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>> Matt Loesch: Well all right, let's get going here. Well, the purpose for today is to interview for the recommendation to city council for the seventh person to our board. I know we can take a deep breath, we've got a couple of things to do, people running arounds. This is kind of an interesting situation because we're setting precedent here. Because this hasn't been done before for this purpose. There has been some similar things for vacancies on the board, but not really in a sense. So kind of excited about the opportunity. How this is going to go. It is our decision how this is going to go to make this recommendation to council. So I guess I'd like just a couple of minutes to hear when with you how you'd like to organize this discussion, and the interview itself with the questions and so forth. So if anybody have any ideas of things they would like to bring up to the group before we bring somebody in front of us to actually start asking questions, you can state them. Mr. Andrews.

>> Arn Andrews: My only experience is the interview process I went through. And when we went before council, we were afforded an opportunity to give a little bit of an opening statement. So I was wondering if we thought it would be appropriate to give a little bit of an opening statement. At which point I think it was then turned over to the members of the council to ask questions, and some of them appeared to stay close to the questions that are part of the application. And then some of the questions veered off in a different kind of policy format. So --

>> Matt Loesch: Okay. I sort of concur myself. What if difference is, you know, we being city employees, we have a very regimented interview process. We have prescribed things the way things go. This is sort of the opposite of that, we're in control of what's what that's going to be. What you would like to add, I think that's a great idea. I think an opening statement would be appropriate. Anybody else? If you hit the light, you know you have something to say, hit the button I know if you have something to add or not. Mr. Armstrong.

>> Michael Armstrong: I guess Pete gets his perspective, since he's been through the interviewing process, what kinds of questions you thought were most helpful. And frankly, what -- some of the questions that weren't asked that you wish were.

>> Pete Constant: Well, thank you. I think most of you are aware of the actions that the council took to open up these positions on the board. And the initial reasons were really to remove as many conflicts as possible from the

board and to bring outside objectivity to the decision-making. And to also look for areas of expertise that we could draw on to make decisions from the board level. For the benefit of the plan, and the members and beneficiaries of the plan. I think that the council process works well, that's what we use for almost all of our appointments, whether they be on the retirement boards or any of our other boards and commissions. It gives an opportunity to -- I think the opening statement always gives you kind of a good picture of the person's communication skills and how they present themselves. As far as the questions that we ask, you know, that has been almost as varied as the number of councilmembers we have on the council. And I know that I personally try to ask questions that I felt would give me perspective into the decision-making ability of the person in situations that they would face on the board. And in particular, when we were interviewing for these positions, one of my concerns is making sure we didn't end up with four new board members, that all had the exact same experience. You know, if we had four board members who had nothing but alternative investment experience and nothing else, that wouldn't really benefit the board as a whole. So as we were interviewing for both Police and Fire and Federated we were looking to find complementary skill sets that would provide a balance on both boards at the same time.

>> Arn Andrews: I'll just follow up on that theme. As a board is there a context or a skill set that we're looking to add? You know we went from a board that didn't necessarily have an over abundance of investment of professional skills, with the recent transition we now appear to have quite a good complement of investment skills. Are there any other traits other than investment skills that we'd be interested in or do we just want to take it as individual by individual basis?

>> Matt Loesch: I guess somewhat it goes back to the -- I mean it's interesting about particular skills. The -- why did we get to a three-three-one construct? The city council wanted to have more oversight I guess for lack of a better -- expertise not from their perspective but as representatives of their -- of them I guess is a way to describe it. And the bargaining units wanted to protect their ability since it's their plan in essence. But then that neutral, you know, the people appointed from the council and elected by the employees. This person would be like the go-between. It's not really that sense where it's truly neutral. So some of it's mindset you know to balance between the elected -- the appointees and the electeds, so it might be a mindset thing instead of a particular skill. I don't

have an answer for a particular thing, but it might be a mindset, in that this person's skills might complement. It might be.

>> I would just say I think in addition to kind of mindset and skills, it's really how they're going to interact as a group, and then I think one of the most important things is the dynamics of this group and how they would interact in that way. And so I think kind of getting to how they've done in these types of settings before, what was their role, their responsibilities would be very important for all of us. But in trying to select a seventh member.

>> Pete Constant: And Matt, if I could just tag on to what you said, I think one of the reasons we went with the three three and one was to really bring balance if the council were to make very politicized appointments on one side, and the employees were to make very union-centric appointments on the other side, it would give one neutral party. And I think we can look around the table and see that neither side of that has happened. So we've avoided that problem. So I think we're very open, or you guys that are going to vote, are very open in looking at where you think things should be.

>> Matt Loesch: As far as how to ask the questions, did you want to organize and have, you know, certain people asking certain questions? Did you want to have it free format, just let it flow? What works best in your mind, for you to make your decision?

>> Edward Overton: I think the way we normally conduct board business -- the way we conduct board business, you turn your light on and you ask it, and if someone has asked your question then you just listen and make notes.

>> Matt Loesch: Are there particular things we want to make sure gets answered from everyone? (inaudible).

>> Matt Loesch: Possibly. I mean I don't want to -- I can't dictate what the format is but I wanted to get a flavor from folks. Because you're going to make your individual decision, so what makes -- so that you have all the information you want to make the decision.

>> Edward Overton: Well, to throw it out there, I have three questions. And one is whether the candidate actually has an ideas of what the role of the board is and what the role of the individual board member is, and also, whether they've had experience presiding over a quasijudicial proceeding, as in disability retirement. Because I know we're focused on investments but there are a lot of other decisions that need to be made. And also, whether they understand the key elements had of a successful investment strategy. So those are the three questions that I have. If I get a chance to ask them.

>> Matt Loesch: Kind of tagging onto that myself, I thought, how would you demonstrate your independence -- kind of goes along with how you're working on the board. But how would you demonstrate the independence, your independence, because you're going to be coming from us as far as choosing it, but we're all individual entities here as far as making decisions. But I would be -- or I guess the independence and neutrality because that is one thing we're looking, how is it going to fit into the group. I haven't formulated how to ask that question but it was more of a concept I was looking for them to demonstrate their independence, making a decision, presenting their viewpoint, being able to stand up to the group, I think this is wrong for this reason, you know, to be a part of the group. And then also look at it from the participant's perspective. Because I think some of the participants look at us individually, try to get the game, where are they coming from on some of this stuff, is there something they're trying to read into it, how do they think the participant would view our participation in it, challenge the city, challenge our process, I mean how they going to demonstrate that? Those are two things that popped up plus the individual questions from the individual packets that they had.

>> I had some fairly pointed-type questions which, to me, give a sense of how people think, and they could be -- I literally put together 15 questions. I'm not going to ask 15 questions. But you know, they could be things like you know would you ever recommend hiring a manager if they had a prior SEC violation? And see how they would respond to a question like that. They're views on overvalued or undervalued asset classes in the current environment, some very kind of specific areas. What do you think the biggest mistakes that retirement boards or investment committees make? If we called up your current or last boss and told them we were considering a position on the retirement board what would he say about you? Is your current or last boss one of the references

you supplied in this application? I tried to put together what responsibility do you think the investment staff should have versus the board? How do you view the role of the investment consultant? What's the role of risk management in the investment process? Do you think that actuaries are using reasonable assumptions to measure liabilities, if so, why, if not, why not? If you were writing the investment policy from scratch, what are the top three policies you would write? So a lot of kind of what I hope to get is kind of tear thought process and obviously their honesty, openness, you know conflicts of interest are always a concern. Personal relationships and how you handle that and the ability to be influenced by personal relationships that relate to investment decisions. So I do -- I do recall I think it was Andrew who I had read, when I read through or watched his video, you know, he mentioned the use of personal relationships to gain access to managers. And I can tell you in -- what we do, relationships do matter. In some ways. And we get access to certain managers because of who we are, and that does help. But there also has to be an evaluation of the independence of the process, in selecting the best candidate and making sure that the candidate understands kind of where those things cross the line from, you know, over influence because of you personally like this person or you know them and so you feel you have a better knowledge base there. I'll stop there. I did ask, what have you learned from the credit crisis and what would you recommend doing differently as a result.

>> Arn Andrews: What are we still learning.

>> I had a question of fund of funds, positives and negatives, given that's probably one of the things that I think the board will have to grapple with over time. So those were all of mine.

>> The -- kinds of interesting. When I was announced that I was going to be on this I had a number of people come back to me and there were two responses, one was, well, Mike, you're being a great citizen, we're quite happy for you. But there were many more that asked, why are you doing this? So I think I would like to understand the motivations of the people, why are they here? What really, why are they doing this? And let them you know put some open-ended questions, let them talk about it. Because it's -- it's a fair amount of work.

>> Lara Druyan: Yeah, Matt, one of your things to your point thinking about independence, one of the questions, it may be too free form to ask for me is to describe a situation how do you deal when you have conflicting points of view for a very critical decision, how do you know you've made the right decision and you know can you describe a situation in which you've done that, whether it's an investment decision or a difficult negotiation? And in terminates of thinking about the portfolio, I really think, and Stuart just mentioned a key word to me, which is risk. And you know, what do you think is important in assessing risk for a pension fund such as this one?

>> You can ask them what is risk. [ Laughter ]

>> See how they respond to that.

>> Pete Constant: So I think the free flow of questions is much better than scripted questions. Because we do have the scripted questions, and the responses. Some of them, some of what you've talked about are in here, but not as pointed as some of the ways that you've put it. So I think just asking things that complement this, and building your questions based on the responses to previous questions. And letting it flow the way it does.

>> Matt Loesch: So I guess the way -- sounds like all will give the chance to give their opening remarks and then let someone who feels they're ready to start asking their questions start firing away and we'll just follow around and work our way around feeding off of the discussion, see if they answer any of the questions you have, in their presentation, and/or --

>> Yeah, I kind of would like to see Michael's question come in early. I thought that was a really -- a good way. And then maybe we can just kind of go around.

>> I think motivation sets the stage for a lot of the others.

>> Lara Druyan: I agree.

>> Matt Loesch: I guess you get to start first, starting with A. First up. (inaudible).

>> Matt Loesch: No, not yet. Well? We're ready. You wanted to get -- (inaudible).

>> Matt Loesch: Good morning. If you would just press the button in front of you that activates your microphone.

>> Great.

>> Matt Loesch: And similar to the previous interview process we will allow you to have an opening statement make any comments you would like to make first and then we'll go away with questions.

>> Probably skip opening statements. You probably have questions you want to ask. Why don't you go ahead and fire away.

>> Matt Loesch: Okay.

>> So I guess having just joined the board, I mean --

>> And congratulations to you and to Stuart.

>> Why -- I mean why do you want to do this? What's the motivation?

>> You know I think there's kind of three parts to that. One of the things is I'd like to sort of give back to the community. This is one way to do it. I've served for instance on the board of the Stanford museum. I'm on the board of the Santa Catalina Island Company, in Southern California. Second point is, I like doing it. Third point is, I guess selfishly, I think this is going to be one of the most interesting areas to be involved in over the next ten to 20 years. Politically, this is a real hot potato. What happens. So selfishly, I like being where interesting things are

happening. I'd like to be there. I think I can offer a lot in that position, but that's sort of what draws me to it. Oh, and Lara, congratulations to you, too.

>> Arn Andrews: So do you have -- kind of what level of time do you have to commit to?

>> I'm sort of retired right now. So I have quite a bit of time. I planned to sit on three or four boards. If this was one of the boards, obviously, I'd give it 25% of what my available time is. I am ex-entrepreneur. Once an entrepreneur, always an entrepreneur. I am in the process of starting some companies. I will probably sit on one or two of those boards, so three, four, five boards, something like that. I've sat on as many as eight or nine boards at a time. In the past that's too many. I think the appropriate number of boards to sit on is three or four or five depending on the commitment that each one requires.

>> Arn Andrews: In your application one of the standard questions we ask is, next page? That you consider to be the three most important issues currently facing the retirement board and you kind of went off in a macro spectrum you know the political climate you just spoke to and it's going to be an interesting space. If you had to drill down a little more and list of you know, one or two of you think the more technical, important aspects that are facing the board, what would you speak to?

>> Well, clearly one of them is the generic aspect. Technically at a low level which is obviously the people you have brought on the board, which is okay we have this imbalance between what we have historically viewed as returns and we have to deal with that. So tactically, where do we put the money, how do we get the returns we need, how do we make sure the commitments we've made to retirees are met. Tactically that's what the new people on the board are very, very good at. Where do we specifically put that money in order to generate those kinds of returns? What kind of target rates are we looking at? Do we need to modify the target rate? I would imagine that would occupy some fair amount of your time. The second tactical issue, and it may not be the answer you're looking for, is obviously you've politically changed the dynamic of the board and its relationship to the various city entities. And I would imagine drilling down that's the place you would want to spend a fair amount of time to make sure you don't become dysfunctional. Having sat on a few dysfunctional boards, there is nothing

worse than sitting on a dysfunctional boards. Exempt maybe a dysfunctional little league team. It is just one of the worst things you can imagine. So drilling down, and I'm not the expert money manager, you've hired those people -- you've retained those people now to sit on your board. That to me would be where you'd probably spend a fair amount of time. And beyond that I don't know. I don't know what specific issues you have with your retirees and what needs they have that are unusual and tactical at this point in time. I've not sat on a retirement board before.

>> What makes a board dysfunctional? In a sense what characteristics are a dysfunctional board and what are the characteristics of a nondysfunctional board?

>> You know, a highly functional board is easy to identify. It knows what it is supposed to be doing, it prioritizes, it shows up on time, it gets through its agenda. There are debates, there are squabbles, afterwards everybody goes out and has a beer and says well that was fun. I think we did our job, let's go do it again. A highly dysfunctional board in my experience is characterized by people who view their own self-interest as larger than the interest of the organization they represent. In my community of venture capitalists, a dysfunctional board is when we have a venture capitalist on the board who really doesn't care about the company. He cares about himself or herself. They have to generate a Return, so they will sell the company out from underneath the employees. This is a pretty straightforward board in terms of what it's supposed to be representing and who it's supposed to represent. What are the interests of the retirees, what are our commitments to the retirees, what do we have on our agenda to make sure we're meeting that objective. As you say the answers to that come all the way from the highest level strategic 100,000 feet what's going to happen over the next ten or 20 years, to very, very tactical questions, it's obviously somebody eligible, are we making our commitments. It's about personalities. That old adage that the rotten apple spoils the barrel is really true. And high function boards are boards that recognize who the person on the board is who's creating dysfunction and isolating that person, creating an identified situation. Most of you have probably sat on dysfunctional boards, so you know exactly what I'm talking about. This is not a dysfunctional board I hope.

>> Matt Loesch: Hope not. I think we're going along pretty good. How have you fit into your roles on the different boards you've sat on?

>> You know, I'm a really nice guy. I'm the really nice guy on the board. I'm the guy that's always trying to make compromise and make peace. I'm the guy who always shows up on time except for today which is a long story. I'm the guy who always shows up on time and says what are we here to do, somebody's set an agenda, put it on the board and when we're running over, I'm the guy that raises my hand and says why are we running over. I'm the guy that asks the meta question. I'm the guy that says, what are we here to do before we dive down, what is this all about? We are going to be here for four hours. What are we going to get done in four hours. I'm an engineer. I'm the guy who says spend the first 15 minutes planning what we're going to do, and then let's spend the next 90% of the time doing it.

>> Arn Andrews: You answered my other question, because on your resume, you wrote nice guy, and I was going to ask what that meant.

>> Matt Loesch: Translate, please.

>> No, it means nice guy. If you ran a bunch of references on me, what you'd hear from people is, Drew is a nice guy. I'm sure some of you on the board, if people broadly asked about you, people would say that, he's a nice guy.

>> Matt Loesch: One of the lines of questions and or comments in the council interviews was about personal contacts and access to either funds or relationships. And in the discussion, afterwards, the councilmembers seemed uncomfortable with some of -- at least even that you're -- they seemed uncomfortable to either the comments or the pretext. And I guess I wanted to give you a chance to talk about what, maybe reexplain --

>> Oh, sure. Oh, that's a straightforward question. When you put together your portfolio, you're going to put it together into three baskets, right? Maybe ten baskets but the three core baskets have always sort of been public equities, private equities and bonds. So public equities and bonds are open in the market. You can go to anyplace usually get into pretty much anyone you want to. That's not always true but it's a generically true statement. But in

that third basket of private equity, a lot of times it's who you know. The top venture capital firm in the Silicon Valley is Sequoia Capital. They routinely return more than any other firm, and in order to get into Sequoia Capital it kind of helps if you know people at Sequoia capital. Private equity does not have to take your money. They can choose whose money they take. In the past for instance in venture capital, there were some laws passed that indicated state institutions should through public disclosure tell a lot more about venture capital firms than venture capital firms wanted to tell. And if you remember that history venture capital firms stopped taking money from public institutions. So that was the only context. And if one thing we know in private equity is that there's a huge skew of 100 venture capital firms only ten or 15 of them really make money. It's easy to get your money into the other 85, it is hard to get your money into the 15 that make money. And that was the only point I was trying to make is the private equity basket you need to know people. And obviously, the people you've already added to the board know a lot of those people and probably have access.

>> Matt Loesch: How do you draw the line and where is the line of appropriate/inappropriate?

>> You know I think full disclosure is the line. I think you just say everything you know. I went to school with this guy, I can represent San José, I think if we go to -- I'm not just say Sequoia, it might not be Sequoia. I could go and say look this a great group of people representing retired people in San José. We'd really like to have a chance to be in your next fund. I don't think it's any more complicated than that. The line to me that gets drawn when you're doing stuff, either money is changing hands, which I've never ever seen in my life, it doesn't happen as far as I know in Silicon Valley, or when you're trying to do some kind of quid pro quo, you know, if you let me in I'll help your kid get into some school. I've never seen that happen, it doesn't happen. That would be a line that nobody would want to cross but nobody crosses that line. I think it would all be above board, let's go out and Matt and I will take you out for a beer we just want to talk to you about what the board is doing, we think it's you know in your interest to have us in your portfolio. It's not any more complicated than that, really.

>> I'm going to ask a somewhat specific question. Would you ever recommend hiring a manager if they had a prior SEC violation?

>> No.

>> Why not?

>> I just wouldn't. My experience in Silicon Valley is that the second somebody crosses a line you shoot them. You just do. There has been one -- example a company I was in about three years ago I was in the board the CEO back dated a document. It was a fairly trivial document, didn't mean much. He probably didn't even violate the law. We fired him at the board meeting. You're gone. You don't have to cross those lines. Maybe he was accused unjustly. You're assuming that that actually there had been some case against him and he had been found guilty.

>> Okay, maybe I'll rephrase it. What if there were allegations by the SEC, the manager, did not deny or accept those allegations but paid a fine. There were some details around what it was. And you know, it -- one might interpret it across the line. Would you take a hard stance, you pay the fine, I'm not going to invest or, would you evaluate it differently?

>> You know it's just me. I would take a hard stance and would I walk away. Even if he was the top performer in his category, life's too short and maybe perhaps unfair to that person, but that's just my personal view.

>> Matt Loesch: Mr. Overton.

>> Edward Overton: Andrew, there has been a lot of emphasis on investments. Which is important, and we have investment people that have been added to the board. But the board has a lot of other responsibilities. Could you tell me what the responsibilities of the role of a retirement board is, as well as the role of the individual board member?

>> You know I think the -- in my view, and you can correct me if I'm wrong. I medium the primary role here is to take care of the retirees. Our job is that to make sure what they have been promised they get. Part of that is we

have to manage the money properly to make sure that the funds are there to give it to them. I know we have responsibilities to make sure that are people truly eligible as well as are they getting what they're entitled to. It seems to me the core role of the members around this table is to ensure that that's happening. As we talked about before of course some of that conversation takes place at 100,000 feet. What's going to happen over the next five or ten years, 15 years, how do we make sure we're prepared for that and a large part of it just takes place down in the trenches, is this person eligible, where over the next year or two are we going to invest our funds, what kind of target rate are we looking for. Tell me, is that the general basket that we're looking at here?

>> Edward Overton: Well, I'm looking at an overall responsibility of the board and overall overall responsibility of a board member. For example, have you ever presided over a quasijudicial process?

>> You know, the work I do in the Santa Catalina Island board involves county of L.A., city of Avalon. Yes, that stuff gets pretty quasijudicial dicey from time to time. Water companies, electrical companies. But not in the context of retirees, no, I have not. But I'm -- I understand thorny bushes pretty well.

>> Edward Overton: Thank you.

>> Thank you.

>> Lara Druyan: Andrews, you talked about the various political constituencies and how this was going to be a very interesting place to play. You've also mentioned in your first answer that you're the nice guy and you're the guy who compromises on the board. Can you describe a situation I'm sure you've had them where either you had a diversity or divergence of things that -- opinions and whatnot and how you you know handled that and maintained your independence and so on?

>> Give me a second here to think about a good paraable here. Yeah, here is an interesting story. You may remember two or three years ago there was a company in the Silicon Valley, it was a chip company. I was on the board, where a disgruntled employee came in and killed the CEO, the VP of manufacturing and the office

manager. I was the lead director on that board. And that night, Santa Clara County sheriffs called us and told us, get out of your houses, we haven't found the guy yet, we know he's got all your addresses. So we all moved to anonymous locations. Within three or four hours we were on the phone, what are we going to do for the employees? That's a tricky question for venture capitalists. Has the company just been destroyed? What are we going to do with the people? And I ended up at the guy on the middle, on seven different locations alt talking over the telephone, you know what are the priorities? Okay guys let's back off, what are we trying to accomplish here? Some people were saying I think we should shut the company down for a month, other people were saying, I think we ought to sell the company. I and another director said, let's not take that approach. Usually with me it's stop, let's back up, let's reach some agreement at some left and then let's go forward. When I'm on boards that are dysfunctional or boards where there's a conflict, my attitude is, keep backing up to a higher and higher level until you can find some agreement. Around this board I would imagine that agreement is look we're here to take care of the the retirees right? So what do we need to do that? We may disagree with what there best steps are but I would imagine everyone can agree that that's the function of this board, let's do that. So we did that. We sort of elevated it back up to 100,000 feet and agreed that the most important thing we needed to do was take care of the employees. Fortunately, Intel was on the board, and believe it or not, this kind of thing happens at Intel. I don't know, every year, every other year, somewhere in the country, somebody does something strange at an Intel site, so Intel actually had a response team. We had them there within 24 hours. I don't know if that's exactly what you're looking like, but that's the kind of example where people are sort of spinning into some kind of a context to kind of get them to back out. Sad story, the company are doing very well, the widows and orphans are very well taken care of. We're proud of that.

>> Arn Andrews: Actually, that kind of follows up on something that Mr. Overton was talking about. I'm going to head into the weeds again a little bit.

>> Good, great.

>> Arn Andrews: You've obviously been on a lot of companies. Have you ever had any exposure to, you know, some of the aspects of disability or things like that? Because our main objectives here is to looking out for

retirees, but one of the aspects of that we do hear disability hearings, and you know we try to make assessments on medical information that's presented. So have you ever had any exposure to that type of process?

>> Well, we deal with that in all of our startup companies. I mean, three people being shot is sort of the most severe form of disability but yeah, I mean there's a debate that takes place there, what are the benefits, what are the rights, how do you determine it? Catalina Island Company employs 700 people. And because it's out on an island, people when they go disabled or when they retire, they don't leave the area. We deal with that sort of stuff all the time. It's a very paternalistic kind of company. How do we know when somebody should be put on permanent disability? We have to continue to pay them, because they live in the community. You can't afford not to. But from the perspective of a large number of disability claims and looking for a systemic view on that, no. No, I mean the largest company would be Catalina island company with 700 employees. How many retired employees do you guys have now? (inaudible).

>> Yeah, so that's a different scale entirely.

>> So you spent 10 years at Morgan Taylor and you were a general partner there. If I pick up the phone and call all the other GPs there what are they going to say about you and your role on serving on this retirement board?

>> You know I think the first thing they'd say is he's a nice guy. I think you would get that from anybody you talked to. I think they would tell you pretty much I'm transparent, nice guy, smart guy, he's always the guy in the middle. If you ask them why did I retire, it's, we all know this in the Silicon Valley, it's that era of Intel and chips and startups has kind of gone away. That's from the '70s, '80s, '90s. So I think you would hear that, that Drew is sort of old school of Silicon Valley, grew up in the Silicon Valley, he's an electrical engineer, he understands all those technologies, made a lot of money for the firm and you know is sort of looking for the next thing to do. Might be surprised if you heard anything different. And you know, call anybody. My life is pretty much an open book.

>> Drew on -- I'll call it generally alternative investing. If we want to have a robust risk system, you know, it fundamentally requires a lot of transparency. The more detail the better. For building this. What do you think is

sort of a reasonable expectation from a hedge fund, private equity firm, what -- what sort of level disclosure of holdings, performance, et cetera, what do you think is --

>> Yes, that's a really good question. You're sort of talking about that issue I brought up earlier of how much can a state entity reveal about what a venture capital company is doing? Is that the sort of question you're asking?

>> Right and what will they tell us?

>> They took -- I think I actually published a couple of things on this about four or five years ago, as did one of my partners, Bob Pavey, who was one of the founders of the venture capital industry. You know, my sense of this is, which disagrees, by the way, with most venture capitalists and probably most equity people, is that it's pretty straightforward. There is a very bright line there. I think state entities should be able to disclose pretty much anything they want, as long as they don't disclose any of the details of the individual companies in the portfolio. So for instance, I think it's perfectly fine to say well, Morgan Taylor invested \$5 million in side port the place where the people were shot. But I think it's beyond the pale for state industries to then say oh and then by the way, here is their three year revenue forecast. That's a competitive weapon kind of thing. Or they had trouble getting their last chip out because they saw a design deffect in it. There is a bright line disclosed but also a gray area because if you are an investor in one ever our funds you sort of want to know some of the details of the company. Are they going to grow to do \$30 million in sales in the next two years or how are they doing in all of this? I think there's a little bit of a gray area where you're entitled to know some of the details but you shouldn't be able to disclose them because all it does is hurt the private company. So there is a bright line I think in terms of what's disclosable. I think there's a little bit of a gray area in terms of how much as a board you have access to and then should say, and we're not going to disclose past that point. And I don't know why it became such a big kerfuffle back then. I mean, I think the returns of private equity firms should be public information. It's not rocket science.

>> So suppose we have a hedge fund with outstanding performance but to invest with them, they will not release their holdings to us?

>> I think you have to make a decision. You have -- I think you should set a standard and live to it. There's no law there really, per se, so you just set a standard and live to it. My standard would be, disclosure is good, I would be less inclined to invest with them. You know, there's always this problem with transparency. You know, if people aren't transparent, sooner or later something squirrely happens. That's -- I'm 55 years old, and for God sakes, when people are that opaque, a lot of times they're just opaque because they don't want the bother. But a lot of times they're opaque because there's something a little squirrely down inside. Lack of transparency makes me nervous. Again there are some things which shouldn't be transparent. The forward revenue of a company is their business. It shouldn't be in the Chronicle or the Wall Street Journal. But their returns, come on! And of course, the reality is, going back to another question, if you know what everybody's returns were, you'd realize that only 10 or 15% really make money and those are the guys you want to be in and part of getting into those funds is not what you know or who you are, unfortunately it's who you know. I wish the world didn't work that way but America's better than most countries. Look what's happening to Egypt right now.

>> So just as one follow-up, if you take a look at sort of the funding requirements of the fund, I mean, should we even be playing in the private equity game, do we need to play in that game, to meet the needs of the retirees?

>> Yeah, I think so. You know private -- God, long debate. Let's go grab a beer, right? Has private equity outperformed and over what period of time? You guys are the experts in this. These are complex statistical questions. I think private equity is an important part of the economy. Because you have so many retirees and because you have so much money you have to play globally across the economy. I think the trick with private equity is restraint, is getting into those ten or 15 or 20 good funds, 30 good funds and really working those relationships that can you stay in. Yes, private equity absolutely should be. As you know it's a very broad category, absolutely. Venture capital, tough question. The model is clearly broken right now. I think we'll know in the next 12 to 18 months whether it will be a lucrative area over the next five to ten years. But venture capital as you know is broken right now, and so that's a tough question. But certainly hedge funds, some of the real estate stuff, some of the international stuff, you know, you wish you could get into some of the stuff in China. Halawi did \$30 billion in revenue last year. You wish you could buy stock in that, but they're not on any stock market.

>> Matt Loesch: Anybody else?

>> Edward Overton: Yes, you talked a little bit about the various baskets in the investment stratosphere. What would you say are the key elements to a successful investment program?

>> Well, you've got experts now on your board who know that much better than I do. Clearly there's always these two conflicting goals. I mean you clearly want to diversify away risk so you don't find yourself you know holding a bag of nothing. And so that to me has always meant, I think in general has meant to people that you understand the endemic risks of the categories and just spread it like marmalade over toast. But as we just talked about, in order to get good returns you do have to focus down and say which fund out of 20 funds do I want to be a part of? If I'm going to put some money in hedge funds and I'm going to invest in three or four out of a thousand hedge funds, which three or four of them I'm going to invest in, so to my mind at 100,000 feet what are the rough allocation areas? At 50,000 feet, okay, what are the strategies in each of those allocation areas, and at zero feet, okay, in hedge funds, which hedge funds? And obviously that's what you have staff for and now you have experts on your board as well who understand exactly how to do that. That's not my particular area of expertise.

>> Lara Druyan: Drew, if you could put money in anything whether it was you know middle class housing in India or gold, whatever, what would you put money in?

>> You know right now, I have a fair amount of money into commodities. I'm moving back into the Dow -- personally moving back into the Dow right now. But you know, even personally, I don't have a ton of money, but I have a lot of money, actually I have a lot of money. You know I just -- my philosophy has always been spread it out very broadly. You probably have friends like this, you may even be one of these people. I hope I don't insult you, but you know, out having beers with guys, and they'll say well, I put all my money over here, and I'm changing this, and this is good, and that's great. You know, I think you can't look at it at that level. I think you have to take a longer term view and say, you know, where am I moving my money and I'm going to keep it there for four or five or six years. So to me it looks like a much slower process of where's the money go? You know I've

sort of consistently outperformed the background market and I think one of the reasons why is because I'm pretty conservative.

>> Arn Andrews: Just kind of following up on earnings and time horizons, you know, we have a very long time horizon and there's a raging debate in our community about what is an appropriate investment rate of return, you know, because that's one of the primary variables. Are you a new normal guy? Are you a non-new normal?

>> I don't know. I don't know what the number is.

>> Arn Andrews: I mean do you think where you've shifted to a different dynamic and expected returns, do you think we'll move back to kind of a normal historic return level? You mentioned you have a lot of commodities so you're possibly fearing inflation. If you could just give me a little perspective on --

>> You know, I'm not the expert in this. I mean, again at 100,000 feet, there are three dynamics here that are undeniable, right? One is the baby boomer phenomenon here in the United States. That tells me to some extent that rates have to get down, because there has to be a big drag on the economy as we all retire. I just don't see how that doesn't happen. The second dynamic is globalization. We're all aware of, you know, Brazil, Russia, Indian, China, you know, Indonesia. Yeah, commodities will have to do well, because there's a new emerging middle class around the planet, and that means they will want motorcycles and cars and refrigerators. And so the raw commodities that we saw in the '50s and '60s and '70s that went into the post-industrialization of America really has to happen. And the third factor I don't really know how to weigh in, and that is of course that money now has become almost frictionless. And money just flows. I mean, capital has always kind of flowed like water, I mean, the Rothschilds 150 years ago, you know, or the Morgans. But money really flows like water now. Money is almost frictionless, and I don't know how to factor that in, and I don't know what that's going to do to rates of returns. Obviously the large government deficits are there, but to some extent I view the large government deficits as hand in hand with the baby boomer issue. I think more and more people coming to draw down on services. So my view is at least in the United States I think we're going to see lower rates of return in the future but I don't know

(inaudible) the middle class and that should drive the global (inaudible) on those issues now sitting around this table.

>> So what have you learned from the credit crisis, and what would you recommend doing differently as a result?

>> You know, the two big to fail thing I think has some reality to it. I'm an engineer. Honest answer, this may sound so off the wall, right? Honest answer philosophically. I happen to get my graduate degrees in electrical engineering and I got them in an area called control theory. Control theory is what keeps your airplane flying right? What you learned in control theory, and this is going to sound really stupid, and believe me, you don't get this until you're at a third year graduate level class in electrical engineering, but your mother knew this, was that a system can't be under control unless it's both observable and controllable. So for an airplane, in order to fly it, you have to know how high you are, you have to be able to observe your height, and you have to be able to move a wing surface, a flap, to go up or go down and change your height. Observable and controllable. So my argument would be in the credit crisis is that what was going on was neither observable nor controllable. Do you know what happens to an airplane if it's not observable or controllable? It wasn't observable because a lot of the instruments were too complex. And it wasn't controllable because a lot of the institutions got too big to be controlled. So my view fundamentally was, we had a system that was out of control and we got what you get whenever you have a system that's out of control. By out of control I don't mean the political aspect, that is, people running wild in the streets. I mean out of control from a systems engineering standpoint, it was bound to crash sooner or later. And what happened was, from a feedback, control systems or open feedback loops, it started to run open loop. And I think the whole CDO thing was an open loop, out-of-control system. And if the president of the United States had been an engineer, it wouldn't have happened. But the president of the United States is not an engineer, and I don't think we've had an engineer for 140 years as president. So politicians, pardon me, some of you probably are, don't recognize an out of control system. Engineers do and it scarce the hell out of us because airplanes -- if we build systems out of control then people die. Cars crash, airplanes are crash, medical systems fail. We don't like that kind of stuff. But human beings have a tendency to build things that are not observable and not controllable. So I know that's a philosophical answer to the question. We have a tendency to build things that are too complicated. It means we don't know what they're doing and we don't know how to modify them. We should

not do that. Nonetheless, we will be drawn like moths to a flame to continue doing that. Same problem at Enron, if I may add. Sorry if that was too philosophical.

>> Drew, about that, Jimmy Carter was an engineer.

>> That's a good point, Jimmy Carter. I forgot, not just a peanut farmer, a nuclear engineer, right.

>> Matt Loesch: Okay, seeing no further, this civil engineer will end it. [ Laughter ]

>> Thanks very much.

>> Matt Loesch: Thanks for your time. [ Pause ] (inaudible)

>> Matt Loesch: Good morning, Mr. Perkins.

>> Good morning.

>> Matt Loesch: General format, if you would like to make an opening statement, that's the way we're going to do it, so if you would like to have a few minutes, take your time, and then we'll go around with our questions.

>> Okay, and I also -- I got to apologize. I have to leave at 10:30. I'm Jeff Perkins. Previous experience, been on the board for 14 years. Went through the interview process. I would say, I was telling the group back there, I think the group that was voted onto the board from the applicants that were there are phenomenal. I think the board is probably better situated right there with the talent on it for the different things. So I think it's a good group. And you know, I think the three remaining people that are there are you know, probably the best setup that the board's had in the whole time I've been around. So I applaud the city council for the decisions that they made and the people they brought on. I think it's a good group. I think when you're looking at who's out here, I think you probably should look for who best fills whatever slot you're looking for. Because I know originally my strength was the

financial services side because that's what I do the investment side and I think the people you brought on have way more experience in that area than I do. So I don't think -- I think the day that they made the decision at the city council, they could have made a wrong one and I think they made some good ones so I think you're in good shape.

>> So Jeff, I know you served for 14 years. Why do you want to do it, continue to do it?

>> You know I ask myself that question a lot. It's a challenge. I think we've you know come a long ways. I think there's still more work to be done so I don't think it's kind of got things completely turned around. You know, it -- you know I learn a lot every meeting I come to. I think I do my fair share to help out and make decisions that make sense for the city, and for the all the participants, the -- the employees that are part of it, the retirees, I am -- I think I bring a good balance to that part of it other than just the knowledge. So I'm still interested in serving.

>> Matt Loesch: How do you see your role in the board and how do you interact as far as decision making input in your position?

>> Well, I think everybody's role is the same. I mean we got to come here with -- we all have certain experiences and knowledge that we bring to the board and everybody's a little different. But I think you know every issue brought up, you got to look at it in what's in the best interest of the plan in your opinion. You need to voice whatever it is your belief and experiences are and then listen to other people and ask questions and then you vote on whatever they end up -- the decision is, that's what you move forward and implement. So I think that there is the need to be able to express what you think is right. And then be able to listen to maybe somebody else's position that may be different than yours and make sure you understand what that is so when you make -- you vote on that particular subject, you do it with the best knowledge you can. And then whatever it is, you go ahead and you implement. You support that decision of the board.

>> Matt Loesch: How did you you know in 14 years experience on this particular board, maybe you want to bring in representatives from other boards, how did you deal with it when there was the sticky thicket or there was the particular member of let's say things weren't running functionally --

>> That never happened around here.

>> Matt Loesch: I know that never happened but how did you either work your way through that, how did you guide the board to make better decisions or be in a more true path? How would you have done that or how would you do that?

>> Well, we definitely did it. And you know if anybody you know Ed could probably attest to this better than anybody else. In the very beginning it was quite a different you know experience showing up at a board meeting than it has been in over -- say the last five years. But I think in those instances again, there were times and there were a lot of conflict and in a board I think that's healthy. You know you wouldn't want to just show up and every time everybody agrees on the same thing and you've got a problem, something's not right. And I think in those instances where it did get contentious, I think people need to keep themselves under control and that always didn't happen. And so you have to step back and kind of you know calm the waters and move forward. I mean for many years I was the actual chair of the board when some of those things were pretty contentious. But I think again, at the end, you -- everybody has a seat at the board. They're there for a reason. Not everybody looks at the world the same way. So you just can't assume that because you see things differently, that you're right, and they're wrong. So you have to listen. And as long as you you know let somebody know that you understand that maybe your positions are different and you agree to disagree, then I think you can calm that. If you try to convince them that you're right and they're wrong then that kind of fuels the fire. So I think that's just how you have to kind of look at things is that not everybody is going to look at the world the same way, and that's a good thing.

>> Arn Andrews: Jeff, you have a unique historic perspective on the plan. What do you think is our biggest challenge going forward?

>> Obviously, you have this pool of benefits that's being promised and you've got this pool of money that's going to fund that and right now they're not in sync. So you have to figure out a way to do that and bring them closer together. And you know, so I think you do exact -- I mean if somebody went back and look at a blueprint, this board has been headed in this direction, doing the right things. You can't get there overnight, you captain force it to happen but you can prepare for it. And I think that this is probably a pretty good example of how you deal with what looks like almost an insurmountable issue. You get everything set up and the economy has to kind of you know play its role and it will. So I think you prepare for it, you test it, you check it, you question it, you continue to come back and relook at it and you keep moving in the direction. But I think you got to be cautious that you don't try to get there too fast because that could load to other challenges along the way.

>> Edward Overton: Jeff, I know that you've served on the board for many years. But could you just verbalize for us what you think the role of the retirement board itself is, and then, of the individual board member?

>> Sure. I think the job of the board is to manage the fund, and to administer the benefits that have been negotiated between the city and for the retirees. So -- and I think each board member then place a role because of you know they're brought here because they represent maybe a different area, but then once they come in they have to use their respective talents to make that as effective as possible for all the stakeholders.

>> Lara Druyan: I've read, I was actually questioned about this by the mayor's office before interviewing, that there were some, for lack of a better term, abuses about travel and blurring the line between business travel and personal travel from people previously on this board. What role did you play in helping change policy or putting an end to that practice?

>> Well, I don't know that I played any role in it. I know that I was traveling during those same times, and I was never you know part of the abuse. I -- you know, I think that some of it was kind of like, oh my God, you know, I -- you know so I -- I wasn't part of the -- you know, I think there were policies in place that, if people would have just followed them, there wouldn't have been that situation. So how they happened or why I wasn't really privy to the ins and outs of that so --

>> Did this take place when you were chairman or no?

>> You know, I don't think -- I don't know that I knew all the exact incidences that it happened. So it may have been--there may be in the early on ones when I was, and when I wasn't, I was probably vice chairman at the time. Those expenses and things were not coming to the board for approval. What we did in those is that we had certain trips and things that were approved at the board level, or due diligences that were approved at the board level. We would go out, we would fill out our expense forms and sends them back in. Those did not come to the board and say hey, what's going on there. And I think you know probably the larger part of the issues that were uncovered were more on the Police and Fire side than they were on the Federated side.

>> Lara Druyan: Thank you.

>> Edward Overton: What do you believe the key elements of a successful investment program are?

>> Well, I think you need to have -- it has to be a program that is well defined, so you have policies that you can stay within and needs to be rebalanced. And I think -- I guess the one thing I probably learned early on on the board was that it was really about asset allocation rather than managers. So I think you need to have an asset allocation that matches the objectives of the investment portfolio. So I know there's a lot of you know liability, trying to true-up your investment program with your liabilities, which I think is smart. And so you need to look at your asset allocation to make sure it's going to drive the kind of return to meet those liabilities around that. But you know, and then you have to have the discipline to go back and rebalance that allocation around you know, the success or failures of any one certain investment pool.

>> Do you think that actuaries today are using reasonable assumptions to measure liabilities and if so why, and if not, why not?

>> I believe the actuaries are like everybody else you respond to, what's going on at the time. I think they do a good job of not trying to get too overwhelming with one area or not, so they try to go in with things, what's going on at the time, and it's not true overweighting what they do. But I think you know, as time changes, as it evolves and we recognize the things that maybe we did wrong in the past, we respond to them and I think actuaries are no different than anybody else. I think they're realizing that for a lot of these plans that are not funded correctly, that maybe there were different ways of looking at this stuff that, in the past, wasn't the norm and so moving forward it needs to be the norm, and so they are responding to that.

>> Matt Loesch: Being on the board for 14 years I'm sure there's particular things that you felt you personally influenced or either changes or things or modifications, improvements. What things, can you provide a couple of examples maybe of things that you -- whether you're a chair or just on the board that you personally influenced to the better?

>> Yeah, I think early on, when I was first on the board I think there was a lot of desire to go to kind of change our asset allocation. Because other groups were getting better returns, because they were more allocated into other more equity type investments. And we were always -- and I think I helped the board in this regard -- we were cautious not to go and chase returns. And then, when the market turned rapidly in the early 2000s, because we did not move, it helped us. And there were days in the early days when we were -- when we look at our peer group, we were in the 70 percentile, we were way down the list compared to all of our peer groups in terms of their return. When the market turned, dot-com bust, all that, we immediately flipped over because we didn't -- we weren't out there so far and then we started moving up into the 30% and 20% returns. And so I think we looked at our performance over you know ten years or so, it's not great in terms of the absolute but when we compare it to our peer group we've done -- we've done all right. And I think that probably with the group, the board and everything, I think that was one of the areas I probably brought the most help to the board. I look around now, I think that you've got you know, I don't think that that would be something that I would be -- I think you brought in enough people that have that kind of expertise to help through moving forward.

>> Matt Loesch: So then following that how would you then continue on the let's say following your last statement that we brought in some more expertise for lack of a better word, what was -- how would you see your role going forward, then?

>> It would be the same role as it always was in terms of just you know participating in that, understanding the issues, weighing in, you know voicing my opinion. You know I think not only on the board level I think that some -- you know look at the staff, the level of the staff and their experience in the investment world compared to what we had a number of years back, and the board is really -- not only the board, the staff are really you know have kind of stepped up in terms of their ability to understand and respond to the investment world.

>> You mention the staff, and you know, what is it you think is the responsibility of the investment staff versus the board? Where is that difference?

>> Well, it's very clear. I mean the staff is the one that's doing the work. And the board is overseeing it. And so the staff is out there working daily with our managers, with our consultants, they are implementing they are doing the daily work of what needs to be done to make the fund successful. The board's role is to oversee that and make policy and make sure things are being done according to policy and be a check and balance you know 30,000 feet rather than the daily grind of you know making decisions of what we buy or sell or you know what that manager is doing or not.

>> Just to follow up to that, is the board not making manager decisions?

>> The board is the ultimate one to make the decision who the manager, it always has but we're not telling the manager buy this stock or that stock or those things.

>> And given that, that the board is actually making the ultimate manager decisions, what do you think are the pros and cons of that structure?

>> Well, I think it helps make sure that the whole investment asset allocation policy is adhered to. It -- you know, with the help of the staff, they're going to bring and they're going to do their check, on the expertise, they're going to bring that, they're going to vet that, they're going to work through their information and bring it to us and then help us you know have the necessary tools to make the ultimate decision. But you know the reason I believe that works is the board is ultimately responsible for the performance of the plan.

>> And any problems with that structure, or that decision making process that you see?

>> No. I think if it's implemented correctly and everybody you know -- the board doesn't weigh into what staff is doing and telling them oh, you know, go out and do -- no, I don't think there is a problem with that structure.

>> Jeff, it's possible that the board may look at return assumptions and feel we have to lower them, from where they are. And the impact on that, on the finances of the city, is very, very significant. And I would imagine that that would bring a lot of pressure on this board to either reconsider the decision or, you know, take a second look. I mean how would you respond to that kind of -- that sort of pressure?

>> I don't think the pressure is, you know -- I think there's been a lot of situations where there -- I wouldn't say it is pressure. I would say there have been a lot of decisions over the years that maybe one group wanted it one way and another group wanted it another way and there have been some pretty big decisions in that regard. That certainly is a very large one. And I think what has always happened in those situations is the people on the board voice what they believe is correct, and why, and they listen and then we vote and that's the decision of the board. And the -- so then you implement it and you support it.

>> So let's take hypothetically, suppose we make a decision that means the city has to cut another \$50 million out of services. And we have protesters outside. I mean, how would you -- I mean, how would you react to that kind of situation?

>> Well, you would just say, you know, the board made a decision that was in the best interest of the fund. That's our responsibility as board members. And you know there are always decisions that some people like and some people don't like. And you know, I -- you know if they were -- you know throw rocks at my car or threaten me, I don't know. I mean again we've had a lot of -- you know, I guess I think back to when we were trying to implement SRBR, and the meetings we went to and the number of people that would show up and voice their concern. We've been through those situations. Maybe not to the same degree as this because this is a big decision. But we have lowered that assumption return before. You know it isn't like something that we just came out of right field and say hey, got a great idea today, let's just cut this thing like 3%, that seems like fun. I mean this is a real issue that all boards face and it is being handled you know all the time. We've talked about it many times at the board level. And ones that decision is made, it's made.

>> Matt Loesch: Any further questions? Thanks Jeff, appreciate it.

>> All right, thank you.

>> Matt Loesch: We have five minutes until the next one. Let's take five minute break so folks can take care of things. [ Recess ]

>> Matt Loesch: We'll reconvene the meeting. Waiting for Mr. Herrick. There he is.

>> Good morning.

>> Matt Loesch: Good morning.

>> Edward Overton: Good morning.

>> Matt Loesch: All right, good morning Mr. Herrick. What we'd like to do as with the previous interview group that give you a chance to have an opening statement or a comment and then we'll get into some questions.

>> Sure. First of all, thank you, Mr. Loesch, members of the board.

>> Matt Loesch: If you hit the black button there, there you go.

>> Thank you, Mr. Loesch, and to the other trustee, and Director Crosby and staff for having me here this morning. Opening statement is fairly brief. It's good to be back, it's good to get back into all these documents in the last week or so which I did my best to sort of forget over the holidays. Yeah, I'm here simply because I believe I have something to contribute, did I care about the City of San José, so we'll go from there.

>> Matt Loesch: Mr. Armstrong.

>> Just talk a bit more about kind of motivation. Why do you want to do this. It's a fair amount of work, there may be some very unpopular decisions.

>> Extreme amount of work, I'm a resident of San José, grew up here, Mr. Armstrong, which I think is important. There is a lot of work to be done here. I said that to members of the city council. And Mayor Reed, six, seven weeks ago when we met. And I do think that living here, and being a couple blocks away from City Hall, planning to raise a family here and being 35 years old, I have a lot of innings left and we need to have a functioning city. And it happens to turn out that the two pension plans that the city runs are significant issues over the long term given the percentage of the General Fund that has been and is projected to be going to support the City's two pension plans. So --

>> Arn Andrews: On your submission it says what do you consider to be the three most important issues facing the retirement board. Your number 2 response you said compliance and then slash ethics. Could you talk a little bit about that, what you mean by ethics?

>> Sure. I think that I guess there was -- I wasn't aware at the time I wrote that but there was a little bit of a travel budget. I don't know that I want to call it a scandal but there was some hullabaloo about that. That would be a small one. I think in the realm of you know hiring investment managers, paying them fees, Cal PERS has received some negative publicity about certain placement agents and the way that investment managers have been chosen to manage assets for pension funds in the past, I think that it's very important that that process be very clean. And that the members of the board, you know, understand how, you know, the game of raising capital by investment firms by site firms is done and you know where the holes are and where the pitfalls may be and sort of push on those issues to make sure that the best deal is being received for not only the plan beneficiaries but the taxpayers of San José.

>> Edward Overton: What would you view the role of the retirement board as, and what are the -- how would the individual members contribute to that role?

>> I think that Mr. Overton, I think that there's -- there are a number of duties. It's -- you basically look at the code to sort of figure out you know what we're supposed to be doing. Obviously, operating on, you know, on behalf of the plan beneficiaries first and foremost. But there's a lot you know that goes into that. And so you may have, you know, various committees that focus on the investment portfolio, you may have, you know, committees that work on, you know, the actuarial assumptions and soundness that, you know, ultimately go into or ultimately have a lot to say about the health of the plan. You know, defraying expenses is another enumerated duty. Working with members of city council, members of city government, understanding the political process I think will potentially be more of an issue going forward than it's been in the past. Because there may be a situation in which or there may be an environment where legal doctrines are changing a little bit with respect to things like vested rights or things with -- that the voters of the City of San José may be doing, the two measures that were on the -- you know the ballot in November. So I think there's obviously a number of areas and you probably, you know, as the board sort of looks at prospective members it makes sense to sort of fill holes that may not be completely up to speed at this point. So having you know multidisciplinary backgrounds on the board, you know, having people who are -- who can be in charge of certain areas or take a lead in certain areas, and the board will have to determine you know what -- what is most in need, based on its current composition, the fact that you have one position left to go.

>> Lara Druyan: In your application you also listed, on the issue of compliance you listed risk as one of the key challenges, or one of the key areas. Could you elaborate on that, what type of risk and what you meant by that?

>> Sure. There's probably, I don't know, six, half a dozen, dozen different subsets of types of risk that may be, you know, affecting the plan over time, the number one risk I would say is that we continue to, you know, run underfunded portfolio -- plan and that some day there may be -- there may be adverse consequences as a result to folks who are expecting to get paychecks. But you know, the liquidity risk, market risk, interest rate risk, you know compliance. Ethics. All potential pitfalls. And but I still think the biggest risk long term is that, you know, we won't be able to meet our obligations and so getting the plans back on or the Federated plan back on a path toward being fully funded is probably the biggest challenge. And the biggest long term risk if we can't meet it.

>> So looking at your resume, I notice you were in the securities industry, started as a sales assistant and then quickly went to a VP over at B of A, previously Montgomery. You went back to law school, obviously probably took on a lot of time and effort to do that. And you spent a year in law, and now you're back as a broker. Can you sort of explain that, and then I'm going to ask a follow-up to that, which is if I call up the partner that was managing you over at Pillsbury and ask him what he thought of you being on this retirement board, what would you think he would say to me?

>> I'll answer the first question. My first seven, eight years as an adult, as a professional, took me from you know here in San José, all the way to midtown Manhattan. And along the way, kind of got to sort of think about what the ultimate impact on my lifestyle was going to be of you know potentially being on the East Coast for the rest of my life. And so you know back, you know, three sort of seeing the writing on the wall that the cash equities business was slowly dying and I think I was pretty much spot-on in spotting that long-term trend. I figured, you know, how am I going to sort of manage my way back to the West Coast and find something else to do. So I went to law school which is something I planned to do for many years, sort of through high school when you don't really know what you're going to do and through college when you sort of have some idea what you're going to do. And I didn't feel like it was too late and wanted some graduate education. So -- and didn't feel like I needed an MBA. I

already had a job that a lot of people with MBAs had and I was already a CFA charter holder, probably one of the youngest individuals ever to receive that designation. I was barely 26. So the law, it's just a wonderful education. And I think this board at least one of the two boards probably should have somebody with a legal background on them. And you know, as far as what the Pillsbury partners would say, I guess you'd have to ask them, Mr. Odell. But what I would say is they were very disappointed that I left the firm. But sort of once you have the sort of capital markets in your blood it's sort of hard to I guess pull that out. There aren't that many people out here that get up at 4:00 a.m. to see what the futures are and things like that, which is something I do every day, and something I continue to do as a lawyer. And so I asked myself, should I spend the next 10 or 15 years of my adult life learning how to be a good lawyer, or should I go do something that I already have a tremendous competitive advantage at, which is managing money and handling a variety of tax and wealth management issues for individuals here in Santa Clara County. So that's what I chose to do. Some of it had to do with the fact that I live here, I have three children under five, and I'm able to sort of make my own schedule. There's no way I could - - you could do this job as a young associate at a big national law firm. You just don't have the bandwidth to volunteer for positions like this. The bill of allowance kind of rules today. But my relationship with Pillsbury is still very good. I'm up in their San Francisco pretty regularly and their Palo Alto office pretty regularly, and they're all good people.

>> Matt Loesch: Could you talk about some of your institutional investing experience?

>> Sure. Thank you, Mr. Loesch. Fall of 2000, the director of institutional sales at Montgomery Securities decided to hire six individuals to travel the country doing nondeal road shows with management teams. I was one of those six people so I transferred out of retail at Montgomery where I was a sales assistant to a woman, a couple of people but a woman who is a very successful administrator in the city. And that was an eye-opening experience to spend basically all of '01 and '02 traveling the country with management teams sitting in the board rooms of just about every major buy-side firm in the country. And then I moved to New York and started calling on some firms like Newberger and U.S. Trust, Citibank, Asset Management, a number of hedge funds and basically covering them from an equity research perspective with the firm's change of opinions on a daily basis. And the various marketing activities that go along with bringing analysts in or bringing management teams

in. It was a education to more or less at 25, 26, 27, 28, sitting in board rooms with people that run hundreds of millions of dollars or people that run very large S&P companies and it was interesting to say the least.

>> Matt Loesch: Could you talk about some your roles on boards like this, and how you personally fit in, what your -- how your personality and skill sets have fit in and how you would foresee yourself fitting into a group like this?

>> Uh-huh, uh-huh. I am a member of a couple of civic organizations, at this point I don't believe I've sat on any boards, and so I can't really speak to, you know, past experience in that -- in that respect. But I think that if you're a reasonable person and you have respect for the other members of the board, and it's not difficult to have respect for all of you, given what you've accomplished and what your backgrounds are. So there's -- there's -- you know there's I think a balance between you know obviously being collegial and then I think we want board members that have some of their own opinions, as well, and that aren't afraid to sort of stand up and make them known from time to time. But in a respectful and collegial manner, to such that we're all able to work together, to produce the result we want.

>> Matt Loesch: Can you give an example of the scenario where you've had to do that? Let's say there's confrontation, this might be a bit strong, difference of opinion might be a softer way of saying it between board members, how would you negotiate, can you give an example of how you have negotiated and coming to a consensus?

>> Well, sure. I think that you know when you're -- when you're, as a lawyer certainly and there's some things I did in law school like moot court and when you're in a litigation typesetting and you've got two parties and you got a panel before you like this such as is going to rule one way or the other, I think all you can do is you know with good respectful tone sort of lay all the issues out and then -- and then make a value judgment about which one you think is potentially dispositive. That will rule the day in terms of what conclusions should -- should be arrived at. So I think from my perspective, being just in terms of my personality, I'm fairly pragmatic, pretty much a realist. And so you know that's the way I generally arrive at decisions. And you know if I think people are failing to

sort of grasp what I think is important, you know I'll certainly do my best to, you know, influence them in a certain way that is -- as I said respectful and you know keeping in minds that we're all entitled to our own opinions. That's why we have seven and nine-member boards and not you know one-member boards.

>> Matt Loesch: Okay.

>> Would you recommend hiring a manager if they had a prior alleged SEC violation where they paid a fine without admitting or denying guilt?

>> I think that, Mr. Odell, that's an incredible red flag that gets thrown up when you see something like that. Especially in our position where you're potentially contracting money to a manager, giving money to a manager that is not your own and you're doing that on behalf of someone else as a fiduciary. So there may be instances when something like that could be explained away, and there may be the perfectly good explanations, and you know, a one-off mistake, or an individual would made a -- who was responsible who is no longer with the firm. But I think the burden would be on a firm, on an investment manager in that position, to convince the board that the problem had been rectified and was very unlikely to be repeated. There are is just too many good managers out there I would assume to risk you know putting the plan and putting the board and putting the City of San José in a position where you know we'd have some explaining to do in that respect. So the benefit of the doubt, I would not give a manager the benefit of a doubt in that type of situation.

>> So a lot of times you may already be an investor with this manager, and something comes up, are you automatically firing this manager?

>> I think that creates more complexities, obviously, just the mechanics of unwinding that investment may make it may I think raise the bar in terms of the amount of due diligence that would you have to do to uncover what the situation were, whereas if you're just looking for a new manager you could just toss out names that had that mark. So if you're already in a relationship with the manager, I think that it might be more of a, you know, 90, 180 day process to sort of come to a conclusion on that. Depending on the nature of the infraction if it were serious

enough, if it was a custody issue or a fraud issue, where there was, you know, immediate concern about the return of funds to the pension plans of the City of San José, then you might have to act more quickly. But I think that it would you know be a case-by-case basis. But on balance I would say if you're already involved with a manager the only thing that might do is just -- just lengthen the process a little bit, by which you'd have to do some work and see where you were going to go with it.

>> Matt Loesch: Ms. Druyan.

>> Lara Druyan: Where are you advising your clients to put money today?

>> It's my belief that you know -- well I believe. I think it's pretty obvious that the average U.S. listed over the counter stocks has been a bear market 11 years next month. And so history tells us that we've probably got three, five, seven years left to sort of work through this cycle which began in early 2000. So I think that at a minimum, if you continue to invest the way portfolios were allocated in the '80s and '90s, you have to sort of reset your expectations a little bit. And it's not my expectation personally that the Dow or the S&P or the NASDAQ or the Russell 2000 will be making you know new-cycle highs sustainably in the next three to five years. So that's sort of a starting point. And the other tricky issue right now is that we may be at the end of obviously a long bull move in the fixed income markets. So you've got potentially you know very little prospect of total return in fixed income, and you've got an S&P 500 that, with dividends, I think a reasonable expectation would be mid single digits over the next three to five years with a lot of volatility. At the same time, you've got, you know, one other big asset class that is little less traditional, but commodities which tend to work you know differently on a long-term cycle. So, you know, corn prices, wheat prices, oil prices, silver prices are up and to the right over the past ten, 11 years. So those are some places where, you know, folks might want to have some exposure. And that's probably, you know, for my clients where I think the most, you know, the most opportunity lies as you sort of you know work through let's say the last two, three, four innings of the cycle, three, four.

>> Like yourself I'm a resident of San José, and so I'm sure we share some similar motivations for wanting to serve. But we also may be faced with some very tough decisions here. So let's take a hypothetical. We lower

expected returns and the way that sort of cascades through to the city is the city is going to have to cut another \$50 million of services. Major outrage over it, protests, suppose some protesters show up in front of your house. How would you feel about that?

>> I probably wouldn't feel fantastic about it, a demonstration in front of my house. There is a big hill to get there, so hopefully that would limit it. Here is the question I believe avoid answering by the way because it is hard to hypothesize about what one might do in a certain situation. What I would say simply is that I would not view my tenure, potential tenure on the board as a success, if -- [ Skip in audiotape ]

>> Edward Overton: Or needed retirement, the medical evidence is one way or the other, how would you go about valley that tell them no you can't have a disability retirement?

>> The prospect of having to do that is obviously not one which I'd assume any of us are looking forward to enjoy or has enjoyed. But certainly, with respect to what the board members are supposed to consider, in such instances, the -- you know the personal emotions, the personal situation of that applicant is for disability is you know one, maybe one consideration, maybe not. But it certainly should not be dispositive and should not, time after time, you know carry the weight of the day. In my estimation. We have guidelines set for granting disability. And I think that the applicants for such have, you know, an application to demonstrate that they fit within those guidelines. Is every situation going to be cookie cutter or a bright line, possibly not. But on balance I don't think that the board members should be taking their own you know personal liberties and taking discretion over such situations. You know on a routine basis.

>> Matt Loesch: Any further questions for anyone on board? No? Seeing none, thank you, Mr. Herrick.

>> Thank you. (inaudible)

>> Matt Loesch: Let's take a quick recess. [ recess ]

>> Matt Loesch: Okay, we're back in session. Mr. Dirks, what we've like to do is similar to your previous interview, is give you a chance for an opening statement or comment and then we'll give you some more questions.

>> That sounds great.

>> Matt Loesch: So it's all yours.

>> Can I pick this up?

>> Matt Loesch: Surely, it will pick you up there as well.

>> Thank you for having me here this morning to speak with me. This is an opportunity that looks really attractive to me. It is an opportunity to get back to the community in a way I would really enjoy getting back to the community. I love this business, been doing this for 20 years. I teach at Golden Gate university for very much the same reason, I teach the portfolio management course, it's a way to get band and doing something I actually like to do. I bring experience that's different from other folks on the board as well as the other candidates. I've been in stock selection or portfolio management of equities for more than 20 years and I think that's different than the folks on the board as well as the candidates. So I think it's important difference. It's a skill set that I think is relevant to the decisions the board will make. And I'd enjoy being part of this process.

>> Matt Loesch: Mr. Armstrong.

>> Going back to motivation, I mean, I guess I can concur there are a lot of positives but let me paint a scenario for you. Let's suppose we have to lower expected returns, that cascades through to the city financials in which \$50 million of services are going to have to be cut. You walk out of your residence one morning and you have protesters, how are you going to feel about that?

>> I won't look forward to that. That will sound very unpleasant. But the stakes are very high. It's a very important role that the board plays. It's important to the city, to the city's prospects, to its -- all of the stakeholders, to the businesses here, to the residents. It's a very, very important set of decisions that the board makes. So I realize there are consequences both good and bad.

>> And how are you able to -- you also have a day job.

>>> Yep.

>> How are you able to kind of do that and perform as a board member?

>> Well, I do have some flexibility and I realize there will be -- it will be more demanding at the beginning than -- on a more ongoing basis. A year down the road, for example. And I think I have the flexibility to do that. I'm committed to do that.

>> Matt Loesch: Mr. Andrews.

>> Arn Andrews: Under your submission, under the question it says what do you consider is the three most important issues currently facing the retirement board. One of your answers is inspiring trust and confidence. Can you speak about that how you inspire trust and confidence?

>> Sure. Well, I guess what led me to write that was reading a San José Mercury News story about board members, and I don't recall which board it was, that had taken some trips and it looked like they were misusing the resources for personal enjoyment. And I don't know if that was true or not. But I think beyond doing the right thing, it's important to make it look like you're doing the right thing as well. If I am doing something for the board, and it requires taking a taxi, and that's an appropriate reimbursement, I am, because of the circumstances around it, and the taxi driver handed me a receipt that says taxi limousine service I am not going to turn that receipt in because the Mercury News reporter is going to write a story saying the board member took a limousine

service. And it is factually correct, and it's not their fault, it's mine. So I think it's important that you hold a standard as doing the right thing, but also not doing anything that calls into question what you're doing as well.

>> Matt Loesch: Can you talk about your experience either on other bods or other groups, similar to this, and how you fit in and how you foresee yourself fitting in on this board?

>> Sure. I was -- I have been part of the venture capital round table, it is a venture capital private equity group based in Palo Alto. And there I brought expertise that was different, hedge fund started doing more venture investing, private equity investing, and I was someone with background in hedge funds. And so there I helped bring a different perspective because of that different experience. I helped coordinate some things behind the scene in terms of introducing people that would be important to get to know each other so I didn't lead any headline efforts but I felt like I contributed to the organization and made it more functional and made it more valuable.

>> Matt Loesch: And how about with a group like this, how would you feel fitting in as a seventh board member?

>> To see where my experience fit in with task force that need to be done, because I could lift those bales, so to speak, more easily perhaps than someone who perhaps it's a new area for them. And also what needs to be done. I mean there are just I'm sure a large number of task force need to be done and they need to be allocated out and do what needs to be done.

>> Matt Loesch: Sure. And to try to get a flavor for temperament, lack of a better word, will there be times when we're coming through decisions and it's not unanimous and that's why we have diverse thoughts, so we have not made necessarily unanimous thought. How do you work your way through that, whether there's conflict or lack of homogeneity in the decisions, or opinions, how would you work your way through either trying to convince, convince yourself, convince others as to right thought?

>> Well, ultimately a decision has to be made and so if you have very diverse views, compromise will be necessary. And I think looking at the -- looking at the items that people don't want to give up, will be the first place to start. The place that I'd want to go to and see what are the items that they -- that they're standing firm on? And is there some way that that can be made to work, with people getting the most essential things that they need, you know, based on their perspectives. And if someone has to give somewhere, having it work out so that -- so if an agreeable solution is made. However, it has to be a solution that works for the beneficiaries for the plan. If there's a compromise that really hurts the outlook in that way, that's a compromise that is very difficult to come to.

>> You were nice enough to put yourself out on a limb and put out a target asset allocation as a first cut. What is this based on? Can you explain how you came up with this target asset allocation and why you think this would be appropriate for the San José retirement plan?

>> Sure. They asked very explicitly for it so I thought well I better provide one. And my first cut was to actually look at what the current allocation was at that time. And also, look at what Harvard management where I worked for more than five years, managed portfolio had used for their asset allocation portfolio, for their portfolio. And look at some of the reasons behind why people would make those allocations. I left my bag in the room when I got here, but to look at what the starting point might be, I felt that fixed income should probably be down from the large allocations that people often have. Because there's going to be much more risk there and a lot less reward than you would find at other points in economics cycle. Inflation is an issue today. Well, it depends on how you want to define inflation, but it is probably going to be more of an issue in the future. So the tips are possible way to address that. Having exposure to faster growing emerging marks, those are important, so those are one of the things I wanted to address there. And having a substantial allocation to alternative investments that would be relatively uncorrelated, unfortunately as we've seen over the last couple of years, there are times where everything is correlated when it is a disaster. But to try to have the best risk-return tradeoff made in doing that allocation.

>> Did you do any modeling when you did this, and if so, what was the -- what was the financial theory behind that model to come up with this? I mean I understand your points there, but you, for example, you talk about

domestic equities at 22 and foreign at 16, including emerging markets. What would be a basis for overweighting domestic equities versus foreign and emerging market equities?

>> One would be stability and also that the currency fluctuations will make some difference. You would have higher growth in other markets, so you want exposure to that. I didn't do a very rigorous quantitative analysis on this. I didn't have the time and really didn't think that the result would be better, actually, because the first cut at a quantitative model is going to have you allocating all your capital to the most risky asset, because that has the highest returns. And so you have to put a brake on that and say it is not going to get past this amount. And well, that's kind of what you get by doing this.

>> If you put that in your model, what would you get, what asset class would you come up with?

>> Probably whatever is the most high return sector commodity right now probably.

>> Over -- historically what's been the highest returning?

>> Historically, it depends on where you -- what you're counting in the asset -- equities, depends what you're calling assets classes.

>> Lara Druyan: You have over a third in your allocation, 37%, to private equity and alternative. I assume in alternatives you're including hedge, or is that in the fixed income, and how much would you put in something that's illiquid? Because with all due respect to Harvard Management, they kind of screwed the pooch on how over their skis they were on their commitments to private equity as we all know.

>> They did get a little carried away there, yeah.

>> Lara Druyan: Yeah, they did.

>> They issued about a billion dollars in debt to make sure they were liquid.

>> Lara Druyan: God bless Goldman Sachs, they did well in that kind of action.

>> Yes, I'm sure they did. I think it's important to look at the liquidity requirements that you have coming up, and those are fairly known or fairly modellable, and to make sure that you have liquid investments, probably a lot of fixed income to match those liabilities, they're going to be required in the short term. And short term not just being a year but being a number of years, going out. I think you can have some limited number of things that have a long horizon, the time horizon for this plan is a very long horizon. But you really have to see the return tradeoff to have you lock in for that period of time. Once you make that commitment, you are there. And if you don't want to be there five years from now you are still there. You can't change that decision. So you really want to be careful on how much you commit to that.

>> Matt Loesch: Following on the private equity thought, one of the topics that is often discussed with a fund like ours, getting involved with private equity, is the percentage of the private equity pool that really is making money. And your ability to get access to it. Following that -- I did notice there is a very large allocation to -- large in the sense that compared to the others -- if there's not access to particular funds that are high-performing how would you advise to actually have that allocation, to deploy that capital?

>> Yeah, if they are things you can't get into I would set aside, unless you can get around that, you have to set them aside, that is not an available option for us to invest in. Of the things you can very much in you may find that they're not attractive, the risk or the uncertainty of the product or the processes that are there the people that will be managing it are inappropriate and so you could set that aside.

>> Matt Loesch: So what do you do with that money then, if that -- to your allocation if you can't truly deploy it to that allocation? How would you recommend to deploy that money, then?

>> You could do it through public market equity if you felt evaluation outlooks were appropriate. They're very much the same animal. It's just one that trades every day and is priced every day and the other one is not. You'd like to think there is a value difference because of that and if you have a longer term time horizon you could make a private equity investment, strike a better deal, basically and commit to own that for some number of years and get a better return over those number of years because you have private equity instead. But it's not that different really than buying a stock. The question is the value of what you're paying for the businesses and that would take another layer of analysis but it's probably worth doing.

>> Matt Loesch: Okay, Mr. Armstrong.

>> Michael Armstrong: What is your view on the role of the employment of active management versus passive management in a retirement system like ours?

>> Sure. And I teach a class on portfolio management and one of the things that I cover through -- most of the course is active management. How do people generate alpha, how do people have consistent outperformance, how hard is it to differentiate between success and luck and it is actually very hard. Throughout the end I talk about the average portfolio manager has no value. If this board believes that we're probably going to pick an average manager, then you really should go passive, because you're going to pay the active manager roughly 1%. You'll pay a passive manager 2/10 of a percent. So 8/10 of a percent is being wasted because the passive manager is going to definitely hit the benchmark, that's what they do. The active manager will underperform by 1%. So you have that itty basis point benefit you'd have by going passive. So if you have no edge in selecting a manager, and I think with the people in the board and the resources that you have, that you probably do have an edge. Maybe that in every asset class but you do have an edge that you want to go passive. Because you know what you're going to get. And with an active manager you just don't. It's skill, it's good fortune, it's having everything go their way for a while and then it doesn't. And we all have periods of misfortune and we'd like to say that we don't but we do and it's tough to tell that from someone who is of average skill.

>> Just to follow up on that, feel the same way about active managers in fixed income?

>> I think I do. Yeah. And I'm -- I'm more immersed in the equity side, but I see it as being very similar and there may be nuances that I'm not familiar with, but I think it's quite similar. But the trading access may be similar, I'm not sure.

>> And the trading aspect.

>> Matt Loesch: Mr. Overton.

>> Edward Overton: There has been quite a bit of emphasis on investments in restructuring the retirement boards, and most of the candidates we're talking to are very well educated and experienced in the investment arena. But the board has a lot of different responsibilities. What is your idea of the role of a retirement board and the role of you as a potential board member?

>> Well, certainly, working with the staff and the actuaries and the consultants on the investment side is a substantial role. I know the disabilities reviews is a significant role. And executing those as -- to the best of our abilities, would be my -- what I see as the mandate. I don't know if I answered your question.

>> Edward Overton: If that's what your thoughts are, you have, yes.

>> Okay.

>> Edward Overton: Okay.

>> Arn Andrews: And actually I'll just follow up on that a little. You mentioned you're aware that one of our role is disabilities. Have you in any of your previous function had any experience with that type of quasijudicial environment where you're making decisions that could, you know, have legal implications on the plan or on the people's ability to collect benefits or not collect benefits?

>> Well, I have been an expert witness so I have been in that sort of a legal consultant's role. But I have not been involved in disability claims or that sort of issue. I have no special expertise in that area.

>> How do you view fund to funds in portfolios?

>> In the case of the plan here, if -- you may not have adequate staff to make selection of individual funds, and you may want diversification, and so that may push you towards being in a fund to funds. It's another layer of fees, another layer of expenses, and it detracts from returns. And the question is does it add enough value through diversification, through having very seasoned people selecting the managers, knowing the managers for a long time and their judgments on that, does that allay it. And I think it's on a case-by-case basis that you would really have to look carefully and the decision may not be an easy decision. If you have access to the very best funds, on a direct basis, then that may be the way that you want to go. If you don't, perhaps going through a fund to funds, and if it gives you that access, that may be some of the value you get by going that route.

>> Let me just ask you a different questions. This is a actual situation that I was in, that pretend we're in 2007, and we're sitting in a meeting with John Paulsen and he comes to you asking you to consider investing in his fund. He's telling you he's planning to short the real estate market three derivatives. What question might you ask him and what steps might you take to consider whether to invest and would you ultimately invest with him.

>> Sure. It's a small world. John Paulsen worked for Ossi partners, about ten years before I worked for Ossi partners, I had his job ten years later. It is kind of a funny situation. The first thing would be to understand his investment thesis. Why do you think this is going to happen? And from a very simple supply-demand point of view you can look at the inventory of housing and that's the supply side. And the demand side being the buyers. And the requirements for buyers had gone down, over some quite long period of time, to the point where the buyers really weren't eligible and able to afford the houses that they were getting. There's negative amortization. Buying a house and making payments that didn't cover the interest on it, issues like that that would lead one to believe that the buying side had pretty much peaked. You were near a peak and the ability for people to buy outthere is

substantial inventory and there's a catalyst on the horizon because with negative amortization, payments have to increase. So you're going to have buyers who can marginally afford what they're buying but their payments are going up and the only way that they could succeed in that situation, or really set up a failure, it is very unfortunate. But the only way they could really succeed is if the real estate market continues to go up. And it had already gone on the market block. So I looked at that as a freight train headed towards a cliff and I don't see any way to stop it. So to the extent it -- I would say yeah, it looks like a good bet, it's clear in retrospect but I think even then you could probably go through those questions and say it's a reasonable bet. If you looked at how it would play with the rest of your portfolio, you know, how -- if you looked at it as a put option, how expensive is this put option? How expensive is making an investment there to essentially insure part of your portfolio if the market falls and falls worse than what I would have expected it certainly sitting in 2007, I'll make money in the policy investment but losing it elsewhere. Is there something else that is another way to mitigate that risk? Is there some other hedger that I would want to use? And truthfully in hindsight I probably would have done some of that. There are so many things that can go wrong with derivatives. I mean, counterparty risk and all those sorts of things that it still might not have worked, but I sure want to dig a couple layers deeper and do more research and investigate it even to consider it, because the benefit of it as a hedge to your investments it would offset a lot of your losses. And if it didn't work, my understanding was you're basically buying puts at a very attractive price. The downside isn't that bad, it's not like you would actually short the market, where if the market goes up it's unlimited losses. It's relatively limited losses that he would incur if he was wrong.

>> I didn't invest but for different reasons. [ Laughter ]

>> For different reasons which maybe I'll tell you.

>> Arn Andrews: I would just follow up on kind of the initial question by Mr. Armstrong you know where he was giving one example of a ram figures of a decision we could make. Over the course of a term of a board member, there's going to be countless decisions with countless ramifications. What would you want your legacy to be if you were a board member if there were one goal in mind you have coming here, if you wanted to execute it and hopefully see it to fruition, what would it be?

>> That the plan became funded, that the board worked together and was successful in the things that they sought to do. I don't have a particular objective of my own. It's really, I would like to be part of a group that works hard and makes this plan successful. And that's the best I could hope for.

>> Matt Loesch: Any further questions from the board? Thank you very much.

>> Great, thank you very much. (inaudible).

>> Matt Loesch: Wonder why? (inaudible) [ Laughter ]

>> Matt Loesch: Well,.

>> We're off recording now.

>> Matt Loesch: We are?

>> No, we are still on.

>> Matt Loesch: Want to take a quick break so we get some water and refreshment then we'll sit back down. [ Recess ] (inaudible)

>> Matt Loesch: Okay. Well, I guess we're at possibly decision point. I had really conceived of the right way or my thoughts exactly how we should decide, or I know we do have to make a vote as to what -- I guess maybe a discussion point would probably be prudent, have discussion about individuals and the whole process, to feel if you're at a point where you could help make a decision. Mr. Andrews.

>> Arn Andrews: Sure, I'll go first. Having heard all four candidates and thinking about some our comments beforehand you know, the perception of what a role might be, is this somebody that's supposed to be a mediator and a moderator to a certain extent in this seventh potentially swing role even though currently I don't think necessarily it's something that could be required, it could be required of future boards. But I thought Mr. Lanza was interesting, you know, in his resume, when I saw nice guy I thought, what does that mean, when somebody puts nice guy, on his resume, I think he's a big personality. As a board we have to determine if we want a big personality. But I like his characterization of himself and I liked his description of himself when he talked about seeing his role you know as not necessarily a technician, that we've recently acquired quite a few technicians and he saw himself in kind of that swing role organically you know without us leading him there, he viewed that as his potential. And then I was also taken to a certain extent with the last candidate. Mr. Dirks. I liked his pragmatic approach. I like his own characterization of himself at the end as you know when I asked him to basically trumpet himself, what do you want your legacy to be. He deferred from that, he said my legacy is being pardon of a board. I found that as a good characterization. After hearing all candidates, if we would short-list them those would be the two I would short-list.

>> Matt Loesch: Anyone else?

>> Lara Druyan: I actually came out on the same page for slightly different reasons. I like the fact that Mr. Dirks actually did an asset allocation, right? And whether or not he modeled it or whatever else, having read through all the other applications, virtually nobody else did that. And I thought he was thoughtful both in his application and frankly in response to these questions at a level that was honestly an order of magnitude deeper than anybody else including Mr. Lanza who is my second choice.

>> So strangely enough, those are the two that I also -- also felt strongest about. And for two very different reasons. Mr. Lanza, I think, will bring a group dynamic to the discussion that perhaps we don't all have ourselves. I think that may be useful. He is not going to bring the depth of investment background that perhaps Mr. Dirks might bring to the equation. But I think that, to me, it's kind of a tradeoff as to what this group thinks, at

least from my perspective, between those two types of personalities and background, in what would be the most complementary to what we already have as a group here today.

>> Matt Loesch: I guess I'll just continue the trend. When I initially got into this process, seeing as being one of the holdovers, I guess, because there is three new folks coming on and you bring on a fourth new person, an unknown, there's the comfort level in Perkins, to me as an employee and as chair to know you know, I understand what he brings. I know his experience, so you have the known. But then you also bring in the quality of the folks that we have brought in, plus these four, the other three, it means you change that perspective. And I do think that it is -- it is odd, interesting, the personality difference between the Dirks and the Lanza. You really are getting two differently types of personalities to come to the board. It's different, not better, it's just different. I think the fact that Lanza brings a lot of board experience might be real helpful for the fact that the six of us are now new together, the fact that he's been on a whole bunch of other boards might really help in the process of continuing to build this relationship and how we move forward. And it's not to diminish what Dirks has to bring. I agree those were kind of the two that I had on short-list, kind of bubbled towards the top. I don't know, I wanted to experience their personality in person to see how that dynamic would work before I kind of put one above the other. I don't know if I'm there yet but I definitely think those two are who I'm looking at.

>> Edward Overton: I came down on the side of Mr. Perkins and Mr. Dirks. In terms of my two selections, I think we've brought on three people with significant investment backgrounds already. And the board, as I indicated, in my questioning, has a greater responsibility than investments. And I don't want the challenge of the board becoming an investment debate organization. And we do have professional consultants, we have three board members with acute investment backgrounds, we have the staff of investment people. So I think that to bring on that prior experience and knowledge and history that Jeff Perkins has is important to me. And my second choice would be Mr. Dirks. Because I like his demeanor, I like his approach to question, I like the fact that to me, Mr. Lanza thought too much of himself. And I can see that kind of verbosity clogging up the workings with the board a little bit. And that is my direction now.

>> Matt Loesch: Stuart.

>> Stuart Odell: I like that, I think someone would have to be really walking through the Brown Act and make it very clear to him what he can and cannot talk about. He is serving on boards -- serving on our board is different than being on a -- you know sort of start-up board and kind of the rules of engagement are different. The rules of disclosure I'm sure are different. But I would love to see him, you know, talk to a private equity guy, you know someone that comes in here. I'm sure he would have all the embarrassing questions that you would want to ask because he's probably lived through it. But he is a larger than life personality. What I liked about Dirks, he was actually quite humble. He's an active manager, but he was intellectually honest about active versus passive management. I think he's very thoughtful. I think either of them would, again, for different dynamic, it's kind of what -- what we want to have on the board, but both very strong, I thought.

>> Matt Loesch: Second rounds of thoughts?

>> Lara Druyan: I just -- just from my perspective in this, you know, Drew Lanza and my experience are somewhat overlapping because I spent ten years at a VC, so did he, in that perspective we came at it from very different ways and we do have different skills. I think I did much more finance than he did previously in his career. But our skills are not this, just to be clear.

>> Arn Andrews: Jeff did a second round going around. I agree with both Ed and Matt, you know I came here thinking that the historic perspective was going to be one of the primary considerations in my mind, because I'm concerned that we have an evolving board and I always think historic perspective is important. So I was inclined to lead towards Mr. Perkins until I saw that Mr. Lanza had you know quite a bit of board experience. And so that started to give me a comfort level, you know moving to almost a fully new board. So depending on how it plays out, I mean, I agree with you, I liked the humility of Mr. Dirks. We will not get that with Mr. Lanza but we will get somebody that has a lot of experience that could be beneficial down the road as we continue to evolve. I mean personally this is the first board I've ever sat on other than some quasicommunity stuff. So I do think the historic perspective is important and if we don't get it in a new candidate, you know I might have to start reconsidering Mr.

Perkins. But I think between Mr. Dirks and Mr. Lanza, it seems we're all in agreement that we have two very viable candidates. You have heard part of my thesis by saying you share very complementary skills. So --

>> For Mr. Perkins, I think to your comment, I looked -- I did look at, there are other board members here who have some experience on the board. And as I thought about, well, what happened 14 years ago or ten years ago, to me is not quite as relevant as where we're going in the future. And so that was my biggest kind of thing was, maybe a lot of stuff went on but I know where the plans sit today. I know what the staff is today. The funded status. And we're really focused on going forward. So process and procedures and things like that don't really concern me as much as getting the right person on the board. So that was my thought process of not recommending Mr. Perkins on there. I still am kind of thinking both Mr. Lanza and Mr. Dirks could probably serve this board well although again they are very different personalities. So that's really how you feel. And I -- to Ed's comment, I think you know with respect to Mr. Lanza, you know, I think he does come off, you know, a bit arrogant and, you know, a comment of I am rich or something along those lines. Look, if I were participants in the city plan, that's not really the personality I necessarily want to hear about. So that's just something to keep in mind. Being humble isn't necessarily a bad thing sometimes. So ...

>> Matt Loesch: Yeah, and I think what the following, continuing the Perkins conversation is what oftentimes the historical images that we have to bring back aren't necessarily the process that's oftentimes how the benefits have been rolled in and how the board is then started to deal with those things, and why are we at -- because there's always a reason as to why we have done it. It might be a dumb reason today but at the time they were using kind of the best perspective possible and then sometimes it matters then why would you do something in the past because then it could be let's say, we let's pick an example that's in the press our topic is the SRBR the supplementary check you know we could look at this and say it's a foolish thing or we could say it's a great thing but regardless it's something that then could be hit negotiation wise as to what's happening with the agreement, granted we have the attorneys that bring out the input and staff that brings in the input but also having the folks that were on the board. Now granted Mr. Overton has a tremendous amount of history in himself being the director for a long time but also having how the board thought about it having something that helps in that

aspect. So it's not necessarily exactly that but in saying that I've kind of moved off of it. You know my short list is Dirks and Lanza. Let's think how we can try to narrow it down from there and keep moving. Any other thoughts?

>> Edward Overton: There doesn't seem to be any support for Mr. Perkins except in this chair. And I cannot support Mr. Lanza in good conscience. So if the direction is between Mr. Lanza and Mr. Dirks, then I would make a motion that we select Mr. Dirks.

>> Matt Loesch: Motion and second. So let's keep talking and I'm sure we --

>> Mollie Dent: I want to make sure everyone knows it's a recommendation.

>> Matt Loesch: We make a recommendation to city council who makes the appointment. We don't necessarily make a proclamation as to why, we make our statement of who we select. Do you have anyone you wanted to say in our round-about here?

>> I guess what sort of due diligence do we do on the candidates? I mean do we do background check, what --

>> Mollie Dent: The due diligence was done through the application process. And now through two sets of interviews. So it's -- it's really at this point, I think, the decision as it was laid out at the beginning is, how you all think the new final member would best complement the existing board. And to make your recommendation to the council on that. And I will say that if you -- you can put forward two candidates if you can't get a majority vote on one. There is a provision for two to go forward but the ordinance says that if -- that if you have a majority vote, then one goes forward.

>> Arn Andrews: Can I follow up on one question? So if a candidate checks the box no saying they have not been the subject of an SEC investigation does anybody run the Finn river reports to see if in fact that's a true statement or do we believe the checked box?

>> Mollie Dent: I don't know of anybody that ran the reports.

>> Arn Andrews: So in terms of due diligence it is as what you're saying, there's no follow-up, okay.

>> So we're relying on them to be honest. We're trusting the applicants that what they've said is --

>> Matt Loesch: As we trusted you.

>> Yes. [ Laughter ]

>> I figured out I'd hear that from you Matt. Sorry.

>> Matt Loesch: Any -- we have a motion and second. We can keep this discussion, if there's further discussion if we'd like to I could call the vote.

>> Arn Andrews: The second still stands but I look forward procedurally, we seem to be aggregating more people directly involved in the (inaudible) standard that we might call (inaudible) I'm not sure what happens when you bring on investment officers do you do background check (inaudible) or --

>> Mollie Dent: I don't know what kind of background checks HR runs on city staff other than police.

>> Arn Andrews: And like I said it might be a counterdecision but (inaudible).

>> Matt Loesch: I think so. Any further discussion? The motion on the floor is to recommend Dirks to the city council to fill the seventh spot. Any further discussion on that? Otherwise I'll call the vote. Seeing none. Yes, sir. No. All in favor? Aye, opposed? It's unanimous, fantastic. So, just also procedurally, Ms. Dent, this will go to the city council as a recommendation, next -- the 15th?

>> Mollie Dent: I believe it's scheduled for the 15th. There will need to be a memo from the director to the council letting them know what the recommendation is.

>> Matt Loesch: So then we would expect them to be then present at our March meeting or if we have any kind of special meetings through the month of February as soon as the 15th decision is made if it's affirmative?

>> Mollie Dent: Right, once the person is selected on the 15th they can be sworn in by the City Clerk as soon as they're available for the swearing-in.

>> One comment he did in his application say he wasn't actually residing within 50 miles of San José. We just probably need to confirm that he's either moving, or has moved, or is planning to move, or that it's okay.

>> Mollie Dent: Yeah, the residency is a requirement within 50 miles of San José. So I thought they had caught that though in the very beginning.

>> Matt Loesch: I thought it is live and work.

>> Mollie Dent: It is not live and work, it's just live.

>> I think as I read he had been living to Petaluma and he was moving to San Francisco. He was planning to --

>> There is a cover letter. (inaudible).

>> Mollie Dent: Be appointed until he -- until he actually lives in San Francisco so we will have to make that note.

>> Matt Loesch: Well, do we want to make -- do we then want to change our position, then, and say that you know, appoint this if we can get the affirmative that he's living there or want to wait for -- appoint or recommend

Lanza which seemed to be the second person how do we want to proceed? If that comes back then we have to do this whole procedure again.

>> Mollie Dent: Yeah, I would go ahead and open it back up again to reconsider it so that you can make a backup recommendation in case he's not residing within 50 miles of San José.

>> Matt Loesch: Or do we want -- or we could make it so we hold our recommendation, that's the other alternative, right? The alternative is to hold our recommendation until a later date. Let's say he is going to be moving within the next three weeks and then he's physically residing there.

>> Mollie Dent: I think he -- he needs to be a resident of San José by the time he's appointed by the council.

>> Matt Loesch: 50 miles.

>> Mollie Dent: I'm sorry, 50 miles within San José by the time he is appointed to the council. If he has plans to move within the next three weeks or so the council could make the appointment later, if you feel strongly that that's the candidate you want. The council could delay the appointment out. But if he -- you know, I -- if he has not selected a home in San Francisco yet, and doesn't have any present plans to move, Petaluma is too -- is not within 50 miles.

>> Matt Loesch: Right.

>> Edward Overton: (inaudible).

>> Mollie Dent: I believe the time the council did their interviews, they were contemplating the requirement to be live or work within 50 miles. After they did their interviews, they decided that they wanted it to be live within 50 miles.

>> Edward Overton: Did they change the municipal code or --

>> Mollie Dent: They haven't changed it yet.

>> Edward Overton: How did they decide that? How is that --

>> Mollie Dent: They gave us direction to reflect that and I'm trying to remember when that direction was given but that's one of the revisions we have to make to the municipal code, among a lot of others. But -- so.

>> So let me understand kind of the process or sequencing here because I mean we do have people who are waiting to hear from us. I mean, so how would we go about confirming with Mr. Dirks? Who would do the confirmation? Kind of how would that work?

>> Mollie Dent: Well, I think our office can do the confirmation if you want us to, or the director can do the confirmation.

>> Russell Crosby: I can call and say what's your status, have you moved? What's exactly the timing of this?

>> And if he isn't going to move within 30 days --

>> Matt Loesch: By the 30 days, we are scheduled to be on the city council's appointment on the 15th presently.

>> Mollie Dent: The Police and Fire retiree appointee has been deferred a couple of times. That's kind of up to the council if they want to defer it or not. But it's been agendized for the 15th because that's really the earliest date it could be on the agenda after your selection. So ...

>> Russell Crosby: Want to go back to this change in the municipal code and exactly which set of Municipal Code do we operate, maybe we need conflicts counsel here to answer this question.

>> Mollie Dent: Well, I think this board can make whatever recommendation it wants to make. You can make a recommendation you want to to appoint somebody that doesn't live in San José. That -- I think the -- all I can say is, the council has taken the position that they don't want to appoint somebody that lives in San José. The appointment is up to them so --

>> Russell Crosby: I'd like have something official that says exactly how that was done, when it was done, and exactly what was done and how the council voted upon it. Because that's very different than what's in the municipal code today and very different from every discussion that occurred leading up to the selection.

>> Mollie Dent: I'm well aware that it's different than what's in the municipal code. That's why I'm saying if this board wants to recommend Mr. Dirks regardless of whether he lives in San José or doesn't live in San José --

>> Russell Crosby: Well it's not live in San José, it's 50 miles within the construct --

>> Mollie Dent: Regardless where he lives, I'm sorry, if this board wants to recommend Mr. Dirks regardless of where he lives the board can do that. They can do that.

>> Russell Crosby: Correct.

>> Mollie Dent: The council also has the ultimate decision making authority over who they appoint. So I'm simply advising the board that our office has been directed to amend the municipal code, so that it requires that the person live within 50 miles of San José. That's all. It's for the board's information. And I can -- I can't give you the date right now.

>> Arn Andrews: At the risk of ending up in some type of you procedural issue, relating to our ability to get a seventh member. We did just have a unanimous vote which I think was compelling. I think we should still recommend Mr. Dirks. We hire people, not hire but we ask people to perform on this board on the understanding

they're in a fiduciary responsibility and they're held to a standard. The candidate has indicated that they are contemplating moving and are seeking to move. When that happens, I think every other question we had you know pertaining to ethics and stuff, the individual has said they anticipate moving, so how that happens, on a calendar, I don't know if that overrides the fact that we had a unanimous vote. So I would suggest we continue and recommend the candidate. Hope that the council realizes that you know, we have an individual who's willing to serve on the board, we have unanimity among this board and they've intended to move.

>> Matt Loesch: I agree. I mean it's very well said. I think the only problem is that it's a dice game and we could push on and off which is a consequence and a choice. (inaudible).

>> Do we not -- do we want to try and vote for a backup if they have something -- here's our first choice but if for some reason the city council won't permit this because of distance, here's our second choice?

>> Mollie Dent: You can certainly do that if you want to. I don't think you're required to do it. So I think you can do that if you think it would be useful.

>> My only fear is that we're back in doing interviews again. So I just want to make sure that we have, you know, look, we spent the time right here and right now. We have four qualified candidates. And if one got disqualified, who would be the next one that we would choose or do people not feel strongly enough that of the remaining three, one isn't acceptable? So I would sort of be up for --

>> Matt Loesch: And I think that would be useful that we could turn it.

>> Mollie Dent: And I think that --

>> Matt Loesch: We would turn it quickly that way.

>> Mollie Dent: I would suggest if you want to do that you just make it clear if the backup is if the first individual does not meet the required residency requirement. If that's the only reason for the backup.

>> Exactly.

>> Mollie Dent: I'm assuming that's the only reason for the backup. I don't know. But that you -- that you at least tell the council why you've designated a backup candidate.

>> Arn Andrews: Right and just to follow up on that thought, I'm fine with taking a vote to express what our second choice is. I just don't know if it's to give council the impression that we would always provide them with choices. But we do have a unique situation here. And in order to expedite things, I mean, I'm in agreement with what you're saying. I'm just, you know, at the very beginning there was the chairman that said this is the first time this is happening and I don't know that we always want to give the impression that jwe'll always provide them with choices.

>> Matt Loesch: Our unanimity here in our decision, we want to make sure we're not expressing any wishy-washy and we are assertive that we are all confident and unanimous in our vote.

>> Arn Andrews: Correct. I don't know that we would want to go through the interview process again. I'm not sure it was clear who our second choice would be. If we want to take a formal vote among ourselves to voice that but I think we should be very careful how we phrase it.

>> Russell Crosby: I think you need a vote.

>> Mollie Dent: I think you need a vote. I want to be clear, Russell is absolutely correct, the ordinance does not currently require that the person reside within 50 miles of the City of San José.

>> Matt Loesch: So if the appointment is made prior to the municipal code change then --

>> Mollie Dent: It's unclear what council thinks about how they approved an ordinance that didn't say what they thought it would say.

>> Russell Crosby: And all of that stuff was predicated on the fact that nobody has seen applicants to say oh well we've got professional people and it's not just a game of stick people on the boards. The view I think on certainly a lot of the councilmembers ask different today than it was 60 days or 90 days ago. But --

>> Matt Loesch: I'll entertain a motion if someone wants to.

>> Arn Andrews: I was going to say in order to facilitate this process I'll make a motion that we take a vote on what our second candidate choice would be in the event that our first unanimous vote, Mr. Dirks, is not deemed compatible with Municipal Code. So my motion would be to bring Mr. Andrew Lanza to vote.

>> Matt Loesch: Second?

>> Second.

>> Matt Loesch: Motion and second. Any further discussion or comment on that?

>> Edward Overton: I just want to say I won't be supporting the motion based on my prior comments.

>> Matt Loesch: Okay. Any further? All in favor? Aye. Opposed?

>> Edward Overton: No.

>> Matt Loesch: One no. Thank you. Any other discussion or comments? So direction is clear to staff of what we need to do and we'll go through on the 15th, we're adjourned, thank you.