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>> Matt Loesch: Good morning. Call to order the Federated employees retirement system. Board of administration. Under orders of the day there are none. We'll take the agenda as listed. Unless somebody is moving around I'm ready to go. Consent, 1.1 through 1.9, anything that needs to get pulled on that if not I'll entertain a motion.

>> Edward Overton: So moved.

>> Second.

>> Matt Loesch: Motion to approve and second. They questions or comments? Moment of silence for those are passed. Thank you. Quarterly report of June 30, 2011. Who's going to be doing the performance presentation?

>> Russell Crosby: Carmen is. Not here yet.

>> Matt Loesch: Okay.

>> Matt Loesch: We'll hold 3.1 until Ms. Racy-Choy gets here. You have on your table a copy of the RFP and the notice. And Ms. Dent is there anything you want to say before we entertain questions or comments of the board?

>> Mollie Dent: No not specifically. This board didn't ask to see the RFP but the Police and Fire board did. It will not be released until after the Police and Fire board meeting that's why the RFP release date of October 7th. I also included a shorter sort of summary. Of the RFP, itself and the process. And so the board doesn't need to take any action at this meeting because the only action for the board would be to appoint up to two board members to the screening panel if you want to. And you can do that at your October meeting because your October meeting would be in time for people to be on the screening panel.

>> Matt Loesch: Okay. Any questions or comments of Ms. Dent or RFP or what was presented to you? I have one question. There's talk about the structure of our trusts, and we were entertaining looking into the idea of

changing that format to have a master trust format, or combining them into a master trust; is that correct, or am I describing it correctly?

>> Mollie Dent: No, not a master trust exactly. For investment purposes there's some thoughts about doing something that's called a group trust but that's only for investment purposes so -- and we are in discussions about ways to do that and whether we want to do it with our tax counsel. But it would not be combining the trusts. It's just --

>> Matt Loesch: I didn't mean to combine the trust but for investment purposes that was the conversation.

>> Mollie Dent: There is a piece of this for federal tax advice that's separately spelled out. So it would fall under that category. Yeah I will mention the timing on this just so the board members can be aware of this as they think about whether or not they would want to be on the screen panel. The interviews will probably be conducted the week before Thanksgiving. Because of the need for getting -- trying to get somebody in place by the end of the year. I anticipated in this that each board would want to have its own separate screening panel, that you wouldn't want to combine Police and Fire and Federated members on the screening panels but that possibly the screening panels could meet at the same time, if they all rank the firms -- if they have the same firms high-ranked, hopefully the interviews could be conducted more or less simultaneously. So that you don't have people having to come in twice for interviews. But we'll have to wait and see obviously what the responses look like and what the how the boards rank the proposers.

>> Matt Loesch: What is the pleasure of the board? It doesn't matter, zero to two people is basically what we talked about having on the screening panel. We could make that discussion, have that discussion now, correct or --

>> Mollie Dent: If you want to have the discussion now about who to appoint them you should just waive sunshine for the material because it was late-distributed. If you don't want to waive sunshine, if you want to look at it or think about it you can wait until October.

>> Matt Loesch: Makes no difference to me.

>> Edward Overton: As a related question do you have the structure of the proposed committee?

>> Mollie Dent: Pardon?

>> Edward Overton: Do you have the structure of the proposed committee?

>> Mollie Dent: Yeah, it's in -- that's what is in your four page handout. It's in the selection process on page 3. There will be two attorneys, up to two board members and the director, so there will be up to five people on the screening panel for each board.

>> Edward Overton: So if they did it together what are we talking about overlap, the 7th?

>> Mollie Dent: No I -- this would be -- these would be separate. You would have your own screening panel and the Police and Fire board would have a five-person screening panel as well. The director in the attorney's office would overlap on both panels but the board members would be separate. I'm open to combining it if both boards want to combine it but I'm anticipating that that may not be the case. And I didn't describe the screening panel in the RFP because it really doesn't matter. The applicants don't -- they don't -- that's not information they need. But if you want to have a discussion about a combined screening panel, I -- we could have it. But I think this format achieves the objectives that both boards sort of said they had when we brought this up before. Your board, with your director, would have three votes. And so that is more votes than the attorney's office would have. If you only want to appoint one board member we can pull back to having just one attorney on the screening panel. I don't think you want to get much more than five.

>> Matt Loesch: Well two things. I don't mind combining the panel if they don't mind for my mind for efficiency sake, we're looking at similar if not the exact same pool of folks and if you want to decide who those two people

would be, we could decide that right now in my opinion but Mr. Odell alluded that's what you wanted to do as well.

>> Stuart Odell: Given the schedule I can't be on it, I'll be traveling.

>> Matt Loesch: Given the pleasure of the board do we want to assign that right now?

>> Edward Overton: Shouldn't we decide whether we're going to have a combined panel or separate panel first or does that make a difference?

>> Matt Loesch: I don't think that matters because we're going to assign two people anyways. We need to waive sunshine on the report so if I could get a motion to waive sunshine on the report?

>> Arn Andrews: Motion to waive sunshine for retirement board item 3.2.

>> Second.

>> Matt Loesch: Any questions or comments? All in favor, opposed. Okay.

>> Arn Andrews: When we talk about combined panels that is for the interview panel right, not asking to come in twice but otherwise it's going to function in a traditional RFP format. Be on the panel and provide your scoring.

>> Mollie Dent: The way the -- it's a screening/interview panel. So first of all, the -- our office will review all of the statements of qualifications, for meeting this minimum, I mean that should be pretty straightforward. That's not to evaluate, just to see if they meet the minimums. Then all of the statements were of minimum qualifications are met. Will be independently reviewed and scored by the panel members. So the five members of the Federated panel would review and score all of the resumes that you receive. Then the scores could average. There's a minimum score of 70. It's going to be a little bit time-consuming though, because you could be scoring in five

different categories. You could be -- because we've got the work broken up into five categories, you may actually, if a firm proposes for all five categories, you'll actually be scoring that firm five times. So that you can compare the firms in the categories. It will be a little time consuming. Each board will do that separately. And then the proposal is the top three scoring firms are eligible for interview unless a majority of the panel votes to eliminate the firm. And firms not in the top three will be interviewed only if the majority votes to interview the firm. You basically are probably going to be interviewing three firms and they may be the same. But it can be three firms in each category. So you could end up -- I don't think that will happen. I really don't think that will happen. But it's possible. And once the interviews are set up once we know who we will interview, ideally yes. You would have a joint panel but you would score them separately.

>> Arn Andrews: One last question. Did the RFP constrain responses? Sometimes we put a limitation on response, because if you've ever participated in RFP panels some people can provide quite a lot of information.

>> Mollie Dent: Oh you mean -- it's like ten or 20 page limit.

>> Arn Andrews: There is a limit.

>> Mollie Dent: There are contaminants. They are going to be fat.

>> Arn Andrews: There is a ten, 20-page limit as far as their response to scope of services and things like that?

>> Mollie Dent: There is an attachment.

>> Russell Crosby: Well, and services are going to be broken down into categories. Service or benefits related --

>> Arn Andrews: Ten or 20 pages on each of the five buckets.

>> Russell Crosby: Some firms may bid on all categories.

>> Arn Andrews: Just want a sense of what I'm going into.

>> Mollie, how do we come up with the weightings for the scorings?

>> Mollie Dent: The weightings, that is a pretty typical weighting criteria for professional services RFP. You typically do not you know you typically want to weight their qualifications most highly but you can't just ignore their fees. The -- so you -- and the -- the proposal response is a pretty minor one, but that gets to the issue of had somebody gone on and on in their proposal, or is it really messy and disorganized. So this is I would say very standard scoring criteria for professional services.

>> Russell Crosby: And then the last two categories, the small business and local that's kind of a city requirement.

>> Matt Loesch: And professional services, that has to be included as a category. That is something up to 10% is what it's allowed to.

>> Mollie Dent: And the local piece for some aspects of this could actually be useful because if you do have licks it is probably going to be in Santa Clara County. It could be useful to have somebody for some pieces of this, that's just the city requirement.

>> Matt Loesch: Other than Mr. Odell, is anybody available week before Thanksgiving? Give the process of elimination. Anybody not available the week before Thanksgiving? Is anybody diehard interested in being on it? I was actually interested in being on the panel if that's the pleasure of the board.

>> Mollie Dent: I can give the board a better update on timing at your next meeting. My concern is that the selection needs to be made in time to get on the Police and Fire meeting in December and their meeting is December 1st. So that's what's kind of driving the timing. Although it's possible if they have schedule conflicts and

they want to do a special meeting, they could do that. So that might put the time out a little further. I can give you an update on the actual date next month.

>> Matt Loesch: Is there anyone else interested in being on the panel?

>> Edward Overton: I think we have a family.

>> Arn Andrews: I'll join you, if nobody else does more than happy to join Matt.

>> I'll join you Matt.

>> Matt Loesch: Okay so the two of us. So make that as a motion, that myself and Mr. Armstrong will be the representatives of the selection meat. Can I bet a second on it?

>> Second.

>> Matt Loesch: Any comments or questions? All in favor, opposed, okay. The question of do we want to join the Police and Fire if they're interested? Personally I think it's efficient to do it that way if we can. But if they're adamant against it why push against the wall if you don't have to? What is the feeling of the board?

>> Mollie Dent: I want to make sure that I understand what you're talking about. We will talk about the joint interview process for sure with Police and Fire but is this board actually interested in having just one panel? Where you'd have the members scoring together from the two different boards?

>> Arn Andrews: No. Mr. Mayor, members of the Committee why wouldn't we?

>> Matt Loesch: We're going to hire them separately, right?

>> Are we going to hire separate attorneys? That seems wildly inefficient to me.

>> Matt Loesch: There could be attorneys that don't want both boards. There are provisions to support just one board. I don't know.

>> Edward Overton: If you came down to that you're looking at the same people. Couldn't you say we like candidate A and we like candidate B so it's A and B?

>> Mollie Dent: That is the reason we set it up the way we did. Your panel will get to decide which candidate firm to forward on to the board. I mean, ultimately it's a board decision anyway. But it is set up so that your particular board, your particular panel, could recommend candidate A and the Police and Fire panel could recommend candidate B.

>> Matt Loesch: Part of their fees are going to be part of that as well. And they could be saying if we only get one of the trusts, the fee is this and if we get only one, the fees are this, incrementally. That's one of the things we would weigh. I think.

>> I assume you go back to these firms afterwards and renegotiate fees once you've gotten down to your finalists and you start to squeeze them.

>> Mollie Dent: We will negotiate a not to exceed amount for each of the firms. They give us their hourly rates. We've asked for hourly rates in all of the categories and for whether they do any sort of governmental discount because some firms do. We've also asked for some flat fees, in a couple of discrete categories. I asked for a flat fee or retainer if you will for the attendance at the board meetings. And for up to ten hours of advice per month to the board and staff. And then for the staff of the general counsel services. For the domestic orders which are routine and they're pretty regular, I ask people to quote just a flat fee for up to three passes on those. And filing reports. Investment services aren't really -- I -- there is not really a good way for somebody to quote you any kind of flat fee for investment advice services. I don't think. If other people have a good idea about that I'd be grad

to take a look at that but our investment counsel now just bills on an hourly basis. Tax counsel has been a combination but when you have discrete tax work like when we needed the health trust done we were able to get a flat fee for that. And I don't think we did for the tax qualification. Sometimes with tax, you can, you can you know define the scope of work discretely enough to get a fee. So yes, we will work with the firms. We have to have a not-to-exceed amount in the contract, but scoping the work is not that easy especially when you include litigation.

>> I guess my question is they are going to respond to the RFP, they're going to give you their prices, that's all public, everybody sees everyone's prices. But why aren't you squeezing that firm for concessions?

>> Mollie Dent: If they quoted you a very high fee they're not going to rate very highly.

>> The fees are on a very small percentage of your overall.

>> Mollie Dent: They're 15%. But you'd be surprised when we rated people before, you'd -- different scores rate the firms differently, too. Some of them have qualifications that are very similar, and so they may all score the same of qualifications, and it may (inaudible) or there will be a group of them, that are scoring the same in terms of qualifications. We anticipate that we will get a fair number of proposals.

>> Just curious, do you have an estimate of the amount of fee income is RFP is likely to generate for a firm?

>> Mollie Dent: If we went back to the presentation that I did last month, I did go back and check our records. And the support for our office from this board is \$45,000. Obviously we don't bill at the same rate a private firm does. And I think the support for Mr. Richeda from this board was around 30. It was a couple hundred, it was at least a couple hundred thousand altogether for all of your leg services last year currently. And I -- I would anticipate it's going to go up. We did include tax this.

>> Matt Loesch: So I guess the question, the joint panel, not necessarily a single panel but not necessarily not a single panel either. We are anticipating working with the Police and Fire panel if they're willing to play. Go see what their reaction is next month. We could do something else if sounds reasonable.

>> Arn Andrews: Usually if you read these, it will become obvious if there's economies of scale. They're not bashful.

>> Matt Loesch: Okay so take it to next month before we actually make a decision on joint or not, how do that sound, okay?

>> Edward Overton: What's the goal in terms of having someone in the seat?

>> Mollie Dent: Pardon?

>> Edward Overton: What's the goal in terms of having someone on board?

>> Mollie Dent: Oh the date?

>> Edward Overton: Yes.

>> Mollie Dent: The first of the year. 1st of January.

>> Edward Overton: Okay.

>> Matt Loesch: So the selected firms would be at our December meeting for selection?

>> Mollie Dent: Right, I mean that's the goal. If we get a lot of questions, or -- and we have to put out a major addenda, it could get delayed. We hope not, we hope we can get tonight place for you.

>> Edward Overton: And are we going to have dates picked for the panel to review the submissions? I mean December, we have two meetings between now and December 1st.

>> Mollie Dent: So the -- the submissions are due on -- oh, thanks. The submissions are due on November 4th so we would be getting the statements of qualifications out to people on the panel as soon as we could. And that - that's what's leading me to having the interviews the week before Thanksgiving. So you want to have your scoring done ahead of time, give people a week or so to do the scoring. And then set up the interviews.

>> Arn Andrews: And then a ten-day protest period?

>> Mollie Dent: There is a protest period, yeah.

>> Is your question -- are we actually looking at the schedule going to make a decision to have somebody in place by early January?

>> Edward Overton: If you look at the time between now and January --

>> Mollie Dent: I agree with you the time is tight. It's our goal. I mean, it's our goal, which isn't that -- we don't anticipate that -- it's not like we have a specific item of work that we're trying to give to someone right now. You got Mr. Richeda through the end of December. We can extend his contract if we need to. Your other outside counsel contracts are still in place. We anticipate those firms will propose. So hopefully, it will go according to schedule.

>> Edward Overton: Okay.

>> Matt Loesch: If not we'll just -- okay. That was 3.2. Why don't we go through 3.3 and 3.4. Update on electronic board packets.

>> Donna Busse: I did check with the clerk's office, regarding their status as far as trying to forward packets, and they're not really actively doing anything right now, so they were kind of interested in what we were doing. So I've reviewed a draft RFI out, an RFI, so we're finalizing that and we hope to get one out in the next couple of weeks so we're moving on it.

>> Matt Loesch: Okay. Comments or questions from the board? Item 3.4, the update on conflict counsel's memorandum concerning trustees role in an environment of discussions and negotiations. Mr. Richeda.

>> Russell Richeda: Making good progress on this. At the present time the response date on this is next meeting. I'm wondering if it would be acceptable to the board to push it over a month. The reason for that request is partly it's an interesting and big assignment but that's not the real reason. The other reason is Police and Fire are a month behind you and asking roughly the same question. And it would be helpful to be able to do a joined memorandum and also to give me a little bit more time. To the degree there's things pressing, though, and you may be more up on that than I am, I certainly can have it done for the next meeting.

>> Matt Loesch: Okay.

>> Mollie Dent: So one question I had was, whether you wanted Mr. Richeda to look at the ballot proposal that the City Manager's office has circulated now. Or whether you wanted to wait until the council, I think they've deferred it till --

>> Arn Andrews: After October 31st.

>> Mollie Dent: Sometime after October 31st. Just in terms of efficiency, it wasn't clear to me exactly what we were having him look at in the way of changes. That is something that's out there now, though. There is a proposal out there. Whether or not that's what is ultimately going to be placed on the ballot is anybody's guess at this point.

>> Matt Loesch: Anybody have thoughts?

>> I think I would probably wait until city council -- especially if there are material changes to it. I mean I don't want to spend the time to have you do a lot of legal work if you are going to have to do it twice.

>> Mollie Dent: There is a lot more detailed proposal than had previously been put out. Material, I don't -- there have been lots of -- there have been a variety of proposals put out there. This is the first one that is sort of concrete in the form of some kind of ballot language I think.

>> Matt Loesch: I think our direction last month when we talked about are more general. How should we be reacting to these things and not necessarily a specific thing and it's a proposal right now and I think like Mr. Odell I think -- until the council has a definitive action you know we could at that time, if Mr. Richeda is done, we say hey, how does this match with what you're saying. Because they might again postpone it and so we could keep pushing this thing around. I'd be fine with waiting until November. Makes perfect sense.

>> That's fine.

>> Matt Loesch: To review the current proposal is a little bit premature my opinion, but one person.

>> Russell Richeda: My understanding of the project is the same as what Matt's outlined, that it might be of some use to the board to have some general parameters and some proposals for general policy that the board could just then to help them analyze any particular matter coming before them within the scope of the assignment.

>> So as I read through the mayor's document which was in -- this is a very dense, I mean I'm unpacking all of this, I mean potentially there's lots of implications if it is going to go on the ballot. One of my questions is, can the board direct its staff to analyze the impact of this, and so if it does pass, and it would involve changes in say asset

allocation or how we conduct investment policy in general, it would be nice to know that. So if we have an opportunity to move quickly after an election, we could. Because otherwise, suppose it passes? And then we sort of, we're not really prepared for it. Kind of what it means for us and we sort of wait around six months and we really haven't taken any action based Monday benefits changing.

>> Arn Andrews: I think you're right. I think at the last meeting we kind of addressed what our role is if any legally, where this puts us from a legal perspective. That's where we ask guidance. And I think you're starting to ask in terms of mechanics, you know, if any of this does come to fruition, what does it mean in terms of the board and mechanics, if people are opting into a new plan, what does that mean for the existing plan? And trying to analyze those types of iterations. Mr. Mayor, members of the Committee right, what is our liability profile, what does the balance sheet look like?

>> Russell Crosby: Okay, we just talked about resources and wasting the lawyer's time on looking at a proposal that may or may not survive in any form like anything that you see today. Now, let's overlay that on a staff that there is no staff to do that, so when you say staff analyze do this, that and the other, let's wait until there's something to analyze. Let's wait until there's a finished product that has been agreed upon by the council and unions and others and then set about analyzing whatever's there and we'll have the outside actuaries do that. I mean that's not a task for staff to we'll have an opinion and we'll be involved but you're going to have to gear up your actuaries to do that and we're in the middle of valuations so there is no resource there either. Sort of November-December time frame, once you've got the valuation work done for both trusts, then we can launch on other kinds of what ifs. And you'll be able to see some of that by the way Cheiron does their presentations. You can say, okay, what if there's another plan, what if you stop the population inbound at this point. But let's get the valuation stuff embedded first, and then we can do our what ifs on what's the current status of the population. Things have changed dramatically in the population over the last year, huge numbers of retirees. Probably three to four times what was projected in the valuations previously is what has actually hit this year. Plus other kinds of demographic shifts that result from that kind of mess, retirements and then layoffs at the bottom so you've got this population change that's going on about let's let them get that bedded down and then we can do our what ifs from there. We've seen a lot of what's in that language. And you're already moving

towards addressing certainly the stuff that is around the actuarial soundness of the plan. You're very much on course with what's going to be called for there.

>> Mollie Dent: And I think going back to what you perceive as the general nature of Mr. Richeda's assignment to look at what your fiduciary duty is, that's kind of one of the things he will be looking at is what feed and how would you come up to speed? Do you need to get in there when it's pending for the ballot or do you -- is it -- you have another -- and there probably are some legal issues about not being able to expend plan funds for the purpose of trying to influence of the ballot measure. So there are going to be some nuances to that, but it's something that is kind of within the overall scheme of what he's going to be looking at, is what's your duty when you see something that might be coming.

>> Matt Loesch: Back to 3.1, staff presentation of quarterly report as of June 30th, 2011.

>> Carmen Racy-Choy: Thank you. I'm going to be pointing to some of the numbers. First I'll start by giving the financial markets backdrop. In a nutshell it was a banner year for equities, whether it was domestic, international, emerging, equities performed had a fantastic year. In addition, real asset also had very strong performance. Both commodities and infrastructure had a banner year, as well. With that, I'll take you to page 12. What I'm planning to cover is really how did we do the typical analysis of manager alpha. So the difference between the actual performance of the fund and the custom benchmark which is four rows down is actually manager alpha. I will cover both the last quarter and the fiscal year ending June 30. I will also discuss the deviations from the policy benchmark and the number there is going to be the difference between the custom benchmark and the policy benchmark. So first let me briefly discuss manager alpha. Both over the last quarter and over the year, manager alpha was approximately 20 basis points. The big reason for -- this is coming predominantly from equities and the two managers that contributed to the most of the manager alpha are artisan, the global value mandate that was recently added. And eagle. The same holds true for the fiscal year. Artisan and eagle are again the big contributors and it was again 20 basis points. Now with respect to the deviations from the long term policy benchmarks, again, this is the difference between the custom benchmark return and the policy benchmark. So over the last quarter, there is really no significant impact from deviations to the long term asset mix. Clearly we're

not allocated to absolute return strategies yet. However, since the return of those strategies measured by the HFRI fund of fund index was approximately 6%. It didn't necessarily have a detrimental impact. Over the last fiscal year however, the story is quite different. We're looking at really the difference between 19% and 21.8. So there were significant value attracted due to a couple of different items. One, we were under-allocated to commodities for a significant portion of the year. This caused the detraction of 180 basis points comparatively to the policy benchmark. We were also slightly under-allocated to private equity. In caused an additional detraction of 20 basis points. So I will ask would you like me to cover the specific mandates and go manager by manager or how would you like me to proceed?

>> Matt Loesch: What's the pleasure of the board do you want to -- how would you like to proceed?

>> Edward Overton: I think gross, I don't necessarily need to hear manager by manager. But asset class and how we intend to approach getting closer to policy benchmark. And where -- where the impediments are to doing that.

>> Carmen Racy-Choy: Perfect. So I'll address commodities, private equity and absolutely return or hedge fund strategies. Because these are kind of the key outstanding items that have had an impact on the last year and could potentially. So commodities has already been addressed in that it was a board decision to delay the implementation. And in March of 2011, the -- basically the implementation was put in place and two managers were actually Credit Suisse and first quadrant were tasked with putting in place a risk parity approach to investing in the commodity market. So this is already rectified. Absolute return strategies, we had discussions at -- with the ad hoc committee on how we're going to approach absolute investing in absolute return strategies. And we've received direction from the investment committee. The summary of that is going to come back to the board. But at the current stage, given our existing level of staffing, we're going to either invest through a fund to fund approach or through a fund of one approach. And with that guideline, we're going to is as soon as the ALM is done, the asset liability study, we're going to take on the project of filling the 5% allocation. So this touches on absolute return strategies. I also promised to discuss private equity. The issue of how we would like to invest in private equity is going to be discussed at the next ad hoc committee meeting. And I expect that we would be able, within

the year, to bring -- to at least make commitments to various managers and start basically bridging the gap, versus start up.

>> Matt Loesch: Okay.

>> Carmen Racy-Choy: Specifically in the areas of emerging markets, there's typically the way you would want to invest in that space is through a fund to funds. So the allocation could be significant. And that alone could actually bring us a little bit closer to the target.

>> Edward Overton: Okay, how far off are we on the various targets?

>> Carmen Racy-Choy: Private equity we're 1.2% below target, I believe.

>> Arn Andrews: Page 10.

>> Carmen Racy-Choy: Of the absolute return strategy we currently have no allocation and we have a 5% target. Opportunistic investments we've already funded, we've chosen three managers, they've started calling capital. Clearly they only call capital when they have investments to make. So they've called in approximately 20, 25 million of the mandate of 150 and we expect that over the coming two, two and a half years that they would continue to call in capital.

>> Matt Loesch: Anything else Mr. Overton?

>> Edward Overton: No, I'm good.

>> Matt Loesch: You only have a handful of actual managers now. Are there anything going on concerns, anything in staffing-wise with them, anything about those managers we should be aware of, any news information updates, any of those particulars?

>> Carmen Racy-Choy: Would you like me to cover a little bit of the commodity managers because they are not your run of the mill mandates. There is no really basic issues, in that high yield bank loan managers show a small detractor to the benchmark. However, we've structured the mandate to be significantly -- we've requested that they have significantly higher quality than the benchmark. So really having the benchmark as the comparison is unfair because we're forcing them to have significantly higher credit quality loans and investments. So fundamentally the message there is, when you take that into account they've done fairly well. With respect to the commodity mandates let me take you there because I think it's kind of worthy to highlight the fact that the risk parity approach to commodities is actually working. Not only that the managers are adding value nicely. So page 18. You can see four lines down the Dow Jones UBS commodity return was negative 6.5% for the last quarter. The staff with the help of Credit Suisse actually created a custom benchmark. The intent of the benchmark was in fact to convey to the managers that the way we would like them to invest is by creating an equal risk -- building a benchmark that had an equal risk allocation to the various commodity sectors. As I'm sure you know the current benchmarks in commodity space have a significant allocation to energy. So almost a majority of the risk comes from the energy sector. Historically, when you look back in time, if you actually create an investment portfolio that has a more risk-weighted -- an equal risk weight through the various commodity sectors you actually significantly reduce the risk. Historically, although I'm not sure that would hold going forward you also achieve a higher return. I don't think you can have your cake and eat it too. But I think the risk reduction is very real, and in a sector such as commodity, it is important to reduce the risk. What it actually means in practice is that energy and the risk parity benchmark is underway and metals, industrial or precious metals, tend to be slightly overweight. Arounds that's why you can see the risk parity benchmark the first line has negative 5.4% return over the last quarter. As opposed to negative 6.5% for the Dow Jones UBS index. Both sorry it's negative 5.4 not negative 5. Both managers added alpha. Credit Suisse added 40 basis points, and first quadrant added 30 basis points. Both managers typically add alpha by rolling the futures contracts at different times than the benchmark. So that's I would say how they generate 80% of their alpha.

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

>> Did any other managers on watch at this point in your portfolio?

>> Carmen Racy-Choy: I don't believe so. I believe Calamos, is the only other who might -- just trying to check Calamos number. I think the answer to the question is no. Calamos, the convertible bonds mandate. We also structured their mandate a little bit conservatively. So that sometimes they tend to outperform and underperform in certain -- in other quarters but overall, although they're conservatively, the mandate is more conservative than their benchmark they still typically come out even. I would say no significant issues. This plan had a significant turnover of managers. A lot of the managers that were added are new, and recent searches have been done.

>> No turnover of underlying portfolio managers within your manager selection?

>> Matt Loesch: Anything else Ms. Racy-Choy?

>> Have you gotten your August numbers yet?

>> Carmen Racy-Choy: Let's see. Yes, I'm not sure they're audited though.

>> Can you give us the unaudited numbers.

>> Carmen Racy-Choy: I don't have the number per se with me. But can I look it up. And I'm typically hesitant of giving unaudited numbers. But we can -- to the extent that it's kept under wraps, we'll gladly communicate it.

>> Mollie Dent: That's probably going to be a problem. But I think the sense of it is to give an estimate or something.

>> Matt Loesch: We've given monthly flash reports I'm sure we can do that again. Okay done with all old business. On to new. Discussion regarding establishment of the investment committee. Unfortunately I didn't really nose that the point here was discussion only. Unfortunately we can't do, and I had conversations about the

agenda item there was discussion and possible action. We had a chance to chat about it but we can't do that of the way we had it agendaized. We have an ad hoc committee covering the specific subject of alternative space. We have investment folks, we probably want to have them rustle some other task force as well. It was particularly parsed out as an ad hoc committee for reason of the disclosure stuff we had. We'll talk about that when we get to the agenda item. The topic the question was posed to me Matt do you want to have an investment committee an actual investment committee doing broad stuff. And I have mixed feelings and I'll just say bluntly what they are. It's not about the people that are here, let's not get that wrong. It's because we are going through this Cortex governance study and out of which will come of it probably a committee structure that we all agree to, as to what the overall committee structure should be, and I was trying to keep back the multiple iterations okay give it here and this thing and having that bans back and forth. That's supposed to be coming back to us in November, December time frame. There are things we should be talking about and unleash some stuff on the investment committee as well. That's the point of the conversation. I was toying with doing those multiple iterations. Those of you who have only been around eight or nine months, it can be frustrating to see which direction the board was actually going. That was one of my real hesitations about it. And also, I think a lot of our conversation before was to have a lot of our investment discussions here at the board meeting. We generally have fairly concise meetings, I try to run them efficiently so we can keep through it and have a lot of the discussions here. I think to the extent that much of those discussions are had here, the remaining folks on the board can really understand what interest and motivations and information you guys are bringing to that discussion, the new folks so we can learn your temperament, learn your interest, learn your expertise as well, rather than having it in the four and a half hour investment committee tape like I had to last time, essentially attending the meeting anyways. That is kind of multiple reasons as to why holding off on actually creating an investment committee. Again, this is me speaking, not necessarily what the board is going to decide. So it was to learn temperament, to get to folks so we can understand where you're coming from, and set a direction also at the board level and have the investment committee just enact that direction. To the extent possible. So that's the nature of why this topic was brought onto the agenda. It's probably smart, I think it might be right to broaden the topics base. Even in the short period, until we come to something official what we're going to do December-January time frame. So what are the thoughts? I mean especially the folks that are on the committee, feeling handcuffed and so forth, things you think about?

>> Who wants to speak up first?

>> Matt Loesch: Don't hold back. I'll point to whoever want to speak first.

>> Russell Crosby: To address the agenda item, the chair can appoint committees. I know in Police and Fire they can. Can't the chair appoint members here?

>> Mollie Dent: I think the question is many the chair establishing the committee.

>> Russell Crosby: Gotcha.

>> Mollie Dent: So I think that's the issue.

>> Matt Loesch: What would be the trouble of broadening the scope of the committee the ad hoc committee? Even though it's not agendized as such?

>> Mollie Dent: I think with -- I won't talk about the agenda issue I'll talk about the substantive issue. I think the substantive issue on your ad hoc committee is if it starts to look like a standing committee or have a very brought mandate, then it should be turned into a Brown Acted investment committee. I mean it's not -- that's not the reason you set it up as an ad hoc committee was specifically because of some of the information that was going to be presented on the alternative. For your regular investments, there's no way -- that that information is all going to be public anyway. So there isn't an exception that applies.

>> Lara Druyan: Yes, that's right. Because the private equity issues and the freedom of information act, with some of the managers who couldn't do a look-through. And I certainly wouldn't opine as fiduciary when I don't understand what's in the portfolio, so it was created for that purpose.

>> Matt Loesch: So it was a specific scope, but there's probably some things that are bleeding into the -- that we want to broaden the scope of what the investment folks are doing. And also kind of be true to what that was set out to be.

>> Mollie Dent: Well it sounds like you're talking about possibly having a Brown Act investment committee on top of your ad hoc committee on alternatives. Now, you know could they meet back to back or something if it's all the same people? Sure. The --

>> Matt Loesch: If it's not agendized to create a committee could we do that?

>> Mollie Dent: No it's not agendized to create a committee at this point.

>> Russell Crosby: You've had a committee until six months ago so I don't know that the concept is new certainly not in San José.

>> Matt Loesch: No it's not and we certainly put it on hold as opposed to --

>> Russell Crosby: All did you was put it on hold and not appoint any members for some time. The committee has existed within certainly the last six months.

>> Matt Loesch: That's right, when the new trustees were there --

>> Russell Crosby: It's only when the new trustees came on board when the committee stopped the meeting. So it's existed for a long time.

>> Matt Loesch: That's right. The chances are, I don't know if it's possible, it seems like I could just appoint people to the committee, as being the chair, the existing committee we put on hold and just haven't assigned anybody to. But what are the thoughts about the other points that I had about having this investment committee

go on or interact here, having some of the investments stuff here. One of the reasons not to have another investment committee, is just not to have another meeting. Technically, we could have it after this meeting, we could do that, so you just extend your day or your time here. But then it becomes a scheduling problem.

>> Russell Crosby: We tried to put both boards together to the extent we can they're complimentary skill sets between the two boards when you get both pieces together in one room I think it's more valuable than either piece standing alone.

>> Well and there's also interest on the Police and Fire side from their investment committee in having and I assume from staff's perspective to have these committees I mean we're not going to -- we're obviously not opining on Police and Fire any more than they are opining on us. But the fact that the same managers for real estate or private equity, we can benefit from trying to due diligence ask questions meet jointly and it's fewer meetings for staff less burden for staff and hopefully lower fees because you talk to for fund to funds for hedge funds, for example, we can't do that anyway for we're not big enough for comments Stuart's made at previous board meetings. There are reasons to try in whatever correct legal way to do this to have the committees work together. We obviously can't do that at this board meeting. So how do we solve for that I think is important for the investment committee.

>> And I think the other thing on -- with this meeting is, really, separating the disability, the other items from the investment discussion somehow. So we deal with those things separately. And however we end up doing it. But I just find, in this meeting, and then going into investments and dealing with all other things, separate investment committee meeting seems probably most appropriate. Now you bring up a separate issue which is, if you're not on the committee and you've got to listen to all four hours of testimony, in an investment committee meeting that may be -- maybe it's open to everybody and everyone's there and we do it at the same time. But I think initially when we talked about this, we're like you know we got to get the investments separated from all the other stuff we're dealing with here. One way or the other.

>> Matt Loesch: Which is one of the reasons why we structured some of the disability stuff, so we could have clear cut months where we're not dealing with disability. Like this month we had one, but you see how it went through and we're not going to be due to see one until December. That's the reason we structured the disability stuff the way we did so we could have the actuarial meetings, that's what a lot of November and December is going to hit as well, so we have these clear months where there's specific things that are going on. Yes, investments are going to trickle through every month, like they always do, we might as well give reports on them and we could ask questions on them. We could structure some of these meetings that way as well. Looking at the overall trustees structure and thinking it as a chair and as a member of the plan, you know it is interesting to me to have some balance, the outside investment folks bring expertise about particular things but you also I think having a blend of having whether it's an employee rep on that committee as well, having a balance through that, how that structure sets up. That's sort of the reason I wanted to hear what Cortex had come back, this is really the best way to structure these things. Outside folks as being -- that's the way to go or if it's not the way to go. As far as structure.

>> Stuart Odell: I agree. I'm not suggesting the investment committee is strictly the folks on board.

>> Matt Loesch: I agree.

>> Stuart Odell: Everybody brings something of value to that. But I do like the idea of having separate investment discussions where it's kind of set aside and this is all we're focused on.

>> Matt Loesch: Okay.

>> I think getting input from Cortex also is helpful because they're very familiar with whatever you call it, best practices, common practices, they work with a lot of boards in North America and they may be able to bring you know some real insights to us the best way to structure this.

>> Lara Druyan: I somewhat disagree with that. I think Cortex is an expert in governance they answered great questions when I spoke to them. We are fairly unique in the pension fund world so when you start to talk about Cortex bringing their expertise there's not anybody else who operates like us except, what, Delaware? So with all due respect to Cortex and their expertise I'm not sure that they are going to be well equipped to opine on a structure for -- because this -- there is no other public pension plan that has this many investment experts on it apart from our partners at Police and Fire.

>> Except they will be able to provide common characteristics of high performing plans of our size for us to think through.

>> Russell Crosby: And that's going to be probably November, late November, December, before those reports begin to come out in draft form and get finalized and whatnot. Your investment needs are pressing. And I would think that go ahead and reactivate the old investment committee under the old structure with its old guidelines and everything. Any in the Federated plan any decision that was made by the investment committee had to come back to the board anyway and be ratified by the board here, unlike in Police and Fire they had a somewhat different procedure. So the board will still get to see everything. And then you know in December or whenever it is that the final reports all get bedded down and everybody's happy with them then you can adopt whatever it is and overlay it. I know it's iterations but it at least gets you in business now with an investment committee that can sit there with the Police and Fire committee and think thoughts of how do we approach absolute return, what do we do about private equity? All of these questions together. And get it moving before -- because that machine that's going to modify the committees and have different structure and all, that's going to take a while. Let's get the investment committee moving on as fast a track as we can here.

>> Lara Druyan: We have been sitting on allocated and absolute return for as long as we have all been on this board. Delaying --

>> Russell Crosby: Longer.

>> Lara Druyan: And longer. I can only speak to how long I have been here.

>> Russell Crosby: I've been here four years. We're getting closer.

>> Having sat as an alternate in one of the ad hoc committees, seemed like the ad hoc committee had basically taken on that role, the discussions anyway was sort of a combined quasi-investment committee. You know.

>> Russell Crosby: It ranged wider than just alternative investments. And that's why we're here to talk about this today is because something needs to be done to create a Brown Acted regular public committee. That is recorded and all of the good stuff. And not just an ad hoc committee, particularly if it's going to sit with a companion piece from Police and Fire.

>> Matt Loesch: And the ad hoc could still sit there if we had to just deal with the alternative stuff.

>> Russell Crosby: And the managers won't disclose in a public meeting --

>> Lara Druyan: Or for particular advisors like Chris Gates, when he is presenting to an ad hoc, where he has a particular approach, unless we're going to make a decision, I don't think that's something he's comfortable revealing for candid camera.

>> Mollie Dent: I think the way I'm understanding Russell's recollection of the investment committee is that you're not really establishing the investment committee, it still exists, there are just no members on it, because you decided to suspend it if you will for a time. So if that -- if that's the structure, then I think all the chair is doing, the chair does have the authority to appoint committee members. So I think what you're looking at is to -- is getting input from the other board members on who they -- who might want to be on a Brown Acted investment committee. And you know, what the other board members think about who the appropriate people would be on a Brown Acted investment committee.

>> Matt Loesch: Right, and the initial discussions I think I can appoint people, I don't like to operate that way. This is our board, this is my board, I appreciate the opportunity to be chair. But the reality is my -- go ahead if you want to say something. Mr. Mayor, members of the Committee one quick question, is that open for any board members to attend? Will you tell us how it's structured what exists now? Mr. Mayor.

>> Matt Loesch: The ad hoc?

>> The existing committee as is.

>> Mollie Dent: You can attend but you can't participate. The other board members so yes the board is a subset of this board, it's not staff or something. It's board members. It has to be not a majority of the board so there can only be three. Other board members can attend the investment committee meeting just like any member of the public can, they just can't participate in the discussion.

>> Edward Overton: Wasn't the investment committee actually redefined?

>> Matt Loesch: No, when we talked about the investment committee we were talking about bringing the entire investment stuff to the board, for a period, February March-ish, we talked about doing all the investment stuff here.

>> Edward Overton: But it seems to me that I remember that the board said the committee of the whole was the investment committee.

>> Russell Crosby: No, no. Because in my time here we've never used the committee of the whole to do anything. It was disbanded very shortly after I arrived here. I can't even remember the last time there was a committee of the whole meeting.

>> Matt Loesch: I think it was March of 2008. It was right after I came on board. I attended one and I think we stopped doing one.

>> And would you want that committee to meet along with Police and Fire's equivalent? Do they have an equivalent of that since we are looking at so many things?

>> Russell Crosby: The investment committee yes. What actually happened with the ad hoc committee is, they met in companion with the Police and Fire investment committee, what, a week ago, two weeks ago? And that's kind of what leads to this whole discussion. You guys need to have a companion piece that is Brown Acted and has minutes and does all that stuff because the discussion is much broader than just alternatives.

>> Martin Dirks: Sure.

>> Russell Crosby: And needs to be.

>> Matt Loesch: My thought was first of all, I'm up for election, I'm not going to get myself on it now, who knows what I'm going to be in December and January and who knows what this Cortex thing is going to be. I was thinking about having the existing ad hoc committee sit on the investment committee and until time, next three or four months if we want to change we'll do it at that time. Whoever is chair whoever is on the board will make it whatever that structure is. And so if that's acceptable to the remaining, the folks who are on the ad hoc and --

>> Fine by me.

>> Arn Andrews: To your point it might be a little clunky but I think it's necessary to Stuart's point. They need to evolve and become more robust because they are blending into more discussions I think we should allow them that latitude and just for now populate what we believe is an existing investment committee we are going to restaff it with board members, populate it with existing members so they can continue the conversations they are having. I think Matt is right, having sat on the investment committee, after we get the Cortex report we have the

appropriate communication venue to report out on it. Because you can start to get some distance and I think it's important for all board members to remain engaged in the whole concept of investment and the investment discussions.

>> Matt Loesch: Especially when discussions need to get nuanced I need to know why are you doing this and why this manager is doing this, I don't mind attending, to listen to learn, that is not really part of me needing how that structure is going to go on.

>> Arn Andrews: I think we have established a way to bifurcate these meetings, some are focused on investments and some on disability. I'm comfortable proceeding with the members it currently has and once we see what Cortex has we will establish a platform where there will be that ability to report-out and keep all the board members engaged.

>> Matt Loesch: If that's okay what I'd like to do is have the existing ad hoc committee members and we'll just reiterate that to be clear. That's Druyan, Odell, Dirks and Armstrong and chair if she's willing be Ms. Druyan. So since there is not really an action we need to vote on --

>> Russell Richeda: Matt, just to mention, to the degree there is talk of more integration, at least on the investment function between Police and Fire and this board which is somewhat new in the life span of these two boards, one interesting possible living example of systems that have done that are the City of Fresno systems. They invest together, they have joint meetings together on either side, and they meet two times a month. On either side of the joint meeting is a separate meeting of the particular boards. And perhaps that would work here, perhaps it wouldn't. That at least allows all the members to participate, and hear the investment information, and all comment, rather than you know being only the committee members who can comment. Perhaps that would be useful here, perhaps it wouldn't.

>> Matt Loesch: Okay I think at the time we will go back and do the structure.

>> Mollie Dent: I think for both of the boards we need to look at the jurisdictions of the two committees were. Maybe they won't completely line up maybe the boards will want them to line up but the way the two committees were created and what they are currently supposed to be doing under the committee structure that you have in place is not exactly the same.

>> Matt Loesch: Mr. Crosby is right. I believe the Police and Fire investment committee is allowed to make investment --

>> Mollie Dent: They focused more on the manager selection tough and I -- your committee operated more at a little higher level than that.

>> Matt Loesch: Right.

>> Stuart Odell: You need the Cortex report. We can move forward from there.

>> Russell Crosby: We need to copy the full board on any agendas going out to the investment committee and board members can come as they have time or dial in and listen. The committee meetings will be over in our facility so telephone operation is a whole lot easier than this facility.

>> Arn Andrews: Actually that would be great if, for the investment committee meetings you can provide a call-in number. Oftentimes I would be able to dial in.

>> Russell Crosby: At least to listen, yes.

>> Matt Loesch: I appreciate the discussion on that. Item 5.1 there's nothing. Item 5.2, the ad hoc alternative investment committee listed there next meeting September 28th. We have a meeting summary, that's not -- minutes I presume, is that -- anything we need to talk about on that? Before I flip to it?

>> Lara Druyan: We had I think a constructive question-and-answer session with Mikita. And which I think is summarized, we had a lot of questions about the current managers and some of the ones who we didn't feel as per the report were necessarily even at the median. So we asked them specific questions about, you know, some allocations, some -- how some decisions are made in terms of, you know, assistive managers and I think we were comfortable we got as much information as we were going to get to solve through the look-through problem for the pantheon issue specifically.

>> Matt Loesch: This is a summary. Do we need a motion on accepting the -- the summary not minutes?

>> Lara Druyan: Well the important decision also was in real estate but I think you guys discussed that at the last board meeting. So I don't want to --

>> Matt Loesch: Sold it, no problem. At our governance committee next meeting is right after this. And then next board meeting for disability is November 17th. 6.1 through 6.4 all note and file, educational and what's going on there.

>> Arn Andrews: I had a question. This is kind of a new construct. I'm wondering are these just options that are available or are these recommended options?

>> Russell Crosby: These are actually options that Cortex has vetted and they would recommend these options. And then likewise, the research papers they feel are some of the best that are out there. Things to read.

>> Arn Andrews: Okay.

>> Matt Loesch: Okay.

>> Russell Crosby: And no, you can't go to Paris. [Laughter]

>> Russell Crosby: Or Amsterdam. I notice there were a couple in Europe.

>> Arn Andrews: Nor would I ask. I wasn't sure if they were running through a calendar of things that are available or they have been vetted, we know this content, we know the provider.

>> Russell Crosby: They know the providers, they know the content and they are recommended by them.

>> Matt Loesch: And this is in lieu of staff having to do the continued research on --

>> Russell Crosby: When you're a client you can get access to all this stuff. Monthly they put this stuff together and it saves us from figuring out what is out there and what is changing.

>> Now the public can get access to it as well.

>> Russell Crosby: Exactly.

>> I just think southwest doesn't fly to Paris. Until then you're sort of --

>> Matt Loesch: Any future agenda items? Seeing none, public or retirees or soon to be retirees comments? I'll only make one. Tom in the back of the room is retiring next month. Comes to every meeting. Has been a real active employee rep for his operating engineers and real good resource to me and lucky him he gets to go, enjoy your retirement. Other than that we're adjourned on the pension.