here of the organization. Sean you've done a very good job in terms of handling meetings and board stuff and all the craziness. As I said I wouldn't touch this thing for a ten foot pole for either one of your two spots, I think it's crazy but if we could reach some kind of agreement where perhaps we have Sean and Dick continue on, in their roles, and in that motion we make a motion to elect Sunzeri in 2014, so we'll have a chairman elect 2014, can we do that is it parliamentary possible?

>> Sean Kaldor: 2014, it is possible --

>> Sean Bill: Or that we are highly competent or something to that effect, that we all embrace the idea of an independent, becoming the chair, or whatever. And again, I don't know why you want this job Vince but whatever. Then you have a nice transition of stability. And I think it sends a good signal to the city, that you know, we are truly trying to incorporate the independents into the leadership and kind of put its down in concrete.

>> Richard Santos: Through the chair.

>> Sean Kaldor: Speaking to the substitute --

>> Richard Santos: No, motion just for discussion, no, no, I'm make -- here's something you may want to think about. You may have a chair and forget about the vice chair job. Anybody can rotate, if the person is ever absent. So what's the big deal? As long as you have a chair, and we have our board here working, that's what's most important together. So if there's an absence you can go by seniority sit down for that day or that hour when he or she play be gone so it's no big deal, but I don't want to lock anybody in and say -- I think the independency is really good. I'd like to do that be part of it and then go do it rotating. But the thing of it is we've got work to do and I want to finish it. But meantime just make a chair and then anybody could fill in not say hey you're going to be 214 to prove a point, that's not where I want to be. Because you take it year by year. You may want to run, you may want to run you may want to run so that's where I'm at.

>> Bettina Rounds: No, but I think that's a great --

>> Vincent Sunzeri: What is your reluctance to commit then if genuinely you would like to see this rotation, I'm curious on what the reluctance is to commit to the structure of chair-elect?

>> Sean Kaldor: So my concern is that I would like over the next year to, if you want to be the chair, to see facilitate and coordinate a better communication between yourself personally and the unions. The members out there. We have to represent everyone right? So you've done a segregate job working with the city. I mean working with city council, working the City Manager's office to be able to have a sit down knock down drag out

discussion, I think is great to be able to tell them no you're wrong or to be able to work out solutions. To be able at the same time to have some of those discussion et cetera when a retiree association says we think you're screwing it up here is the problem with the plan to be able to have an open discussion, to say, here's what's going on, you need to be able to have that dialogue.

>> Vincent Sunzeri: You just made the case for me being the vice chair to create that transition, what you basically proposed.

>> Sean Kaldor: I would like to see that if you want to talk about having an independent person being the chairman next year and committing to that that's fine. Vincent Sunzeri, I think that's fine, I don't think being vice chair is anything that's required do that. There's no -- as any member of this board to reach out to any group out there to go to the retirees dinner or the barbecue they had --

>> Sean Bill: I went to it, I didn't see any other.

>> Sean Kaldor: Members of the plan kind of trust us and respect us in our opinions. That's what I would want to facilitate. I'll -- I mean you know the names of the people if we need to set up meetings and get everyone together. It's to get that trust among not just us but all of them I think is important. Councilmember Constant.

>> Pete Constant: Mr. Chair, we've talked a lot about rules and all that good stuff. But what you just described doesn't even exist in the charter or the chair that this board adopted. So to say that there's this prerequisite or this documented for your charter for your chair I think is a little bit excessive. And kind of observation of what I've seen in other areas and kind of a barely observation it's activities like this, that cause people to create very strict governing documents that force rotation and force things to happen even when people don't want to do it. When people look and say, you know, we had a discussion and an understanding of what was going to happen and that didn't happen. There is a new bar being set that you can really only achieve these if you've done this or that when it doesn't belong. It isn't contained within your charter. When it goes against what the standards are, on virtually every fund out there. It goes against what the good governance practices of almost every government

board. That's what leads people to say, well, we don't have trust in the system on an informal basis, so we're going to create a very detailed policy on that to force actions, if we don't agree with behavior. And I've heard Dick say a couple of times, well if we don't like this let's do a city and see if we should have independents. Everybody on this board is equal. for an independent to be on the board, I think says that you have a second class of board members. And I just, you know we've been talking about this for a long time, an hour now on something that most boards deal with in an efficient two-minute motion. Because there's an understanding of good governance, and respectful behavior between different classes of appointees or different groups that belong to a body. And I think you guys are undoing that right now, that's my observation and I know Dick has said hasn't had involvement from councilmembers in these discussion he before, I'm part of this board too and I'm here to be in part of discussion. And I think you guys got to really seriously think about that message you're sending. Because on one side you're saying this is great, weed love to do it but there's no action behind it. And you know I can empathize with or sympathize I guess I should say with Vincent because he's sitting here being told yeah we told you last year we'll think about it this year, we'll go ahead and think about it next year see how you behave and how you do. That's the message that is coming out and what a lot of people are going to hear. I think you should also review the charter of the chair because it's not what the chair just said the job is and that's significant.

>> Sean Kaldor: So I want to respond to that and then Mr. Spence has been extremely patient and then Mr. Mason. I was asked what I was looking for out of the chair and that's something I'm looking for. The charter does not specify exactly what the chair must be. If someone wants to be chair and they're extremely divisive, I don't want them as chair. It doesn't say in that document. If they're incompetent financially, I don't want them as chair. That's not spelled out in that document. So the document specifies the process we go through and the major role for that chairman but there are many other aspects I look for as chairman or my preference for people on the board as general but I'm not trying to say that is a written down documented requirement but it's something that I would look for someone that bridges through those and is a communicator with everybody. That's just me. Mr. Expense and then Mr. Mason.

>> As a friend (inaudible) association of police and firefighters I've been a contributor to this fund for 31 years and now a recipient of that contribution for 11 years. And during that time the leadership role has been to those people

that have been elected by the retirees and by the actives. There are four people on this board who have that qualification as being elected. By the people who actually receive the benefits and who have contributed to the benefits. I know that from the discussions I've had with my members, both active and retired, that that's a trend that we would like to see continue. We very much appreciate the contributions that the appointed people have to make the fund grow sinks they've been here and that in fact was the role that we felt that those people were asked to do. But as far as the governance goes, and the leadership, there are about 2,000, 2100 people who depend on the actions of the board. And those 21 people only have one way to speak and that's by the elected members that we have. And Mr. Muyo who was just elected and so has Sean and so has Dick oops those have confidence of the leadership to do those roles, and -- and given the, volatility as you've heard discussed by our actuaries and everyone else, we would still support to keep that leadership role as it has been for the amount of time that I've been involved in the system. And I speak for the retirees themselves so thank you.

>> Sean Kaldor: Thank you. Mr. Mason. Trustee Mason.

>> James Mason: I was just going to reiterate what your response was Mr. Chair, to Mr. Constant, Councilmember Constant. Just because the calculator states one thing, we still vote on who the chair or vice chair is going to be. And if you were just relying on that piece of paper then we all should be elected to that position. We have to make a decision and it goes way beyond what's written down on that piece of paper. So we have to feel comfortable what the person in that role is going to do what they're there to do and the position of chair like I said, obviously Vince has done an extraordinary job on the investment committee. I would personally have some concern, although I am new so it might not be completely valid. I would have some concern, that you would want to spend so much sometime when the issue is disability issues you spend an extraordinary amount of your time devoted to this plan, I appreciate that. I think what the chairman is saying whoever we elect regardless whether it's Sean or Vince whoever we elect to that position we all have to feel confident that they are going to devote the time whatever that time is whatever the issues are to get the job done.

>> Vincent Sunzeri: So I did serving on the disability committee when it was first established until it was dissolved. I am currently on the personnel committee. I've been on virtually every committee this board's

had. Furthermore what you may or may not be aware of I don't come to this from one perspective. I'm trying to build consensus here, that's what I'm suggesting for this board. I do have a family member who is a public safety officer in Sunnyvale. I do have another family member who is retired San Francisco disability. I can see all sides of the picture. I'm sympathetic for all parties. And my desire is not to divide this board. My desire is to be the person to bring us together.

>> Sean Kaldor: Sorry, trustee Santos.

>> Richard Santos: I'll wait on Bettina.

>> Bettina Rounds: I think Sean your point about all of us getting to know all of the constituents are an excellent one. My feelings are hurt because I've never been invited to a barbecue but nonetheless. I wanted to go back because I think this has moved off onto another track and it was getting very -- we were making progress and I think that we've now fallen back somehow in terms of, and I think Vince would be a great chair. In 2014. I think that I'm very much in favor of stability, as we transition through this point. And I think, again, Sean and Dick, thank you for what you've done. I think your suggestion for how to move forward was a great one and I'd like to come back to moving forward.

>> City Attorney Doyle: Please.

>> Bettina Rounds: I'm not going to make an amendment. I do think we should try to resolve this. I don't find it an unhealthy discussion, I think it healthy to try to air it this way. It doesn't trouble me that we're trying to work through this.

>> Sean Kaldor: It would be a lot more comfortable sitting around a couple of beers. hand delivered it to the retirement services but all the board members were getting invitation to the Christmas party we're having next week. So I just want to let you know we have included that.

>> Bettina Rounds: Thank you.

>> All right.

>> Sean Kaldor: So I can't remember the exact -- I'm sorry Dick you're next.

>> Richard Santos: Again I think people here are making it more complicated. You have a democratic issue and you move on. We might do something for rotation whatever it might be make people whole. We had the motion to make the democratic process. I came one another motion, have a chair, forget the vice chair. If it's needed that's the simplest way. Everybody then feels part of their day to run the meeting or help, you may say I don't want to do it, James says I'll do it that way if there's an absence so don't make this then so hard. I think we should just keep it simple. And I don't want to lock anybody in. I think when it comments to the chair again it's the democratic process where you feel this is the best person for that job to represent everybody and that's what we should be doing whether they have certain skills that you like or don't like that's what you should do that day. I don't want to lock anything in, whether it be for Sean or anyone else for 20 14. Just run the situation like you should .

>> Sean Kaldor:

>> I appreciate all of what you have done. I think we need to move forward today certainly. I think there's a motion on the table, to have Sean Kaldor continue.

>> So could we make another friendly amendment to the motion?

>> Donna Busse: Right now on the table is for Sean to remain as chair for 2013 and the rest of the discussion to do strategic planning.

>> Sean Kaldor: There was a motion and second and a friendly amendment to the motion.

>> Donna Busse: The last one I have that was the amended motion that you remain as chair and that was seconded by Nick and then it was going to strategic planning. That's the current one.

>> I think what I want, let me make a comment not a motion but a comment. I think it's very important that we all understand at least from my perspective it's very important that I'd like to get away at some point from the independents, electeds whatever we're a board and we're working together as a team, I agree.

>> Here is your chance. Chair and vice chair --

>> Request I finish? I think this discussion is an important one but I think we've taken up plenty of today's time to do that. I think we definitely need to put it on the agenda for the strategic meeting and we need to have some serious in depth discussion today and we need to move on to what the charter says we need to do.

>> Sean Kaldor: Legality me say one. I think one year is a lot of work, two years is a lot of work whatever their weaknesses were will start to grow. So two years ask a good end of term and I don't have a problem with saying I'm not really interested in going another year after this one for sure unless nobody else absolutely wants to do it. The other thing I will say ask I will absolutely support having a leadership of this board having independent representation in 2014 or whatever the next election is. I don't know if I need to make -- I'd have it for record and hold me to it.

>> Sean Bill: For the sake of getting a clean motion can we maybe withdraw the current motion and think about how we want to rephrase this motion going forward?

>> Richard Santos: I think no one can be guaranteed anything. Takings year by year and do what you need to do, that's important. It is a democratic process, to say somebody circumstances may be so I think the motion today is do we elect Sean Kaldor chair for 2013 That's what my motion would be.

>> Donna Busse: That's the motion on the floor.

>> Just a comment. Drew had to leave early, Damon is not here. I think the discussion we're having is an important one. I think we all should be involved in it. I think the discussion should move forward to the strategic planning session to make any decision that are necessary.

>> Why don't we make a motion to elect Sean and Dick for another year and we can move if discussion for all the board members.

>> Second that.

>> Donna Busse: Friendly amendment?

>> Sean Kaldor: Harvey is going to kill us.

>> Harvey Leiderman: I'm sorry. Are you saying that -- I mean that would -- that would technically be an amendment to the charter on the chair. So -- I mean the motion that's on the floor right now is to elect Sean Kaldor for chair for 2013 and to refer all the rest of this for further discussion at the strategic planning meeting next month. That's the motion that's on the floor and been seconded. Does anybody want to vote on that?

>> Richard Santos: Call for the question.

>> Sean Kaldor: So where do we stand -- everyone on the floor withdraws all previous motions, start fresh. Is anyone opposed to withdrawing all previous motions?

>> Richard Santos: Then my motion is to elect Sean Kaldor chair for 2013.

>> Bettina Rounds: And to have the discussion at the strategic --

>> Richard Santos: We'll bring the rest of the stuff for discussion.

>> Bettina Rounds: I think that has to be part of the official motion.

>> Sean Kaldor: To elect Sean Kaldor.

>> Sean Kaldor: As chair and at the streaming meeting, to bring the positions of chair and vice chair --

>> Richard Santos: What may come out of that.

>> I'll second that.

>> Sean Kaldor: We have a motion and second. Discussion on the motion? All those in favor? Any opposed? Seeing none opposed motion passes unanimously.

>> Bettina Rounds: Congratulations, Sean.

>> Sean Kaldor: The first thing under my new reign is to commit that I'm looking forward to having a discussion on this in kind of off-site type meeting. We need to have resolution about it and I absolutely hear everyone's concerns and issues and we'll make sure there's a full airing of it and I hope to facilitate it so it can be a clean discussion about governance. That's all. There you go.

>> Bettina Rounds: That was easy.

>> Sean Kaldor: Return to the agenda. Item 2.3, discussion and action on Cheiron's preliminary OPEB assumptions.

>> Bettina Rounds: We're all getting switches.

>> Sean Kaldor: While they're getting set up. Administrative notes. For next year I will pick a regular monthly meeting and will make sure it's a short regular agenda and the afternoon will be the off-site agenda so we don't have to find an additional day, because I realize the challenges in doing that. Okay, thank you.

>> Bill Hallmark: All right? Good afternoon. For the record I'm Bill Hallmark and with me today is Mike Shoening who is a health care actuary who joined Cheiron October 1st. He works in our San Diego office, he's got many years of experience as a health care actuary and we're very pleased to have him. And he's been working on your (inaudible) and so wanted to introduce him today and he will be presenting the health care assumptions part of this presentation. We're going to talk give some brief background talking about some of the plan changes, the assumptions that are specific to the OPEB valuation. Talk about expected return again, slightly differently than we did this morning. And the methodology for determining the blended discount rate for the City's disclosure. So it will explain that when we get to it. This valuation for the OPEB plan determines the contribution amount for the 2014 fiscal year, much like the pension valuation but it terms the accounting information for the city for the fiscal year ending 2013. So there's a slight difference from the way we do it on the pension plan. The contributions to the trust are based on the most recent MOAs, the MOAs transition to fully-fund the arc, the annual required contribution over five years. Importantly they have a number of provisions but they have provision that caps things that says if member contributions skied parties are to meet and confer. So there is no agreement, is our understanding on what happens when the costs exceed that level. The police transition began in 2009. The fire transition in 2011. There was a straight-line phase-in but there are caps on the increases each year, and those caps have been in play, and effective, and have reduced contribution rates by over 300 basis points. So I mean, to cut to the short of it, for this valuation, the funding is most likely to be determined by the caps in the MOA rates. And not affected by our actual results. We use the entry age cost method which is the same as used on the pension plan. The unfunded liability is amortized over a closed 30-year period beginning when the transitions begin for Police and Fire. And the contributions are split 50-50 with the city for retiree medical and 3 to 1 for retiree dental. This is the picture from the last valuation and what the expectations were. The graph on the left shows the projected growth in the liability is the gold bars, the actuarial liability. The assets are the green line down at the bottom that goes very slowly and the red line is labeled NOO. That's net OPEB obligation, which is

the amount that the city would show on its balance sheet. The right-hand side'rnsdz shows the funding levels, the pay as you go amount the amount expected each year percentage of the payroll of the system. And the teal bars represent the city contribution, and the gold bars, the employee contribution. So you can see the contributions right now exceed the pay as you go costs very slightly but over time with that cap of 10% and 11%, which we are projecting forward, they would fall below the pay as you go cost. And just as a reminder, the benefits in the plan have two key components. The explicit subsidy and the implicit subsidy. The explicit subsidy is the premium for health coverage selected by the lowest cost plan offered to active employees. And so that's a key thing the lowest cost plan, because as we'll get to there was a significant change in what that plan is. The implicit subsidy is the difference between the expected cost of claims for a retiree or their spouse and the retiree or city-paid premium. We have an illustration of that going forward but for premedicare retirees, essentially the premiums are set by spreading cost over both actives and retirees and health claims generally change with age. And so the retiree population tends to have higher claims cost than the premiums. I'll let Mike talk about the plan.

>> Good afternoon. The big change is going to happen with this valuation, really deals with the plan changes that have happened over the last couple of years. The prior valuation was based on the plan options that were available in 2011 and since then really two skeets of changes have happened. In January 2002, for premedicare or 2012, for the premedicare plans were eliminated. Therefore the only plans that were available were the $25 Medicare lower premium cost for the plan. In addition the Kaiser Medicare advantage plan actually increased to $25 co-pays as well which significantly reduced the cost of that plan. In addition, going into 2013 there's been two additional changes. One there's been an introduction of what's called a DHMO or a deductible ciezer plan so the Kaiser plan, there is a plan that has a $1500 front end deductible. That's now the low cost plan so that reduces the maximum contribution for the city because that's a much less costly plan. In addition, there's the introduction of some new lower-cost Medicare and non-Medicare plans effective January 1, 2013, so in addition to the $25 dollar co-pay plan there is some plans with 35 and 45 dollar willing to take on more out of pocket cost for deductibles and co-pays they will have that option. Now, in general, for our assumptions, when they're applicable we use the same assumptions as the pension valuation so turnover and retirement age and things like that mirror the pension valuation. What's unique for OPEB are things like the claims cost, how much it actually costs for the benefit, what are the health care trend rates, how do people participate, what plans do they join and how often

their spouse he participate and what's the expected return on the employer assets so we can blefned the discount rates. what the actual 2012 enrollment were for the retired members. And then what we're assuming going forward. Again for 2012 the only thing that were available were those $25 co-pay plans for the pre-65s that's where everybody is, we need to make assumptions as to how many people are going to take the lower co-pay plans and what we actually did is what was the enrollment plans for when the $10 plan existed. Not that many of your members were actually in the $25 plans so we use the same percentages so we're saying of the 49% of the people that are in the Kaiser or 25 dollar co-pay plan right now most of them will stay in that plan but a small percentage of them will say hey I essentially want a zero dollar out of pocket cost for my premiums on a monthly basis, so I'll go ahead and take that high deductible Kaiser plach. Historical had very low enrollment in the lower benefit plans, we're assuming that is going to continue in the future and we look at the post-65 essentially, we assume they're going to stay basically where they are because those plans from a design point of view haven't changed. So people are likely going to continue to stay in those plans because their costs will still be fairly low because the cost of those plans still are either below or just slightly above the cost of that Kaiser high deductible plan.

>> Sean Kaldor: I think we have a question, Councilmember Constant.

>> Pete Constant: Yes, before we go on. Is there a reason we would not go with the actual elections, since open enrollment has closed? So we should know, where everyone is going to be to see how close we are at least for --

>> Donna Busse: All the other data is as of June 30th. So I don't know how you would mix, how would you normally mix --

>> Pete Constant: What they're doing here is predicting behavior and we know the behavior has a occurred. So it would -- I would think since we should be able to get that information relatively quickly We would be able to see really close how quick your predictions are. And we have time to adjust them if necessary before getting the valuation.

>> Sean Kaldor: That's a great question. Can we get that?

>> Donna Busse: End of the year I mean probably at the end of the year we can get it to you. They just -- open enrollment just closed on November 30th so by the time we get it all in it would be the end of the year.

>> Bill Hallmark: The impact on us, it would delay the valuation process.

>> Donna Busse: Would it really help you with your projections going forward as far as you go? It's kind of an indicator -- you don't just look at the next year you're looking at a longer period of time in an assumption right?

>> Right some we actually where you think the current active employees will elect in the future and so writ would really come in is for sake of argument let's say it really flipped and everybody decided to join the Kaiser DHMO plan we wouldn't change the 5% assumption because the seven or eight is within a reasonable range of what that assumption is.

>> Donna Busse: We could get the data by the end of the month.

>> Pete Constant: I think it would be important to see, if it's within tolerance, delayed it a month. So just an observation.

>> Does it affect our cost?

>> Sean Kaldor: No matter what plan we're in we're always paid the lowest cost, right William.

>> Well, actually it does have some impact because while you're paying the lowest cost from the keep are plan the value of the implicit plan is actually lower. About and so we show on the next page is just a comparison of what those actual aggregate claim costs are implicit subsidy and then compare what we're using for current valuation takes into account all these changes to what was used in the prior valuation and you can see that for the

pre-65 population, the cost actually went down by 4%. But based on the trends we're using the valuation would have actually expected them to go up by 9.2%. So essentially almost a 13% decrease and for the post65 we 15% decrease. And that's basically, near really driven by the fact that A, the $10 co-pay plans were the predominant plan in 2011. They're no longer there. So the $25 co-pay is the predominant plan, as well as the really changed that piece of it so that claims piece of it's down. Combined with that on the next page is the impact of the explicit, basically the -- so what this really shows is kind of that's the graph that Bill was talking about earlier that really shows that implicit versus explicitly subsidy. That dark-shaded area is really what if premium charge is. So you can see pre-65 it's a flat amount and then it drops once somebody's post-65 because Medicare is kicked in and picking up a big portion of the cost where the yellow line is where the expected claims are where as you get older costs get up and you get that big hit and Medicare kicks in plan is really rated based on those foaft 65 members but because the pre65 is a combination of active and retirees essentially the rates for the retirees are a little bit lower than what they would be if you rated them on their own. You can actually see the kind of interesting thing which shows how that blending works, because the more younger active people are enrolled in the Kaiser plan as compared to retirees you can see that the value of that explicit -- the implicit sups dis is much lower on the people in the plan because you actually have a higher weighting towards retirees and a higher weighting towards older active employees so you don't have as much of an implicit subsidy happening for that population so really just kind of shows the mix of what happens depending on where people enroll it with really can bounce around with that implicit subsidy actually does. And we kind of threw this next chart in because it really helps when we're looking at send setting the trend rates. What we show on the bars is two different sets of numbers. The first is the set of historical increases in employer cost that come from the Kaiser family foundation survey. And that's not Kaiser the health plan, it's the Kaiser steel, foundation that does health care research and they essentially do an annual report where they're tracking how to health care coverage and the total cost of health care and if employer setting change over time and the other piece we put on the bottom, it really helps what's post-65 Medicare seeing as an overall changing cost. You can see particularly before 2005 we're at a fairly high level over this entire 12 year period it's averaged just under 8% for the employer and Medicare just over five and then you look at what's happened since 2006 it's significantly lower with the one notable flip up in 2011, that is probably more indicative of 2010 was when the health care reform laws actually passed, there was a lot of nervousness in the industry that reality kind of compressed cost. You get that big initial boost because you had some of the changes that had to come in, like covering dependents to age 26 and the preventive care provisions and things and now it's stabilized. But if you actually look at those trends in the last five to six years, the employer averages just under 6% and Medicare shows under 4%.poops longer term prongs we are that looks like trends are finally hopefully starting to moderate and hopefully it will continue in the future. So again, when we look at trend rates we generally start at current levels and grade down to kind of a direct, something that's consistent with long term gross domestic product rate the trend all of us are work in the medical industry in some way shape or form. And so basically you know, there's lots of theories out there about when we hit that rate. And what that ultimate rate is. We try to stay consistent with what the federal government and the actuaries at Medicare think that is. And their long term projections are eventually we'll get to the point that the economy can sustain Medicare costs increasing at about 1% higher than GDP. Inbasically in 2010 when we did the valuation we extended the grading period from eight to nine years that was becoming historical to longer term projection but the other thing you want to do is keep all your economic assumptions in tune. So that given that we have seen you know declines in the long term capital market assumptions you do expect the ultimate trend to be a little bit lower than it was previously, when we discussed this at the Federated we actually discussed maybe taking it all the way down to 4% which we think also is supportable but they decided to keep it four and a half percent. Four and a half if you want to be consistent with what the Federated's doing can you make a strong case with everything else that's going on that you actually could take it down as low as 4. That's actually 4 is what Medicare and the 2012 trysts report is projecting as the long term rate for the health care industry in general. And so what we show on the next page or really what those kind of graph lines look like where we show what those lines are starting at the current levels which are at 9% and grading down to either 4.5 or 4 for the pre-Medicare side, which are relatively consistent with the chart I showed, showing the Medicare in starting in the 7 range and then 4 four and a half, dental really no change, that's what's consistent with what it's been historically. Kind of up-year consistent or do you want to take it all the way down to 4th which is something that is definitely supportable. And then the last comparison we want to show is really what that -- what the impact of that new deductible HMO actually does to the explicit subsidy comparison so it's the maximum amount that the city contributes. For the 2011 valuation for fiscal 13, that number was for single coverage was $564. And it actually would have based on the trund assumptions increase to 607. The actual number for 2012 is 554. So really it actually went down with all the changes that happened in the way the premium increases worked out for 2012. There is slight reduction in that cost for that exiers $25 co-pay plan. We high deductible plan that is going to apply in 2014. That's only $476, that's actually a 22% reduction in that explicit subsidies, unless all the members decide they want to enroll in that plan, that reality gets born by fairly large impact that's going ohave on the valuation results because that explicit subsidy piece is coming down fairly substantially.

>> Bill Hallmark: With that, we'll turn to the expected return on assets. For our GASB disclosures, under OPEB, there are two expected return on assets figures we have to work with. Both on a very long term perspective. The first is plan investments, which we use, typically use the assumption for the pension valuation. So we would default here to the prior discussion, and use 7.25%. The other piece is the long, expected long term rate of return on the City's unrestricted assets. And so those are typically invested in short term fixed income securities. We asked NEPC to provide us with their 30-year assumptions for short term fixed income securities. So we're showing several different categories there ranging from 3.25 to 4.25. If you ask them what you're going to get in the next year it's much lower than this. Nobody is expecting to get these kinds of returns in the next year but again looking long term it depends on where you think interest rates are going to end up in the long term horizon. Last year we used an assumption of 4%. We're recommending based on this to drop that assumption to 3 many 5%. This assumption I any we should note only affects the accounting disclosures for the city. It does not affect any contributions. Or any of the funding of the plan. It just affects the accounting disclosures. But we end up with a blend of these two interest rates as our discount rate. Then the last thing we wanted to talk about is the methodology for the blended discount rate. We natured the methodology both for this plan and for the Federated plans. They use different methodologies and we are recommending changing to both of them. GASB says that the valuation discount rate should be the expected return on plan investments, if contributions are at least equal to the annual required contribution under the GASB standards. If they are not, in contributions are a pay as you go basis then you're supposed to use the expected return on city assets. And if your contribution he fall somewhere in between then you're supposed to do an interpolation between the rates. That's where you are. It is somewhere in between and we need to do an interpolation. The thing we noted is the method used historically would result in a discount rate greater than the expected return on city assets even if the contribution he fell down to the pay as you go level, or lower. So we don't thy that's really the intent of the GASB standard so we're recommending a change to that methodology. So just to walk you through this. I'm not going to walk you through

this whole exhibit here. This is an exhibit from our 2011 valuation report. And if you go part Way down the exhibit there's a total arc percent. And the total right column is 35.2%. So that's the total annual required contribution on the fully funded basis for this plan. And the prior methodology allocated a piece of that to the members, a piece to the city, and compared -- so the piece to the city was 19.2% and the City's actual contribution was 9.19% which was a little over 47% of the allocated piece. So we gave a 47% weighting to the expected return on plan assets and 53% to the expected return on city assets, in developing the blended rate. What we're proposing instead that we think is more consistent with GASB's intention is that you look at that total arc of 31.5 and subtract off the pay as you go cost which is about 14%, which leaves you an arc in excess of the pay as you go of 17.5. And then you look at all the contributions that are going in, in excess of pay as you go, and from the prior valuation, that would have been 1.3%. And so you use the 1.3% divided by the 17.5 to get the weight to the plan return. Which uses -- results in a weighting of 7.7% instead of 47%. The end result is a much lower blended discount rate because you are paying the contributions are very close to the pay as you go cost. So it leaves you very close to the pay as you go discount rate. Now, these are 2011 results. 2012 will be different. But that's just an illustration of the methodology.

>> Sean Kaldor: Nick, you got that all figured out?

>> Nick Muyo: Just rolling it around. Thanks Sean.

>> Bill Hallmark: The difference is difficult to discern. But the issue is that you're paying about 1% above the pay as you go cost. And so we think that should be the basis for the weighting, instead of what the total contribution rate is.

>> Sean Bill: And for the expected return of plan assets is that going to be moving down to 7.25 as well? Bring the expected return on plan assets is 7.25 and the expected return on city assets is 3.5.

>> Sean Bill: Rate of funding I assume.

>> Bill Hallmark: The 4% was last year's assumption for return of city assets.

>> Sean Kaldor: Does the city have its own assumption for return of city assets?

>> I thought I read somewhere they have to use like what they can issue debt at or something like that. Is that --

>> Bill Hallmark: That is in the new pension standard.

>> Donna Busse: What they have been using in the past, the city used to give us a rate but it was a historical rate. Last year or the year before we switched to have a projection done.

>> Sean Kaldor: Somewhat on the line of what think had, had they projected themselves?

>> Bill Hallmark: The 3 or 4?

>> Sean Kaldor: Yes.

>> Bill Hallmark: I don't know that the city makes a prediction for a figure like that.

>> Pete Constant: I know duration plays a big factor on I.T. we've gone to shorter and shorter durations on city investments. Do you know if NEPC made their projection he based on the policies or the typical the city vests at or are those.

>> Bill Hallmark: These are based on the asset classes. I didn't bring it but my recollection is like the short term treasuries the duration is 1 to 3, something in that range. It's very short term.

>> Pete Constant: Okay, thanks.

>> The broader character as a whole has a little broaders probably in the 4 to 6 range.

>> Sean Kaldor: Before we see the valuation we have did assumptions and that's what we're talking about here and you are giving us these three can, or these three issues to consider?

>> Bill Hallmark: Yes, so the three decisions which you can do all at once if you want, are the OPEB assumptions which include the trends, the claims costs, the election percentages, and you know we've talked about an gentleman U to that. The expected return assumptions it's confirming the 7.25 that we would apply and the recommended 3.5 for the expected return on city assets. And then the change to the discount rate methodology.

>> Sean Kaldor: Anyone have questions or comments? All right so I'll make a motion to adopt the OPEB assumptions.

>> Second.

>> Sean Kaldor: To change the expected return assumptions to 7 much 25 and 3.5 and to change to the blented discount rate methodology.

>> Richard Santos: Second.

>> Sean Kaldor: I have a second from trustee Santos. Any discussion on the motion? Seeing no discussion, all those in favor? Any opposed? None opposed, the motion passes unanimously. So you will return to us with this next month right with the final valuations?

>> Bill Hallmark: Yes. Or is it January or February we have the final -- we'll be coming back with the final Val results. I think we had it scheduled for the February meeting.

>> Sean Kaldor: Okay.

>> Bill Hallmark: But we may be ahead of that schedule. We need to touch base.

>> Sean Kaldor: The quicker we can wrap that up, it's better for the city standpoint and our standpoint. Let's move on with business.

>> Veronica Niebla: One of the portions that will be dependent is if we want to take a look at what the actual open enrollment information is, to be able to provide the information over to Cheiron.

>> Donna Busse: I was thinking if it is substantial do you want to come back and readdress the debt rate? Ment.

>> Bill Hallmark: Yes, if the data indicates that there should be a change to those election percentages we would need to bring that.

>> Donna Busse: We may have to bring that one back. That was one of the OPEB decisions with the election rate.

>> Sean Kaldor: Is it possible for staff to come to us in the January board meeting, we can provide some direction to Cheiron if there's need --

>> Donna Busse: Provide inspiration to Cheiron and they'll come back with -- and summing or not.

>> Bill Hallmark: All right, thank you.

>> Sean Kaldor: Thank you very much. Okay. Moving on to item 2.5, discussion and action on the Proposed city ordinance amending various section is of chapter 3.28 of title 3 of the San José municipal code to clarify the city

charter supersedes the Federated city employees Retirement plan, et cetera, et cetera, not going to read the whole thing, so Mr. Leiderman.

>> Harvey Leiderman: Thank you, Mr. Chairman. The city council acted on Tuesday to adopt, through second reading on the consent calendar, this proposed ordinance that affects the definition of actuarial soundness for this system. It also affects the SRBR for Federated. And for retiree medical issues, Medicare issues. The charter, I'm sorry, the ordinance that was passed affected only the Federated plan. The issue that came up that we addressed on behalf of Federated, same issue here is that there are provisions of measure B that sought to impose definitions, guidelines, restrictions, limitations, however you want to call it, conditions, on the board's ability to determine what is actuarially sound for funding the system. On behalf of the Federated board, I prepared a communication to the city council, as part of the response to the city council, by the Federated board on any comments that it had on the proposed ordinance. And I pointed out to them that these were issues because they conflicted with the board's fundamental fiduciary power state constitution and the municipal code in making actuarial determinations in fund this morning on the assumed rate of return. Under the terms of measure B, you would have had a very different discussion this morning. Because you would have had to take into account all sorts of things that are imposed on measure B, that may or may not be considerations that you ought to be taking into account, in determining the actuarial funding of the system. Some of those things include requirements for some vague definitions of what is fair, or what is additional risk to taxpayers, for example. Actually, I've heard a lot of discussion today. I heard it at the Orange County port meeting yesterday as well, of -- about the board's responsibilities in setting actuarial rates and funding the system in terms of what's good for intergenerational equity and what's good for taxpayers and that sort of thing. And as I had to point out to them and as I'd like to emphasize to you, those are important considerations to keep in mind especially after you've arrived at an effective rate of return in terms of the impact on the plan sponsors and on the members. Those are not fiduciary considerations. Your fiduciary considerations is to the sound funding of the pension fund and assuring that the trajectory of assets and the trajectory of liabilities meet at a point is not your responsibility to try to level out volatility, necessarily, although that's a good thing. In the end, it's not necessarily your -- it's not a fiduciary responsibility to assure that today's taxpayers won't be paying for tomorrow's benefits, or vice versa. Those are important considerations, but when you're setting the actuarial assumed rate of return, for example, you are

making a judgment as to what your assets will earn going forward as best you can project. And also, the current, the present value of you liabilities, especially your unfunded liabilities. Those are issues that have nothing to do with how the result of what you arrive at will be paid. Okay. The payment process is an actuarial methodology, and we have all kind of methodologies for smoothing volatility. For example, for amortizing debts over time. And you have those tools in your tool kit. But the -- those are not issues that you take into consideration when you're setting rates to determine how much money to collect now that will grow with interest to be able to pay the expected liabilities in the future. So measure B, that attempts to as a policy matter it may be perfectly fine. We're not involved in the policy setting aspects of it. But from the board's point of view, you have to be able to exercise your best J as to actuarial funding of the system, without having these other considerations imposed on you and that's what measure B attempted to do. The ordinance, first for Federated, yesterday, or earlier this week, did not reconcile your responsibilities or the Federated board's responsibilities under the constitution and under the municipal code. With the requirements of measure B. Particularly, if a conflict were to come up between following what measure B wants you to do, and what your fiduciary responsibilities are. So we suggested a way out of that problem to the city. I worked with the City's outside attorneys to come up with language that would be acceptable in the view of our boards. So that in the event of any potential conflict, between your constitutional responsibilities and what measure B would seek to impose on you, your constitutional responsibilities take precedence. They amended that language into the proposed ordinance. The ordinance passed and that is what is now on the books, in the municipal code or going in the books effective 30 days from now. Coming to a theater near us, coming to the Police and Fire pension board as well, the city has said in the letter I received during our meeting this morning, that as to this matter that amendments to the ordinances on the Police and Fire pension fund in this regard are planned for early next year. That's precise but we know they're going to have consistent amendments to our section of the municipal code as well. I would simply ask that you give me direction, if you agree with, and I think you have a copy of the letter, the Federated board made it public and I think that's in the agenda packet that if you agree with that approach, that you authorize me to make the same pitch if you will on behalf of Police and Fire as I did for Federated. I don't think there will be any issue with the city. They are quite cooperative in trying to get language that would accommodate your constitutional responsibilities. And I don't expect anything different for Police and Fire than we got for Federated on this. Thank you, Mr. Chairman.

>> Sean Kaldor: Thank you.

>> Harvey Leiderman: I should mention this. The issue that came up that was of most concern to Federated's board and I think for us here today was the actuarial soundness issue. The other issues are policy issues, that affect members, of course. The SRBR and the certain issues that came up with regard to the Medicare requirements, the application for Medicare for those who are over 65. But those are really policy decisions that need to be taken up with the city council. It's not something that I see that this board has any ability to weigh in on, influence or anything else. So that's why we didn't raise any issue other than the actuarial issue with the Federated board. And I would suggest the same thing here.

>> Sean Kaldor: Did they change the language of the municipal code as a result of this?

>> Harvey Leiderman: Yes.

>> Sean Kaldor: When I.T. comes to Police and Fire we don't know that they'll have the same issues or they'll be resolved?

>> Harvey Leiderman: That's possible. I know on the SRBR and the Medicare issues that there were a couple of speakers from the retiree organization he who appeared at the city council, Mr. Constant was there, appeared Tuesday and spoke towards those issues. And I'm not sure where that's going but the same issues would relate to Police and Fire. But I don't think that's anything that needs this board's intervention.

>> Sean Kaldor: So you're requesting us to have communication effect us as a board and if you could continue to advise us whether they're in your eyes issues that we should be focused on.

>> Harvey Leiderman: Will do.

>> Sean Kaldor: Anyone thinks otherwise or wants to did anything different? Okay, thank you. Would the board like a ten-minute break? Yes, okay, ten-minute break. We'll reconvene at 1:30. [Recess] [Recess]

>> Sean Kaldor: We'll start back up. Annual financial report. Acceptance of annual Approval of the City of San José Police and Fire department retirement plan's 2012 comprehensive annual final report, CAFR, and acceptance of the audited financial statements for fiscal years ended June 30, 2012 and 2011.

>> In your board packet you have financial sections. It also contains other comprehensive information, about the plans, for the fiscal year ending June 30th, 2012, it concludes a summarized actuarial section an investment section statistical section on the plans, and a couple of introductions of general information. This comprehensive annual report serves as the board's annual report which is required by municipal code, and it also serves as the audited financial statement that is also required by municipal code. The portion I'm going ofocus on for a moment is going to be the financial section which begins on page number 20. And what you're opening up to is the independent auditor's report, Macias, Gini & O'Connell. We have got Rick Green and Annie Louie from Macias, Gini & O'Connell they can go over their role as the independent auditor and provide some more information on the audit. And then, also on the next agenda item we'll also provide some communication to the board in regards to the audit.

>> Donna Busse: This was already reviewed by the audit committee and they are recommending approval.

>> I apologize. The newly formed audit committee immediate and went through the that you see in front of you and are recommending it to the full board for approval.

>> So it was recommended and reviewed.

>> Sean Bill: So the audit committee, myself and Drew, went through the documents pretty thoroughly and recommended to the full board that we approve the CAFR.

>> Sean Kaldor: Any questions? No questions. Is there a motion?

>> I have a motion.

>> Sean Kaldor: Motion from trustee Santos.

>> Richard Santos: I approved that there's no major objections. Said that a while ago. Sorry I didn't talk louder.

>> Sean Kaldor: We have a motion to approve the report. We have a second from trustee Muyo. All in favor, opposed, none opposed, pass he unanimous.

>> Richard Santos: I just want to say today's pact of 40 pounds, did pretty good.

>> Sean Kaldor: This was a huge amount of work pulling this together. I know we regularly receive awards for pulling that off. I know you coordinate work from millions of people so thank you for doing that. Item 2.7. Communication to the board of administration much the City of San José Police and Fire department retirement plan from Macias, Gini & O'Connell the Plan's external auditor regarding A, B and C under that.

>> Consume, I want to thank the board for the opportunity to present to you today. As a result of the newly implemented audit committee a large portion of our presentation that we typically make to the board is not going to be made today. I do want to say that as a partner or the engagement that I appreciate the creation of the audit committee. It gives us a good chance to talk to members of the board and go into great detail about the audit process. And our views on risk, how we respond to risk, the design of the audit procedures. And then, to discuss the results. So trustee Bill I want to thank you for the opportunities to meet with you. The one piece that we have before you today that was not before the audit committee is the required communications. Annie Louie will go over that with you. I believe in the future this document will also be presented to the audit committee as well as the audited CAFR. But it was a timing issue this year. So with that I'd like to turn the presentation over to Annie.

>> Good afternoon. So you have in front of you the document called the communications to the board of administration and includes in this is the auditing standards report. We are required to communicate fund issues if we happen to come across deficiencies. We will include that in this report. For audit for fiscal year ended June 30th, 2012 we did not have any dwishtses in internal controls that we had identified. I do want to point out that as part of the audit we do consider internal controls over financial reporting for the purpose of planning our audit procedures but the procedures that are performed are not sufficient to provide an opinion over internal controls. So we do not opine on the effect of internal controls for the plan. So I do want to emphasize that point. Following on page 3, this is a list of required communications that we have to make to the board under our auditing standards. The language in this particular letter are pretty standard to any other required communications that you will see. But I would like to highlight a couple of items to you. Under item number 1, qualitative aspects of accounting practices. This is where we listed the more sensitive estimates that are included in your financial statements. The first of the two that I have listed here, this is the fair value investments and that includes the marketable securities as well as nonmarketable securities such as the private equities. The procedures that we perform include confirming with your investment managers the value of your portfolio as of June 30th. We looked at the used to value their securities rs reasonable. The second sensitive estimate that was included in your financial statements are the actuarial data for both your pension and your OPEB plans. And what we did is we tested the assumption he for reasonableness and we also engaged our own independent actuary to review the valuations to make sure it was performed in accordance with actuarial standards. Om the next page another item I would like to highlight is on page 3, corrected and uncorrected what the amount should be and what the amounts are as we reported in your financial statements. I have two different unrecorded misstatements that are listed here and they relate to the valuation of the investments as of June 30th, 2012. And management has determined that the effects of these unrecorded misstatements are immaterial either individually or as a whole to your financial statements. And so I wanted to point those out as well. The rest of the communication are pretty standard, page 6 in this section what we do is we report on the current year status of prior recommendations we have brought up to the board in last year's audit. The first comment relates to the adequacy of staffing in the financial reporting unit. Last year we pointed out that the financial reporting division was understaffed. Basically, the entire process was dependent on the principal accountant. So we wanted to point that out, and we understand that since that communication, the board has formed a personnel committee to address the issue with the

city. And this year, we noted that the -- an unfilled position previously for the senior accountant position has been filled and the department has also adds id another senior accountant to the financial reporting section of the department. So we do recognize the efforts that have been made. And we know that this is a learning process. There is a learning process involved. So we're going to continue to monitor this, in terms of the adequacy of the financial reporting position and come back to you next year in terms of how the issues have been addressed.

>> Sean Kaldor: Any --

>> Sean Bill: I was going to ask could you talk a bit about the idea of an internal auditor, we were talking osh the audit committee, why we would want to add another auditor, Veronica.

>> Veronica Niebla: In some of the work MGO does is over internal controls. With the staffing we currently have in accounting we don't have the bandwidth to do more internal controls type of testing and that really should be an internal control type of position that should be in our accounting department or in the plan. So one of the recommendations that I made to the audit committee was that we add an internal auditor full time internal auditor that could assist with performing various types of financial and performance audits for the plan. Given all the changes that are happening, and all the correction on contribution he, on different investments that this investment committee is entering into, it is an invaluable position that really should be added. And in the audit committee I believe agrees that we do need this position. In the next budget proposal I would propose that we add this position tiers that are potentially being added one of the items we have coming is really the adequacy of staffing. When I came forward and requested the additional senior accountant it was at that time based on the workload that we had at that time. I think at that time I said this would be bare minimum and I would like to continue to emphasize that would be bare minimum. As we move into an area where there are no trust fund, new tiers, you are moving into a deeper level of cost accounting, deeper level of investments that really is going to require staff that has the experience and the bandwidth tot to be able to meet all the financial reporting needs of this fund.

>> Sean Bill: When we talk about, in our strategic planning meeting, it would probably make good sense to get an internal auditor in there.

>> Sean Kaldor: Pecular than that, I would ask that it be added to the budget and I wouldn't have a problem supporting the position.

>> And also to elaborate on the audit committee, we discussed that the internal audit imlier data coming from the city side, noicially public pension plans would have that function. A couple of years ago the board had directed an AUP agreed upon procedures engagement to be performed on by our firm to performing that type of review and that was the first that had been done in years. It is a massive effort and internal audit function would be doing that on a regular basis.

>> And I think if you also look across the landscape of public employee retirement systems, both on local and state level you will find the vast majority of these organizations do have internal audit departments or at least an internal staff on board to help with what Veronica was saying, ensuring that the internal controls and compliance and other organizational priorities are in place. It's a very valuable member of the staff of the organization. So you do see it a lot in other organizations.

>> With that I'll go over to -- go on to page 7, the second prior year comments. And it relates to the statement of economic interest form the form 700s that members are required to file annually. So we selected everybody, everyone on the board as well as required management positions to make sure that the forms were filed in accordance with the time line and in the current year we again did the same testing, and all of seven management and staff positions who are required to file the economic interest form as well as the ten board members, we found that two of the board members submitted the formulate. And one of the forms could not be located by the City Clerk's office. So we could not determine whether that form was filed at all. And so this is an issue that was brought up in the prior year. And we again did testing this year and found similar issues. So next year again we'll be doing that same type of testing but this is something that we do want to point out that these are required forms and they should be done in accordance with the law.

>> Sean Kaldor: Trustees.

>> Bettina Rounds: I thought Russell told us everything was in.

>> Sean Kaldor: Yeah, so do we get feedback from --

>> Veronica Niebla: We do. We did get the outstanding filing that was missing and there was some coordination for an entering office application.

>> Sean Kaldor: So is there a deadline every year when they're due?

>> Donna Busse: Yes. It's April 1st and I think what some of the confusion was is that it actually has to be date-stamped into the clerk's office on April 1st and they can't take an electronic. I think in one case an strong was going to be good enough and it wasn't. In one case we had a situation where the clerks office couldn't do it up and going so he could do electronic on time. We're doing okay, it's just that we're still trying to smooth out the wrinkles. We thought electronic was going to work in one case and the clerk's office wongt accept it.

>> Sean Kaldor: Once you do it once, it's pretty easy. If we can commit it to be done at the March board meeting, if anybody's delinquent there's plenty of time to it get it resolved. It is the one thing that shows up in the audit report.

>> Donna Busse: That's always a hard communication within 30 days .

>> Sean Kaldor: Reappointment?

>> Donna Busse: Reappointments no.

>> Sean Kaldor: You do form 700.

>> Vincent Sunzeri: And I should not do it electronically?

>> Donna Busse: This time I would do it hard copy.

>> Pete Constant: I would say you should do it electronically, but print it out and then you'll have a baseline for next year.

>> Donna Busse: Except the Clerk's office has a hard time to set it up electronic. Even your e-mail said to do a hard copy.

>> I won't be here next year.

>> Richard Santos: Through the chair, the key to this thing I don't know what you found out but as long as the board member or trustee or whatever may be is notified. I know that the concern we had was that later on, I had to submit it twice, and our staff said you know, again, we -- when I came away is that our staff didn't know what the clerk was doing, the clerk didn't know what our staff was doing. So I come to find out the Clerk's office lost it. Whatever. I said what do you mean I submitted that thing as elected officials we on top of this issue my staff sent it twice so I think the main thing is that, whoever is in the field whether they're right or wrong are we notified ahead of time not just assume everything is okay. I was sitting there, notified everything was fine, and I got notified by Veronica they couldn't find it, twice. I make sure those facts are always in, they always are. We did it twice. Anyway, my keys is that are we being notified ahead of time. Not the last minute. How can it sit there for 30 days and not know it?

>> Donna Busse: As soon as we find out we're notified. We send out reminders all the way to the day before. The Clerk's office, I can't speak to.

>> Richard Santos: The clerks office --

>> Donna Busse: You were using the clerk's office directly?

>> Richard Santos: What I did is hand carried it. I didn't know it was supposed to go through my staff. Then my staff said you're supposed to file it here I said baloney, I nield it. They said do it again.

>> Pete Constant: Get one time stamped and you give copies to send to everybody else, that's what I do. Things kind of go astray and for the new members it's one floor up from here so it's really easy to do at a board meeting.

>> Sean Kaldor: Okay, didn't mean to detract from a huge annual audit, went through a massive process, things we have to do in addition to this.

>> That's fine. That's our presentation again since we had already met with the audit committee, the vast presentation has already been made. At this point we're done and we're open to any type of questions you may have.

>> Sean Kaldor: So we just have to seven this, we don't have to do anything, just communication?

>> Veronica Niebla: This one is just an sebz.

>> Donna Busse: This is just an accept.

>> Sean Kaldor: So we accept the audit.

>> Richard Santos: So moved. I said that already, haven't I?

>> Sean Kaldor: Good discussion, that's good. So the recommendations were things so we talked about the 700, the other thing was the staffing, talked about coming forward in the next budget with an auditor here and as identified on here, we are working on the CIO and CEO, those are the deficiencies right?

>> They are.

>> Sean Kaldor: Any ores questions or comments? That's accepted. Thank you.

>> Thank you very much.

>> Sean Kaldor: Just briefly I think it speaks for the high quality of having good subcommittees or committees that work on these things and can resolve them I feel completely confident that the process worked through and they were able to work with you guys and doing that. I appreciate you doing that.

>> Donna Busse: And a lot of heart work for Veronica and her staff.

>> Sean Kaldor: Just a little going on this week. 2.9, discussion and action regarding trustee orientation and annual training requirements. Harvey. So annual training requirements for trustees.

>> Harvey Leiderman: I've gotten in the habit over a number of years with many board clients that when new trustees come on board, either they watch a video ahead of time, and they're still not discouraged, or they come to their first meeting, and, well we'll see I guess, won't we?

>> Yes, we will.

>> Harvey Leiderman: But I have been called upon from time to time to do an orientation program for new trustees. Some of the members of this board who are new have asked me to do so, we have gotten close to scheduling it but then changed the calendar. I thought I would bring it back to the board and see what you wanted

to do. Usually when I do this it covers all those things that would go bump in the night to a new trustee coming on board which would be more of an overall orientation of fiduciary responsibility, conflicts of interest, you know, actuarial responsibilities, disabilities, kind of an overview of the investment things that take place, and what you may be called upon to do with regard to managers, quiet periods all those -- you know all those things that you want to have a heads-up when you come on and you have no idea that they're going to -- that they're going to be part of your responsibilities. Generally, I like for a beginning orientation take about three hours. Oftentimes we'll do it over lunch, you know, so that you know, we don't kill an entire day doing it. But I've done it individually. I've done it in small groups. It's better in small groups, no more than three. I can do an entire board but it's really not called upon, it's really kind of a new trustee orientation approach. It also gives people an opportunity, off-camera to ask those kind of questions they don't want to ask, you know, the first couple of meetings for fear of looking stupid. So we kind of try to take that fear out of it, and just have a good give-and-take. So I'm happy to do that. Also you know for this board as well. And just thought I'd throw it out to you to see if you'd like to make this something that we do on a regular basis when we have a couple of new trustees already. And anyhow that was the thinking.

>> Sean Kaldor: So who would like to participate in a session like that? Trustee Mason, trustee Rounds and trustee Muyo. I think that would be a great orientation.

>> Harvey Leiderman: We just have to work out a date and place and unfortunately everywhere I go I can't validate parking.

>> Sean Kaldor: Make we could do this on a yearly base, or offsite, Brown Act maybe an hour update and education session for everybody. I think trustee Mason mentioned that his on-boarding binder was a bit smaller than --

>> I believe his may be smaller because we've had different documents, dated documents because we provide the most recently information so it may be that he's got like the health trust new plans in there which weren't available at the time when you were brought on, the valuations also may have a different level of number of pages

than the one we would have provided previously but he would be glad to provide any more information or pull information out of there and update.

>> Harvey Leiderman: I should have said, somebody from staff should be there with relevant materials. It's reality helpful to get specific -- really helpful to get specific with the operations of the system .

>> Sean Bill: Should also probably give him a tour of the actual operations.

>> Sean Kaldor: So maybe having this type of training held at retirement services building would be a chance for staff to show you around and introduce you to key players that we never see on a daily basis.

>> Harvey Leiderman: That's a great idea.

>> Sean Kaldor: Okay, item 3.1. Oral update on the strategic plan meeting. The agenda keeps fluctuating here, I'm staying on top of that. We have a governance meeting, December 21st, that would be the chance to see the report from Cortex with all the inputs from everybody and trying to make sure it's in a form for the whole board to see, doing that as little committee work. That will be the core of that around then we'll have a piece on, now we've added the chair, vice chair and as well as what committee structures we have going forward.

>> Bettina Rounds: And that can be phoned in?

>> Sean Kaldor: The meeting on the 21st can be a telephone conversation. Going through -- should be a good evolves draft. I haven't seen it yet, interested in seeing that. 3.2, oral update on payroll audit FLSA and overtime payment issues.

>> Veronica Niebla: I apologize to the board. I do not have an update. I had been focused on the audit have not received an update that there is a new file. So I will reach out to finance and have an update to the board for the next meeting.

>> Sean Kaldor: Okay, item 3.three oral updates from Councilmember Constant.

>> Pete Constant: What I had we covered with the ordinance discussion earlier.

>> Sean Kaldor: Item 3.4 the demo of the electronic board packets.

>> Donna Busse: Definitely not at two oo'clock but last month you wanted an update on the electronic board pacts. We have Granicus who will give you a demo. Can you just introduce yourself.

>> Good afternoon.

>> Sean Kaldor: Let's do it.

>> Good afternoon, can you hear me okay now? I'll try to speak up here. My name is Kelly Barlow. I'm the account account manager for Granicus, with the City of San José. A little background in case the name is not familiar. We currently work with the city and the staff to provide work flow tools to create agendas and minutes, also put your public meeting information online. We're based out of San Francisco so we work with you guys and about a thousand other cities and counties across the country to provide these sort of services. So today I'm going to be showing you our electronic board packet software. And this is what you can use to view packets but also for your staff to distribute the information to you quickly and simply so you can have the most updated information in paperless form. So for those of you who have used an iPad or iPhone before, the screen if I can keep it up on the projector should look pretty familiar. It is a native iPad application so when you are on your device you tap the ilegislate application. All of your agendas will be available. You can scroll through this agenda document, review the items, you'll notice any items which a paper clip to the right side those have attachments. The first item you can see a note and a bookmark so you can also take notes on agenda items directly. So in I were to go into this item can I tap on the screen and actually type in notes. You can bookmark particular items, you can see that red bookmark right there. You can also take notes and bookmark attachments

as well. So if I have a PDF or really any type of document that's readable on the iPad you can highlight, draw, you can also bookmark these as well. So we wanted to highlight certain text. Similar to other stylus and writing device, you can change your pen color font, text colors.

>> Sean Kaldor: With you make a text note right there?

>> Yes you can, you can make a text note and you can also write and draw as well. If you go back to the particular item if you wanted to look at all of the items that are book marked, agenda tab you have all of your bookmarks listed here, if you want to look at the items you wrote notes on or book marked you can check that box or right beside it is our field, you can get to those quickly and easily as well. We do also have the ability to put your video or audio recordings of your public meetings in the device as well so if you wanted to go back and listen to or watch archives of your meetings that's available also. Very simple software so I mean that's really it. Do you guys have any questions?

>> Sean Kaldor: Please.

>> Harvey Leiderman: Talk to the board about archiving and archiving their own personal notes. And public access, security. Fire walls, that sort of thing.

>> So Granicus is a cloud-computing company. So all of this information is stored in the cloud. We have top tier data center so that all of your information is secure. None of these notes that you make on the actual iPad device will be available to anyone else other than yourself unless they are requested in which case we can pull all of the information for you.

>> Donna Busse: So there's a separate portal for the trustees and then the public.

>> Exactly.

>> Sean Kaldor: After the meeting what happens to all the notes?

>> Everything is stored on your iPad unless you manually delete it.

>> Donna Busse: Our staff would control and normally we're going to take any of the confidential material off of the cloud as soon as you guys are done with the meeting because really nobody is spoachedz to have access to the confidential when the meeting is over. We cannot control downloading on the iPad type of system, if you're going olog in from your regular computer we can prevent you from downloading and printing but from an iPad we cannot so we're probably going to have to have policies of not downloading material, confidential material but if you're using a regular computer to access it we can prevent you from downloading or printing certain items.

>> Sean Kaldor: And because it's a cloud solution if I take notes, they stay there I see them at that meeting a month later I can go look at it, five years later I can go look at it unless I decide to delete it, correct?

>> Correct.

>> Sean Kaldor: If I lose the iPad?

>> It's all stored in the cloud.

>> Which goes to my question, if you take notes it's stored on the cloud not on the iPad or both?

>> It's stored in both locations.

>> Sean Kaldor: Any other questions?

>> Vincent Sunzeri: Actually, what happens if you have a device and your device is stolen? Someone else ends up able to pull up that information?

>> They would be able to. You can pass -- word-protect the apps but if your device ask stolen and the app isn't password protected they would be able to see that information.

>> Vincent Sunzeri: But that specific app does not have its own unique password, you would have to lock the entire device?

>> The app has password protection?

>> It does. Okay.

>> Donna Busse: You can access the portal without a password.

>> Yes.

>> Pete Constant: You can also remotely wipe the iPad, from personal experience from losing one.

>> Sean Kaldor: Do we use our own or one provided by the department?

>> You could use your own.

>> Sean Kaldor: Be one last iPad to carry around if you have one. We must have policy that if iPad has to be set in a certain way. A certain password of a certain length.

>> Donna Busse: Whatever we couldn't do through our group we would have the ability.

>> Harvey Leiderman: Assume it's on WiFi?

>> Can you download agendas, if you are in a place without WiFi you can view the agenda as well.

>> There is a problem not utilizing a public WiFi and downloading information it would be potential for someone to view that information that's there is that correct?

>> Harvey Leiderman: Not if you use 3G network instead of WiFi.

>> Say again?

>> Harvey Leiderman: For $20 a month you can use a 3G network instead of WiFi. And then you don't --

>> Solve that problem.

>> Sean Kaldor: Is the communication between the cloud and the client encrypted?

>> That's a good question. Yobility. If you are just downloading an agenda over WiFi, there is possibility for people to access that.

>> Donna Busse: Same concerns as we would have for you carrying paper around.

>> Sean Kaldor: Very creative person that would want to do something with 99% public information anyway. You know it's the disability packet or maybe our notes.

>> That would be my only concern there be potential hipaa issues or whatever with the medical information that may be downloaded. The medical information is my main concern.

>> Donna Busse: That's why we don't want you to download any of the confidential. We can prevent you from downloading it on a regular device but the iPad we can't prevent it downloading on the iPad so that's why we're

going to have the policy that you just don't do it. But you can see it and view it when it's on the cloud but not to download it on to your device.

>> That goes to my concerns. Even if it's not downloaded, I'm not tech savvy but if they're smart enough to figure out how to do it if I am viewing it they can figure out how to ---do you want to come back Barbara hayman is our I.T. manager for Department of Retirement services.

>> Sean Kaldor: So two questions. One is the communication between the client and the cloud encrypted, and second, if we were to be viewing information on the cloud, would other people be able to hack into that?

>> Donna Busse: Via WiFi can somebody get it?

>> We can certainly try get a security audit of the system to test those vulnerabilities and identify if they do exist.

>> Donna Busse: Or what Harvey said if you purchased the --

>> You could also do the 3G.

>> Sean Kaldor: The 3G for those who have the iPad themselves, you would have to carry around a 3G iPad. That's what it is. So very simple easy to use application, you log in you make your notes you go through the meeting, it does portrait and landscape, right, no problems.

>> Donna Busse: And eventually you know when we get more data on you'll be able to search items. From previous agendas.

>> It has the history, your voting history and whatnot.

>> Sean Kaldor: Brave new frontier. No mailing big packets, no more broken backs. Do we have WiFi in this room? We do I know battery lives are pretty good, but you might wand to consider having a few spare iPads in case one breaks, we won't have to worry about two-week delay for shipping. Questions, comments, concerned?

>> Vincent Sunzeri: Any particular complaints that trustees have had that you have experienced along the way?

>> Well, there's always suggestions and feedback that we get. We actually built this app with elected officials. The only real complaints we had in the first version there wasn't the ability to take notes directly on attachments but that's been resolved in the version that's live right now so other than that it's really similar to paper.

>> Sean Kaldor: That works.

>> When you're viewing a multipage document, is there -- can you just view it one page at a time, can you see multiple pages at a time, how does that work?

>> Ilshow you. A typical reared, a PDF file, you have the option to zoom in and out. There you go. So for this particular document probably best to be this way, sorry about that, the cable doesn't want to stay in. There we go. So you can scroll through, you can also make these smaller or larger if you wanted to zoom in. As far as PDFs go you know you can scroll through them, you can't really put them side by side within the reared, though.

>> Sean Kaldor: Can't do split-screens those sorts of things?

>> Right.

>> Harvey Leiderman: Can you toggle more back and forth?

>> You can, that's more iPad functionality than Granicus software, yes.

>> Sean Kaldor: If you want to go to the wind of the municipal code you can just with a button minimize that, if you don't have an iPad, pretty convenient.

>> Maybe have a little iPad training.

>> Sean Kaldor: There will be a training plan I assume?

>> We'll develop a training plan, yes.

>> Sean Kaldor: And what's our implementation time looking like, then?

>> We are in contracting phase at the minute. And hopefully, January, February, that will be wrapped up. And then we're into the agenda creation, and then once we actually have something that we can produce for you, you'll have it.

>> Donna Busse: Yes, unfortunately when the agenda creation the back end stuff that Sonia has to did is going otake a while to set up so by the time you guys see it it will be several months down the road.

>> Sean Kaldor: Councilmember Constant.

>> Pete Constant: You want to know whether it's 3G or not, you don't want to buy them and not use them, data plans and all that stuff before you make the purchase.

>> Sean Kaldor: How many board members have their existing pads right now? A fair number. Would your preference be to use the one you have now or be given a separate device?

>> I don't have 3G on mine.

>> Sean Kaldor: My preference would be to use my own and I don't want a 3G requirement and I'm comfortable with putting it on my own as far as the data and searching or disclosure requirement.

>> Vincent Sunzeri: Time for me to upgrade to a more current version so this would be my motivation. I don't think my current version would allow me to download the apps.

>> Sean Kaldor: I have the mini.

>> Harvey Leiderman: Is that the one you can put in a quarter of the agenda?

>> Sean Kaldor: The question is 3G was not needed, if it's not needed, it would suit the board. It would save the data plan for the retirement plan and might save some device cost as well. It all accommodation down to how much security we need.

>> Sean Bill: My only follow-up question on that would be, how public does my iPad become using this application on my iPad?

>> Donna Busse: The previous council has said they would defend anything that's not directly related, like if you had a stipend for your phone or as an employee, only the stuff that's related to the city is supposed to be disposable. I don't know if Harvey has a different take.

>> Harvey Leiderman: Absolutely. Probably on the same device doesn't make everything in your personal life a public record. The only thing with 3G because I have both on my iPad there are a lot of places you can't get WiFi. Eesly. And with a g you're always available, always on. I'm on Verizon, I'm not advertising for them but their coverage is so good, there's no dead spots anywhere.

>> I believe they changed it now so there is data limitations and additional cost that you would personally start to incur if you're accessing too much poo so something to be aware of it could be a personal cost .

>> Harvey Leiderman: Interesting, I didn't know that.

>> Sean Kaldor: Councilmember Constant.

>> Pete Constant: I don't have it with me but the city just updated its policy about public records requests and personal devices. It was in one of my committee packets. It would be good to get that and make sure everyone has it in relation to this. It pretty much says if you are accessing governmental records on your personal device they are public records but your private information is not. It's the same thing but we should still probably get it and circulate it.

>> Sean Kaldor: I guess the nice thing about this is everything related to this is as well as on the cloud. They want to disclose this all the notes their all sitting on the cloud. But yes. Sensitivity. Anything else? Well great. Full speed ahead. I think we all like what we're seeing here. Nice simple straightforward, quick demo means it's a simple straightforward product. I know a lot of time and effort has gone into this so far but implementation is another whole step in the process. Thank you.

>> All right thank you.

>> Pete Constant: I think the savings in FedEx charges would pay for the data plan.

>> Donna Busse: And copying believe it or not.

>> Sean Kaldor: I ask this board if you were to be given one, I'd almost switch and use that as my main iPad for everything, if we're okay as a board allowing us to use a board issued device for all of our pictures and music and these are great questions to have. We'll see what comes back. Okay. 3.5, oral update on pension administration system RFP,.

>> Donna Busse: We have just started to do the site visits. I don't know when you're scheduled to do the next site.

>> Sonoma county on Monday. December 10th.

>> Donna Busse: We're trying to squeeze all these site visits in so we can try to get a recommendation in to you in jab, that's our goal.

>> Sean Kaldor: Continuing with the open session, retirements, we hear these as one big motion. Item A. A, Allison J. Cabral, battalion chief fire department effective December 22, 2012, 20.49 years of service. 4.1B, Brian T. Christian, police sergeant, police department, effective January 19, 2013. 20.13 years of service with reciprocity. 4.1C, Gregory M. Crader, police officer, police department, effective January 31, 2013, 25.08 years of service with reciprocity. 4.1D, Gregory J. gunsky, police officer, police department, effective January 19th, 2013, -- effective January 26th, 2013, 25.01 years of service. 4.1E, James Morphis, fire captain, fire department, effective December 30, 2012, 24.44 years of service. 4.1F, Michael tallerico, fire engineer, fire department, effective December 22, 2012, 25.68 years of service. 4.1G, Hector M. Vasquez, police officer, police department, effective January 19, 2013, 25.58 years of service.

>> Richard Santos: Motion to approve.

>> Sean Kaldor: We have a motion to approve from trustee Santos. I'll second it. Discussion on the motion? All those in favor? Any opposed? None opposed, passes unanimously.

>> Chairman Kaldor. Just so the board looks at that, that's 175 years of service that walked out the door and unfortunately we are not able to get that service back in. And so with the deliberations this board has of course weigh heavily on everybody so it just -- you see that we do have a lot of senior people that are leaving and we don't have a lot of young people that are coming in. But I think it's important to note that that was a lot of time that just left the city.

>> Sean Kaldor: Thank you. Item 4.3. Deferred vested retirement for Toran T. Wright. Police officer, police department, effective December 12, 2012, 10.48 years of service.

>> Richard Santos: Motion to approve.

>> Sean Kaldor: Motion from trustee Santos, second by trustee Mason. Discussion? All those in favor, opposed, motion passes. Gratefully we have no death noaskses. 6.1 the investment committee last meeting was November 14th, next meeting is December 12th. Item A and B report from the chair and minutes of the meeting.

>> Vincent Sunzeri: I'll just make it brief. The update we had earlier from NEPC was terrific. They did a nice review. Number 1 I do want to point out the hard work that staff is doing. So I think recognition is definitely in order. Of the terrific results that we're seeing is very much the significant work plan that they have been working with NEPC on, and I really, really appreciate how hard they're working the hours they're putting in, many cases extra hours to do this. Point out that as a reminder, this year we've gone through and completed our ALM, we've adopted a new asset mix we're virtually completed on the transition now to our new asset mix. Reporting will reflect that. We use these stage 1 stage 2 reviews to reflect where we're in reviewing asset classes. Essentially stage 1 says that we have reviewed the asset class, in total, and stage 2, starts to look more deep are at investments we want to place for each asset class. For stage 1 we have now reviewed every single asset class with reception of the asset linked skate class. Which we'll start in December and January's meeting. We'd made lots of progress. The first quarter we anticipate we still likely will not have a CIO until the end of the first quarter maybe the very early part of the second quarter. And so there are still about five areas that we're going to start looking at more detailed reviews of investment managers within various asset classes. But specifically, there's three things that I've communicated to the investment committee that I'd like us to start thinking about as sort of the next phase for us. Where I think we can really add value on this plan. And when you look at the report, what you noticed is that the value-added by the managers themselves has really changed significantly. Why? We terminated underperforming managers. We've retained our good managers and the selection of new managers is also adding value. So terrific sweep in that direction. On the policy side, that's obvious we'll start to see the fact

that we have a new asset mix, and how our policy is performing versus the industry in general. But one area that's going to be really important that we'll be pulling out from our investment policy, and really trying to dig deeper and establish a more specific policy is on rebalancing. That is, as we have an asset class target, do we want to be in line with that target or do we want to have more or less than that? And we need to really dig deep into looking at that. There's a lot of different philosophies about how you can address that. Do you simply rebalance back to target, as they mentioned on possibly a quarterly basis. If you choose to deviate what causes you to deviate. So this is going to be one important area we'll be looking at. Secondly as trustee Santos pointed out looking at managers who's on the watch list who is on the hot list what managers we're concerned about. Frankly I don't think we want to rely just on our consultant to tell us it's time to terminate a energy. We want a deeper policy that when a manager starts to struggle we want to look deeper and determine when we want to make a change. We did that recently with a small cap manager the information came back very favorable after one of our investment officers looked at that manager, and the manager's results have actually improved and so I'm glad that we have gone through that process but we need to get more formal on that and then the third thing is looking at risk management overall. How do we deal what we call in the industry tail risks, things that could come out of left field that hit us unexpectedly, how can we manage revoke of the plan overall. Those would be the three major things we'd like to start to dig into as we move into 2013. Again great work on behalf of the staff. It's pretty stunning when you think of the fact that we're operating for this long a period of time without a CIO and DNA has also had to step up as the acting director at this time and really, really impressive and I really appreciate the hard work on everyone answer part.

>> Sean Kaldor: Questions? I just want to say you sent out an e-mail recently this looked at the whole year laid out the plan the key objectives what our next steps are the dates of all the meetings, I think that's enormously helpful to have that eviction of where we're going blocking the meetings so we start planning that right now. I really do appreciate that. Okay. Item 6.2, ad hoc governance committee so that's me our next meeting is December 21st, I've already discussed we'll be receiving that report and that will lead to our big discussion at our January offsite and another part of that big discussion January offsite is our committee as a whole and the committee structure and making some committees formal that are ad hoc and where we go from there.

>> Richard Santos: December 21st what time?

>> Sean Kaldor: December 21st, 9:00 a.m. Probably by telephone,.

>> Richard Santos: The Mitchell building?

>> Sean Kaldor: We're going to do it by telephone. You're going to be the only one there.

>> Richard Santos: Not the first time.

>> Sean Kaldor: You can show up at the retirement services building. Our consultants will be walking through the presentation and draft rather than having people driving for two hours driving for a one hour meeting. 6.2, ad hoc governance committee, Drew is no longer here. In the recruitment process, we can discuss some of this we had a closed session meeting we can follow up often that closed session meeting. We need to coordinate posting the minutes from that ore really the vote coming out of that but I think everyone's aware of what's been happening, those of us involved in that meeting. 6.4? The audit committee, last meeting November 26th, next meeting to be determined. Report from the chair.

>> Sean Bill: Nothing more than we reported, we met with the accountant and approved their audit for CAFR and hoping that the audit committee may meet twice a year maybe four times if we had to worst case. I told these guys this would be the shortest committee they served on, our meeting was maybe an hour last time.

>> Sean Kaldor: Set up quarterly and can you cancel it if things can be moved out. Thank you. Item 6.5 the disability committee, trustee Santos report from the chair of the ad hoc disability committee and update on the legal RFP.

>> Richard Santos: We are going to meet at the metro building 9:00 a.m., things will be well, Dr. Das will be there with Bettina and myself and medical people will help with whatever they are going to do.

>> Donna Busse: So the update on the legal RFP so last month you wanted, the trustees asked me to put out an RFP for the legal counsel to serve on the disability committee. So I've been working with the city attorney's office, and they recommended that we just put out, or they put out a memo to the people who bid the first time with the updated requirements. And that would be the fastest way so that letter has gone out to them. They anticipate getting the information back in time for me to make a recommendation in January. So that's about the fastest we could go. That's fast.

>> Sean Kaldor: Mr. Leiderman.

>> Harvey Leiderman: Update but very important. The counsel to the committee will not be on the committee but counsel to the committee. It's very important for reasons that I don't want to bore everybody with.

>> Donna Busse: We'll probably have to talk because I think what the direction was they wanted him to be or the vendor to be on the committee to help them review the cases.

>> Sean Kaldor: You're clarifying he is not a voting member of the committee. He's present at the committee.

>> Donna Busse: That's fine.

>> Harvey Leiderman: Be there in other words, advice counsel, to the committee. The -- because the committee is a subcommittee of a committee of the board, the committee itself is board members. And then staff will assist and outside counsel will assist.

>> Donna Busse: Likewise Dr. Das shouldn't vote either.

>> Harvey Leiderman: Correct, he has to be medical examiner advisor to the committee. Subcommittee is the board members. I just want to make that clear because somebody else had made a statement to that effect too.

>> Donna Busse: Wanted to make that clear.

>> Richard Santos: Not a voting member, fine, good.

>> Sean Kaldor: Okay. Their opinion may have a lot of weight. That is item 6.5. We continue the consent calendar heard as one big motion. Is there anything anyone would like to pull from the consent calendar? I just want to draw people's attention to item 7.5 D which is our schedule of meetings for the year and I intend to make one of those lead into the off-site lead into the annual offsite and item E is our committee membership and we'll be talking about that in January and probably restructuring simplifying or focusing that. Anyone like to pull anything off the consent calendar? Seeing none, would anybody anyone like to make a motion?

>> Richard Santos: So moved.

>> Sean Kaldor: Motion from trustee Santos to approve the consent calendar. Second from trustee Rounds. Discussion, all in favor, any opposed, motion passes unanimously. Item 8 education and training, 8.1, educational programs and courses, 8.2 conferences and seminars, 8.3, CalAPRS training. A is the board leadership institute in L.A. January 29th through 31st and B is the trustees round table at doubletree hotels in San José February 8th. When it comes to trainings in general I'd ask that we as a board -- or when you request to go to training, and we as a board when we approve trainings to consider the dates they fall on. It's important to have us all here during board meetings and if we can avoid that it's a good thing. Certainly there's exceptional trainings that only present themselves on certain days, and those might be exceptions. But I'd ask you take that into account as we go through this process. Are there any proposed items for either this or for the health care trust? Seeing none, are there any public comments for this or the health care trust? Seeing none, that finishes off the agendas for both, other than the closed session. We will now adjourn into closed session. And we'll report out from after that, out after that if there's something to report out. The closed session will be for: Items 1.1, closed session, conference with the investment consultant pursuant to government code section 54956.81, to consider purchase pension fund investments, three investments. Item 3.6, closed session, conference with legal counsel,

litigation pursuant to government code section 54956.9 (a), 3.7, closed session conference with legal counsel litigation pursuant to government code section 54956.9 (a), two cases, measure B litigation, and item 3.8, closed session, conference with legal counsel, pursuant to government code section 54956.9 (c), deciding whether to initiate litigation, two cases. We'll adjourned to next door. You do have in your packet the closed session materials related to the investments. [Closed session]