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

>> David Bacigalupi: Everybody got their coffee and ready? Okay, good morning, ladies and gentlemen. I'm going to call to order the board of administration for the Police and Fire retirement plan. I'll do a roll call, to begin with, the chair Bacigalupi is here, vice chair Taylor is here, trustee Sean Bill is here, trustee Sean Kaldor is here, trustee Damon Krytzer is en route, called, said he had a little traffic thing, so he will be here, trustee Drew Lanza is here, new trustee about to be sworn in Bettina Rounds is here. Trustee Vince Sunzeri is here. And trustee Richard Santos is here. So we're going to start off with orders of the day. First order of the day, we're going to move item 3.1 to be heard after 1.2. We have some outside consultants we want to get all their work done and have them move on. And then item 4.1G, we change the retirement date of Jan Gall to December 24th, 2011 with reciprocity. Item 4.1H, Glen Harper, change to retirement effective date of December 25th, 2011. Item 4.1N, Steven Schmidt retiring with reciprocity. Doesn't include his reciprocity on the agenda. Item 4.1I, Kenneth Munson, change of retirement date to December 31st, 2011.

>> Sorry that was I?

>> David Bacigalupi: I, was it L?

>> Richard Santos: Looks like an L.

>> David Bacigalupi: Ken Munson 4.1L. 4.1 O, Carol Sippel, change effective date to 4-24-2011. Any other requests for changes of order of the day? The first thing we're going to do also under orders of the day is, Dennis Hawkins the City Clerk is here to swear in newly appointed trust Elizabeth rounds and also swear in Sean Kaldor for a short term appointment until the council takes action and makes it official. Dennis it's all yours.

>> Dennis Hawkins: And Mr. Chairman, the council's consideration of the appointment of the police and fire retiree as well as the -- I'm sorry, fire department active employee and the Federated active employee is on next Tuesday's council agenda. So it will be taken care of next week.

>> David Bacigalupi: Thank you.

>> Dennis Hawkins: If I could ask Ms. Rounds and Mr. Kaldor to stand, please, and repeat after me. I, state your name.

>> Sean Kaldor: I, Sean Kaldor.

>> Bettina Rounds: I, Elizabeth Rounds.

>> Dennis Hawkins: Do solemnly swear. [Repeat] That I will support and defend. [Repeat] The constitution of the United States. [Repeat] And the constitution of the State of California. [Repeat] Against all enemies, foreign and domestic. [Repeat] That I will bear true faith and allegiance. [Repeat] To the constitution of the United States. [Repeat] And the constitution of the state of California. [Repeat] That I take that obligation freely. [Repeat] Without any mental reservation. [Repeat] Or purpose of evasion. [Repeat] And that I will well and faithfully. [Repeat] Discharge the duties. [Repeat] Upon which I'm about to enter. [Repeat] Thank you and congratulations.

>> David Bacigalupi: Bettina and Sean, you ought to know better, but on behalf of the board, welcome. We love having you here, so thank you both very much. With that we move on to the agenda. Item number 1, investments. 1.1. Presentation of the quarterly performance report as of September 30, 2011. And Dan and Allen, come on up.

>> Good morning.

>> David Bacigalupi: Good morning.

>> My name is Dan Lebeau. I'm the lead consultant on the Police & Fire relationship, and with me today is Allen Martin backup on the relationship that has been involved since day 1. Allen is a partner with NEPC and also

member of NEPC's executive committee. I'm going to ask Allen to start with an overview of the markets for the third quarter and maybe more of an update and I'll dive into the actual performance of the fund once he's done.

>> David Bacigalupi: Go right ahead.

>> I think you are all aware the markets did not do well in general in the quarter. Equities were off over 8%. Since that time equities are about up 4% through yesterday, we have recovered some of that. It was a challenging market as we'll go through. I'm not going to detail the economics in any great detail. They are covered after page 48 in your book. But what you saw economically in the quarter is a continuation of what you saw in the second quarter and the first quarter. Anemic GDP growth. Without GDP growth you do not create jobs. Without creating jobs you do not create purchasing power. Without purchasing power you do not see overall growth in the economy. The fundamental issue we have is that unemployment remains stubbornly high at about 9%. That number has not changed and most economists would tell you unless you get GDP growth in excess of 3%, you don't bring unemployment down. The federal reserve two weeks ago lowered their outlook for next year and the following year to numbers substantially below 3%. The economic developments which can I go into detail, Europe obviously complicates life because Europeans buy goods from China. China is now threatened in their growth cycle because of the uncertainty in Europe and the potential lack of financing for growth through the banking system. I wasn't going to go through that because that's the same thing you saw in the second quarter. It's the same thing you saw in the first quarter. What was different is how the markets reacted to that news. So if you turn to page 2, the blue bars represent quarterly returns on the various markets. The yellow bars are the annual returns. If we had showed you this chart as of 6-30 you would have seen a very different picture. If you remember, the equity markets did quite well in the first half of the year. The third quarter of the year those dramatic drops in virtually every equity market literally wiped out the gains for the year. So if you look down the page for the quarter, the S&P 500 was down 13.9%. Resulting in a one-year return of 1.1%. Versus as of June 30th, the annual return for the markets were up 30.7%. So that declining quarter wiped out of a lot of the gain for the prior year. That does illustrate the pejorative effects of negative returns on compounded results. All of you know if you lose 50% of your money in a compounding world, you have to get 100% to get back to even. That's meant much of the reason your strategy involves lower equity exposure is to not be as affected by volatility. And you'll see when Dan talks

about it in the quarter you did quite well relatively. That didn't mean you didn't lose money, that meant you lost a heck of a lot less money than others because your portfolio position is more conservative than others. If you look on down the page, you'll observe for the quarter that the blue bars get bigger as you go down the page. It's ordered from the safest equities at the top, the S&P 500, the largest 500 industrial corporations in the U.S. Down to emerging markets. So as you took more risk, with respect to volatility, you got more negative returns. Fixed income we're a distinct exception, particularly long governments. We would tell you that long governments are not an attractive investment right now. They're yielding about 2%. You have an over 7% return requirement and while we think rates will stay low for a while, they can't go down much from here. So as rates rise over long periods of time, long governments are not the place to be. What happens in crisis however, is people flock to the safe haven of U.S. dollars, despite the fact that we're one of the larger debtor countries in the world, and that boost the return associated with fixed income. So you see that a naive strategy of layman ag would have even in this period generated 3.8% and you see the results for the rest of the year. Looking down the page you see in the alternatives a couple of the alternative asset classes particularly NACRIEF and venture capital did do well. But recall those values are lagged a quarter. So you don't -- there's a quarter lag in reporting. When we report the December results you're not going to see these numbers as attractive as they are. The other thing I would point out is look at the difference between NACRIEF which is institutional real estate and REITs, which are liquid real estate. At the investment committee meeting yesterday we talked about the controversy of why didn't we buy REITs as a substitute for institutional equity and you can see how different REITs are just looking at the differences between how REITs performed in this most recent quarter, down 14%, versus institutional property of 3.3. And in fact you really have to move back to ten years before you see those two looking similar. There's a lot of difference between how REITs perform and how institutional real estate. The last thing I'd say on this page is if you look at the five-year numbers, there are only two asset classes that generated over 7%. Emerging market debt and private equity. So this has been a challenging period for all institutional investors because the markets themselves have produced results that have been very inconsistent with the long term averages. We're in the middle of a ten-year period, where bonds have outperformed stocks. I have other clients saying if you guys are so smart why didn't you just put all my money all in long bonds, you would have done better. There are only three periods in U.S. history going back to 1870 where bonds out-performed stocks for 20 years. So this has been an anomalous period, it's been a very challenging period for institutional investors. That's all I was going to say about the markets. That's background. If you had any questions I'd be happy to cover them. The next page, page 3, has been a very consistent observations and opportunities that if you were to look at the second quarter and the first quarter, what the outlook in terms of opportunities hasn't changed a lot. In this kind of an environment we recommend maintaining a disciplined approach to investing, reviewing the risks in the portfolio, rebalancing towards targets, and the opportunities we've been talking about are increases in things like emerging markets debt and equity. Seeking active -- active returns from strategies that can benefit from macro changes, global macro risk parity, hedge funds, there was a lot of discussion at the investment committee yesterday about accelerating the process of getting into those asset classes. By considering less directional approaches to portfolio structuring, using things like equity long-short, GTAA, again options that were discussed yesterday, and by considering distressed and event-driven strategies, to take advantage of restructures. European banks are in trouble. They need to raise capital. They're going to have to sell good assets off their balance sheets to raise that capital. And that will create an opportunity for investors that are positioned to do it to buy good assets at distressed prices. So that's the general outlook and observations. I think we covered a lot of those at the investment committee yesterday. Dan is now going to talk about how your fund in particular did in this environment.

>> Thanks. So I'll turn you to page 5, to begin to discuss a summary, a high level summary of the total funds results as of September 30th. For the year ending September 30, the fund experienced a net investment gain of about $23.5 million. This included a loss of $220 million during the third calendar quarter. So can you see the fund was actually quite positive through June 30, but the losses of -- for the third quarter significantly took away from the gains made earlier in the year. Total assets increased from $2.53 billion to $2.56 billion from one year ago. And that's including 3.1 million in net contributions. Typically when you see this page it's net distributions but I wanted to point out that the city's annual contributions was made to the fund during the third quarter, and that's why that number is a net contribution during this period. For the 5-year period ending September 30th, the fund returned 2.2%, slightly outperforming its policy benchmark and ranking slightly above the median fund in its universe. Also, the funds risk adjusted performance has done slightly better than its peers as well. For the two year period ending September 30 the fund returned 5.6%, trailing its policy benchmark by 1.4% and ranking in the 75th percentile of its peers. But I do want to point out, over the past two years we have been in a very volatile

market environment. A risk on risk off trade so to speak and over that time the fund has been able to reduce its volatility on both an absolute and relative level quite significantly. And that's resulted in a sharp ratio over the two-year period that's in the 43rd percentile of its peers. So consistent with a message we've been discussing with the board since 2008, we've been looking to reduce the overall volatility of the plan and you guys have done so. For the one year period ending September 30 the fund returned 1.1%. Trails its policy benchmark by 2.7% and ranks in the 74th percentile. Again, I would say the fund's volatility, while the absolute returns are not as strong as it would like the volatility is much lower than its peers and that's consistent with the message we've had with the board for several years. As Allen alluded to for the quarter while your return was down, the fund was down 7.8% that actually on a relative basis ranked in the 22nd percentile of your peers. So while a lot of your peers have larger allocations to equities which hurt their performance during the quarter you guys, the more defensive strategy that you've taken on really helps during the quarter. And I'd also mention all of the asset classes were within their policy ranges as of September 30 and you'll see that on page 7 as well. On page 6, I wasn't going to go through this in too much detail but did want to touch on the last bullet point which was the global equity restructure which was completed earlier this month, or just recently completed. And I don't have any comments on maybe the activity but wanted to just point out that there will likely need to be some changes made to the policy benchmark as a result of this shift in the global equity restructure. I'll point to you page 33 which shows the actual history of the policy benchmark and current with this move to a more global equity structure and MSCI mandates I think we'll need to revisit with staff some changes to the policy benchmark which will impact the statement of investment policy as well. So that's something you should be prepared to hear in the next several meetings. Page 7 is a snapshot of the fund's allocation as of September 30. I will point out that there's one thing missing from this page. It's the line for the absolute return strategies. There's the bucket is empty so it doesn't impact the left side of the chart but if you were to add up the policy benchmark weights, they're only 95%, not the full 100, because the absolute return line is missing there. So I apologize for that. We'll make the update and fix that. And you could see, as I mentioned before, all of your asset classes are within their policy ranges as of September 30. Moving on to page 8, you know this just kind of reinforces the comment on the fund's equity allocation. You could see as of September 30, 2006, the fund had close to 68% in public equity markets. As of the same time period 2011, you're down to 43.5%. And while San José, the Police and Fire fund has been trending downward also want to point out that the median fun has been trending downward as well. So you notice in 2006 the median fund was about 60%

public equities. Now it's closer to 50% and while the market move has something to do with that I think most of it is due to a general move in the public fund arena towards lowering equity allocations. So that's something we've been discussing with you since 2008. And a lot of your peers are starting to catch up and that's why you're seeing that line kind of trending downward. I'll skip over page 9. If you go to page 10, this gives a bit of a snapshot of where you were as of June 30. So we like to show you going into the quarter, what the beginning asset allocation was, and tries to give you a sense of how your performance was during the quarter. And so you know as I mentioned before, the fund underperformed its policy benchmark for the quarter. Largely due to being overweight equities versus its policy benchmark during the quarter. You'll notice the equity allocation as of June 30 was about 48% vs. the policy benchmark of 40%. So in the market when an environment when equity markets were down 10% plus that overweight position hurt the fund relative to the policy benchmark. And as well you'll see on -- and the following page, the fund relative to the public fund median, is also lagging. And I would say that a lot of that is due to maybe different exposures to alternative assets. You'll notice on the bottom chart there, the -- some of your peers have allocations to global asset allocation hedge funds and some of those asset allocations would have helped on a relative basis. Page 11 is a snapshot of the total fund performance over trailing periods as of September 30. The top two lines are the performance of the fund, so that's a weighted average of the performance of your managers times the allocation to those managers. The allocation index there I just want to take a minute to explain what the allocation index is. The allocation index is taking the actual weight of your managers times their passive benchmarks. So it's a measure when you take the total fund and subtract the allocation index, that's a measure of manager value-add. Okay? The policy benchmark is static, so -- I'm sorry, let me go back. The allocation index is a changing, those weights change based on the weights of the underlying managers. The policy benchmark is static weight times their passive benchmark. So what you'll see the kind of aggregate is, the total fund minus the allocation index gives you the manager value-add, the allocation index minus your policy benchmark gives you the value-add of any drifts from your policy and the combination of those three explains the difference between your total fund and your policy benchmark. If there are any questions on the performance, I'm happy to address them. I just -- the numbers are there, but I wouldn't read them for you. And I guess I'll -- the next several pages are some risk return charts to show you over the one, two, three and five-year periods how the fund has performed on a return volatility basis. And you'll notice, if you flip to the five-year chart, the funds volatility was actually slightly above median. And as you kind of work your way forward, you'll notice that has moved more and more to the left. Unfortunately that's also moved down on the chart. Where you ideally want to be is in that upper left quadrant. You want to have lower volatility than your peers and higher return. So while you've been able to significantly reduce the volatility of the portfolio the returns aren't quite what we would want them to be. And I'll turn to page 17 now to briefly discuss some attribution. Just in looking at the policy benchmark impact, so the policy benchmark impact takes your policy benchmark and subtracts out the performance of the median public fund. And so what that would tell you is that your policy index, the strategy that you've employed relative to your peers has -- would have actually -- has provided significant out-performance. Now there's some noise in there because the median public fund is including manager alpha in that number. So it's not a complete you know one to one. But I would be willing to say that the majority of those numbers are due to the strategy that you've employed. And then you your allocation impact as I mentioned before is the difference between your allocation impact and your policy benchmark and your manager impact is that difference between that total fund and the allocation index. So we kind of look at page 17 and page 18 together. If you can. I don't know if it's printed in a way that you can do so. What you'll see here on page 18, the top line is a representation of the manager impact or your manager value-add. And the bottom bar is the representation of the impact of allocation decisions versus your policy benchmark. And so what you'll see is, if you look at the top two bars on the quarterly chart on page 18, you'll see it's negative 20 basis points for your manager value add, negative 1% due to deviation from your policy benchmark and those numbers should sync up to what you see on the prior page. Now there's some noise in the numbers but it's pretty close. And so what I wanted to explain for the quarter is, as I mentioned earlier, being overweight to equities detracted from the quarter. That also includes the fund's allocation to convertible bonds. Convertible bonds are included in the equity allocation for asset allocation purposes, and the convertible bond market was down I believe close to 10% as well during the quarter. And so what you can see for the quarter here, the green bars if we go down, your U.S. equity managers that actually added value during the quarter as did your non-U.S. equity managers, your fixed income managers slightly detracted. And as far as the decisions to -- deviations from your policy benchmark again, the decisions in U.S. equities detracted as did non-U.S. equities of being overweight fixed income you can see helped slightly. And the same is true on the one year chart. The numbers are just you know over a longer time period obviously but the impact you'll see there is really due to manager value-add and the allocation effect within your alternative asset classes. And happy to discuss the details but that's largely due to as far as the allocation effect and underweight to Real Estate vs. the policy benchmark over the period and as Allen alluded to, there was discussion as to potentially filling that bucket with he REITs historically but I'm not sure that would have been beneficial to the fund based on the returns of REITs over that time period.

>> Carmen Racy-Choy: Then I'll just add one comment, that we should remind the board that the board made the decision that the amount in which we are under-allocated in alternatives should be allocated among the liquid assess classes and that's the reason we were overallocated comparatively to our policy, to equities, fixed income and commodities as well.

>> Exactly right. Historically there was actually that overweight position was held in fixed income and you may recall that late last year there was a decision made by the board to move that from just being overweight in fixed income but to allocate that overweight position across all your asset classes and that is the point that Carmen is making.

>> Sean Kaldor: Could you cover slide 16?

>> Sure, sure. So slide 16, what you're seeing here is the rolling five-year performance of your fund versus three measures. So away you'll see here is the excess return of the total fund versus the policy benchmark over a rolling five year period versus the median fund versus five year period and the 60-40 fund versus five year period. I think what you'll see is, you know historically those numbers have been larger. I think that that's really because of the fund's historical large allocation to equities which benefited the fund through 2007. Since that time that has not -- we have been reducing equity exposure and what was your -- versus the 60-40 index for example your fund is closer to 40% in equities as opposed to 60%. That's a large reason for that draw down historically and the number as far as relative -- the total fund relative to the policy benchmark has remained relatively flat over five year period since kind of mid 2008 when we came on board through the current period.

>> Sean Kaldor: That's kind of what I'm looking at. We had the unstand versus the median funds, and everyone else we have our own benchmark, so I'm really focusing on that black line. It seems you know 2002 to 2005 or 6

we're out performing by a good point and now we're right in line with our benchmark. So that that's not a change in asset allocation, what would -- what do you attribute that change to?

>> The total fund versus the policy benchmark is something you do control. You control it through your allocation and through your manager selection and it's still positive, that's good, it isn't as positive as it was back in the early early periods. It's certainly better than it was in the March, June, July period 2008. Now, the whys and wherevers of the differences because again, the rest of it is relative to others which you don't control.

>> That could largely be to manager out-performance during that period. You know you could have had managers that performed really well through the early 2000s through 2005. And that was a large reason for the out-performance. But can I get back to you on exactly why historically that number is higher than it is. But I would assume that's a large part of it.

>> Sean Kaldor: What I hear is asset allocation, adherence to the benchmark and manager selection. It would be good to know or understand where that's coming from.

>> The good news is it's still positive because for a lot of funds it's not but we can analyze the details of that.

>> Sorry for coming like that. Not all of our managers are completely benchmarked to our benchmark either. Right? Maybe you can explain that because that may or may not have something to do with this somewhat positive. Plus you know, people --

>> There are two factors too that are important. Managers are benchmarked against benchmarks. In public markets those benchmarks are generally investable. So a manager whose target is the S&P 500 could really invest in the S&P 500 if he chose. In the public markets the difference between the manager and the benchmark is generally over time a representation of tear skill. When you get into alternatives, the benchmarks are different. Some people choose for things like private equity an opportunity cost of being in private equity and they'll pick a benchmark like the Russell 3,000 plus 2. Over a long period of time your private equity should beat

that because why else would you invest in private equity? But in short periods of time you get massive differences in the benchmark so you get what we call benchmark mismatch. If you use the thing like Cambridge VC lag and you'll see we do compare you against that, the manager lag may not match against that benchmark. These are not scientifically precise over each class. Over long periods of time they tend to be relevant, and setting those benchmarks, as Dan said earlier, as you adopted a new strategy for global equity will require that the benchmarks be recalibrated.

>> And also be attributed to the maturity of the program, particularly in private equity and real estate, if you're just getting your program off the ground, funding with some new investments as opposed to these indices which include much more mature programs, vintage year allocation going back historically so that could have an impact on that as well.

>> Carmen Racy-Choy: I think though that's a fair comment in general, trying to get a policy benchmark to mirror the mandates, gives the board more information. Because right now, I think because we use a broad benchmark, it's difficult to see whether the failing is really the manager, or is it the fact that the choice of structure? And so, as we rework the policy benchmark, we can tweak that a little bit.

>> Can you comment a little bit more if we can revisit the discussion on REITs? So we had some comments in the investment committee meeting and then didn't allow you to kind of follow up on that. But from what I recall, in the meeting yesterday, when we talked about the plan's underperformance relative to the policy benchmark and peers part of that was due to I believe your comment was our REIT under-allocation.

>> I would say real estate, not REIT.

>> Vincent Sunzeri: Or real estate under-allocation.

>> Correct.

>> Vincent Sunzeri: You're now basically discerning the difference between the private market and the REIT market?

>> Correct.

>> Your real estate allocation had a target of 10 and the benchmark was NACRI. You were actually at 5. And the NACRIEF benchmark did well. That under-allocation in terms of performance, quote, hurt. There had been some discussion of why don't we get to 10. By buying REITs? And the reticence to do that which we talked about in the performance numbers is, REITs are not a really good substitute for institutional equity. And in fact, they're very volatile, and as you saw in the quarter, down 15%, was like down an equity number, when institutional real estate was up 2 or 3. So this is not a performance issue per se. It's not like you did something wrong. But the way the benchmark works, that under-allocation to institutional equity cost you, in terms of performance against your policy benchmark. But similarly, if you decided today to be 10% in private equity, that is unlike public markets, you all know, if you decide to give $100 million to a large cap growth manager, you can go do that in a matter of days. If you decide that you want to take your private equity allocation from 5 to 10, you hire managers, the managers then draw down that capital as they see opportunities, and it pay take them five to seven years to get to the point of that 5% allocation. Real estate has a similar flavor to it. So an element of this policy drag is not that you did something wrong. It's the fact that it takes time to get to your targets in slow-build asset classes and that will, if that asset class out-performance other asset classes, appear to be a drag on policy performance. If it had underperformed, the opposite would have been true. You would have been glad that you hadn't gotten to your targets in that time frame. So it is what it is. We report it but it is not the same as saying a manager outperformed or we made a decision to consciously overweight an asset class that was rewarded or not rewarded.

>> Vincent Sunzeri: So then to clarify, when I look at the numbers in the most recent quarter clearly you evidence the fact that REITs underperformed the private market. Are you suggesting that REITs should not be a part of the real estate allocation at all?

>> We're certainly saying you shouldn't immediately try to go from 5 to 10 by putting the entire 5% in REITs.

>> Vincent Sunzeri: And if you looked at 2009 and 2010, would you come to the same conclusion? That REITs significantly underperformed?

>> Well, the numbers are there. And of course you don't want to totally justify a strategic decision what actually happened. But if you look at the data from a one-year period, this is back on page 2.

>> Vincent Sunzeri: Correct.

>> You'll see that it really, even in five years, REITs have substantially underperformed Nacrief property. In the ten-year they look more consistent. So we're not saying you should never have REITs. We're saying that REITs are not -- that the idea of saying let's build our real estate allocation to 10 quickly, because you can buy REITs just like you can buy equities, to put your entire difference between your target and your actual in REITs we don't think is a good thing to do.

>> Vincent Sunzeri: Thank you.

>> David Bacigalupi: Sean.

>> Sean Bill: I was just going to ask, in terms of the private equity and trying to get some of that stuff moved up, is the secondary market something we should be looking at, or is that completely bounced back and recovered from the depressed levels that we had?

>> We generally think secondaries, while they are not quite as attractive as they were a couple of years ago, there are still opportunities in the secondary markets, there is opportunity in mezzanine debt, there is opportunity in distressed debt which are private equity structures so yes.

>> Sean Bill: So we circulate take a look at that as a possibility of getting these back dated vintages?

>> Exactly, absolutely. And secondaries, when you are buying a private equity investment that someone else has made and is selling, gets you vintage year diversification, because you are buying assets that have already been invested. And if you're buying from a distressed seller which is not quite the case as it was a couple of years ago where people like Harvard and Stanford had overdone their commitments to private equity and needed cash. I had one client who actually bought, I can't tell you who, but they bought a good chunk of a major eastern educational university's private equity structure at a 40% discount to the book. Those opportunities aren't as significant as they are today but there are still opportunities to do that.

>> Sean Bill: And on the direct lending to the middle market space we have those three investments. You guys still feel it is an opportune time to possibly increase the size of those investments?

>> Yeah, part of the philosophy is when there are distressed sellers of good assets or when you have capital and others don't which is really the situation we are in globally, you have capital, you are a pension fund, you have money, you have contributions coming in. If we can gain a premium by in effect providing those moneys, to people who need capital and can no longer get it because the banks aren't lending any money, because G.E. is pulling out of the business because commercial credit went into bankruptcy, that there are premiums involved in doing that, we think that's a good thing to do.

>> Sean Bill: And what are you guys -- what's your outlook on the MLP space or infrastructure in terms of like securitized products in terms of trying to find some extra yield out there?

>> MLPs are very interesting. We're doing a major look at them right now. They're concentrate -- MLPs are master limited partnerships, they tend to be purchasing things like pipelines, so they tend to be energy related, they tend to be a little nichey. But they're also yielding 6, 8, 9% now in a market where that's not the case. So MLPs are something we're looking at, infrastructure in general.

>> Sean Bill: And have you looked at leveraged mortgage REITs at all, do you have any opinion on those, in the terms of the MLAs of the world?

>> I don't know the answer to that question. Our research people are constantly looking for new opportunities. I don't know specifically. We've tended not to be big believers in overly leveraged situations. So I don't know if those would qualify. People who took leveraged risk recently were not re-awarded so we've been a little cautious about leverage.

>> Sean Bill: Okay.

>> David Bacigalupi: Damon.

>> Damon Krytzer: I do think those are somewhat related. You guys were looking at the mezzanine RNDS market, which was talked a little bit about. And I know this isn't lost on you, but we have seen a lot of restructuring just in general. It's not, you know, it's at a lot of investors and another a lot of public funds have given a lot of love to their public market portfolios and it seems right now more folks are putting more attention and more thought to the vintage diversification of the private equity portfolio. It doesn't seem like it's distressed lenders or stressed owners. Texas I think just went into the market for like a billion and a half in secondary interests.

>> Yep.

>> Damon Krytzer: We haven't talked about direct either but when we get into that conversation I'd be interested also to hear your thoughts on direct secondaries or direct secondary funds too. My question was on the real estate piece again, we've spent a fair amount of time talking about real estate but it's been for some of the -- I can't even call us new trustees anymore, some of the incoming trustees it's been a bit reactive and we've given a lot more attention to more pressing needs but I'm interested in hearing your thoughts on how we should actually goal-set our real estate portfolio and what our targets are. Not return targets but what are we trying to accomplish?

>> Let me start with the allocation. Your target is 10. The institutional median for real estate is 8. So you're roughly in the ballpark. Your asset allocation study will fine tune that number. Whether it will end up at 8 or 10 or 12, whatever. What's happened to institutional investors in real estate in the last five years, you used to buy real estate in the form of fully leased, quality properties where you collected rents and had full occupancy. And it was kind of a -- an inflation hedged six, 7% yield. In the 2007, 2008 period, many of the consulting -- real estate consulting firms recommended to clients taking advantage of opportunistic and value-add real estate. So investing in undeveloped land or properties that weren't in major markets that had some problems with occupancy. That they were deficient buildings that needed to be invested in. And so many institutional investors plunged into opportunistic real estate. They were crushed in the 2008-2009 period, and right now what you see is those people getting out of those opportunities and rushing into core real estate. Two years ago if you wanted to get into Prudential's core real estate fund, there was a cue to get out. Now there's a cue to get in. So our views on real estate, for those that understand it is this is probably the time to think about, maybe not exactly now, but doing more opportunistic real estate. Because it's what the crowd is not doing. And the opportunities and values are higher. But you have to find good managers to execute because it is a game of expertise in buying well and if it's rehabbing, rehabbing and what have you.

>> Damon Krytzer: And I think we have all been very supportive of overweighting the opportunistic side. My question is with our diversification goals of real estate and that's a case away from REITs.

>> Yeah.

>> Damon Krytzer: Against equities.

>> I think we would be happy to present a real estate plan which would address those questions as far as what would the allocation be to core opportunistic, value-add REITs within your real estate allocation and discuss how we would build that going forward. As you know, your real estate portfolio historically has been individual properties that you've owned and now you're in the process of moving away from that structure, into more

commingled investment vehicles. But as -- and currently are using the American core realty fund to do so. I think we can identify additional opportunities as you have alluded to and maybe as the individual properties are sold not necessarily have to move at all into the core fund right away, have some other options.

>> Damon Krytzer: I guess when you do that it would be super, instead of calling it opportunistic, putting some definitions around the opportunities there.

>> Sure, absolutely.

>> Damon Krytzer: Thank you.

>> Sean Bill: I think we would like also to look at overseas real estate as well.

>> Damon Krytzer: Absolutely.

>> Sean Bill: And if you guys could also keep us up on the MLP progress as you make --

>> I would bet in the next month or two. We are looking at a couple of MLP opportunities as we speak. They're -- you can call them fixed income on steroids, you can call them infrastructure investments. But the yields we believe are in that eight to 10% range and five years ago, or maybe three years ago you would have sneered at only 8 to 10 but now it looks pretty damn good.

>> Sean Bill: Three years ago you would get 18% from some of those.

>> David Bacigalupi: Any other questions? Thank you very much. We're going to go to 3.1 April 1.2. 1.2 is: Update from the chair of the investment committee.

>> Vincent Sunzeri: Thank you very much. We'll see if I can cover this information in short order. I'm trying to condense a four hour meeting that we had yesterday, preceded by an hour and a half conference call between myself the chair of the Federated board, Carmen, and our director, Russell. So a lot of activity, but tremendous progress. At our meeting yesterday, these meetings, so you're aware, are joint meetings with Police and Fire's board and Federated board for the investment committee purposes. We had a presentation from NEPC, so it was really the first time the committee had heard from them. We also had the opportunity to hear the Federated's consultant Mikita. Quite interesting seeing the differences between the various firms. In addition to that, we had the opportunity to hear additional presentations which I'll talk about in a minute. But what's really important is this board become aware of is how we're struggling to utilize our consultant for this plan. I think they're an extremely capable firm. However, there's some observations that there's some philosophical disagreements between the advice that's being given, and the direction our CIO wants to go. And it's very fortunate now I think we have these new committee members to help fill in the gaps here and drive this in the right direction. I don't know if I want to go as far as call it a dysfunctional relationship, but to some extent it is. And some of the areas where we've had challenges is manager recommendations, that have not been accepted by staff. Asset allocation decisions, we've heard a little discussion here on the REIT side, where there's been recommendations in disagreement. And frankly that's going to happen from time to time with your consultant. There's -- you're not going to agree upon everything. But the relationship needs to continue to progress, so that we're getting the value that we're paying for. In addition to that, the ongoing monitoring and guidance that we're receiving from our consultant on our existing managers is an area of question. Those are issues we're working through. We're making great progress on and in particular, at the meeting that we're going to have in January, it will be a high agenda item. In addition to that, I will also point out I think we have a much clearer structure for these meetings. This was our fourth meeting since August of the joint investment committee meetings that we've had. We have an agenda that flowed fairly well although it took a long time where we got updated performance information, heard from our consultants and covered additional areas. And the heart of it really drilled down into this discussion of priority list. We're talking about this at our board level, and we're also talking about it at the committee level. The committee members and I know many of the board members here have been quite frustrated because we can see the data, the data's pointing to underperformance relative to where we want to be but yet we're not moving fast enough is what we feel. I understand why. There's a lot of bringing the new board members up to speed on where the plan currently

sits, why it's structured the way it's currently structured. The frustrating part is, and I hate to use analogies but I use them often so bear with me. It's almost like you become the head coach of a football team and you're told that your defensive players you have problems with and your running backs you have problems with and oh, by the way we can't change any of that and you have to go out and win the game. We're not winning the game. Not only do we have a new coach but the coach cannot bring the play book and the play book is the ALM and the ALM is not done yet. See how frustrating the situation is? Things haven't been getting accomplished. I believe with the new ALM list things are on the front burner, the he other items will be delayed a tad bit. We will have that for the investment meeting for the Police and Fire in January, we'll come to the board in February for us to start to accelerate and work through the asset allocation side of things. As we're going through this priority list ALM is number 1. Another high priority is how to deal with the staffing challenges that we have. I think this needs to be elevated to the board level. Not just at the investment committee level but we can do a lot of work at the investment committee level. And the challenges we talked about, we bantered these issues about not only at our board retreat but at different board meetings. And that is an issue of staffing challenges that we have. The fact that not a lot can be done with the limited resources that we have. Fads to that, it's quite challenging to hire the individuals that we feel that we need to at the price points that we can afford to pay. We're working through that. In addition to the fact that the alternative method is utilizing our consultants, because that's really what we're paying them for, in trying to create a more functional relationship. And if in fact that cannot be resolved, figure out how to move in the correct direction. Ideally, it should make some sense for these two boards, although there are different profiles of beneficiaries, if we can use more uniform resources it's cost-effective, it's time effective for staff and so I think that is something that will be considered at the investment committee level is we have two consultants, do we need to continue using two consultants? And if in fact we have two consultants how can we most effectively utilize those consultants. In addition to that, we had a presentation from Mikita on the CIO in a box, the outsourcing model. It was a bit of a presentation on what that model looks like. It was a bit of a pitch from a firm, as well. That's sort of to be expected. But that is on the agenda going forward for the next several meetings is we will have different firms coming in. So essentially we are exploring all options. We don't want to be sitting here as trustees and board members and end up in a situation where we lose critical staff and now we're looking at each other and try to figure out who's going to be running this plan. So we hope to resolve these issues very quickly. The last thing that I will point out going back to how I think we need to evaluate this at all levels, is we are currently paying our consultant for alternative asset fees. We're not utilizing them in that capacity. They've actually suggested that they'd be willing to adjust those fees because we're not utilizing them in that capacity. I think it's a very fair offer. It's ridiculous that we're in this particular situation, and we're not doing anything about it. So I hope that not only are we looking at this from the perspective of the plan and the direction but the most cost-effective way to do this, as well. I don't know if that's ten minutes. But that was -- that was what kind of came through in four hours. Any questions on what's taking place at the investment committee?

>> David Bacigalupi: Questions for Vince? Thank you very much Vince for the report. Dick.

>> Richard Santos: I don't know about questions but comments. I had a chance to sit in the audience and observe what took place and if it was four hours it seemed like ten. [Laughter]

>> Richard Santos: What I liked was the committee members were firm but fair. At the same time, they took it personal. Hey, this is our system, I work in this field, I don't like what is going on in this system or what have you. I saw some lack of communication on both sides that need to get together. I thought chair Sunzeri just did a great job. Obviously, these communication gaps have to be brought together. I think maybe a span of control with Carmen on some of those areas was discussed there. I listened to that very carefully, sounded like a lot of work. But yes, I'm disappointed in the rankings, the performance and so on. Those are things that, I thought this committee had the expertise, they all had different expertise. Like Vince said, the biggest problem we had was getting that team together. Not going different directions, but having difference expertise bringing it together. While I was there I enjoyed it I learned a lot and I commend the committee. I think they gave it a great job in giving direction where we need to go to make this system financially sound.

>> David Bacigalupi: Thank you Dick. Sean.

>> Sean Bill: Yeah, I was just going to say I think one of the takeaways from our meeting was we wanted to encourage the staff to try to work closer with our consultant to utilize them as a resource, particularly as a time when we are having staffing issues. And the second big takeaway is that we really would like to see an end of

excuses and start fixing the problem. And that staff take ownership, that this is their track record, that this is their responsibility. That they need to work with the resources they have. And you know, get it going. I think it was very clear at the meeting that the trustees are very disappointed at the underperformance of the plan and we are not going to accept these results going forward. If we don't see a change in the direction then we'll be looking to take other actions.

>> David Bacigalupi: Damon.

>> Damon Krytzer: Okay. This is really a comment for the board. Just because I mean I had a chance to sleep off yesterday's meeting as well. I feel pretty good about the meeting we had. I feel with the -- with the very defined priority list, that we have a plan in place, and I feel like we're going to be able to act on it so I actually just to give this a little bit of a positive tone, because we've been you know I don't want anyone to walk away from here, I actually think we're on track to be in a good place. And that's it.

>> David Bacigalupi: Good. Thank you to the members of the investment committee. Anything else, Vince? Thank you. Okay, next item. Item 3.1, discussion and action on Cheiron's experience study for the period July 1, 2006 to June 30, 2010. And this was continued from the November 2011 board meeting. Welcome gentlemen.

>> Gene Kalwarsky and Bill hallmark. We're going to cover on page 1 of our presentation we're going to first recap the November 3rd presentation. There was a lot of discussion as you recall in our analysis of the assumption changes. And we've absorbed that feedback from the board as well as new information from staff. And we have follow-up analysis and recommendations. But we're also at this time prepared to show you the results of the June 30th actuarial valuation which we did not have last month. And we'll do that by showing historical trends and preliminary June 30, 2011 results and we call them preliminary, because we don't quite know where the board will settle in on assumptions yet. And then, probably, the most important part of our presentation will be at the end when we not only do some stress-testing projections but show you why this fund is very unique compared to your peers as far as even if they have the same investment volatilities in other funds, the impact of

that investment volatility in this fund is going to be far greater, and we'll get into that. That is one of the challenges you face. The economic assumptions that we reviewed last time were the discount rate including the administrative expenses. Wage inflation. And the Supplemental Retirement Benefit Reserve. And the key assumptions and demographic area, retirement termination disability death and merit. And for each topic we're going to reviewing our prior recommendation summarize what we thought was the board's reaction last meeting and end with a revised recommendation if applicable. We did not revise all the assumptions. But I thought or we thought that before we get into the details we wanted to go to the end of the movie. And show you at the very end, we're not going to spend a lot of time on this but this is our projection model and I only want you to focus on the bottom graph. Last July we had presented staff with a projection of the cost of this plan under the old assumptions. And that's represented by the red line. Those are in hundreds of millions of dollars, millions of dollars. So if you look at fiscal year 12, I'm eyeballing 150 plus some million. And what the gold and teal bars are total contributions now that we are expecting, after, if you accept all the assumptions at a we're about to go through. Which you know, were clearly making the assumptions more conservative. But we're showing you here that the end of the day costs are projected even with the new assumptions much less than they were expected to be in July. And the two key drivers to that were significant reductions in payroll and people. And you also had a significantly positive investment year that ended June 30, 2011 that offset those 2008 losses. So just wanted you to know before we go through this so you don't start worrying where we are driving cost to. At the end they're going to be at this level. At the end we are going to revisit these at the end of our presentation.

>> These are not inflation adjusted these are absolute?

>> Yes.

>> Can we get a copy of that at some point?

>> Is that (inaudible).

>> Some reminders from last meeting. Actuarial assumptions are never going to be correct from year to year. And to the extent assumptions are off in a direction the annual valuation is a self-correcting process. And actuarial assumptions are intended to be long term in nature should be reasonable both individually and in the aggregate. You don't want to make frequent and frequent changes in the assumptions. And since you started with the analogies, I'm going to use an analogy, but not football. An ocean liner navigating the seas, sometimes it's calm weather, sometimes it's stormy weather but I'm not really a boater but I imagine that you don't jerk that steering wheel around every time the wind changes directions. And a pension fund is like navigating through that type of environment and that's what we mean by these points here. Slide 4, this is a summary of the economic assumption that we recommended at the last meeting. We provided a range on the discount rate as low as 7%. We wouldn't go above the current 7.75, and at the last meeting based on information we had then, we had a 7.5% recommendation. Wage inflation, there was a lot of discussion about that. We are in the range of 3.25 to 4, our min-max, and we had recommended 3 and a half. And then we'll have further discussion on this, Bill will present that. The supplemental retirement benefit reserve presently there is a cost to the system that is not recognized and you're getting losses and we're recommending adding a .22% cost for that. So let's visit each of the assumptions individually. Slide 5 we're showing your market value performance since 2002, relative to the 7.75 assumption. And you can see, you've got volatile markets and -- but overall that entire period you were below 5% on a dollar-weighted basis. And this is information you I believe had last meeting. Slide 6, we've now had revised assumptions that from the staff on capital market assumptions and I don't know, can you flip through the revision? Are they there? Last meeting we were looking at the -- something closer to the neighborhood of 7.5 but now the portfolio is expected to earn 7.26. And you go back to slide 6, that means 50% of the time your returns are going to be 7.26 or better. 5% of the time or the 95th percentile means 5% of the time you get 11.4% or better. This is a distribution of your expected returns. We're showing you that because we're saying it isn't -- you at least want to land at the 50th percentile. There is a actuarial debate out there, a whole legion of actuaries that are pushing federal regulators, accountants, and talking to the press about public sector plans valuing their liabilities with unrealistic discount rates. And they're suggesting that these plans ought to be valuing their liabilities based on low risk-free rates and that would greatly, greatly increase the size of the liability. Some people feel that some of those folks are driven by business reasons, as moneys may flow from one, equities to fixed income for the firms they work for and others are more theoretical how you see some of the universities are opining on

this. But there is pressure on actuaries to answer some of the questions of the market value of liability advocates proposed. In fact, I think we sent it to Russell. Bill and I co-authored an article on this very topic where we stood on the issue, and I guess Russell you may share that with any of the board members. GASB has come out with recent pronouncements that for the first time it's advocating the use of lower interest rates. It hasn't gone as far as the federal government where you have to use low discount rates for private sector plans, but GASB's inched towards that direction. You probably read about other public employee retirement systems that they're discussing lowering their rate. There is a lot of national press and scrutiny in all this following two devastating market declines. Talking about de-risking their pension plans. At the last meeting we spoke of the fact that if you set your assumption based on the assumed rate of return you've got a 50% caps of not achieving it. Is that where the board would like to be? We are saying the board risk preference is one of the factors where you settle in on your assumption. We also showed a chart that said if you project your funded status in the plan over a long period, whatever discount rate you use because you're amortizing your unfunded liability, you're expected at the 50th percentile to get the 100% funding. And what this graph is showing is the funded status on the Y scale or left-hand side scale and along the bottom, the probability. So at the 50th percentile going up, all discount rates are at 100% because that's where they're expected to be but the higher the discount rate typically leads to more aggressive asset allocation strategies and results in a larger span of likely funded ratios. That's an example of de-risking a pension fund. What we took as board reaction to our presentation last time on this assumption, we were asked to update our analysis to reflect the latest capital market assumptions which we've done. There was some question regarding whether active management vs. passive management can justify an assumption higher than the 50th percentile, meaning if 7.26 for example is your expected passive return, the fact you get active return, can you recognize that in advance? But then there were other board members that indicated a desire to lower the 7.5% assumption. And if you recall, we ended the conversation with questions regarding the appropriate amortization period for changing assumptions. We happened to prefer somewhat longer amortization periods for just changing assumptions, not for unfunded liabilities or anything, because we don't want to inhibit funds from de-risking their plans. So our conclusions after the new capital market assumptions and hearing the board were to lower to discount rate to 7.25 because it is reflective of the capital market assumptions. And we don't think that additional excess earns above a passive amount should be reflected in advance. But we maintain our recommendation that investment fees should not be explicitly added to the cost of the plan or used to reduce the discount rate. We did -- we do recommend that the amortization period for any method and assumption change go to 20 years for the reasons I just mentioned earlier. And I'll go to the wage inflation because they're sort of hand in hand and then pause to see if there's any questions on this part of the presentation. Unless otherwise if there aren't any we'll just continue on. Slide 12, we're talking about wage inflation. If you recall we came in at 3.5 and I think there were a number of board members were saying that seems too high. If you look on the left-hand side, the national wage averages, certainly in the last ten years, first column is 2.9. Last 20 years it's 4.2. CPI, which is an inflation measure for sure, is well below the 3.5% in recent years. And the difference between the two gives you an idea of real wage growth. But if you focus on your own experience, that's in the right-hand side. And that's the annual growth rate in the far right column. And for the past seven years it was 4.87. And for the past five years it's 3.45. And I think I've already -- these bullets that are here are just talking points of what I just said on the slide before. But our recommendation remains the same. It's at 3.5. But let's go to the board reaction the last meeting. Page 14. With the recent pay cuts and the likelihood of no pay increases in the near future, some board members felt that 3.5 was still too high. So we have come back with a modification on page 15. We'd like to maintain the ultimate 3.5% for the long term but reflect for the next two years wage inflation will be zero. And in this way we are using a lower wage inflation, and but we're not committing to the permanent basis. And this is referred to in our business in our industry as a select and ultimate assumption. Commonly used in the health insurance pricing industry, you have more certainty over the short term than you do over the long term. So some rise in the discount rate we're now down to 7.25 and the wage inflation ultimate 3.2 with next two years at the zero. We can entertain questions now or at the end.

>> Mayor Reed: Go ahead.

>> Damon Krytzer: The ALM study for Federated, the assumed rate of return for the new allocation, not the plus 2% but the one before it.

>> Carmen Racy-Choy: The lower one was 7.4 at the median and the higher one was 7.5 at the median.

>> Damon Krytzer: That was with the changes to allocation in the real assets and alternatives?

>> Carmen Racy-Choy: Exactly.

>> Damon Krytzer: I think that's a great McIver move, to change the first couple of years. Great idea.

>> David Bacigalupi: Pete.

>> Sean Kaldor: Great move.

>> Pete Constant: I have a question on two years for zero wage growth. I'm not sure if everyone here is clear on it, but what at least on the police side of the plan, the fire side is locked in for zero percent for two years but on the police side there's current arbitration where wages have an opportunity to potentially go up 10% as of July 1st of next year and that arbitration is actually going in I think a week or two. So I'm wondering if this has been factored in at all. What this is saying is we know it will be zero percent for two years. I don't know if we know that.

>> We think somehow some way, wages will be lower. Let's say police will get a wage increase, is there a reduction in staffing? It's not only the average, total payroll, this is an estimate, it will translate for a gain or loss for that period but again it's only a two year period so after two years we're not locked into that.

>> Pete Constant: I just think with the unknown of that arbitration, I still don't know if that's a comfortable spot to be. Because if the officers were to get a 10%, if they were to win the arbitration and get the 10% raise the likelihood that the city could practically say we were going to lay off that many number of officers to nullify that is pretty much zero. Because the staffing of the police department is already down to an historical low, at a number that many people agree there's no way we could go lower. So I just want to make sure that the board's aware of that as you look at this particular number.

>> Pete, isn't there -- I think the city manager put out a fiscal emergency or a memo out that's saying that their projected plan is to lay off 177 bodies on the police department?

>> Pete Constant: That is the equivalent number of bodies it would take. It doesn't say we are going to lay those people off. The council will have to make decisions, do we lay off placed or do we close every library in the city for example or do we close all the parks or do we not do X, Y and Z. There are going to be decisions, policy decisions on where the money is going to spent. But we all know we are 1450 police officers five years ago or four years ago. We have 1093 I believe now. We are already approaching one per thousand and laying off 200 police officers, it may be a balancing act to put it on paper. But for that to actually happen I don't think there's a practical way the city could police a city of this size with 800 police officers.

>> David Bacigalupi: Okay, Sean.

>> Sean Kaldor: I think my thinking was more about the three and a half versus three and a quarter. And looking long term seeing where the economy is and wage competition and all those things going on we were thinking of lower assumptions. Their recommendation was assume two years of zeroes an then 3.five after that, it kind of gets to the same long term assumption, how it's executed, we get a third of the people that are definitely getting zero percent. So I'm comfortable either way of approaching that.

>> Doing it this way gives us two years to come back and revisit the issue. In effect it's like having 3.25 now, but in two years, we're going to have to reevaluate it.

>> David Bacigalupi: Jim did you have something you wanted to --

>> Good morning, Jim (inaudible) president of POA. We have a long history of giving back. Two years ago, five and a quarter, this year 10%. If we do win the arbitration we're right back at the negotiation table starting probably February, March. And anyone that expects us not to give back some if not the full 10% going into the next year hasn't been paying attention to what we're doing. I think your assumption is right on mark.

>> David Bacigalupi: Okay, go ahead.

>> I'm going to start with the SRBR. We went over -- this is a review of what we presented last time. The SRBR receives 10% of any excess earnings. There is a claw-back provision. When investment returns are down, the claw-back does not completely offset the amount that gets transferred as excess earnings. The table below shows the range of the median and average transfers under different investment return assumptions. It produced, using the prior capital market assumptions and the stochastic projection. So there were some questions about why the average transfer was different than the median transfer. And some questions just to understand some of the rationale. I think there was the legal question about whether the members should pay a portion of this if we are adding it to the normal cost. Here we put together an illustration to show what's going on with the transfers. The top graph shows a hypothetical situation. This is not your situation, but a hypothetical situation where the claw-back might equal the transfers. And so the weights on either side of the average and median are equal, and so the average and median transfer here in this illustration is zero. The bottom graph shows the actual distribution that we get when we run the analysis on your -- on your SRBR. And you can see that the claw-back on the left is much smaller than the excess earnings on the right. And the excess earnings on the right kind of grows as you move over to the right. So the median transfer is the point at which half the transfers are less and half the transfers are greater. And that, in this example, was .15, there should have been a decimal point in front of that, it's not 15, it's .15%. The average transfer taking in to account those weights is .25%. So that's the difference in your distribution.

>> Damon Krytzer: What's the time frame?

>> We looked at I believe we looked out 20 years on it.

>> Damon Krytzer: Oh.

>> The main point of the analysis though is to get beyond a five-year smoothing period and let a full 'nother five-year smoothing period take place. Because your transfers are based on the smoothed value of assets.

>> Damon Krytzer: That's true. I was asking because I was just curious how many weighting the volatility of the last couple of years and the extremes --

>> That is why we wanted to get beyond those amounts getting smoothed in and out into a future year that's beyond that.

>> Damon Krytzer: Is that accurate though do you think? Because actually we -- you know the down side tale doesn't really have an effect, it's just the upside tail, right? I would imagine in 20 years if we do come back if we see more extremes, if we perm at 7.5% every year it's way different than up 15 down 15 every year. We're only shaving off the top-side tail.

>> Exactly. The point was, we wanted to get away from the historical numbers and just let the modeled versions of the tails show us what the averages are.

>> Carmen Racy-Choy: And so I believe they used our, the capital market assumptions developed by the investment committee relating to volatility et cetera, am I correct Bill?

>> Yes, these were the prior ones, I re-ran --

>> Carmen Racy-Choy: Stochastically done. So to the extent the investment committee revisits the volatility assumption up next time, then they are going to come back with different, higher numbers.

>> Damon Krytzer: So we'll go up like another 5 basis points or something like that, whatever it is.

>> Right.

>> Damon Krytzer: Thanks.

>> No problem. So because the claw-back doesn't fully offset the transfers, and the current approach might be described as either not funding the SRBR or implicitly funding it through setting the investment return assumptions slightly lower, we think it's much clearer to explicitly fund it and make it an add-on to the normal cost and then not have to make an adjustment to the investment return. And that doesn't -- if you adjust the investment return you have a chasing your tail. If you reduce the assumption because of it, it changes the benchmark when excess earns are placed. So we think it's a much better approach to explicitly fund it as a load onto the normal cost for the average amount of the transfer.

>> Damon Krytzer: Is that what you were saying yesterday Carmen that it should be added to the normal cost?

>> Carmen Racy-Choy: That's correct.

>> Here is just some yeses, positive and negative to the arguments about why members should or should not pay a portion of the cost. And these are really from an actuarial perspective, we will defer to legal counsel because it's primarily a legal question. Obviously if we add it to the normal cost the code says the normal cost is shared. So you might interpret that then it's a shared cost. And if the alternative approach is an adjustment to investment returns, that would implicitly get shared. On the other hand, the plan sponsor keeps 90% of the excess earnings. It is only 10% of the excess earnings that are shared or transferred. And the method we're using is essentially putting an annual cost onto the normal cost, but that annual amount is going to fund benefits for retirees, not the actives who would be paying that. There are some actuarial perspectives that we are supposed to -- but again I think those are going to be overridden by the legal perspective in interpreting. We did run the SRBR analysis with the revised capital markets assumptions. It adjusted basically by two basis points. Instead of .25 it would be .23. So we're not really, we're not making any change to our recommendation of .22% of assets and we're not making a recommendation on whether members should share a cost or not?

>> As far as a normal cost versus a city funded expense Carmen --

>> Councilmember Chu: .

>> Carmen Racy-Choy: That is a really bargaining issue. What I would say is in the past it was fully paid for by the city because basically it flew into the unfunded liability which is funded by the city.

>> Sean Kaldor: Okay.

>> Carmen Racy-Choy: Whether going forward that should be revisited that's up to the bargaining units and the city not up to the administration.

>> Sean Kaldor: And then from a legal standpoint?

>> Mollie Dent: Yes for a legal standpoint it's consistent for the code for it to be shared if it's considered a normal cost. But because the practice has been for the city to pick it up, it would be subject to bargaining. I mean that's the long and short of it.

>> Sean Kaldor: We could do it this way and people could come back to us saying why this has been different --

>> Mollie Dent: Right now on the city side because it hasn't been bargained, I think it would be consistent for the code for it to be a shared cost.

>> Sean Kaldor: They can come back to us if they don't know we've decided --

>> Mollie Dent: And that may all be decided before you all decide to set contribution rates.

>> Sean Kaldor: Thank you. Actually if can I ask one more SRBR question, because it's not introduced anywhere else in the presentation but kind of on slide 30 which sums it all up, SRBR and explicit administration expense as being 7.9 million. So I understand that 7.9 includes this SRBR cost, and then there's an

administration cost, and that's for all the non-investment administration of our organization. Why is that, as I understand, 2.9 million or 1.9 million on the administrative side, why is there a change of 1.9 million?

>> In the past, the administrative expenses have also been embedded in the investment return assumption.

>> Sean Kaldor: Okay.

>> And so we recommended last time that those be explicitly identified and separated from the administrative or from the investment return assumption.

>> Sean Kaldor: Okay.

>> And so we put an estimate of $3 million as our recommendation for the administrative expense cost. And that part is getting split between the member and the city. And so the 8/11 of that is in the -- is embedded in that line as well as the SRBR.

>> David Bacigalupi: Excuse me a second? Could you move that microphone a little bit closer? The tape is having a hard time picking you up here. Sorry Sean.

>> Sean Kaldor: So as far as -- is there an offsetting cost then that was somewhere else before, or is this going to be a new cost?

>> The administrative expense assumption in the past was implicitly included in the investment return assumption.

>> Sean Kaldor: Just when we set the percentage --

>> So it's another -- it's another add-on with the change in the investment return assumption.

>> Sean Kaldor: And that's about 1.9 million of the 7.9?

>> Yes, around that.

>> Sean Kaldor: Okay, thank you.

>> David Bacigalupi: Okay.

>> So the demographic assumptions, last time we went through them in detail, we're not going to go through them in detail here. We've proposed changes to the merit salary increases. Retirement rates. Disability rates. Some adjustments to the mortality rates, and termination rates. There were some questions clarifying but there wasn't anything really for us to analyze further. I don't think -- there was general acceptance of those and we maintain those recommendations. So now I'm going to shift from the experience study to the valuation results and walk you through those. We thought it would be useful to walk through those before you deliberated and made decisions on the assumption. So we're going to look at some historical trends. The preliminary results on current assumptions. And on the proposed assumptions, what the effect is on that. And then we'll get to our modeling and stress-testing, we can show you how those affect the projected cost. In the historical trends the first thing I want to note is all of these values represent the -- for 2011, represent the numbers before any assumption changes. So these numbers are all based on the assumptions and methods from the prior valuation. Here, we're showing the actuarial liability is the gray bar, the assets are the lines with the market value is the green line, and the actuarial or smooth value is the gold lines. I think there are a couple of things to note in the last year. First is that the actuarial liability actually went down. And we'll talk about what drove that but I think you probably know. It's the changes in the employment picture at the city have driven those costs down. The other thing to note is that with the investment returns this year, the market value of assets and the actuarial value of assets now are virtually identical right now. We had been having the actuarial value higher than the market value as we were recognizing the prior losses. Now we've recognized a bunch of the losses from 2008. But we also have some deferred gains from recent investment experience. So right now those are balancing out.

>> Conrad Taylor: Bill, off of this schedule, can you just tell me what the funding ratio is for the plan both for an actuarial value and a market value?

>> I don't recall off the top of my head.

>> We'll get it as he's presenting and we'll interrupt.

>> Conrad Taylor: And then you can direct me to the page that you're giving that information.

>> I think it's going to be in the report.

>> We'll get that you. Here we're showing the historical contribution rates for both the member and the city. And you can see, for going from 2010 to 11, the City's contribution rate went down slightly and the member's contribution rate went up slightly. And the reason they're moving in opposite directions is, the members' contribution rate is primarily driven by the normal cost and with the change in the demographic population, there's a slight change in what that average normal cost rate is that actually went up. The city has that component in it, but the larger component is the payment on the unfunded liability, and with the reduction in liability and the investment returns that actually went down. This summarizes the gains and losses from year to year. We showed this last time as part of the experience study. So it's not really new information. The one thing I would note is, the investment gain loss we're showing here is on the smooth value of assets, not the market value. And so that's why the gold bar for 2011 is down around 100 million because that's based on the actuarial value. The market value of return was much higher. So here's what's driving those results. Just to get some numbers to it. There's a 14% decrease in the number of active members. So that's a fairly significant decrease. Many of those members became vested terminated members. So they're not receiving benefits today. They're entitled to benefits in the future. Many of them retired, so we have increases in the inactive population. But the active population dropped significantly. The active member payroll dropped by 24%. Now, those payroll numbers, the 250 million in the June 30th, 2010 column, is from the prior valuation, and is the expected payroll for the 2010-11 fiscal year. And the 191

million in our column is the expected payroll for the 2011-2012 fiscal year. And we show the average pay for active member is down over 10%. Now, these figures do reflect the MOUs that called for the 10% reduction in pay. So those are reflected in those numbers.

>> Sean Kaldor: And the extra percentage might be due to more senior people retiring and being replaced by --

>> Right, that's a -- it's basic demographic change between higher paid, more senior people and low every-paid people.

>> Sean Kaldor: Okay, thank you.

>> The funded ratios are, last year, a market value were --

>> That's Federated.

>> Sorry. Okay, keep going.

>> Here's our -- looking at the gains and losses, the blue bars represent the actuarial liability and the actuarial assets, to give you an idea of the scale of these gains and losses. The far-right shows the investment loss of 96 million. On the left-hand side are all the demographic gains and losses. The biggest and really the only one that shows on the scale is the reduction in pay. The reduction in salary, that created a $227 million gain. In total, the demographic gains are about 10% of the actuarial liability. Which is a pretty significant gain.

>> And this chart does have assets and liabilities that -- 2,652,000,000 --

>> Conrad Taylor: So market value, about 85% funded?

>> Close.

>> Conrad Taylor: And last year the mark value was 70% and now we're at an 85% on a market value?

>> I think you're right.

>> Conrad Taylor: On a actuarial basis we are funded at I think it was 80% and now we're at 85%.

>> And your assets last year are very similar to the assets this year.

>> Conrad Taylor: But now we're 85% funded on both, correct?

>> Yes, close to that.

>> So this chart tries to reconcile the contributions both rates and dollar amounts, with all the changes. So I'm going to walk through just a couple pieces of it. To clarify what's going on here. So in the fiscal year ending 2012, the City's contribution rate was 50.4% of payroll. And that's across the Police and Fire average. And the members' contribution rate was 10.6. That translated to a dollar amount of about $127 million for the city. Based on the 2010 valuation, and no changes in assumptions, we expected that those numbers to increase to 55% for the city, no change for members, but increases to City's dollar contribution to 145 million. Now, when we showed the red line on the chart before and we'll get back to that, that had -- those projections we were instruct to include a change in the investment assumption to 7.5. So that was -- that dollar amount was like 160 million instead of 145. But here we're keeping it as 7.75 and showing 145 million. The investment experience, the positive market returns of which we recognized 20% of them this year, reduced that expected contribution by 1.4% of payroll or 3.8 million. Now, we'll get more of that effect as we recognize all of those investment returns. On the demographics side, we're recognizing the 10% gain immediately, and that reduced the contribution rate, along with the reduced payroll on the normal cost, reduce the city's contribution by about $47 million from what we'd expected. So that's a total reduction of about 50 million from what had been expected from the last valuation. With our recommended assumption changes, the demographic changes add about .8 million to the City's cost. The wage inflation and the

merit salary scale reduced the cost another 6.5 million. Adding the explicit administrative expenses and the explicit SRBR add about 8 million in cost and reducing the investment return assumption to 7.25 adds 23.5 million to the cost. And then if we spread those changes out over 20 years instead of 16, it reduces things by $2 million. So that would get us a contribution for 2013 of $118 million as opposed to the expected $145 million. So even with making the assumption changes, which increase the conservatism in the assumptions and we think the accuracy in the assumptions there's a reduction compared to the prior expectations. Now, those are pretty significant changes. And I wanted to talk about a little bit, before we get into the modeling, what is driving, how significant those changes are particularity for this plan. And so this is -- I'm going to go through this somewhat slowly here and try and illustrate what's going on. On the left-hand bar here, we're -- let's see if I can -- I guess I have to be careful pointing with my mouse. The left-hand side we're showing the ratio of the actuarial liability to payroll. This is a measure of how big the plan is, in its liabilities, compared to the payroll that's used to fund it. Because we set our contributions as a percentage of payroll. An and for your plan now with the reduced payroll, the 24% reduction in payroll, that ratio is about 16 to one. So your actuarial liability is 16 times greater than payroll. That means, if we get a 10% change in that actuarial liability, like we got last valuation, that's a change in liability equal to 160% of the payroll that is funding the liability. Now, we amortize that and our amortization factor is a little over 12. So that 10% change actually translates to a 13% of payroll, difference in your contribution rate. So that's a pretty substantial change. And when we change the discount rate, you still have big numbers in how it changed things. And that's why. Because of this ratio of 16. Now, the -- this ratio of 16 is way above what we see for very large plans across the country. The stacked bars of the different colors show the distribution of 126 large plans that have been compiled by the center for retirement research at Boston college. Now, those large plans include both safety and general employees. So with the safety plan, we would expect it to be on the high end of the range, or maybe off the range. So that's part of what's going on here. But if that same plan had, you know, an 8 to 1 ratio instead of 16 to 1, the effect of a 10% change in liability would be half as much on the contribution rate. So this plan is very sensitive to those changes.

>> Conrad Taylor: Bill, is that because our plan is more conservative than the other plan?

>> In the measurements?

>> Conrad Taylor: Yeah.

>> There is a piece of that in there, yes.

>> Conrad Taylor: So ours are more conservative than those others in the group?

>> Yes, if you mush yours at 7.5 and the other plans are measuring it at 8, that's going to affect the ratio. It is also the maturity of the plans, the measure of actives versus inactives in the plans. It is the history of the plan and the benefit levels of the plan. All of those things come together to get this ratio. This isn't -- I want to be clear. This is not something that you use to judge the plan. But something to understand the dynamics of the plan, so that you can manage it. It's like a measurement of being tall or short. It's not -- it's not a judgment of the plan, or its history. But it's a fact that the trustees should be aware of to understand how to manage the plan, and control the liabilities.

>> Just want to add one point to what Bill just said to connect it to your prior consultants. If you have the same level of investment volatility as other funds as they indicated or even less in some cases, you're more vulnerable to it, to a 1% investment loss than another fund, because you have a smaller tax base or payroll to fund that over. That's what this is saying.

>> This is the center bar, where we're looking at the market value of the ratio of the funds to market value and for you it's almost 14. So again, just a one-year investment performance that's 10% different from the assumption, so we're assuming 7.75, if you get 17.75, that's going to translate into an 11% of pay reduction in your contribution rate, once that is fully recognized. So it would be about a 2% of pay reduction immediately because we only recognize 20% of it. But once that's fully recognizes that's 11% of pay in the contribution rate for just that one year of return difference. So that's a fairly significant change in your contribution rate due to investment volatility. And while we're smooth -- we're smoothing it over five years and then amortizing it over 15, all those smoothing mechanisms all result in that change in rate. And that you know may be a reason that it's appropriate for you to

have a more conservative investment policy than your peers as the investment consultant's pointed out because that's one way of helping to control that.

>> The last part of our presentation is just to look at some simulation, projections, and I think we're going to focus on the bottom graph showing the dollars as opposed to percent of pay. Percent of pay when you have a reduction in force like you've had, it's sort of a difficult number to grasp. But the dollar amounts shouldn't be. And again as I mentioned earlier the bottom graph was showing the total dollar outlay now after all assumption changes, versus what was projected. On the top bar, the gray bars are the actuarial liability and the green line is the market value of assets, and since the actuarial is just about right at market you can barely see the gold line. But this is if you accept all the recommendations. Let's go back to where you were before the assumptions. Bill is going to --

>> Pete Constant: Is it possible to get screen shots of each of these that you do afterwards?

>> Yes. That's where you stood, we'll certainly have this screen shot, before any changes. And that's much below the red line down bow. In all cases in the top you get 100% funding because you have a 16 year amortization. So regardless what happens with the -- you're always going to be at 16 years be 100% funded. Let's show you to amplify Bill's point, compare what happens if it's 17%, or 17.75, on the upside, and I don't know if you can toggle that back and forth Bill, looking at the numbers, like at the bottom there. Significant decreases and increases. And then, if you have a minus, what's the reverse end of that, minus 2.25, you see cost escalate up to that number in the far right, that's 250 million? But really, what's going to happen is don't focus on one year. I was going to instead of 1945 can you pick an earlier period like let's go through all the periods like go to 1928. What we're showing now is we're recasting what happened back in 1928, through 1948. Assuming a 60-40 allocation. And if you look at the bottom chart you can see the extreme volatility, that's the great depression hitting, in 2016 you see how the contributions jumped way up? So Bill's just going to march through time one year at a time and you'll get a feel of volatility on both funded ratios and contribution levels.

>> I just want to note, the red line here is just fixed. It's not reflecting these investment returns.

>> It was the July projections that we presented. So.

>> Sean Kaldor: This was the great depression, the dust bowl era?

>> Showing you the kind of volatility that --

>> Sean Kaldor: World War II.

>> Damon Krytzer: In 60 years the bottom line here is we need to have some big years early on, right?

>> Yes.

>> Big years early on.

>> Also, I mean the way to conclude our presentation, because we were asked before the meeting, now that I understand we are at risk here how do we control that risk? Well, one of the ways is to start de-risking the plan having more conservative assumptions, that's going to increase the probability of having good news rather than poor news. The other way is dealing with your investment strategy, having less risk with your investment strategy and a third way when you do have those great years where all of a sudden you have a surplus, don't spend the surplus -- spend the surplus on de-risking the fund further. Perhaps annuity rates will at some time in the future be favorable, you've got surplus assets, purchase those annuities, and you're going to, on those charts Bill showed, you're going to reduce your ratios. So the plan becomes less sensitive. But there's nothing you can do now other than start in the direction of de-risking and that's our last slide.

>> Can you take us to mid 70s?

>> You want to see the good times, hmm?

>> 73, 74.

>> But then you pick up the 80s and 90s.

>> Some years look great and some years look horrible.

>> This just proves to you that any actuarial projection with 100% certainty is wrong. Because in the real world you've got volatility.

>> Does your model have a Japanese version like if we wanted to look at 1990?

>> We'll bring that next time.

>> We'll all have issues beyond the pension plan --

>> That 1980 song, we're all becoming Japanese.

>> So we'll end on slide 33. And by the way, just so you know what we can do, go back to this model and go to the next thing. This might be useful at some future meeting.

>> Sean Kaldor: This is the stochastic model of all the permutations of all the years, right?

>> Well, actually he's got the wrong version, we'll save that for another time. We can do stochastic analysis here. I'll go back to slide 33. And just leave that up there, while the board asks questions, or discusses our recommendations.

>> David Bacigalupi: Okay. Questions by the board. Vince.

>> Vincent Sunzeri: Did you call me? Okay, good. First of all, I'm encouraged to see you move to the 7.25% which I felt was much more realistic. I am still a little bit hung up on the wage number primarily because of the experience that we are seeing if you go decade by decade, the fact that we have extremely high unemployment in general. We have continued pressure on wages. And I don't think most forecasters are expecting that to change very rapidly. So when you're using the analogy of this supertanker floating down there, how frequently would you consider changing your assumptions five years, ten years?

>> I think economic assumptions are things you want to consider every year and have a discussion with the economic. Demographic I think, five years.

>> Vincent Sunzeri: Five years.

>> Yes.

>> Vincent Sunzeri: So over a five year period it could be realistic that even three and a half percent is too high.

>> Three and a half is something you would revisit every year. That and the discount rate.

>> Vincent Sunzeri: Got it.

>> Carmen Racy-Choy: Sorry, I believe the current practice by the board is to revisit the assumptions every two years both demographic and economic.

>> Okay, that's the current practice?

>> Carmen Racy-Choy: Yes, that is the current practice.

>> Practice by habit or practice by --

>> Carmen Racy-Choy: I think by prior board request.

>> Okay. So --

>> David Bacigalupi: There's no reason the board can't change that to --

>> Damon Krytzer: Why should we?

>> Carmen Racy-Choy: I think more frequent is better. I mean ultimately you can review the economic assumption every year if you so desire. There's nothing says every two years. But just remembering, this is a long term assumption. So the intent is to, two years seemed reasonable. On the demographic side the intent is to build history. Every two years add another two-year and look at a longer period. Every five, seems a little bit -- maybe if you have already a very long history that you're carrying forward, you might be comfortable with every five. Right now, I believe the experience study looks at how many years? Four, five? Six?

>> Yeah, 4 to 6.

>> Carmen Racy-Choy: 4 to 6.

>> I think this last study we looked at tower years because that was the data that was available.

>> Carmen Racy-Choy: So it's still quite young so it's probably better to keep tabs at it at a quicker every two years.

>> Damon Krytzer: I'm agreeing with you. It just seems every year seems a little extreme doesn't it?

>> Carmen Racy-Choy: I mean ultimately it's probably more conducive for long term thinking to revisit every couple of years. But we're not averse to every year if that's the wish of the board.

>> Sean Kaldor: I kind of feel I wouldn't mind seeing it every year but I don't think we need to sit down and say this is where you're going to revise, things are in line, every year we get a heads up this might be getting out of line, we might place it down and do it. But for the time and effort of doing it, if we're not going to take action then why look at it?

>> David Bacigalupi: Okay further comments questions by the board?

>> Sean Kaldor: So in past years when we went through this we were at 8% discussing going to 7.75. One of the things we looked at was Rodor financials, an evaluation of every public plans in the state and they rank the plans on how conservative they are, basically the security of their assumptions their discount rates their amortization periods. So we in those rankings of those 40 plans, we've moved up from 2009 we were 13th most conservative. 2010 we were seventh most conservative. This year we're third most conservative plan in the state. By the comparison, our compatriots on the Federated side are the 33rd most conservative. And this is looking at funding method, investment return, wage inflation, excess investment return, amortization period, assess corridor smoothing period, et cetera. In looking at all 40 of these there are only two open plans with a discount rate of less than 7.5%, everyone else made 8, 8, 8, 7.75, 7.9. The two open plans are the Cal PERS legislative plans, which had some intricacies to it, and the Cal PERS judges plan.

>> Sean, could I make some comments?

>> Sean Kaldor: Please.

>> We'll put it in writing, we don't agree with the methodology of that study. We're not prepared now but if you're interested we'll put together summary bullets as to why. Totally simplistic from what we see.

>> Sean Kaldor: Understand, I think he's just trying to provide a quick snapshot, if you will. And that may not -- does not capture all the intricacies of all this. And I'm not saying that on many different rankings we'd be most conservative. But it seems we are a safer plan than any out there. Many of these are still assuming 8%, still have 29 year amortization periods et cetera.

>> Remember the ratio of assets and liabilities to payroll, that isn't even reflected in his study.

>> Sean Kaldor: Sure, and there's also -- I mean, some of these are closed, some of them have one or two members. I tried to exclude those when I made my points. I guess what my point is last year we went from 8 to 7.75. I understand the logic to go to 7.25. What I'm thinking is we should approach this in two steps. Going to 7.5, go to 7.25. Or we'll get another cut at it next year and see how everything looks. Everything's confirming, then that's the direction we need to keep going. But my impression is that a half point change in our discount rate in a single year is a big step for any plan to make. I think most plans move in quarter-point steps. All other recommendations they are all within the realm of reasonability. Some of more, some are less conservative, taking the discount rate in two steps I'd be more comfortable with.

>> David Bacigalupi: Pete then Vince.

>> Pete Constant: I just had a couple questions. On the chart that's on page 30, that has all the different changes, you had mentioned and I don't know if it was just a misstatement or if I misunderstood, on line 2 is that at 7.5 or 7.75?

>> Line 2 is at 7.75. The red line in our charts is at 7.5.

>> I just wanted to make sure I had that right. And then on 3 B the business change the 46.8, the two drivers I think you said to that were the wage reduction and the personnel reduction or the total number of employees. Is that correct?

>> Yeah.

>> Pete Constant: Are there any other factors in that one line besides those?

>> Yeah, it's all the items that are on slide 29 here to the left of actuarial liability. But I --

>> Pete Constant: Okay.

>> You can see the big item is the 227 million from the salaries.

>> Pete Constant: Okay. And if we're, when I'm reading this chart back on 30, you have the three columns for the city, the normal, the UAL and the total. So am I interpreting this right, if I say that just over half of this 46 mill is a reduction in the unfunded liability?

>> Let's see, I had that breakout but I didn't put it on the slide. There is essentially a 24% reduction in the normal cost. Because of the reduction in payroll. And the remainder is the unfunded liability. And it is close to about a 50-50. But I think it's slightly more for the unfunded liability.

>> Pete Constant: Okay. And then I know this board doesn't follow what Federated does. But I just have a question in relation know to Federated. Federated as well as experienced a pay drop and a significant number of participant drop but they didn't experience this kind of drop in their numbers. What's the difference between the two? Is it that -- that ratio that you were telling us?

>> That ratio factor as I recall for Federated instead of 16 it's 8.

>> Pete Constant: Okay.

>> I can pull that --

>> Pete Constant: Can you follow up.

>> I can follow up.

>> Pete Constant: It is basically the volatility of the leverage, the sensitivity of the plan is because of that?

>> Exactly.

>> Pete Constant: I think that helps, thanks.

>> David Bacigalupi: Vince.

>> Vincent Sunzeri: I just want to follow up on the discount rate and I think your comments are very interesting when we look at our plan being more conservative than other plans, but I think we should also look at are we more realistic than other plans. That's most important to me. The change in the board structure that you have, and the capital market assumptions are the result of bringing two investment committees together, not only Police and Fire but Federated to get the capital market assumptions of 7.25. And that's really driving the process. So I'm very much in favor of moving there. I know we tried to make gradual moves but I don't see it as significant as going from 8% to 7% so my thoughts.

>> David Bacigalupi: Further discussion?

>> Damon Krytzer: What's our deliverable here? Do you want a motion?

>> David Bacigalupi: 33 are the recommendations.

>> Damon Krytzer: Action not just discussion?

>> Sean Kaldor: Right demographic and assumption changes as well. So sure I'll make a motion, first of all I'd like to thank you for coming in. I think you're a good team. I think it was comprehensive and there was a lot of integrity in the process so I appreciated the discussions we've had. I thought it was great information.

>> Damon Krytzer: Want to do these separately I think?

>> Sean Kaldor: I was going to do it as one big. I'll throw my motion out there to accept all of the actuary's recommendations as outlined on this page on page 33, with the but adopt the discount rate as 7.5% for the next year.

>> I'll second that.

>> David Bacigalupi: Okay I have a second on the motion, discussion on the motion?

>> Damon Krytzer: I guess -- first I'm curious on your comment of the discount rate.

>> Carmen Racy-Choy: Staff totally supports Cheiron's recommendation. And normally when the contribution is increasing we totally support phasing it in, but that changes slowly. However, in a year where you have a significant gain, I think it makes sense to move on the entire piece. So moving directly to 7.25. Because next year you might not be in a similar position. And it will be painful to make that further adjustment. Ultimately what matters is to change the long term assumption. In reality, whether it's one year or two years is not a huge -- in the overall scheme, over a 30 year period, it's not -- doesn't have a human impact whether you make this shot this year in one shot or in two years. But just from a realistic perspective, this is an easy year to make a change because the contribution is still, with the change, 30 million below what the city expected.

>> David Bacigalupi: Sean, then Vince.

>> Sean Kaldor: I think as far as, I mean, we set an expectation or that they ran some numbers giving a heads-up where the contribution could go. But it's still up significantly over the previous years, we're in very different levels, that shouldn't be driving our decision, the cost are the costs. We're trying to make a reasonable plan here. I'm looking for some smoothness to this. We had a big bump. I'm looking to make this smooth going forward. We had a good year, but we took 20% of that, we're going to take another 20% next year. The idea is to keep this smooth and make smooth assumption changes as well, that was kind of my logic which dovetails into what you're saying: 30 years, big ship, small adjustments, get going in the right direction.

>> David Bacigalupi: Thank you Sean. Vince.

>> Vincent Sunzeri: Question and comment. Question, Carmen if you could get to a level you would feel comfortable with would you stop at 7.75 or would you keep going lower?

>> Carmen Racy-Choy: I think with the kind of surplus experience this year I would go lower just because it gives you more conservatism for the future. Which means if you have a really bad year next year or the year after, rather than see a huge increase in contribution level can you then go back up to the median being 7.25. So by going more conservative, you actually give yourself the room in future years to release a little bit of the conservatism and manage the City's contribution rate through that aspect. So --

>> Vincent Sunzeri: Okay and then a couple of comments. One is that we asked to you come back and revisit these numbers when you initially came back to us with a recommendation of 7.5%. There were several of us that talked about 7.25. You've come back, essentially in agreement with that number, so that in my mind gives me confidence in your recommendation now after doing further analysis. In addition to that, the results that you show in having the median return, a 50-50 chance if you will of achieving that term, that number is 7.25%, I'm not sure I as a trustee want to assume a lower probability of hitting the discount rate. So I would move that we adopt all their recommendations and stick with 7.25.

>> David Bacigalupi: We already have a motion on the floor. We have to deal with that first. The only comment I made I supported the motion when we moved it from 8.25, kind of moving it down in a methodology step by step process. And not an end of the world decision here between 7.25 and 7.5. I still support moving it down in a little more logical process. For that reason I support the motion. Sean, you were next.

>> Sean Bill: I was going to say, Carmen on the ALM for Federated it was projecting around 7.5% right for the new asset mix, wasn't it, for their --

>> Carmen Racy-Choy: Well, there were multiple asset mixes. Federated does not choose through the asset mixes. The results for their plan was 7.3 for the current asset mix and the asset mixes went all the way up to 7.5. There was a 7.6 which really included an increase in equity of 10%. Which had so much volatility it wasn't a very serious asset mix. But we were showing it because if we didn't people would ask.

>> Sean Bill: So my sense would be that if we move to 7.5 and we get our ALM done we see where that comes in, it may actually come into that neighborhood. If not, we can always reevaluate and go down lower again.

>> David Bacigalupi: Thank you, Sean. Drew.

>> Drew Lanza: So like all physical phenomenon, gentlemen, like all physical phenomenon this thing has an underlying velocity to it. And if we were to review this every year, would that velocity imply a step change of a quarter of a percent, half a percent or three quarters of a percent or does my question make any sense to you?

>> Doesn't make any sense to us. I guess every year you do an ALM study right Carmen?

>> Carmen Racy-Choy: No, Tommy it's revisited every two to four years maybe.

>> Would I think the investment assumption would be more in line with the ALM study, we're talking about wages at that time, he each year you know about contracts and such, and each year can you do wage assumptions without doing an enormous study like this.

>> Drew Lanza: But what about the discount rate? There is some underlying velocity. Let's say we revisit the discount rate every year. There's a physical phenomenon existing in the background that's moving at a certain velocity. That would imply a step size in order for us to match that rate of change. You can tell, I used to get degrees in control systems theory. So what's that -- if I had the data in front of me I could tell what it is. You do a 4A analysis on the blah blah blah blah blah. What is that step size to you guys? Should we be changing the discount rate a quarter-percent every year, a half a percent every year, three-quarters of a percent based on the rate of velocity of change in the underlying data?

>> Something Carmen said that I would support. When -- you need to de-risk this plan because of those ratios that Bill was showing and more conservative assumptions de-risks this plan. Whenever you have positive earnings or positive experience, or contribution dollars go down, take advantage of those opportunities to buy down the discount rate. Whether it can buy down 50 basis points or 25, use those opportunities as opposed to every year regardless of the experience we're going to go down 25 basis points. That is one viewpoint. We're independent thinkers so he may have --

>> Well I think Carmen and Sean talked about the same dynamic. But from different perspectives on it. And when you're grading down the discount rate, usually you're looking at an analysis like this, that says the 50th percentile is 7.25. So that's where we want to get. But a 50 basis points change is a big change in one year. As measured by the contributions. So the question here, so it's often graded down to help the budgeting aspect of getting to that new level of contribution. Here, the question is, what's your baseline? Is it the expectation that was there from last year of how much it would go up? To 160 million? Or is it the dollar amount that you budgeted for the prior year, and had you want to smooth that? And so I think clearly if the baseline was the 160 million, you have an opportunity to get tall way to the 50th percentile.

>> David Bacigalupi: Okay, Damon then Sean.

>> Damon Krytzer: So I guess first and foremost it's not exactly a binary decision. But based on what I saw from the asset liability study for Federated which is not going to be ours of course, but it seems to me like we're likely to select an allocation that's below 7.5% expected return and our actuaries and our staff are both suggesting a move. And they're the ones that actually looked at this. So I'd support a stronger move than down to 7.5. I'd be okay with 7.25. I could live with 7.3. I could live with 7.5 if that was the majority of the board but the professionals have all suggested SEP 25 and I'd be apt to go with that.

>> David Bacigalupi: Sean.

>> Sean Kaldor: So I still see the recommendation, I see the direction things need to go ultimately. Confirmation of that next year would definitely nail home that's what we should do. And anyone who's saying there's a surplus of money right now in the city, that there is this wealth of cash that we could suddenly spend for this is not reading the papers. So I think we just got to be careful about describing there's a wealth of money that's not expected and now we should go and spend it by doing it in one step rather than two steps.

>> David Bacigalupi: Okay, any other discussion? If not all those in favor of the motion signify by raising your hand. It's hard to keep track. We don't have lights. One two three four five. All those opposed? One two three four. So the motion passes. Thank you gentlemen. At this time we have a time certain item on the agenda. Retirements and we'll take a ten-minute break and I'll ask everybody to come back in ten minutes so we can -- we're little behind so we can get that taken care of. [Recess]

>> David Bacigalupi: Okay, I'll call this meeting back to order. And time certain items the retirements. Item 4.1, service retirements and I'll read out all the names and take a motion take them all in one motion. 4.1A is an application for a service retirement by Police Lieutenant Frankie Aviles. Effective January 21, 2012 with 28.21 years of service. 4.1B. Application by fire captain Robert Bennett. Effective January 21st, 2012, 25.29 years of service and reciprocity. 4.1C, an application by Police officer Jennifer dotzler. Effective January 28, 2012, 27.15

years of service. 4.1D. An application for a service retirement from fire captain Gerald Durk, effective January 21st, 2012, 25.29 years of service with reciprocity. 4.1E, is an application from police captain Larry Esquivel. Effective January 21st, 2012, 26.05 years of service. 4.1F is an application by police sergeant Ed Flosi, effective December 30, 2011, with 27.07 years of service. 4.1G is an application from fire captain Jan Gall effective December 24, 2011 with 25.29 years of service with reciprocity. 4.1H is an application from police lieutenant Glenn Harper, effective December 25th, 2011, 26.71 years of service. 4.1I, an application of fire engineer Carlos Lopez, effective November 26, 2011, with 22.64 years of service. 4.1J is an application from fire captain Eric Lopez, effective November 23, 2011 with 25.14 years of service. 4.1K is an application from fire inspector George Matteucci. Effective January 21, 2012, with 21.89 years of service with reciprocity. 4.1L is an application from police sergeant Ken Munson. Effective January 21, 2012, with 15.23 years of service, with reciprocity. 4.1M is an application from police lieutenant Robert Reinhardt, effective December 24th, 2011, 26.36 years of service with reciprocity. 4.1N is an application from battalion chief Steven Schmidt, effective December 24th, 2011, 25.23 years of service with reciprocity. 4.1O, is from fire inspector Carol Sippel, effective December 24, 2011 with 25.24 years of service. And 4.1 P is an application from fire battalion chief Barry Stallard, effective December 24, 2011, 25.23 years of service and reciprocity. I'll entertain a motion.

>> Motion to approve.

>> Conrad Taylor: Second.

>> David Bacigalupi: Okay, I have a motion, any further discussion on the motion? Hearing no further discussion, all in favor, all opposed, the motion carries unanimously. Any of those in the audience?

>> Richard Santos: Mr. Chair, there's a lot of experience lot of dedication in the city, honored in being part of giving these people their retirement.

>> David Bacigalupi: For the record the entire board would like to congratulate all these police officers and firefighters for all the years of service they gave. 4.2, is early service retirements. And I'll do these all at

once. Application from fire engineer Kevin M. Collins. Effective January 31, 2012, 23.69 years of service with reciprocity. 4.2B, an application from police officer Chris Martin, 21 years of service. And 4.2C, Ralph A. Sanzeri. 21.65 years with reciprocity. I'll entertain a motion.

>> Motion.

>> Second.

>> David Bacigalupi: Hearing no further discussions, all in favor, say aye, all those opposed, the motion carries unanimously. Any of those folks in the audience? Ralph, thank you for your many years of service. On behalf of the retirement board and the citizens of San José wish you very good luck in your retirement. Item number 4.3 is a service connected disability, 4.3 A is an application from police officer Eric Grimes a request for a service connected disability retirement effective November 3rd, 2011 with 22.06 years of service, and this is deferred from the November 2011 board meeting. FTC and for the record, police officer Eric Grimes is in the audience is represented by Mr. Boyle. And Donna.

>> Donna Busse: Police officer Eric Grimes is requesting a service connected disability based on his left shoulder and left knee, 46 years old with 22.60 years of service. At the time of application, and currently he is on modified duty. His work restriction is that he should avoid sustains high impact activities with his leg. There is permanent modified duty available. In a letter to the department dated 10-19-11. However, we just received another letter from the department that's not in your packet. Not commenting on this work restriction but commenting on another work restriction that's not in your packet from his treating physician about the shortened work week.

>> David Bacigalupi: Okay.

>> Donna Busse: It is very similar to the letter you have in your packet from 9-20-11.

>> David Bacigalupi: Who is the letter actually from?

>> Donna Busse: The police department sent us a letter on 11-29-11.

>> David Bacigalupi: So he's here and read the letter for us and visually give it to us in the record.

>> Good morning. Lieutenant Ed Schroeder, San José PD personnel unit. We apologize for not getting this letter to you earlier but I'll read what was written last week and sent over.

>> David Bacigalupi: A little closer to the mic please.

>> Not sure it's on. Okay. So the letter reads, regarding Eric J. Grimes police officer the above referenced applicant has submitted an application for service connected disability retirement. The City's medical director has placed the following restrictions on the applicant's job duties based on the medical records submitted by the applicant and the independent medical evaluations. It says quote if Mr. Grimes is to continue in the workplace the following restrictions are needed one that Mr. Grimes should avoid sustained high impact activities with his left leg. Mr. Grimes is currently restricted to working 32 hours per week. Based on that information if we do not have a position available for Mr. Grimes we do not have permanent part time modified positions. And it was signed by me.

>> David Bacigalupi: Thank you, lieutenant. Okay Dr. Das do you have anything to add?

>> Dr. Das: Just for classification on the updated information. The updated restrictions have been sent to me restricting Mr. Grimes to a 32 hour work week. And the prior restrictions that we'd received from his treating physician had not placed him on any restriction like that or any permanent restrictions and indicated that his condition was maximally medically improved. However there is a question in my mind as to whether there are alternate treatments or whatever to get prohibiting back to his baseline, because that was presumably his baseline in the medical record indicating that he is maximally medically improved at the prior work restrictions.

The new updated work restrictions reflect -- may be permanent but there's no explanation provided as to why they are permanent and what had changed or transpired within the prior two months or one month that made the physician change his permanent work restrictions. So typically, in the workers compensation process, when there is a change, and this is not -- in the workers compensation process when there is a change in work status or a change in a person's reported symptoms, that person is not typically considered to have gotten as good as they be particularly if there are new updated work restrictions and the question is can that person get better to his baseline. And so with the new updated work restrictions I have a question as to whether Mr. Grimes' medical condition has maximally medically improved because there's no other comments from his treating physician explaining the change. Is that unclear or clear?

>> David Bacigalupi: I just have a question doctor. Do you ever talk to the physicians themselves when they give you something that's unclear, a report that's not clear?

>> Dr. Das: I attempt to I don't always get return calls and in this particular situation I did attempt.

>> David Bacigalupi: Mr. Boyle do you want to address the board?

>> Yes, good morning. Officer Grimes has over 22 years of service as a police officer for City of San José. He's requesting a service connected disability retirement based on his left knee. He first injured his left neon February 18th, 2004, when kicking in a door and he felt weakness in his knee. That claim information and the report from the City of San José's employer report and claim form are on page 227 through 229 in your material. On April 8th, 2009, while on duty, he was walking out of a house and he missed some additional steps, stumbled and again injured his left knee. That appears on page 233 and 234 in your packet. On April 30th, 2009, Dr. Rollins operated on the left knee, finding an osteochondral defect, chondromalacia and meniscus tears. He performed a chondroplasty and a meniscectomy and a loose body removal. Officer Grimes was eventually placed in the exempt officers program after that. Dr. Rollins indicated in his report of July 18th, 2011, that Mr. Grimes' condition is maximally medically improved and that he is a candidate for a total knee replacement. On pages 19 and 20 of the materials, Dr. Rollins indicates Mr. Grimes is precluded from running, crawling, kneeling, climbing, jumping, or

squatting with the left knee. At the time of the last hearing, Dr. Das on page 1-8 indicated Mr. Grimes should avoid sustained high impact to his left leg. However, Dr. Rollins on September 20th, 2011 at page 52 of your materials limited Mr. Grimes to eight hours a day, four days a week until December 31st, 2011. On page 110 of the materials, lieutenant Nguyen said on September 21st that based on the 32-hour work, that department would not have a position available for him. On Page 239 Dr. Rollins explains that officer Grimes' condition is worsening. His left knee had a flare up of pain, walking a lot causes pain as high as ten out of ten, and seven out of ten, at rest. He indicates that the left knee is not tolerating a ten hour workday and he needs reduction to eight hours a day four days a week. Dr. Rollins issued a treating physician progress report at page 240 of your materials dated 10-13-11 extending the work restrictions of eight hours a day, four days a week, and no patrol duty to a permanent reduction. Dr. Rollins also commented that even if a total knee replacement was successfully accomplished a return to duty would not be anticipated. You already heard Dr. Das's comments I was going to paraphrase them but he says there's no explanation. I believe there's sufficient explanation in the record as to why officer Grimes' condition has worsened and he can only work eight hours a day, and you've heard lieutenant Schroeder say there is no position for 32 hours a week exempt officer position. So we respectfully request that you grant his in reiteration for service connected disability retirement.

>> David Bacigalupi: Okay, thank you.

>> Mollie Dent: Just briefly and the new board member is going to thank me a lot for this because this is a continued hearing only the board members that were at the original hearing will be able to vote on the application.

>> David Bacigalupi: Okay.

>> Richard Santos: Mr. Chair, motion is to great officer Grimes a service connected disability, based on the medical records, I can go on and on, obviously will not get any better.

>> David Bacigalupi: Do I have a second?

>> Conrad Taylor: I'll second that for discussion.

>> David Bacigalupi: Second. Damon.

>> Damon Krytzer: The question is 32 hour restriction, that's the issue, there's modified duty if this 32 hour restriction is not the case. But the 32 hour restriction Dr. Das is a prophylactic restriction right?

>> Dr. Das: If we're looking at capacity in terms of what might -- my explanation would be, particularly when we're talking about a knee injury, doing sedentary work, is exactly what about the modified duty capacity makes the symptomatology worse. It's not just the issue that the pain is worse, I need to know why the pain is getting worse and what particular activities are causing the pain to get worse and are these irreversible. There no change or treatment that would make this difference that would allow this person to work 40 hours a week comfortably. And so the issue is -- to me it's an issue of comfort, it's not an issue of capacity. And I understand that as a total knee replacement that would still allow someone to work in a modified capacity for 40 hours per week. I don't know whether that would allow to you return you to patrol. That's not really the issue, the issue is modified work. So yes, to me there would be more prophylactic rather than incapacitating restriction but that being said I also believe that he does have degenerative findings and findings on his X rays which are reasonable for someone to do, which would reasonably cause pain and difficulty you know doing -- ambulating or walking or running on a regular basis. So it wouldn't be consistent with doing active duty patrol.

>> Damon Krytzer: Thank you.

>> David Bacigalupi: Vince.

>> Vincent Sunzeri: Can you help explain this? Not being a medical information I kind of go to whatever source of information I can find and trustee rounds you're quite fortunate that you get to side step this one. OCD and not in the tradition form but they were defining this osteochondral defect as OCD, and the definition that I came

across was that traditionally is thought to occur as a result of repetitive trauma. Within the joint. However, more recent study suggest the possibility that it could be genetic causes. I guess I'm trying to understand the particularly event that might have occurred and whether this is genetic or a result of other trauma.

>> Dr. Das: You know, that's a very -- that's an excellent question. The issue is, as I stated previously, I believe that all injuries or any medical thing has a genetic predisposition to an environmental trigger. I think this is a similar situation. There may be some people that are more susceptible genetically based on a trauma that occurs. So there's probably a genetic component. I don't know if that's been identified, I haven't done a lot of research on it. You've probably done more research on that, than I have. But in terms of the gene locus being for that, that I'm not aware of. For osteoarthritis, I know that there are certain things that people are looking at that make one individual more susceptible to degenerative arthritis than someone else. With the mechanisms of injury described, kicking in the door and stumbling over some steps, I'm not sure that that would cause an osteochondral defect or a loose body. That on the surface does not look like a good proximate cause of that. It would be something that would be due to -- to prior issues and in a young gentleman it would probably be some type of drama. And the factors that play a role in trauma, if someone is doing a lot of running, weight-bearing and if you have a load or a higher load with more of that repetitive activity, the load can also play a factor in increasing the stress on the knee. Did that answer your -- was that too round-about or --

>> Vincent Sunzeri: Thank you.

>> David Bacigalupi: Sean.

>> Sean Kaldor: I guess I'm looking at the issue of eight hours a day. It seems -- the patrol and inability to do patrol work, it seems like modified duty that the police department they said this person would be eligible for but it's the part time aspect that doesn't work. Is there additional information we could get into the record about why a modified duty wouldn't be tolerable for 40 hours a week? Something that -- what would you need to see or what information would help you support that restriction?

>> Dr. Das: For a knee problem?

>> Sean Kaldor: Yes.

>> Dr. Das: You'd have to give me some time to think up something but as far as --

>> Sean Kaldor: I'm sorry, I'm not asking you to find a reason to create, but the treating physician would say, here is the reason it won't work, is there something --

>> Dr. Das: Well the framework I would use is this is one that you have to take it based on the imaging studies the mechanism of the injury and my understanding of the disease process based on that alone, it doesn't -- I don't find it tying together very well. And so this is one of those issues where you'd have to take it on faith so to speak that someone says I have difficulty doing X, Y and Z. And it's not really based on the objective medicals but rather on the subjective information relayed by the applicant and the physician. It makes it much easier when there's a nice sequence of events or some pathology that explains it quite well. Now, I'll tell you, for -- when we're talking about a restricted work week, I think of the two issues, you know, perhaps with pain depending on terms of the load that's being placed on the knee so if he were standing eight hours a day and he was required to stand ten hours a day then absolutely, that would make some sense to me as far as well yeah, it would be somewhat intolerable at that point. There's disease processes like multiple sclerosis where you have fatigue and you get tired and there's not really a great explanation in terms of look, this is when they're going to get tired or how, but there's demyelination of the central nervous system and so there's pathology present, and it is very typical for everyone that experience -- that has that diagnosis to experience. This would not, in my opinion, be typical. It would be atypical. And then when you have something atypical, that would require an explanation. And it is not an incapacitating type of restriction, it is more of a tolerance restriction from my standpoint.

>> Russell Richeda: Win thing the board might want to consider, now that the focus, or one of the focuses is on this 32 hour part time situation, you notice there's, outside of the brief conclusion by Mr. Grimes treating physician in the record you have nothing in the record on this issue. So one approach that I think the board should consider

is asking for an actual development by Dr. Rollins in writing and also maybe a response in writing by Dr. Das. And then you'll have something you can look at, and review. Right now, you haven't heard any explanation from Dr. Rollins about the 32 hours but he is his treating physician. And as you know, courts give that significant weight. You've heard orally from Dr. Das, but what Dr. Das is partly saying, note totally, he's partly saying, I have questions, they haven't been answered. So you know, the board could request that that information be gathered for it. It still might be the case, Dr. Das, thanks, the 32 hour restriction is not appropriate and Dr. Rollins thinks it is and then you'll just have to weigh that and decide. But right now, it's plate -- the record is not very well developed to help you make a decision on that.

>> David Bacigalupi: Thanks Russ. Questions by the board? Mr. Boyle, did you have anything to add?

>> No. I would be willing though if the board requested to ask Dr. Rollins to provide us with a full detailed explanation of why officer Grimes is limited to eight hours a day, four days a week, and then have Dr. Das respond to that. I'm perfectly willing to do that.

>> Would it also be possible for the department to get a job description available for Dr. Rollins to review to identify the specific activities and tasks that are included from an eight hour work -- from a ten hour workday in doing a total work assessment?

>> David Bacigalupi: Is that possible there lieutenant Schroeder?

>> Richard Santos: As the maker of the motion, I can tell board members would like further information. I I'll withdraw my motion. In terms of getting more harm any and getting as much information as we can I would withdraw my motion.

>> David Bacigalupi: The second?

>> Conrad Taylor: I would withdraw.

>> David Bacigalupi: We do not have a motion on the floor any longer. I think it has been suggested, and Mr. Boyle, I think it's probably in the best interest of your client to obtain that information and to bolster your case and make it so that there's no questions left in the minds of the board or the medical director, and so that we can act on this.

>> Okay, I will do that. We came to this hearing before we usually have a QME or an AME in a workers comp a full independent evaluation. We haven't had that yet. We haven't gotten that far in the workers comp case so this will be helpful from Dr. Rollins.

>> David Bacigalupi: We'll continue this matter and if it's ready by next month be in contact with retirement services department. If it's not we'll continue until you are ready.

>> All right that would be great. I have one further thing to ask Ms. Dent. She said the case was continued. This says it was deferred. Does that make a difference?

>> Mollie Dent: I believe they did take some testimony. If the board member who wasn't here wants to listen to the tape of last board meeting then that board member can participate when it comes back for a vote.

>> David Bacigalupi: Damon go ahead.

>> Damon Krytzer: Before we spend the time to hear this and prepare for this same case a third time, is there anything going to come back to say -- to change your mind?

>> Dr. Das: Well, if the explanation is that it hurts more then it becomes just more of a faith issue on my part.

>> Damon Krytzer: That's what I heard is that it hurts.

>> Dr. Das: And then we get back to the definition of incapacity and then we need a reason why in terms of -- the one issue is maybe with the job description, the police personnel described, maybe they can describe certain activities that would preclude a ten-hour workday from being performed. If they have a job analysis, if maybe there's a job that they require him to work, stand eight hours a day so if he needs to stand eight hours a day or ten hours a day and then he can only -- then it might be reasonable to be restricted to eight hours a day. So I mean, there is a possibility. I don't know if there's any permanent modified duty position that would require you be on your feet for ten hours a day but that would probably be one of the factors that would make me change my opinion.

>> Damon Krytzer: So Mr. Boyle or Mr. Grimes is that going to be the case? You don't have to answer me but --

>> I don't know what you're asking.

>> Damon Krytzer: Is there going to be evidence to support that?

>> That I can't predict because I'm not a doctor. But I would say that this is the gentleman who needs a total knee replacement. This is a gentleman who has already had a chondroplasty, which means part of his bone's been shaved off. This is a person who has osteochondral defects, this person has a pretty messed up knee. So I don't know what Dr. Rollins is going to say or why he is going to say that only pain he can't work more than eight hours a day. I have to rely on Dr. Rollins.

>> Damon Krytzer: Again, this is a pretty insensitive process, I get that, I don't question that at all in the slightest bit. There are certain definitions, you've been through this process that we go by and you understand the spirit of what I'm asking you.

>> Absolutely, I understand the spirit, I don't think it's a mean spirited question at all, it is an intelligent, probing question and it should be asked.

>> Richard Santos: Mr. Chair.

>> David Bacigalupi: Go ahead.

>> Richard Santos: I also had a chance at a community meeting to set aside with the police chief, who I have high regard for. We talked about some of these issues, about modified duty and so on. I said to make it more streamlined, he's very conscious of it, and of course as you know his hands are full with many, many more problems, that he is trying to work on. I thought that was a good discussion.

>> David Bacigalupi: Okay so we'll like I said we'll continue this and then be in -- if you're in contact with retirement services department to let us know if it's ready for next month or the following month, whenever you're ready.

>> I will, Mr. Chairman, thank you.

>> David Bacigalupi: Back to the schedule, we're on item 1.3, it's an approval for the secretary to negotiate and execute an agreement with Albourne America, LLC for hem fund consulting for an amount not to exceed $250,000 annually for a three year term. You have a report. In your package. From Heidi. Anything to add to the report? Or --

>> Sure, I can get questions from you or -- we can take any questions. Yesterday at the investment committee the recommendation has been for endorse, so perhaps I could have Q&A.

>> David Bacigalupi: One question, Sean.

>> Sean Kaldor: This is for Federated and Police and Fire, how much is the -- 250,000 each?

>> Notion.

>> Second.

>> David Bacigalupi: Motion and second, any further discussion? Hearing no further discussion, all in favor, all opposed, motion carries unanimously. Okay. Under new business. Item 2.1. Approval of second continuation agreement with Saltzman & Johnson law corporation, the board's outside conflicts counsel, to extend the term of the agreement through June 30, 2012. Donna has a memo in here. We basically extended it once through December 31st. And the process of the outside counsel RFP is still in process. So this is to continue legal services through June of next year.

>> Richard Santos: Motion to approve.

>> Second.

>> David Bacigalupi: I have a motion and second. Any further discussion? Hearing no further discussion all those in favor signify by saying aye. Opposed? The motion carries with one abstention. Okay, item number 2.2 discussion and action on selection of chair and vice chair for calendar year 2012. As existing chair I want to thank the board for all the help that they've given me and I hope I've been able to serve as your chair in an effective and successful manner. But for health reasons I need to back away a little bit. So the chair's going to make a motion to nominate Sean Kaldor as 2012 chair. And Dick Santos as 2012 vice chair.

>> Conrad Taylor: I'll second that motion.

>> David Bacigalupi: Okay, have a motion and second. Discussion.

>> Wait for Sean to get back. He just went to the restroom.

>> Conrad Taylor: He's coming back.

>> David Bacigalupi: Congratulations Sean you're the new chairman. [Laughter] That's what you get for stepping out!

>> David Bacigalupi: That's really cold. Okay, we have a motion and second for Sean Kaldor to be the 2012 chair and for Dick Santos to be the 2012 vice chair. That's the motion on the floor. It's been seconded. Any questions or discussion?

>> Sean Kaldor: I just -- I appreciate the recommendation and nomination, I accept the nomination. Chairing the board is a lot of work. I remain committed to it as I have been and I hope in doing this I would be able to foster the relationship among the new board members, we're all new board members, right? And just facilitate the goals that we all agree to for the coming years.

>> David Bacigalupi: Thank you, Sean. Any further discussion? Damon.

>> Damon Krytzer: I have some questions about sort of the history behind how the chair and the vice chair have been selected. I mean it seems like it's --

>> David Bacigalupi: Oh, it's every year it's elected by the board.

>> Damon Krytzer: Is that what it is? There's no back and forth labor, nonlabor? It is what it is.

>> Richard Santos: No politics. Right here.

>> David Bacigalupi: Elected by the board. .

>> Sean Kaldor: You can vote against the motion -- it can be anything.

>> Mollie Dent: You can vote for or against.

>> Damon Krytzer: I don't necessarily want to but I don't know if anybody else even wants to I mean, I'd like to know that.

>> Mollie Dent: It's open for any of you to be nominated today. It's been noticed correctly. You can nominate yourself, can you nominate somebody else and see if they want to do it.

>> Damon Krytzer: I'd be up to nominate my good friend Vince as vice chairman.

>> Vincent Sunzeri: I'd be willing to accept that position. I wouldn't be willing to accept the chair's position.

>> Damon Krytzer: I saw that in your eyes.

>> Vincent Sunzeri: I think we need someone with a little duration on the board. I think there would be some value in having some independence in that position, in terms of, there's five new board members. And maybe considering one of them being in that position, either chair or vice chair. I'm not suggesting I want to be chair. But I would be interested in being vice chair.

>> Damon Krytzer: That's why I said not a slight to take it all, that's why I suggested it in the first place. I mean Vince has done an excellent job with the investment committee and in goal setting and really holding people to task. And I think that I've appreciated it.

>> David Bacigalupi: Okay, thank you for your comments.

>> Richard Santos: That's why I accepted the nomination of vice chair. I was vice chair 12 years ago prior to this. In case something happens I'd have the experience to step in. I value Vince's job on the committee of

investments but right now I think we need leadership and those two positions right now, Sean and myself would do an excellent job with your support.

>> Let me also comment. We're moving into a pretty political time here that this board's going to be faced with. And we don't want to be political in any manner. We want to be as unbiased as possible. And in my mind, the most unbiased admonition to be in is to have somebody in and independent position in one of those two slots. Whether it's interaction as questions are coming to the board about disability cases, governance issues, a ballot amendment or initiative, and how the board would respond to that. I think there would be real value for this board to be reflected in that manner of the makeup. Leadership is critical and I don't have any doubt that I could continue to provide that in absence of any meeting of the chair. I would also be interested to know why Conrad isn't interesting in moving from vice chair to chair. It would seem to me to be a natural movement.

>> Conrad Taylor: Never discussed that but I just thought, I know Sean is really involved in it. And he's had an interest towards it. And I thought it would be appropriate.

>> Richard Santos: Through the chair, that's why I think there's a good balance. Sean has a good knowledge of investment and as a firefighter I don't see him being political at all. And myself, with the experience I have in the past, I think we're doing a real fine job. Of course, with the young people we have here in terms of these investments that we're really going to excel. I think stabilization is needed and I'm looking forward to.

>> Sean, can you tell us a little bit about what your agenda would be in terms of how you're trying to move things forward or what you think needs focus or whatever?

>> Sean Kaldor: I think as we were specifying in the governance documents, the role of the chair is to deliver on the objectives of the board as a whole. So we need to figure what are our priorities for the next year. So initial offsite, we're getting together quickly and saying, what is it we hope to accomplish, what are our top priorities, and then, I just hope to help facilitate the meetings and activities and Committee chairs and agendas to deliver on all

that so we actually get it done efficiently and in a timely manner. I'm not looking at having any more role in setting that agenda more than anyone else on the board would have, on their opinions of what the issues are.

>> David Bacigalupi: Okay, we have a motion and second, hearing no further discussion we'll do a hand count. All those in favor, signify by raising your hand. One two three four five six. All those opposed? One two three. The motion passes.

>> Just for the record I think it would be a better balance to have public member as a vice chair or as a chair and then a safety member as the other seat and that's why I'm going that direction.

>> Damon Krytzer: I would support that on the record as well.

>> David Bacigalupi: And quite honestly, I think -- I don't think there's anything wrong with that. I think this will work as well and it will come up again next year.

>> Sean Kaldor: I appreciate everyone's support and I would beg for your patience during the first couple of meetings as I try to work through the whole agenda process and Robert's rules of order. If I'm doing something that's incorrect or not recognizing people who have points they want to make, please let me know, it's my learning process for the first couple of meetings.

>> David Bacigalupi: And I think we'll have no problem with that. That's why I made the recommendation we did. It's my belief that everybody gets an opportunity to talk, everybody gets an opportunity to add to the agenda and I know Sean will carry that on and improve upon it if nothing else. Good luck Sean, thanks.

>> Richard Santos: Mr. Chair, I'm looking forward to supporting our chairman and all the board members here.

>> David Bacigalupi: Next item. 2.3. Approval of the draft Police and Fire department retirement plan's Comprehensive Annual Financial Report also known as the CAFR for the fiscal year ended June 30, 2011. Veronica.

>> Hi, so in your packet you have our draft version we had as of the agenda posting date. As you will notice we have a large portion of the CAFR already in the graphic design format. The only section which has the most amount of back and forth is the financial section which is currently what the designer -- the designer didn't have all the latest changes, so I wanted to present the latest and most up to date version. So you can tell the formatting looks a little bit different. But basically, the prior practice has been that the board reviews the draft closest to the final, and we do this because we have annual reports that need to be filed out of December 31st and the board only meets monthly so this is the way that we facilitate meeting those deadlines.

>> David Bacigalupi: Veronica, on some of the pages it still has Xes. It says, on page such-and-such, is that all stuff that get cleaned up?

>> Those are all things that get cleaned up at the very end. Because there are shift in weight tables that are put in, it is really one of the last pieces that we move in. But they will be updated.

>> David Bacigalupi: One thing too on page 16 you have a picture of an older guy on there. Can you put my picture on there? I'm not that old. Okay questions.

>> Sean Kaldor: Having seen the internal processes, how this works, I know this is an enormous work to pull this all together. My sincere thanks.

>> Do you look old here.

>> Russell Crosby: I would like to thank philanthropic and Ron, philanthropic and Ron the two of them end up this is a long time.

>> Sean Kaldor: And we hang our hat -- this is one of the most important public documents we put out. It will be referenced year after year after year, ten years from now they'll be bringing this up and looking at it. Your attention to detail is greatly appreciated.

>> Russell Crosby: Last year's report won awards as well. So in addition to doing a lot of work it's done well.

>> Drew Lanza: So I'm interested in having an auditor and saying bless it bless it bless it. Are we going to do that at some time?

>> The auditors will be here in January. We expect the report to be dated December 9th, the date we will have our opinion.

>> Richard Santos: We have personnel, we have changeovers and so on. Is it possible to get these names in here that will give us an idea so I get to know who the people are in this chart?

>> Conrad Taylor: The organizational chart?

>> Richard Santos: Yes, the organizational chart, the names attached to the position. I know we have a lot of changes, but get the name of person and where they're at.

>> The only difficulty is the CAFR has an as-of date of June 30th, do we put the staff in that was here of June 30th or do we put in the staff that's currently here? That's why we tend to stay away from adding the names.

>> Richard Santos: Do it a little later.

>> Mollie Dent: I think for the CAFR that wouldn't be appropriate but I think what he's asking for is could you give the board the Org chart with the names.

>> Donna Busse: I don't know all the names and the contact information.

>> Richard Santos: Why wouldn't it be appropriate to have the names on here?

>> Mollie Dent: Because of what philanthropic said, it wouldn't be appropriates --

>> You mean for future CAFRs you might consider that? We could do that.

>> Richard Santos: If I call up these I know who the person is, I say hi, you're the staff handling this, what have you.

>> David Bacigalupi: Go ahead please.

>> Damon Krytzer: That's on the Website already. This is the document as of June. It's on the Website.

>> David Bacigalupi: This is an historic document closing it off as of June 30th.

>> Mollie Dent: They could have the names of the people that were in these positions as of June 30th, 2011 but they might not be in the positions anymore.

>> David Bacigalupi: Pete.

>> Pete Constant: Thanks. On page 109, on the solvency test, chart, could someone just give me a quick explanation of what that is, and what the numbers represent? Particularly looking at the far right-hand column where it starts at 134% and then drops down to 39%. That's a pretty significant drop. Just kind of a layman's explanation of what this chart is and how it relates to the other things that we discuss here on a regular basis.

>> I'm going to pass this over to Carmen. This is actually a actuarial check prepared by the plan's actuary.

>> Most of these are a document of the GOA as far as disclosures that need to be made.

>> Pete Constant: Just when you look at the last column I'm just trying to tie these percentages of numbers in to what we see throughout the rest of our year in our actuarial valuations, how do we fit this into the bigger puzzle? I don't think we've had a discussion about solvency test that I've ever been for the last few years.

>> Carmen Racy-Choy: I'll gladly look at it and come back next meeting with more details. Because I honestly -- I'm not familiar with the specific table.

>> Pete Constant: It could be just an informally informational e-mail that you send to all of us. It's the only thing I didn't understand in here.

>> Carmen Racy-Choy: Sure.

>> David Bacigalupi: I think the proper way would be to come back in an open board meeting. I don't think we can just send an e-mail out explaining it but if you could do a short presentation explaining it.

>> Carmen Racy-Choy: Sure.

>> David Bacigalupi: With that I'll entertain a motion. Confirm that's a motion to accept the report. Motion and second, any further discussion? Hearing no further discussion, all in favor, all opposed, motion carries. Thank you very much for your work. Both you. Okay we've already done 3.1. Item number 3.2. Discussion and possible action regarding a request to San José city council to initiate an ordinance to amend section 3.36.080 of the San José municipal code regarding non-assignment for the purpose of retiree association dues. And you have a couple of memos in your packet from Donna. And Donna you want to talk about this?

>> Donna Busse: Back in June we were requesting the board to request that council initiate an ordinance to clarify the Municipal Code regarding the non-assignment of their pension to a third party. And to clarify that one of the exceptions would be the retirees association. This was done -- also part of that memo it was also our wish to get rid of the direct deposit receipts, and to work with the retirees association to reach out to their membership not only to give us the information for the retirees association but to also reach out to them and stop the direct deposit receipts, the function within our retirement system is the same, so we would modify our system to do both things at the same time. At that time, we also requested that we would clarify for the retirees association which means all the other deductions that are being done should stop. And at that point is when the board requested that this be deferred and to come back with more information on the other organizations, whether or not there were any legal issues on what these organizations did, and us sending money to them. Which I tried to answer in this memo.

>> David Bacigalupi: Okay, you know I'd just like to make a comment. This is something that's been going on for as long as I can remember and it's never been a problem before. Yes I know there's staff time involved but one of the things that I think we as a plan have to do is service the beneficiaries. And this is not something that's jeopardizing their money. Not, you know surreptitious in any way. There are some recognized organizations that many of the police officers and firefighters who have spent 30 years of their lives working here, and contributing to these organizations. Now, it's not an automatic thing. When they retire, you have to sign up again to continue to participate, to continue to have this deducted out of your salary. It happens while you're working and as a retiree long term employee of the plan many police officers and firefighters want to continue having that. I just think that we, as a plan, should, you know, bite the bullet as far as administrative you know time and expense and I think this is a great idea about cutting out the pay stubs for those that want to do that, and working with the retirees association to do that. But you know, many of these organizations, I can't say I'm totally familiar with the -- I somewhat know of the San José fire museum. But you know I'm not involved in this program. But these are all legitimate organizations that our plan members want to donate. They're not spending retirement money. They're spending their own money and they're choosing they're spending their own money to do that. It would be my request that this board send a request, and if there's a problem with the municipal ordinance all of a sudden which -- how that developed after 30 years of not having a problem, that we request the council to make an exception to the non-assignment ordinance, so that these recognized, legitimate organizations that the city recognizes for

active employees, that we as the retirement plan also recognize. And if a member signs up and I want to sign up tomorrow for the San José fire widows and orphans fund or benevolent association, that we take the administrative steps to have that deduction automatically made.

>> Richard Santos: I'll second that.

>> David Bacigalupi: And I'll make that in the form of a motion. Second that motion?

>> Donna Busse: David maybe you would want the retirement code to change too, instead of listing out organizations, organizations as approved by the board and a separate approval list. That would be easier for the code.

>> Mollie Dent: I think that would be the suggestion that it be left up to the board whether or not you want to have that list of organizations approved by instead of having it in the code.

>> David Bacigalupi: Well, either that or we could have a list of organizations that the active employees --

>> Mollie Dent: I'm not sure that all of these are actual -- the City's process for allowing people to donate to some of these organizations is going to be a little bit different than your process is. The City's process is probably through combined giving program which is different than this.

>> David Bacigalupi: Okay for charity.

>> Sean Kaldor: Just looking I guess the basic issue is there's donations, contributions coming out of their paycheck you want to change that amount you don't want to just change it, we haven't codified what we're doing here. So I completely support their desire to change their dues, I don't have any issue with it. I can see the possible concern of people saying there's going to be 3 million different organizations coming to us. So if we want to say all the ones that are approved as of now or all those currently use heed are the list of usual deductions.

>> Donna Busse: We could come back with a policy limiting the changes, maybe we can say we'll do changes only once a year. There are ways we can streamline. But the ordinance is the first phase. We have to request that the council change the ordinance. The board is going to then formally approve what they're going to allow. Then we can come back with the policy. Some other jurisdictions have a minimum number of people that are participating if you want to add, things like that. We can maybe come back with a policy.

>> David Bacigalupi: Donna is this all the organizations as of today?

>> Donna Busse: Uh-huh.

>> David Bacigalupi: Let me amend my motion, these organizations as well as any organizations approved by the board. These are obviously ongoing, would I say these organizations and any others approved by this board. And would the second agree to the amendment to the motion? Okay. So that's the new motion.

>> Can I just add a comment from an accounting point of view, currently, the deductions that are summarized, there is only so much real estate that we have on our deduction pieces. So we are going to reach a point where some of these deductions, if the person has all of their mandatory deductions might not be printed on their advices or their checks just because of the limitations that we have.

>> David Bacigalupi: Again they sign up for it I mean we can send them a letter that says all your deductions may not show, it may show miscellaneous deductions, it includes the $4 here ands 5 there but it's not going to be detailed out in your statement.

>> Russell Richeda: Philanthropic, I think there's some labor code requirements what has to be on the active stubs. I'm not sure there is a requirement for the retiree pay stub. Are you aware of anything?

>> I actually am not aware of anything.

>> Russell Richeda: So you're right Dave --

>> That's what would be nice to confirm that.

>> David Bacigalupi: We're trying to get rid of the pay stub.

>> Drew Lanza: Do you know if anything here was used as political contributions?

>> Donna Busse: We didn't know and I didn't ask. Once the attorney's office said it didn't really matter what their activities were, I don't think I pursued it.

>> Mollie Dent: If you think of the fact that sometimes employees will have money taken out of their paycheck to pay their car loan, it's not a problem. This is their money. It's not a pretax deduction or anything. They could certainly cut a check to the POA if they wanted to. It's a question of whether the board kind of wants to facilitate using their pension check in a sense as a bank sort of.

>> Drew Lanza: I don't have a problem with it. I'm going to obviously support this. But that's a thing that keeps hitting the news all over the country, you know. Close this loop, money goes in and money goes out to a political system and it just seems to go on forever, but I understand the distinction. I just wanted to make sure I understood.

>> David Bacigalupi: Mollie brought something up, when I listed these organizations, I don't see the credit union here.

>> Sean Kaldor: This shows donations, they don't say they have a monthly transfer of $25 going into a savings account.

>> David Bacigalupi: Okay, so we don't need to specifically -- okay. I don't want to have to come back next month and have to modify it again.

>> Donna Busse: I don't think non-assignment would fall under someone taking money out and putting it into their own account. This is money going to a third party.

>> And there is a Municipal Code issue on this right Mollie this suspect something --

>> Mollie Dent: I think we want to make -- we can bring it once it goes forward to council it can go forward with different options for them. But I mean you probably don't want to start using the pension check for example for your fitness club donations and your various and sundries.

>> David Bacigalupi: I understand why we want to approve it by the board, we don't want to add to other entities.

>> Richard Santos: Again I was very frustrated, because I just thought like you said Mr. Chair, this has been not just a tradition, this has been a service for as long as I've been around, 44 years of this stuff, I just don't understand why we couldn't do this, now I heard the municipal code. Person like chief McMillan and works in the museum he brings money back to this city to build structures that we're all proud of so this is something good for the city. This is what -- and what retirees do with their money is their business. But my point is there's good things that's why it was established in the first place and take care of the people who built the foundation, it's a service. I still think this board should have the full authority to be doing these things. This is administrative process, we are wasting I don't know how much time here, these to me are trivial matters should be done by this board.

>> David Bacigalupi: Sean.

>> Sean Kaldor: If we are open to hearing other ones we should set some minimum that at least 20 people or whatever it is, so we don't have one at a time, we can accept to agree additional ones than are in here.

>> David Bacigalupi: Damon.

>> Damon Krytzer: Aye been transparent with everyone, everyone knows where I stand. I read this and I don't so much care, you know what I mean? But on the other hand, it starts to seem, my suspicion starts to go off, again this is more of a comment, it's something you said earlier for instance, this goes back to the last vote where you said it's not political it's just how the votes happen but you know you poor guys obviously have the discussion of who the chairman and the vice chairman were going to be. These are political decisions, they are not political decisions. When we see a list and other stuff can get added to it, ahead of you know the election, ahead of things going on the ballot and we're saying to ourselves that we don't want to be in front of any of that, that's why look, I'm going to support what the board says again on this particular issue, I don't so much care but hopefully it's not that simple as just an administrative issue. There's a lot more hair behind it or could be in questions that have to be answered. You know again I'm being as transparent as I can with everybody and just understand where suspicion starts to come out to me. It's a little irritating I got to say.

>> Well, this isn't something worth me spending any political capital on, I don't want to upset any of my fellow trustees especially active or retired, utilizing the system. But this is a memo from staff, and the staff did some research on this and I think about efficiency, this is the least efficient thing that we're doing. We have one individual that spends an entire day processing this. And there's one particular organization where there's 25 changes a month that's taking place. You look at other systems, and very few other systems are doing this, in reading through this letter I'd be curious if our director would like to share comments about the resources that we have to be applying to this, like our lean department that we have right now.

>> Russell Crosby: Well, that's why we're trying to get rid of the remittance advices and trying to eliminate where we can. And we've done a lot of other things. We do group counseling sessions now that were never taking place before to stretch the dollars as far as we can go. Everybody needs to understand that in the last four years, Donna, the retirements have doubled. We haven't doubled the staff. We haven't increased the staff at all, in fact we're down positions from where we were four years ago. So the base workload of getting pension through the

system and proved, is a much more onerous task than it was four years ago. And part of the whole issue here is that all of this stuff was said up outside the municipal code. So at some point the lawyers have to do something about fixing this in some way if we're going to continue to have these kinds of deductions coming out. And at the same time we were trying to limit them, certainly my own philosophy was that the retirees association elects a trustee. They are a special entity within all of this game. They have a reason to need -- a reason where the board should be interested in them communicating to their own membership, because ultimately, they place people onto this board. So given that I certainly saw a distinction between the retirees association and everybody else out there because they do elect someone who has the potential of being a trustee. That sets them aside from all these other charities. There is a business reason to continue a relationship with them. Additionally in our discussions with them, they were willing to support getting rid of the remittance advices, going to their membership encouraging people to drop it getting us to a more efficient place. Given all that that's why we focused on the retirees association, because they do elect a trustee, we do have business reasons to try cooperate with them on a number of fronts but at the same time, we were trying to eliminate as much administrative stuff as we can. Because ultimately, these checks, the vast majority of them go into a checking account somewhere. And the individual can set up within their own checking account whatever transfers they want to make every month to whatever associations or insurance companies or whatever else out there, and that's a fairly automated thing. It's not like you know, it's an onerous or a difficult task for a retiree to set up a deduction like that out of their own account. With us then, once we've set it up it's a constant maintenance. Every month, sometimes, there's money deducted out of there. Yeah, it's peanuts, and I hate to waste a lot of time on it. But incrementally you've got to look at all of those little pieces that go into causing the workload of the department and what's more important? Is it more important that we produce the next pension check of or is it more important that we worry about somebody's deduction within this pension check?

>> Vincent Sunzeri: Let me continue with this, trustee Kaldor has brought up the issue of the payroll audit and the overtime payment which has been ongoing for an extremely long period of time. And yet, this is another utilization of staff time that might have been shifted to that particular project. If I'm running a business, folks, there is a way to be more efficient to really cull this down. Not to be generous and expend openly options to what can be provided funding for. I'm very philanthropic with what I do and I'm a big believer in that. I look at this particular

list on page 2 and there's four very large organizations that retirees are giving to, others have maybe two, maybe five, maybe 29 retirees. Cull it down, at least take a step. Kind of like the discount rate, let's take a step to get a little bit more efficient.

>> David Bacigalupi: Sean.

>> Sean Kaldor: I think staff's mentioning some things and I think your points are right on. If there are organizations that are changing amounts on a monthly basis maybe it's got to be more of a -- you don't change them on a monthly basis. You know there's got to be more process to it. They can't kill us with that many changes. Maybe we do say it's got to be at least $500 a month or got to be at least 20 or 30 or 40 people in the plan who want donations to go to that organization and we can get rid -- if there's an organization that's getting $4 a month through this whole deduction process and we are going through a whole lot of hassle to make that happen, I can't imagine the organization being totally torn up about it. So I mean we need to be culling it down to some reasonable monthly amount or number of people involved in that. That would also prevent the individual coming out saying, I want to donate to whatever highly controversial organization, you're the only one, we don't start it up for one person, you get 20 people, 50 people then we'll consider it at board level. I think your points about being focused is totally valued.

>> David Bacigalupi: Let me throw that out there. What would the board think as modifying it to a minimum of, say, 50 people? That would rule out the one or twos that you know, maybe take a disproportionate amount of time. Dick.

>> Richard Santos: I think Sean brings up some good points. You know in my experience it's the last thing I wanted the city to do with my paycheck, anything. I went around with my time when they took some money by mistake, it took me 100 years to get it back. So that's the last thing do I. The only reason I give to the widows and orphans, is common sense, dollar a month or whatever, I don't burden anybody just a buck a month. I think limitation might be something we should take a look at, that we can create a lot of work and gets out of hand, that's for sure. I think we should look at this issue and compromising or address the efficiency is a good point.

>> David Bacigalupi: Take the look at the chart, say we drew the line at 50, that would limit to 50, is Santa, that's what I would propose to the board.

>> Sean Kaldor: I see these organizations, $200 a month, yes, if they have 30 members, but $200 a month, that's money and I appreciate the benefit gained from that. But for us to execute on something that's delivering them $200 per month, is this per paycheck or per year?

>> Donna Busse: It's per month.

>> Sean Kaldor: Per month. I mean, a line of 50 seems pretty reasonable. An organization knows they need to keep 50 people involved to keep deducting, otherwise have your members deducted automatically out of their counts, is that what you are saying?

>> David Bacigalupi: I did a list of the organizations and it's well over the 50 requirement.

>> Would I support that.

>> David Bacigalupi: Okay. If that's the -- if the board is looking in that direction, I will amend my motion to make it a minimum of 50 participants as another restriction to the policy that Mollie's going to have to write.

>> Mollie Dent: Again, I'm going to suggest that when it go forward to council, you not have council dictating these requirements but this be in a policy that the board adopts.

>> Sean Kaldor: That we can establish a policy that says deductions are involved following board policy.

>> Donna Busse: I think the ordinance only has to just get rid of the non-assignments.

>> Mollie Dent: I would suggest it to say there are no assignments extent organizations modified by the code.

>> Sean Kaldor: Shortest municipal code, that would be awesome.

>> David Bacigalupi: Any other discussion? All in favor? Signify by saying aye, all those post? The motion passes unanimously. Thanks DNA. All right, item number 3.3. Discussion and action regarding legal services request for proposals. 3.4.

>> Mollie Dent: I'll be really brief. We've received the proposals. The committee is going through the proposals and rake of ranking the proposers. We are looking at probably having interviews mid to late December, not after Christmas, but before Christmas. And hopefully, coming back with a recommendation in January to the board.

>> David Bacigalupi: Okay, no action is required today.

>> Mollie Dent: No action is required today.

>> Sean Kaldor: Anyone else wants to volunteer?

>> David Bacigalupi: Any questions anybody? Thank you guys for participating in that. 3.4. Discussion and action on the letter to the City Manager regarding staff salaries. I'm not sure what action we would take. The letter went out.

>> Russell Crosby: Correct.

>> David Bacigalupi: As directed by the board.

>> Russell Crosby: Correct. And there was a companion letter from the Federated board as well. That should be in your package. Yes, that's the second item in your package.

>> Sean Kaldor: And so do we have a response?

>> Russell Crosby: They're studying it, figuring out what to do. I think there are some options for modest increases.

>> Sean Kaldor: Are they going to give us a written response at some point?

>> Russell Crosby: My understanding is that --

>> Sean Kaldor: Or come and meet or however --

>> Russell Crosby: -- the City Manager will come and meet you again.

>> Sean Kaldor: You think that will be January?

>> Russell Crosby: I'll find out.

>> David Bacigalupi: We'll note and file that. Okay. 3.5, update on Cortex consulting project. Who's going to do that?

>> Russell Crosby: Well, we're to the point now where we need to have another round of meetings and we're having some difficulty setting up that next round. It looks like it's probably going to end up being after the Christmas holidays before we can get everybody together.

>> Sean Kaldor: We tried to do that after this meeting, that didn't work out. We tried to do it December 18th that didn't work out. We got the first set of forecast, they're going to give us a second set of information, we have to

read through that but we have to get everyone together. If we can't is it a Police and Fire and Federated trying to get it the same day or --

>> Russell Crosby: No it's mix and match. Some people are leaving on vacation, others are not available but it looks like it's going to be early January.

>> David Bacigalupi: Okay so what day to we neat in January? Early isn't it?

>> Russell Crosby: I think the 5th is your January meeting date.

>> David Bacigalupi: So we'll probably not have --

>> Russell Crosby: Not before then.

>> Sean Kaldor: If we could schedule it after that that would be great.

>> David Bacigalupi: 3.6. Update on payroll audit FLSA and overtime payment issues.

>> I don't have an update. I haven't received any updated files from finance. I continue to correspond with them to send us over any new information they have and I'll continue to do so.

>> David Bacigalupi: Okay. Questions for the board?

>> Sean Kaldor: Can we keep that as an ongoing?

>> Russell Crosby: We'll keep that on the agenda.

>> David Bacigalupi: Okay, item 3.7. Update on electronic board packets.

>> Donna Busse: We're supposed to get our responses tomorrow, we will turn it around. We will schedule a duration on Monday December 12th, if anyone wants an update let me know.

>> David Bacigalupi: I just figure I'll let you get them and then have instruction on how to use them. 3.8. Discussion and action on revised physicians disability determination forms. Nothing in the packet at this time.

>> Sean Kaldor: So what we had said last time we're asking for people to give any feedback or comments on those forms, if there are ways that they can be improved or changed. Dr. Das is no longer here. Does anyone have any feedback on those forms?

>> Conrad Taylor: You know what I would like, a rating, people coming before the board don't have a rating on an injury. I would like to have some type of a rating. I know it's not really that relevant but I would like to see it where somebody is coming before the board and they have no rating at all for this injury but they are putting it down I'd like to know that.

>> Russell Crosby: Not sure what you mean by rating.

>> David Bacigalupi: That's a work comp issue.

>> Mollie Dent: Well I mean the records might show what the rating is if that's all you're asking for, is that that be brought forward into Dr. Das's report?

>> Conrad Taylor: Be able to see the rating within that and you're hunting for that --

>> Sean Kaldor: So you'd like that bumped up?

>> Conrad Taylor: I'd like a summary.

>> Mollie Dent: You would like when Dr. Das goes through the QME what it is? Sometimes there's no QME even.

>> David Bacigalupi: Okay. Sometimes the QME is not done.

>> Mollie Dent: And I will say, it may or may not be really relevant but if it's in the packet and all you're asking for is for it to be pulled forward as an information item where you can see it, that's not a problem.

>> Conrad Taylor: I think question is if somebody comes before the board and they have a 1% rating yet they are coming before the board saying they can't work, why did this doctor only give them a 1% rating and now he's saying he can't move or he can't work?

>> David Bacigalupi: Russ. Rancho Del Pueblo I'd suggest that the board ask that he modify the form, so if each doctor disagree with him, if they have restrictions that he doesn't, why does he disagree with them, so for example on the 32-hour thing this morning, you would have already had that before you. And it is also very relevant if you deny something then it's taken up to superior court, you have something and you'll have his reasons in writing why he rejected.

>> Sean Kaldor: Could we add that to the discussion section where he could if his restrictions are less restrictive, than the treating physician's or primary physician's he could address why he didn't think the treating physician's restrictions were appropriate.

>> Damon Krytzer: I think he addressed it that way, right? He doesn't say I don't agree he kind of says well, you know, various levels of conclusion off of it, you know what I mean? I mean he never not once would -- has he or would he come back and say welt I don't agree with that.

>> Russell Richeda: I think you're quite accurate that he does not. But I think in any future court proceeding you're at a disadvantage with a record that doesn't contain that. It may also help you too I would think to provide some clarity. We also heard from Dr. Das that he had some graver questions about whether the injuries could actually cause the incapacity. But there was nothing in writing about that. There should be, if he has good faith serious concerns. They should be in writing. They should be presented to you. It's not possible, you can reject it. You could find the other reports more authoritative. But you at least need clarity on what his position is.

>> Damon Krytzer: We don't have that we're not making him tie side.

>> Sean Kaldor: But he gives a restriction. He just doesn't say why that restriction is different. In this case he's saying he didn't think the evidence was there to justify it. If he could spell it out, the applicant says I need to get more information, I think we're having this problem now people appearing before us repeatedly and we are looking at their packets.

>> Damon Krytzer: Agreed.

>> Richard Santos: Mr. Chair, I think ratings discriminatory, I don't know. It is I was talking to Dr. Das about these things in how can we be more efficient, how it could be helpful, whatever we have so anyway I think more explanation would be helpful I know when we've talked with him, I've sat down with him and he's very willing to do more and so on.

>> David Bacigalupi: Personally going through this process you know ratings are this knee is rated such and such paved on its movement and pain, et cetera, et cetera, as set by a book. I mean it's a code in the workmen's comp code. Says okay you moved it this far, okay, you're 6% or you're 18%. And I, too, think I'd find that misleading. It's you know I think it just goes back to the basic, you know, here's the restrictions, you know, can't walk for more than 20 minutes at a time, now, account department accommodate that, that's the basis how I try and make my decisions.

>> I think the discipline of the doctor putting it in a form before the meeting, because that packet was dense and I had trouble following what he was saying.

>> David Bacigalupi: Yeah.

>> Bettina Rounds: And if he represents the city and board, to some extent, you want something that could be defended. If there's a problem ever.

>> David Bacigalupi: And one of the purposes is they're also trying to make it so it's more complete so we can find the information.

>> Bettina Rounds: The packet was huge. The more he can describe everything.

>> Mollie Dent: I want to say the information provided at the board meeting is evidence. But I think what the board is getting at is they would like to have all that in their packet and then only really have to elicit additional testimony to their questions or questions to the applicant.

>> Bettina Rounds: And in a form one can read and understand more simply.

>> Sean Kaldor: If we're looking at the forms, make sure that if there's a difference, it's because we're going to ask you, and then just saves time for everybody.

>> Mollie Dent: Just for the new board member's information, this form is a new form that was developed specifically because of problems with the packet. And so now what we're talking about is making just upgrading it even further so that it is useful for the board.

>> Sean Kaldor: You should see it a year ago, you just got a stack and --

>> Pretty big today.

>> David Bacigalupi: So can we accepted it back --

>> Donna Busse: Without adding the ratings.

>> Sean Kaldor: No.

>> Donna Busse: More discussion, addressing concerns, little bit more reconciliation.

>> David Bacigalupi: Donna can you speak into the mic?

>> Donna Busse: Sorry, areas of disagreement --

>> Russell Richeda: At lease my K if Dr. A said restrictions, Dr. Das may agree with all those. But if he disagrees with any of them he should explain why. Concisely but clearly. Not only on restrictions --

>> David Bacigalupi: We come across that quite often. There will be four or five restrictions from the treating physician, we get one restriction. Why?

>> Supervisor Yeager: What did you see differently than the last physician?

>> Sean Kaldor: All right, that in there for now.

>> Donna Busse: He will say that was a prophylactic restriction and I don't include those.

>> David Bacigalupi: Okay, we've done items 4, 4.4 change of retirement date, we have a handwritten note in here 4.4. is change of retirement date, police officer Carlos Valencia from November 26th, twin to December 10, twin.

>> So moved.

>> Second. Be.

>> David Bacigalupi: Any further discussion? Hearing no further discussion all in favor, all opposed, motion carries. One abstention. Item 5, death notifications, 5.1, notification of the death of John Mike Van Dyck, police sergeant, retired November 14th, 1978, died October 22nd, 2011. Survivorship benefits to his wife, Lois Van Dyck. I worked with Mike, mike was a -- in the old fashion world what we called a cop's cop. Former military. A real leader. People would follow him, because they respected him, not because of his rank. And it was really sad to see that he passed away. So for him, and all the rest of the police officers and firefighters that have passed away this year I'd like a moment of silence, please. [Moment of silence.

>> David Bacigalupi: Thank you. Okay, item 6 . Committee minutes reports and recommendations, 6.1, investment committee their next meeting is scheduled --

>> Russell Crosby: Was yesterday.

>> David Bacigalupi: Was yesterday. I think we've heard a little bit about the long meeting they had. And so there will be follow-up information coming from that. 6.2 is the ad hoc committee for disability determination process next meeting is to be determined. Right?

>> Conrad Taylor: That's correct.

>> David Bacigalupi: 6.3, the ad hoc governance committee, the next meeting is now to be determined.

>> We're talking January.

>> David Bacigalupi: Next item is the consent calendar,sen.1 through 7.5, usually taken in one motion, approval of the minutes, travel and conference attendance, communication information and new item we are going to see is pending projects, I can take a motion unless any board member would like any individual item pulled from the consent calendar.

>> Richard Santos: Motion but up coming what is called classes and so on and training, usually comes up ahead of time, have you had some of them coming up in the year?

>> Russell Crosby: We try to do it ahead of time.

>> Richard Santos: When I see somebody leaving in December I didn't see that so --

>> Russell Crosby: The policy was that if a trustee saw a conference or something that they wanted to go to, that I could go ahead and approve it but then it has to come back to the board after the fact. Normally we try do it ahead of time.

>> Richard Santos: Motion to approve Mr. Chair.

>> David Bacigalupi: Motion and second. Dave --

>> Donna Busse: 7.1A you probably want to pull that because Bettina wasn't there.

>> David Bacigalupi: That's true. Would the maker of the motion modify his motion, therefore you could vote on everything except that one item. And the second agrees to that. I have a motion and second to approve the consent calendar, minus 7.1, approval of last month's board minutes. Drew.

>> Drew Lanza: Thank you so much for continuing to inform us in the background 7.5, we have a storm brewing and thank you getting us help battening down our hatches ahead of time.

>> David Bacigalupi: Okay, all those in favor, say aye, all those opposed, okay, passes unanimously. I'll entertain a motion. On the minutes.

>> Richard Santos: Motion to approve.

>> David Bacigalupi: Motion and second. And our new board member won't be able to vote on this one till next month. Any further discussion on that motion? Hearing no further discussion all in favor, all opposed, motion carries.

>> Damon Krytzer: Going back to Russ's letter, and his last letter that we talked about last month, we got that e-mail, right, did you guys read the e-mail from --

>> Added next month.

>> Damon Krytzer: So is that FYI are we going to discuss that or --

>> Mollie Dent: Okay, no, our office wanted to get it out to you. We frequently do information memos to council, and we've done them to you before, that aren't going to be agendized but we will agendize it for January. You have -- if you want to, I mean, that's fine. I think the e-mail said it was going to be agendized for January, so I think the director intends to agendize it.

>> David Bacigalupi: I thought it was a timing thing, we couldn't get it on --

>> Mollie Dent: It came out after the deadline and there is no urgency.

>> Sean Kaldor: Could we have that and Russ do you want to respond to it?

>> Russell Richeda: I hope my initial -- right.

>> Sean Kaldor: They are saying something different, classic conflict situation.

>> Russell Richeda: That is not my -- right.

>> Mollie Dent: We'll talk about it in January. Rancho Del Pueblo I think they could have been more helpful to you. I'll put that in my written response.

>> Sean Kaldor: And then for proposed items if the City Manager is so willing and able to address the compensation thing either in person or in writing if we could have that on the agenda for next month.

>> David Bacigalupi: All right, let's finish up the agenda, 8 education and training, 8.1, education programs and courses, 8.2, conferences and seminars, 8.3, research papers and articles. Anyone interested in attending to help perform their duties here. Proposed agenda items we've talked about that one already, we've talked about the discussion regarding the two attorneys, any other he proposed agenda items? If not please contact Russell if you think of something. Public comments. Opportunity for the public to address the board.

>> Good afternoon, Mr. Chair, members of the board. My name is John McMilan and I'm the president of San José fire museum. And I appreciate discussion you had today about the payroll deduction. And I appreciate your supporting us remaining, if I understand correctly, (inaudible) allow San José fire museum to be a part of the payroll deduction. We thank you for that. 100% of our money goes directly to the restoration of tools, equipment and apparatus that are the City's history and very essential part of our receiving donations and they're not just firefighters, we get donations from the police officers and other city employees. Thank you.

>> David Bacigalupi: Thank you for appearing, I apologize you had to wait so long to speak but we appreciate you appearing and thank you. Keep up the good work on the museum. It's great.

>> Sean Kaldor: It's an enormous facility, so many people donate their time into that, I encourage you to see, very old classic facility, across from cancel park it's a neat chance to see all that.

>> David Bacigalupi: Jay.

>> As most of you know, I have a bad back, so I would prefer to sit if that's agreeable. I'm here to ask the retirement board to ask the retirement services division to increase our association of retired San José police officers and firefighters, move their dues from $15 a pay period to $43 a month, pay period. Towards this end, in September, we mailed out 201270 ballots which included return postage post cards. On 10-12 we got 918 of them back, which our members voted 710 to increase the dues and we had 90 no-votes. In addition for Molly, if about any of this has to go before the city council, we would humbly request that the language be replaced when dealing with the retire ease association dues, if the language be changed from, instead of $15 a pay period, to, quote, the association dues as set by vote of its members." If that would work with you, it would work with us.

>> Mollie Dent: So the issue for changing the dues is that we -- is that the plan either needs to have the member tell the plan to change the amount some the member himself, the plan can't change the dues simply because the retirees association voted to change the dues, if the individual member doesn't ask us to change their dues amount. Or we could have a form where the individual member says I agree to have the dues be whatever the dues are. But that isn't what our forms say now. Our forms don't authorize this, to just change the dues for the members. So that's our dilemma.

>> Sean Kaldor: Wouldn't that simplify something if we had something that we get the individual to sign that says, I will pay this amount of dues?

>> Donna Busse: Could we do it ahead of a code change?

>> Mollie Dent: We could do it, but it has been the practice to do it so I think if members want us to change their dues amount they can certainly communicate that directly to us and they can certainly communicate whenever the dues amount is changed by the association. Per-year earlier discussion, you may want there to be some limit on how often that happens. But that can be part of the board policy. I think this is something that could all come back to you in the form ever a board policy.

>> Sean Kaldor: Sounds like what they're asking for and that would make our life easier here administratively.

>> Mollie Dent: And that would get us back on the Brown Act to getting back on the agenda, too.

>> Mollie, can I ask you a question? Since we have retained the original ballots and the ballots were signed by the individual members responding, would that satisfy your requirements for notice in writing?

>> Mollie Dent: Why don't we take a look at that, okay, the problem I'm having with this is it is not agendized for the board to take action on this today. So --

>> It is.

>> Mollie Dent: It is on here?

>> Their request to add --

>> Russell Crosby: It's really 3.2 rehashed.

>> Mollie Dent: Oh it was part of 3.2 and we skipped it over.

>> Russell Crosby: No, this is kind of reopening 3.2 discussion.

>> Mollie Dent: Got it, okay, sorry. I'm sorry.

>> David Bacigalupi: Specific portion.

>> Mollie Dent: I think we can take a look at those ballots of the 900 members who signed up for it.

>> Donna Busse: We have to modify our system, I outlined steps that have to administer that.

>> Mollie Dent: You can have any member put it in writing that they want the dues increase to occur.

>> Russell Crosby: Mollie, could you first look at whatever the member signed and if there needs to be different language perhaps give it directly to them so they could send it directly out to their members and get them signed up.

>> David Bacigalupi: Jay, you'll meet with Mollie.

>> Thank you.

>> David Bacigalupi: Be that there's no other business this meeting is adjourned. Sorry. Dick.

>> Richard Santos: I do want to thank you and Conrad Taylor for being chair and vice chair for the past year. We appreciate that.

>> David Bacigalupi: Thank you, meeting's adjourned.