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>> Sean Kaldor: I'd like to call to order the October 2012 meeting for the Police and Fire retirement plan's board of administration, we have present Chair Sean Kaldor, vice chair Dick Santos, trustees Dave Bacigalupi, Drew Lanza, James Mason, Bettina Rounds, absent are Vince Sunzeri, Damon Krytzer, and I believe Sean Bill is delayed. We also have present our nonvoting member, Pete Constant. Under orders of the day, Item 4.1 is an application for retirement that has been withdrawn. Let me return the official request to you. Item 1.2 was received late, so I need a motion to waive sunshine, this is regarding discussion and action on portfolio transition plan.

>> So moved.

>> Second.

>> Sean Kaldor: We have a motion and a second from Lanza. All those in favor? Any opposed, seeing none opposed, the motion passes unanimously.

>> David Bacigalupi: Mr. Chair.

>> Sean Kaldor: Yes.

>> David Bacigalupi: 4.1 is it -- there's a conflict in the numbering between what's on the agenda and what's numbered inside the packet. So which service retirement are you referring to?

>> Sean Kaldor: I'm sorry, to be a bit more precise, 4.1A, James Morphis. And so we also received item 6.5, D-1 this morning -- I'm sorry -- we do not need to waive sunshine. Okay, under just to walk through what's going to happen today. We have -- one of our presenters is in traffic. So we might have to work through the investment section a little bit different schedule. Item 1.2 is time-certain at 11:30 a.m. We'll have a consultant calling in for that. Item 1 much 6 we're going to break for a closed session in the middle of our meeting here, we have limited availability for the consultant for that. It will be a brief break, 15 minutes to maybe 20 minutes maximum. Then we'll return, we'll go through the whole agenda as it's presented except for closed sessions. We'll hear the closed

sessions at the very, very end. We'll break the meeting go into closed and just come back in to report out. Again, 1, discussion and approval of the plan's equity portfolio structure. Yes please. (inaudible).

>> Sean Kaldor: Sure, we can address that now.

>> If we can pull 7.6 C for discussion.

>> Sean Kaldor: The request to pull 7.6 C. Normally there is request at the time we are ready to discuss it but that's fine. Good morning.

>> Thank you for having me here this morning. First just want to start and say that Allen sends his apologies. He couldn't be here today. We actually have an investment consultant off-site twice a year back at our headquarters in Boston where we get everyone together and bounce ideas off one another, and yesterday and today was actually our October off-site. So he's back East. I've stayed back to attend to these and other kind matters as well. So the first thing we're here to discuss today is the public equity investment structure. And so this is -- the presentation you have in front of you I guess I'll ask you to turn to page 3 right away. And this is just a snapshot of the asset allocation that was approved by this board on August 2nd. It's a high level kind of summary of what was approved. We didn't get into the subasset class detail here. But I wanted to just point out that what we're really focused on here you know shown in the red circle is the allocation to public equities. So publicly traded securities is what we're looking for. That's about a 29% allocation, target allocation at the fund level. But importantly for this conversation something I want you to keep in mind is more that total equity number there where you see it's 37%. So that's the combination of your public equity and your private equity investments. Your private equity investments are draw-down vehicles, meaning while that is an 8% target, you're at 5% now. You cannot get to that 8% tomorrow, even next month, even next year. It's going to take several years to achieve that target. So what we've recommended, and the investment committee's approved, is to really look at this as more of a 32-to-5 split within that bucket rather than 29 to 8. So we're making the call that the 3% difference between your current private equity allocation and your target will be overallocated to public equities while we fund those investments. So I just wanted to make that clear. I didn't want to just kind of reference the 39 and then referencing

a 32% allocation, that's why that difference is there. Are there any questions on that before I move forward? Okay. So you know, thinking about how we're going to structure the equity allocation, we're really looking to do it in the most efficient way possible. Identifying one, not only where we want to be in the market cap structure, large cap, small cap, but also geographically. We want to be in the U.S. as well as in internationally developed companies represented by what the MSCI EAFA Index, which is Europe, Australia and the Far East. And then also the emerging markets as well, which is really where we see a lot of opportunity over the long term, maybe call it the next five to seven years. We also need to keep in mind the inherent equity exposure within the fund's allocation to hedge funds. You will get some additional equity exposure through that. It won't be in the traditional sense but it is something to keep in mind there's a 10% allocation to hedge funds that will be a portion of that that will be some equity exposure. So we are conscious of that exposure when building the public equity bucket as well. And also, we're going to focus this structure kind of on long-only strategies. Recognizing that the equity bucket will likely be a source of liquidy for the fund, in a crunch, and so we're focusing on long-only investment strategies here. Okay. So I'm moving on to page 4, which is just a nice snapshot of kind of as of August 31st, what the fund's current equity exposure is. So what you see on the table on the top left there is just the market values with your current targets to equities. And it's really the colored bar charts on the right there that I want you to focus on. The left bar chart is the market exposure represented by the MSCI all-country world index. And the right bar is representative of the plan's current exposure to equities. So I guess the first note I'd make is the elaboration to public equities is well diversified across both your geography and your market cap spectrum. Your current allocation is overweight to emerging markets, it's overweight to -- which is represented by the purple bars there on the right. It's overweight to U.S. and non-U.S. small cap equities represented by the dark green and dark blue boxes. So what you see here is kind of your total U.S. is represented by the blue, is kind of in line with the market. Though the dark blue is a significantly larger piece within your plan than it is within the markets. You're underweight to the U.S. developed markets, which has actually helped over the past call it the last six to nine months, but overweight international small cap within that bucket. And then you kind of see the offset of the underweight to non-U.S. as being accounted for by your overweight to emerging currently. And so we think that overweight to emerging is attractive, but it's really, as of right now, it's all passive exposure, passive core exposure. We think that that could be restructured to identify kind of some additional opportunities there. And we believe that the overweight to non-U.S. and U.S. small cap, while we agree with them philosophically, they

could probably be moderated a bit and not be such significant bets relative to the market. Any questions on that snapshot, the current positioning, before we move forward? Okay. Moving to page 5 here, this is really the current or the proposed structure that we're recommending. I want to point out that this is an end game. It will take us some time to get here. We're currently working with staff on several searches, you'll hear about two of those managers today and we're working on kind of identifying managers to fill other buckets here. But what I wanted to point out was, one, kind of in the top left-hand corner of the table there, you'll see the targets while private equity in progress, that's what I was describing that 32% and that 5% there. You can see the breakdown below, that of that 32%, we're saying a good 70% of it we want to be in a kind of core global equity allocation, and that about 30% of it would be in what we'll call our noncore allocation, which is really where we're going to add more active management and really try to identify managers that can add value relative to their index. The active-passive mix at the end of the day will be about 48% active management, 52% passive management. Passive means again you're getting the index return. You're not paying the manager to get any alpha above the index. So again this is the snapshot, this is the end game. But this is what we're recommended as an equity structure for the plan. And the next page kind of summarizes it nicely. It's the first two bars are kind of what you saw earlier. It was the benchmark versus your current exposure and what the proposed exposure looks like is on the far right. What you've seen we've done there is we've actually reduced your U.S. exposure relative to the market and your current exposure and reduced the exposure to U.S. small cap which is the dark blue. Still overweight but tot to a lesser extent than what it was. We increased the allocation to non-U.S. redeveloped markets to be closer to market weight and again reduced that overweight to non-U.S. And moderately reduced the overweight to emerging markets we still think that's a place you should be overweight relative to the market. So I guess I would -- maybe move on to page 8 quickly unless there are any other questions, this is really a snapshot of on the left-hand side of the table kind of where you're at now. The right-hand side of the table towards the bottom is where we're going and so I just wanted to provide a bit of a snapshot of you know there are several managers here. If you look at the far right colum that we are going to be liquidating, or several portfolios we are going to be liquidating and looking to identify kind of a lot of strategies to fill the buckets on the bottom half of the table. So again, just wanted to get some perspective as to the amount of work this will take. We're looking to identify you know call it six to eight active managers in the near term, and longer term maybe adding some more strategies to the bucket. So we've got our work -- some work ahead of us here, excuse me but I think we're working towards a

structure that will you know provide a better ability to add value relative to the markets. I guess in summary, I would want to point out again that this proposed structure is really a snapshot. It's kind of an end game at any given point in time your actual exposure could differ based on one, market moves, tactical decisions that the investment committee or staff have made as far as positioning of the portfolio. But we do believe that the snapshot we've provided should be the benchmark that you're managing to. We think it provides, one, an ability to measure the proposed structure versus the market to see whether the structure you're using is adding value relative to the market. But we also believe you should measure it against the market benchmark, as well, so you can capture what the impact of any tactical moves relative to the index are. So this has been discussed with the investment committee at the past several meetings. It was approved by the investment committee at the last meeting for recommendation to the board, and so we're here today seeking approval on this equity structure.

>> Sean Kaldor: Just want to add to that. On the investment committee we have gone through it the last several meetings and this has the full suport of the entire investment committee. Are there any questions? Is there a motion?

>> Motion to approve.

>> Sean Kaldor: We have a motion from Bacigalupi and second from Santos to approve the plan's equity portfolio structure. Any discussion on the motion? All those in favor, any opposed, seeing none opposed the motion passes unanimously. Thank. Going on. 1.2, discussion and action regarding the portfolio -- that's:00 certain. 1.2 will be. 1.3 discussion and approval regarding NEPC and staff recommendation on global equity managers. To include item 1.3 A. Approval to invest $50 million in artisan global opportunities a long-only Global equity manager and $50 million in artisan global value, a long-only global equity manager, both contingent upon negotiating acceptable terms and fees. B, approval for the secretary to negotiate and execute agreements with artisan partners. Sorry, artisan.

>> Good morning. So we're here to recommend two global equity managers. These are active long-only strategies that invest securities globally. Artisan global opportunities, artisan global value, first distinction is, this is

the same organization but these are two distinctly different teams. They are operating in two different locations. One is out of Milwaukee, one is out of San Francisco. Start by touching first off on the process that we used. This is a process that was driven by staff, but actively engaged and collaborating with our consultant, NEPC. The way that the process worked was we started by identifying 23 managers. This was done by collecting recommendations from our consultants and also using screening tools using criteria that we thought was important to identify good managers. This gave us a list of 23 managers that was our starting point. Through doing some quantitative and qualitative analysis preliminary views with these managers and working with NEPC we shortened this list to eight managers who we thought were really the best opportunity set to move forward with. Those eight managers we continued to do due diligence on. Some of which, where we thought necessary, we did on-site due diligence, further quantitative and qualitative analysis, meeting with different members of their investment teams, and finally brought the list to our final two recommendations of two managers, so artisan global ops and artisan global value. In addition to the managers that we identified, our investment committee thought there were some managers that we should look at that were not originally picked up in the process. We also did some analysis on those managers, so when you look at the memo that staff presented you will see actually a total of five managers in there, three were the effective top managers and two were managers that the investment committee thought was interesting and should be looked at. Stepping back, you should have three documents, memo from staff, memo from NEPC and supporting documentation from NEPC here in your packet. Just quickly on these managers, when you're looking for a manager I think the things that are important to us are do they have a clear philosophy, i.e. do they know what they're looking for when they're investing? Are they sticking to a specific type or types of companies that they understand and they effectively can you know determine if they're under valued? Do they have a clear process in which they execute, you know, trying to fulfill this philosophy in investing and do they have a team that's in place that's been executing this philosophy so you can actually look at past numbers to see if, you know, everything is lining up. They have a good philosophy, they have a good process. Do they have a team in place that's actually producing numbers? When we look at the two artisan shops those things are lining up. We like the way they think about investing, they have a very interesting philosophy and process and they have a very strong team in place that's been executing these strategies. The teams have ten-year-plus track records executing these philosophies and processes, but when you actually look at their implementation in the global environment, they've been executing these strategies for about five years or a little

more than five years. So you saw our recommendation is for a $50 million investment in each of those managers. The equity structure that was just presented, is for $155 million allocation so there is a portion of the global equity mandate that is not going to be filled with the desire of looking for a manager further down the road that looks at investing in a way that we call complementary to these two managers. Also when we look at a way these two managers fit together, they fit together in a complementary way where their return streams actually work well together. Any questions?

>> Sean Kaldor: Let me just -- are there any questions on the presentation?

>> (inaudible)

>> Sean Kaldor: Yes, so to clarify, the investment committee also has been reviewing these, and there's been several great presentations from NEPC and staff doing a thorough due diligence and evaluation, and the investment committee does support the recommendation. (inaudible) We have a motion on item A and B to make the two investments and approve the negotiation from Trustee Santos and a second from Trustee Bacigalupi. Any discussion on the motion? Seeing no discussion, all those in favor, opposed? Passes unanimously. Thank you for the presentation and all the work that went into this evaluation.

>> Richard Santos: Mr. Chair, I also along with I'm sure our board members, the invesment committee, the work they're doing, and it just helps us make approvals when we know we're all together. So I really appreciate their work.

>> Sean Kaldor: Item 1.4, presentation of the private equity performance report for the period ending June 30th, 2012.

>> Thank you, Sean. You should have in your packet the second quarter 2012 private markets review. And I'll keep this pretty high-level. Kevin (inaudible) is the private equities consultant located in Redwood City who is working with the plan on private equity investing but he's back East at the consultant off-site as well. But he did

provide some notes for me that I will attempt to walk through this with you. I guess turning to page 1, you know, the returns of the private equity portfolio for quarter were average, up about 1.2%, for the year up about 6%, kind of an average number. The three-year number is pretty strong, performance of the portfolio up about 13.6% and since inception which was about 2005, when investments were made in some of the private equity fund to funds, the portfolio is up about 6.7%. These are all net of fee numbers, make sure that is clear. Something that is important to note on page 1 if you look at this little table down at the bottom, on the top right row you'll see, near the right there, the call ratio which is currently at 82%. So that signifies a very mature portfolio. We would expect to see distributions from your current managers outpace contributions at this point. And you can really see that on page 4 of this presentation up in the top there, there's a box you can see the amount funded in the quarter, so the amount called from your private equity managers is about 1.7 million, distributions you received from those managers about $4.7 million, so the net was a $3 million inflow from the fund, you're receiving money from those managers, and we would expect that to continue. Now, you know, the board recently improved a new private equity investment and the contract is done there, so there will be some money called in the future, and you've also approved a new strategic plan for private equity. We will be beginning to build this portfolio out as we move forward, so it won't be cash generative probably as we move forward, but that is something important to note, is that the 2005 kind of investments are quite mature now and are starting to make distributions on a fairly regular basis. So that's why you're seeing that kind of net inflow to the fund. The recent investment that was closed on, I will say that they've been investing for some time now and to date they've made about $225 million in investments and committed about $325 million. And that actually excludes a large deal that they're working on now, which would commit another -- an additional $350 million. So kind of looking at day 1 there with that second deal when they're calling money that about 30% of the fund's assets will be committed. So that's a nice start, kind of hit the ground running with 30% of the portfolio committed to investment. So one thing that is missing from this report, I think there's a nice snapshot on page 7 which hospital kind of the trailing period IRRs. At the last investment committee meeting there was a request to add benchmarking data to this report in the future which we'll certainly work to incorporate. That's all I was going to say on this unless there are any questions.

>> Sean Kaldor: Any questions on the presentation? Seeing no questions thank you very much for the presentation and update. And we'll continue with item 1.5, presentation by NEPC of the preliminary flash performance report as of August 31st, 2012.

>> Sure. And again I'll touch on this at a real high level, unless anyone really wants to dive into the weeds here. But for the month of August the portfolio on a net of fee basis was up about 1.7%, bringing the fiscal year to date number to 3.3%. That's only two months, so I don't want to get overly excited, but it was a nice start to the year. Year to date through August the portfolio was up 7.8%, and I think it's important to note, you know, we've talked at the -- when we presented the last couple of quarterly reports about the lag of the plan's performance versus the total fund benchmark, in that some of that is because of implementation shortfall or the inability to fund up an investment some based on some decisions that have been made. And I wanted to point out that for the two year number you kind of still see that impact. 8.7 for to total funds versus 10.3 for the benchmark. You're trailing about 160 basis points. Can you see how that kind of slips on you. So far to date the portfolio is actually outforming benchmark. There haven't been changes to the strategy or the underlying benchmark. It's the nature of the markets and how they move. Sometimes that will work against you sometimes that will work for you. In this particular report and I would assume for the third quarter report through September you'll likely see the total fund outperforming the benchmark at least in the short term. The performance in the month is largely due to the performance of your equity portfolio up about 2.2% as well as the inflation linked assets buckets or your commodities portfolios were up about 2.4%. The opportunistic the direct lending investments you've made which are you know these investments are making loans to small to mid size corporations. It's called direct lending or senior secured direct lending strategies. Those actually had a nice pop in the month as well up about 2% in the month. So I'm happy to address any specific questions you have but that's kind of a high level review of what happened in August.

>> Sean Kaldor: Any questions? Do I have one I probably should have raised in the investment committee meeting. We generally had percentile performance on here also.

>> We do that in the quarterly report.

>> Sean Kaldor: In the quarterly not the monthly, thank you.

>> Sure.

>> Sean Kaldor: Any other questions? Seeing none we'll accept the presentation. Thank you very much. So we would normally go to item 1.6 in closed session but our presenter is not yet available, participant is not yet available, we'll continue with the agenda until they are available. So item under new business, idea 2.1. Discussion and action on plan expenses for August 2012. Okay. I think the -- we're having similar problems with our presenter so we'll go to item 2.2, can we do this one? (inaudible).

>> Sean Kaldor: We've moved ahead a little faster than anticipated because basically traffic. I don't want to keep moving ahead because some of the next things then relate to this presentation and we're --

>> Pete Constant: You can get the consent agenda out of the way.

>> Sean Kaldor: Yeah, I don't want to be respectful if there's somebody planning to show up and pull something off the consent agenda and upset the order of the day. I was adviced our moving in now and having closed session in the middle is causing some problems for city staff. So I want to be respectful of everyone. Bill, did you just join us?

>> Bill Hallmark: Yes I did Sean.

>> Sean Kaldor: Thank you. Sorry we moved a bit faster than anticipated. 2.2, discussion and action on the pension and OPEB valuation process and time line.

>> Bill Hallmark: I think you have a handout running off the valuation time line we've been working with for the section in OPEB plans. I'd point out, the November 1st board meeting, we (inaudible) valuation results in a

PowerPoint format. For the pension plan. And then the December board meeting we would be finalizing the OPEB assumptions and presenting the final pension valuation report full report. And then you wouldn't present the final OPEB report until the February. The other steps are interim steps to let you know kind of the process that's going on behind the scenes. We are a little bit behind right now. We have not quite finalized the pension data. We had some questions outstanding. And we haven't received the financial statements yet, although we will receive those very shortly.

>> Sean Kaldor: Okay from this agenda the key points are we're in October meeting now so November meeting we'll have the presentation of the pension valuation results. There is no new experience study. We do the major experience study piece every other year is that correct Bill?

>> Bill Hallmark: That's correct.

>> Sean Kaldor: Every three year, every other year.

>> Bill Hallmark: Ever --

>> Sean Kaldor: Sorry every other year?

>> Bill Hallmark: I think it's every three years.

>> Sean Kaldor: Thank you, Donna corrected me.

>> Bill Hallmark: It is not --

>> Sean Kaldor: Sorry, it is cutting in and out a little bit. Last year we looked at how long are people living versus expectations, how long do people work versus expectations, so we don't review that piece every year, but the rest of the valuation and setting of assumptions we do. So that will be in our November meeting. Our December

meeting will finalize our OPEB assumptions and do the presentation of the OPEB valuation report at the February meeting. We set the annual required contribution rates for OPEB at the January meeting. So those are what we should be expecting of the board as far as our big discussion and the annual valuation process.

>> Bill Hallmark: The January meeting on OPEB, that's actually an internal deadline which is actually the day after your board meeting.

>> Sean Kaldor: Sorry.

>> Bill Hallmark: So we would not be coming in January to present the OPEB rates.

>> Sean Kaldor: We'll see the presentation from are Cheiron in November, December, and February is that correct?

>> Bill Hallmark: That's correct.

>> Sean Kaldor: And they're going to be more focused on just the financial returns, the impact, and not saving any, basically, financial assumptions?

>> Bill Hallmark: Yes, I think on OPEB side we have the implementation of the high deductible plan. And the fact that that will have, and so we'll be presenting proposed assumptions to accommodate that plan and address updated claims in December.

>> Sean Kaldor: Okay. This is roughly similar to the Federated plan as well time line?

>> Bill Hallmark: It is similar. Just a little bit for you different board meeting dates. And I should say that the -- the OPEB valuations for Federated and for you are linked together now, because both groups participate in the same health plans. And so the underlying analysis of the health plans is done jointly.

>> Sean Kaldor: Okay, good, any questions or comments? I'll take a motion to accept the plan time line.

>> Richard Santos: So moved.

>> Sean Kaldor: Motion from trustee Santos.

>> David Bacigalupi: Second.

>> Sean Kaldor: And a second from Bacigalupi. All in favor, opposed, that passes. I didn't mean that to preempt our next discussion point, and we can certainly revisit it, but Item 2.3, discussion and action on memo from Debra Figone regarding annual required contribution projections and prefunding analysis dated September 5, 2012. And to address this particularly, we have deputy City Manager Alex Gurza. Hello Alex.

>> Alex Gurza: Thank you, Mr. Chair. Actually, the item you just heard does actually address what we're looking for, and we very much appreciate having that time line, knowing that you will have completed the actuarial valuation process by February really matches up with our needs so we really appreciate having that, that's very helpful for us. The only other remaining item in our memo was, our request that the board assist us with an analysis of the prefunding that we have been doing, the payment in advance of our annual required contribution, as the board may note, we've been doing this for several years now where the city makes in a lump sum its full annually required contribution at the beginning of the year rather than making the contribution over the 26 pay periods. That has resulted in a budgetary savings, your actuary has calculated that we save money by doing that, by paying it up front. So to go to the question that really we would like to see if one of your consultants, whether it's actuary or investment, can help us can with is what is the impact on the fund by giving this money to you up front versus over the time. It is something that has been beneficial over this time period? Is it something you think you would recommend us continue doing, absent the budgetary savings that it creates for us. That's the only other remaining item in our memo.

>> Sean Kaldor: It's an interesting point, because I think basically, city pays us the money at the start of the month -- start of the year rather than over the course of the year. So having the money up front can be good or can be bad depending on plan returns. And the real issue Bill if you can address the risk to the plan? Whether it's beneficial or if it's -- if it can be quantified or negative?

>> Bill Hallmark: From an actuarial standpoint we calculated the prepayment based on our assumed rate of return so we expect it to be neutral. You can go back and look at the last four years, and it may have been neutral, may not have been neutral. But I think going forward we would expect it to be neutral impact to the plan, from our perspective. I think the think the other question really is in terms of managing and investing the funds, does it make a difference to make a lump sum up front that then has to be invested and you have to plan for the remainder of the year, for the liquidity needs to make the benefit, or is it easier if you have that part of that liquidity built in through those contribution rates.

>> Sean Kaldor: So should we ask staff to come back to us with an evaluation of this question and highlight the pros and cons? One thing I'm sensitive to is that we keep talking about how we haven't hit our performance marks, and if so, we're giving the city a credit for a certain level of performance we haven't been hitting, it is costing the plan. But on the other hand over the longer term, we have met or exceeded our performance targets, and so it has been to our benefit. I am keenly aware of short terms, here's money for this year, that year's return won't be the average, it's going to be higher or lower but we can certainly have staff come back to us with a memo evaluating the issues. Councilmember Constant.

>> Pete Constant: Thank you. This is something I brought up a few times at the council level and I understand Bill's explanation that you know, we have this assumed rate of return we should hit it and there shouldn't be an impact but we also know we have an assumed rate of return on our contribution rates, so if we don't hit it, we have this huge unfunded liability. And my concern is, from that perspective, from the council perspective, is, are we saving a little money in our budget today, to create a bigger unfunded liability, and then paying more in the unfunded liability cost and contributions over you know multiple years, stacking them on top of each other? From what I understand the actuarial perspective what I'm looking at is a real perspective. What is really happening

over these five years, and are we being penny wise and pound foolish from a city budgeting standpoint and then from a plan standpoint are we hampering the plan by piling up additional unfunded liabilities in these years where we're losing money? So that's kind of how the genesis from that side. And I think it's a real important issue to look at. Because I don't think the city should be doing anything that contributes to building the unfunded liability. If that means we pay more, from -- more on a biweekly or monthly period, however that's normally done, I would much rather see that, than creating future uncertainty. Because we're seeing today what the past future uncertainties are coming to fruition.

>> Alex Gurza: Mr. Chair, if I could add a couple of things.

>> Sean Kaldor: Sure.

>> Alex Gurza: One is that we presented this very same request also to the other board. And I think they were going to look at it, somewhat, maybe Ms. Busse recalls.

>> Donna Busse: There's there are some liquidity issues how the money gets invested when it comes in a lump sum, versus how it comes over on the 26 biweekly pay periods. Then it's usually used as a cash vehicle to pay expenses. I think they wanted to engage their investment consultant to assist in some of the analysis.

>> Alex Gurza: The second thing was simply from a timing perspective, we would very much appreciate you do some analysis that it be before January or finance at the latest. The reason for that is so that the city can make -- can benefit from that information in making its decision for next fiscal year about whether or not to make that prepayment. Because as you may know, it is a year by year decision, so that would allow us to have additional information when we start planning for the budget for 13-14.

>> Sean Kaldor: When they do the prepayment do we -- if they pay on a monthly basis is it based on the payroll or the year divided by 12?

>> Donna Busse: It is a percent of pay.

>> Sean Kaldor: That is another nuance as well. The city engages in -- if we set a contribution for the year and say it's $100 million and there's pay reductions or layoffs the $100 million we plan to get or the money we plan to get was a certain percent of pay they drop the percent of pay it reduces the payment to the plan so significant way to decrease payment to the plan during the year quite unintentionally if that's the case. This is something staff needs to go through to evaluate tall pros and cons of the current way versus the other way.

>> Alex Gurza: We also have the floor methodology that the boards have adopted to ensure that the city makes its annual required contribution even if payroll drops, I think Councilmember Constant --

>> Sean Kaldor: Has the city adopted that as policy or code?

>> Pete Constant: I believe so and I know that the bill that we get, when we get the report from the retirement system, it has the dollar amount and the contribution amount. And we have the true-up period at the end of the year to make sure. But my understanding, and I'd have to have the administration look for the policy, but my understanding is we do always pay that minimum dollar amount, whether or not whatever payroll is.

>> Alex Gurza: This is something that actually came from the boards which was to ensure that very issue you raise Mr. Chair doesn't happen, where so the city has to pay based on both boards, both boards have done the same thing, maybe when Cheiron can comment on this, we pay either the higher amount of of the annual required contribution as a dollar amount or as a percentage of payroll over the years. So it's to avoid that situation we're at by the end of the year that we haven't made what the board would have expected us to make. Perhaps Bill can comment if you would like.

>> Bill Hallmark: Yes, I think you said that well. We calculate a dollar amount and a percent of pay and the valuation. And the policy is that the city pays the greater of the dollar amount we calculated in the valuation, or the percentage of pay from the valuation, multiply it by actual payroll. So payroll goes down, payroll during the year is

less than we expected, they'll end up paying the dollar amount which makes sure that the UAL is fully funded. And if payroll is higher than we expected they end up paying the percentage which makes sure that the normal cost is fully funded.

>> Sean Kaldor: But that's our -- the board's intent with setting it but it's not a municipal code or an official city policy. I understand that's the intent and the desire of this council. I just want to be careful that in five years we say okay we're going to do it this way because it's based on plan returns it might be the logical thing to do and then have something where there's a reduction in total city payroll and the will of that board that the city council is different than the will of the city council.

>> Pete Constant: Well my understanding and again we'll follow up on this, is the city has an obligate to pay the bill that it's presented. So it really is in the hands of the retirement board. They provide the bill and the city has a requirement to pay that bill.

>> Alex Gurza: And that's my understanding, as well. The boards have modified the way they present the bill to us. In the past it was simply the contribution rate. You now presented the bill to us in this way, and we have paid it, and plan to continue to do so.

>> Sean Kaldor: My recommendation on this item would be to have staff go back and evaluate the pros and cons issue from the perspective of the plan. I think Councilmember Constant's concerns for the city is the same for the plan. We don't want to end up a penny short or create undue unfunded liability for the plan by engaging in this procedure.

>> Richard Santos: I'll second that.

>> Sean Kaldor: So the motion to have staff do an evaluation return was made by chair Kaldor, seconded by Santos. Any discussion on the motion?

>> Richard Santos: Yeah, I think the key is, the councilman said, and I think we all agree, that the unfunded liability that builds up takes away the future. whatever it may be, benefits, balancing or whatever, it's a very, very important issue, among other issues that you brought up. So I totally agree we better find out now and make sure that the future is a lot better.

>> Sean Kaldor: Any other discussion? I appreciate you bringing this forward because it is something that is in the long term best interest even though it might be a year by year painful thing to deal with if we change the way we do it.

>> Jeffrey Rieger: If I could just make a suggestion, not so much legal issue but just a suggestion. Obviously you should provide whatever information the city believes would be helpful. I recommend that you focus more on sort of the transactional assets of it. Because as everybody knows the markets goes up and they go down. If the city wants to know what impact that has, that is certainly information they can have. But I think the most useful information would be things like liquidity and how quickly you can get it into the market. Because that's, that's in the realm of predictable as opposed to market returns. So I think the more you can focus on that, the more information you can provide the more useful it ask be.

>> Alex Gurza: Yes, and I think that that perhaps is why the Federated board referred it to their investment consultant, to look at it from those perspectives.

>> Sean Kaldor: It is a great point, because we pick a certain three-year period, it could be a great thing to do or it could be horrible, there are certain five year periods, so it's a little hard to go that way. Trustee rounds.

>> Bettina Rounds: I had a question. Is there a reason we are not referring it to our investment consultant or --

>> Sean Kaldor: I was going to -- my suggestion was have staff do it. If it's something that's primarily driven by the investment consultant --

>> Donna Busse: Yeah, I was going to engage the investment consultant on that.

>> Richard Santos: I think that Bettina is on the right thing, not just the invesment committee, but let's just say this: We go forward with staff, and all of a sudden we get some other ideas, or whether it be the administration comes back or someone else or Jeff, or someone comes in and says, hey, did you guys think about this also? Make sure we're open to that to add to whatever ideas may come out of it. Because we can't be closed just for just the five things that we discussed today, we should be open to whatever changes that we can use.

>> Sean Kaldor: Okay. All those in favor? Any opposed? Seeing none opposed the motion passes unanimously. So with that we do now have our full staff here. We will return back to our normal agenda. This would be a closed session portion for which we will do closed session I'm told it's 15 minutes, and no more than 20 minutes. For item 1.6, closed session conference with investment consultant pursuant to government code section 54956.81 to consider purchase of particular pension fund investments, three investments to be considered. With that we'll convene to next door.

>> Pete Constant: I went and unlocked the conference room for you.

>> Sean Kaldor: Thank you. [Closed session.]

>> Sean Kaldor: And continue with item, oh, sorry. Stand by. Okay so coming out of closed session there is nothing to report out of closed session and we'll continue then under new business, 2.1. Discussion and action on plan expenses for August 2012.

>> So in the board packet you have the new revised format for the Police and Fire monthly expenditure report. I included some of the budget information that was requested, requested by the board last month. And welcome any comments you have on the formatting.

>> Sean Kaldor: So it's to improve the detail provided, kind of numbers oriented group, this makes it easy to see who's paying for what. Bettina did you have some you wanted to see the Federated portion as well?

>> Bettina Rounds: We just talked and I asked for that separately because I still think seeing the combined total gives you a much clearer idea of who's getting paid what, and really what the expenses are and what our portion is.

>> Sean Kaldor: So why are we paying half of that, when we're not using it all.

>> Bettina Rounds: Yeah, when we don't use it. And I just wanted to thank you, because I think this is progress.

>> Sean Bill: I did see one typo, it says Marty Dirks was on there, page 1, for $36, nothing significant, just the wrong board's expense. I was curious, on the Reed Smith $8500 per meeting, is that the standard fee, $8500 per meeting?

>> Veronica Niebla: Yes, the normal general counsel fee per the agreement is $8500 when Harvey attends, and $7500 when Jeff attends. And it includes at least ten hours of non-board meeting attendance services. Actually to clarify that, there is five hours of board meeting attendance that's included also in that fee and then any of the agenda meeting setting calls are also included in that, that portion.

>> Sean Bill: And that is also the same rate that Federated is paying?

>> Veronica Niebla: Yes, that is also the same rate that Federated is paying.

>> Drew Lanza: Cheap at any price.

>> Sean Bill: I'm not sure I agree with that, but okay. Being paid $150 to sit here all day, versus $8500, I see I'm on the wrong side of the table. And then what's the breakout on this -- I'm going through I see we have about

$100,000 in legal bills here. What's the fiduciary versus litigation, versus -- how does that break out? What's the fiduciary stuff you're doing what's the litigation stuff? Is that just the lawsuits pending against the city or --

>> Veronica Niebla: The litigation is lawsuits pending against city or the other litigation that the board's involved in and the general counsel is the monthly amount that's allocated plus the additional ten hours and then above and beyond that begins the fiduciary expenses.

>> Sean Bill: What is the fiduciary expenses, what is that?

>> Veronica Niebla: So those are internally, it's a way to document the differences between the way the agreement is written. So it's the ten hours of general counsel and then the fiduciary being in excess of the ten hours. Once the ten hours of monthly services by Reed Smith are exhausted then we run into the fiduciary portion. So this is additional requests that are put out to Reed Smith that exclude investment related expenses. So we actually categorize in the monthly general counsel, the excess goes into the fiduciary, there is the investment expenses and then there are the litigation expenses.

>> Sean Bill: The investment expenses are related to the hedge funds we're doing or the long only or I all of it?

>> Veronica Niebla: Investment related contracts agreements any kind of legal information that we're requesting in regards to investment related activity.

>> Drew Lanza: I'm sure on in stuff with the City Manager alone we've run up $100,000, wouldn't surprise me.

>> Veronica Niebla: I agree.

>> Sean Bill: I'd like to hear about that. Because I've not heard anything about that, so I'd like to hear about that. Because I'm seeing $100,000, I'm like wow, this is a lot of money.

>> Drew Lanza: It wouldn't surprise me if it was more than $100,000. We've been working for this three or four months. I'm sure I've talked to Harvey four or five hours a week for three or four months on this issue. That's how hard it's been and how bad it's been.

>> Sean Bill: So as a board member this is the first time I'm hearing about that.

>> Drew Lanza: No, you have been hearing about it in the reports when we -- yeah, you have.

>> Sean Bill: I haven't heard anything about this, actually. It's a big number. And I'm looking for justification for the number.

>> Drew Lanza: Okay, so let's discuss this in closed session. But had you been -- you missed the last closed session we went into this in pretty big detail.

>> Bettina Rounds: Yes, and Harvey has been --

>> Drew Lanza: This is not a surprise.

>> Bettina Rounds: Yeah, and I just want to echo Drew, because it's been very complicated. There have been any number of conference calls, and Drew as the chairperson of the personnel committee has had to have individual calls.

>> Sean Bill: It's not a surprise to you, it's a surprise to me.

>> Sean Kaldor: It's a fair point to discuss, and it's fair point that costs relevant to litigation, we should discuss in the closed session piece relevant to litigation. Trust Santos.

>> Richard Santos: I think I can understand Sean maybe not seeing some of the e-mails or whatever had, in fact, and so I understand his position. But in Drew's case, I've seen the e-mails and I even made phone calls saying why don't you all just get off those e-mails, there have been so many, and get phone calls going. But I know the work that the personnel committee has been doing, I'm well aware of that. Is the number $100,000? It would not amaze me. But I know the work that he's done, and I know the conversations we had, very frustrated in trying to come together. We had other similar issues. We hope we can come together because we're taking a lot of time today. No one here gets paid for this, and we're taking a lot of volunteer time. But Drew is totally right. I've seen the frustration, but we all have the same cause. We're trying to get these things solved, and it's been a very difficult time. I understand.

>> Sean Bill: I mean, it was just something that I was a little surprised when I saw the size of the number. I didn't realize how much activity there was going on with you and Harvey.

>> Mr. Chair, I point out thanks to Bettina, I think that kind of emphasizes why this -- putting this in such a format is beneficial. And so that brought that to light, so thank you, Bettina.

>> Sean Kaldor: And here is the format. Would it be helpful if there's headings to this, investment expenses and legal?

>> Richard Santos: That would be a good idea.

>> Sean Kaldor: Just kind of spreads things around. You have the columns. I guess, sorry.

>> Richard Santos: But a category would be good.

>> Sean Kaldor: I'm sorry, there are the columns there. Any further discussion on it? Is there a motion on that?

>> David Bacigalupi: Move to approve.

>> Sean Kaldor: We have a motion to approve by Bacigalupi and a second from Santos. All those in favor? Opposed? Seeing none opposed motion passes unanimously. Takes us to item 2.4. Discussion regarding reciprocity with multiple systems.

>> Donna Busse: This is just a report-out of a request that staff made of Reed Smith and they responded in a confidential, privileged memo to the department. And this is just the staff letting you know what the decision was in summary without disclosing the whole document that in essence we had questions about people bridging different reciprocity partnered systems that were not just directly before or just directly after their service with the Police and Fire plan. And in essence, it was yes, you can bridge a plan from two times ago or two plans from now, for reciprocity benefit purposes.

>> I'll just add to that general summary. The purpose of reciprocity, and this is as has been stated in court of appeal opinions analyzing similar provisions of the county employees retirement law. The purpose is to essentially treat the member's career as a singular career so the member is not disadvantaged from moving between public employers. The whole point of the reciprocity statute is to encourage continued public employment. So you treat the career as a singular whole for some purposes not all purposes but for some, so that the member is encouraged. And so under your municipal code, it comes down to a question of statutory construction. We've done that in the privileged analysis, but I'll just say -- just to describe the larger picture, I think our conclusion is consistent with that larger purpose of reciprocity, and I will also say tjat it is consistent with the general practices around the state in the other systems. So you would be within the mainstream in that regard.

>> Sean Kaldor: Any discussion? I'll just highlight the point that I requested this be put on here because this is the second instance where we have specific member question, and we have received competent legal analysis on, and I felt it was important that other people probably have the same question, and solet's get it in a form of communication that everyone can see the chain of connection. I would only ask, Donna, not that we need to release the full legal thing, but if we could do a summary, one-paragraph description of the conclusion we've reached. And get that at least in the minutes.

>> Donna Busse: Okay.

>> Sean Kaldor: Not a paragraph, few sentences, and that should be part of our plan documents as well. So we receive and file, seeing no other discussion. Takes us to item 3.1, discussion and action on Police and Fire retirement board committee structure including consolidation and transition from ad hoc to formal where appropriate. I'd hoped we'd have -- this was an agenda item I'd put on here, I'd hoped we would have more progress and better understanding what our personnel committee is going to be having. We haven't had that progress or increased understanding as well as what our governance committee is going to be doing. I'm going to again defer that, I think that will become something that will roll on -- I won't defer it, but have it taken off the agenda and discussed at our strategic planning meeting. Councilmember Constant.

>> Pete Constant: Just a quick question. Is there a point at which the ad hocs automatically have to be treated as standing committees because they've gone on too long and if so where are we on the ad hocs?

>> Sean Kaldor: So we set up a -- our understanding is they should be responsible for achieving a specific objective and that roughly six months is a good time frame not a hard and fast rule. For the governance committee it was to work through the Cortex phase II, work ugh through the conclusions with that, with the board. Cortex is in process on that so the committee is waiting for the first draft from Cortex. For the personnel committee, it has been working on the CIO, CEO, hiring and working with the city manager's office, and that has been a process that began in April, and it is still not to conclusion on that specific goal and is tackling multiple issues with it as well.

>> Drew Lanza: And we specifically set a deadline of December 31st of this year. The ad hoc personnel committee goes away at that time.

>> Pete Constant: Thanks.

>> Sean Kaldor: I think there's a role for a permanent personnel committee, but we don't know what they're going to be managing until this ad hoc committee resolves some of that, and once we have a permanent committee, how we structure it might be a little bit different. Any further discussion on 3.1? Seeing none, item 3.2, oh I do -- sorry on 3.one I do have the list of all the committees in here again. I thank you staff for putting that in in. If there's any corrections or changes or things that need to be updated, please let me know. Item 3.2 is a strategic planning meeting, you have a memo from myself that came up two meetings ago. There was a request to have a strategic planning meeting. There was a request for me to come up with an agenda. We circulated a request for input from everybody. The items received are on the back of this memo, those ten items suggested by myself, and I believe four other board members provided some things they were looking for. I prioritized those ten into the key things that we should address at the strategic planning meeting versus items that could be addressed at a normal board agenda in a five or ten minute stand-alone item and came up with the five items at the bottom of that page. Looking at those I rolled them into three key areas. So it's a recommendation that we have a special meeting for which we've already started to work on dates. You've received and e-mail from Sonia. My understanding is December might be a little bit better given that I believe Tom Ianucci research from Cortex might be a little more advanced, we might have input from all of you which might lead into these discussions as well. But we'll see what everyone's availability is. The recommendation is to hit on three key areas from which we can develop key discussion points. First is our responsibility establishing a clear understanding and developing a clear position regarding this board's legal obligations for the proper administration of the plan. Second is our relationship discussing and setting a plan for the most effective and efficient relationship between our board, plan staff, the investment function and City Manager's office. And finally, future, reviewing and discussing the latest information regarding measure B updating our strategy to deal with its implementation, our position and communications revolving, and that's, Drew, things you addressed at the last strategic planning meeting, kind of an update and refresh based on the passage of it, and the challenges it's going to be for us to implement the 401(h) and all those types of things, the time line. As I mentioned here at the last part of the recommendation, as we did last year, the thought is that individual board members might pick up specific agenda items or specific topics and work with the consultants to lead through the discussion that would happen at the offsite.

>> Sean Bill: There are a couple of things that jumped out at me on this. On C, reviewing and discussing the latest information on measure B, update our strategy in how to deal with the measure, its implementation, and our position and our communications. What's meant by position? Because I thought we were not really supposed to be taking a position.

>> Sean Kaldor: What's our role, what's our position insofar as implementation of it. So there are certain things we're going to have to do as far as the 401(h). There are things we are going to have to do to get legal or IRS approval of it, what's our proper position in the implementation, not a political position statement on that.

>> Sean Bill: Maybe we should swap that out for role.

>> Sean Kaldor: Sure.

>> Sean Bill: Then on the second page, how shall we appoint a CEO, CFO, provide assistance to the CEO on number 5, and then number 4 down below, how should we appoint the CEO, CFO, provide assistance to the CEO, I think what is our role in appointing because my understanding is that at this point we're just throwing out the point authority.

>> Sean Kaldor: Right. You're fair. These points are just verbatim quotes from board members and their request to have things agendized. So it's not my wordage.

>> Sean Bill: Okay. I just didn't want to give people the wrong impression because we're not at that point yet, and the language you choose is important.

>> Sean Kaldor: Any other thoughts or input or questions or discussion? So it's my recommendation I'll make my motion to accept my recommendation with the input provided by trustee bill and we have a second from trustee Santos. Any further discussion on the motion? All in favor? Any opposed, none opposed, passes unanimously. Thank you. Item 3.3, update on payroll audit FLSA and overtime payment issues.

>> Veronica Niebla: So we -- at the last meeting I reported that we did not have a revised file from the city. As of my records as of yesterday we still do not have a revised file however payroll staff which has been understaffed till the city has recruited and filled their senior position, and we have seen a lot of correspondence coming through from payroll. The plan also has a budget item to add in a temporary staff person to assist with the FLSA corrections. Now that payroll has additional staff, I think this would be a good time for the plan to go and actually fill the vacancy, the temporary vacancy, to come in and do the FLSA correction pieces. So I'll be doing that this month to kind of bring the person on board and have them communicating with payroll to really trying try and move this process along. Until there are resources at both ends it was not the best timing to go out because we couldn't get the information. So now that it seems that they have resources, we're going to work with payroll to try and get the FLSA portion resolved.

>> Sean Kaldor: Okay. Questions? How long we have been at this one? That's all right, I see that every month and I appreciate your hard work on it.

>> Veronica Niebla: Wish I had better to report.

>> Sean Kaldor: 3.4, update on electronic board packets.

>> Donna Busse: The update on electronic board packets. We actually had a demonstration from the number 2 person in our RFP process. We're going to bring back a recommendation soon on what we're going to do. We just now like this last week got an outreach from sire. Since they told us they were holding staff up. So we on a separate track started looking at our options and once we get questions answered from the number 2 vendor we'll come back with a recommendation.

>> Sean Kaldor: Any questions? Note and file. Thank you. 3.5 update from Councilmember Constant. Councilmember?

>> Pete Constant: Nothing to report other than I'm back.

>> Sean Kaldor: Nothing. Welcome back. 3.5. Item 3.6. Discussion and action regarding legal analysis of the 401(h) contribution amounts when a member terminates before retirement.

>> Jeffrey Rieger: I'm not sure what the action is today but I think we're talking about the memorandum that Harvey provided to the board, which just simply states that with the change in the trust, that there is not going to be member contributions that can be withdrawn, and I think that's all in the memorandum.

>> Drew Lanza: I mean, this seems very cut and dry, we couldn't continue the 401 (h), set up a different trust, and the rules in that trust are cut and dried. Is there anything to discuss here?

>> Sean Kaldor: There is -- my understanding, you know, I've had discussions with Harvey to understand how he's been progressing on it, but I don't want to represent what his legal opinion is because I don't know. But the municipal code says the contributions shall be returned. So we have an issue between the municipal code and what we believe the restrictions of the 401(h) would be.

>> Drew Lanza: That's true but the IRS has made it pretty clear we can't do that, right? No offense to you but I usually hold the IRS to be the highest authority just below God. So --

>> Sean Kaldor: Understood. There are -- the question is you have a Municipal Code that requires returns. So if you -- how can you comply with both IRS and code requirements and is there a way? And that would be the thing where employee contributions could all go into the 115, and employer contributions could all go into the 401(h). Employee leave they receive contributions --

>> Donna Busse: Other way around.

>> Sean Kaldor: The employee could receive their contributions back and be in compliance with the IRS and with the Municipal Code while the employer contributions would remain inside. But maybe we'll have Harvey come back with the -- I think he's still working on this is what I'm saying.

>> Donna Busse: At the Federated meeting last month they wanted the city to look into options of possibly some other alternatives with the contributions with the 115 employee contributions, that there might be a way to distribute it in another way.

>> I think it's fair to say that it is something that is still being worked on. There's multiple authorities that are competing here. We understand that.

>> Sean Kaldor: Bettina and them --

>> Bettina Rounds: Is the city looking into it?

>> Donna Busse: Yeah, I think they're welcoming suggestions.

>> Bettina Rounds: They're welcoming suggestions?

>> Donna Busse: Yes.

>> Bettina Rounds: Who's supposed to be making the suggestions?

>> Donna Busse: I'm trying to remember exactly what Stewart said. He thought there was a way that employees could get contributions -- maybe not their contributions back but payment could be made towards a future medical benefits.

>> Bettina Rounds: So I guess here's my question. If they come back to Federated with the alternatives, you'll tell us what those alternatives -- I mean somebody will share information?

>> Donna Busse: Yes.

>> Pete Constant: Well, if I may I would just -- if this board made a similar request it would just come to both boards automatically. And that might ensure that you folks get the similar information.

>> Bettina Rounds: Let's make a similar request however you phrase it.

>> Sean Kaldor: Let's make a representation on it for discussion, trustee Mason.

>> James Mason: I don't know if I'm going to widen the scope of this question here but as it relates to the 115, and returning the forfeited amount to the member, the wording in the current language of the code as it is under the 41, it says in the event the members interest in the medical benefits account is forfeited prior to termination of the plan, in equal -- amount equal to the forfeiture shall be applied as soon as practical to reduce the city's contribution, if any, to the medical benefits account. As it currently is, they've been refunding the member's dollar amount out of the pension fund. Is that how the code is written, when it says that they shall be refunded? Does it say that it comes out of the pension fund?

>> Veronica Niebla: There's actually another code section that's above the one you're referencing that talks about how the member's contributions will be refunded. It was in my last month's memo to the board. I don't have a copy of it with me but the employee contributions for the 401(h) are in the paragraph above the one you referenced in the Municipal Code where the contributions will be returned back to the member but that no contributions shall be paid for out of the medical benefit account so that it's coming out of the pension fund, that's how it's actually worded.

>> James Mason: It says it comes out of the pension fund or does it just say it doesn't come out of the medical fund?

>> Veronica Niebla: It says it doesn't come out of the medical fund.

>> James Mason: So it doesn't say where it comes from, the refund?

>> Veronica Niebla: No, it's not implicit.

>> James Mason: That's my question, because if you look at the way this is worded, and we would have to ask staff to look into how the City's actually been paying this. This says that we are refunding the member's amount that he paid into the medical fund out of the pension plan which as we already mentioned creates a greater unfunded liability in the pension plan. But the city then according to the code is taking a credit towards their amount that they are supposed to be paying into the medical fund. Well, that would make sense if the city had refunded the employee. It doesn't seem to make sense if the pension plan is refunding the employee. So the city is creating a greater liability in the -- or unfunded liability in the pension plan, but then, also creating a greater unfunded liability in the medical plan. Because they're taking a credit towards their future obligations. According to the code. That -- I have a problem with that, to say the least. If the city was paying the employee, refunding the employee back it would make complete sense that they are taking a credit towards their future contributions. But if they are not paying the employee back they certainly shouldn't be taking a credit towards their future contributions. So I think we need to at least have staff look into that, and see has the city actually been taking that credit, and if they have, then I certainly would be interested in seeing what that dollar amount is since the inception of the 401(h).

>> Sean Kaldor: Alex, did you want to address that.

>> Alex Gurza: Thank you Mr. Chair, Alex Gurza deputy City Manager. Trustee Mason, several times in your comments you refer to the city. The city isn't doing anything here.refunding or not refunding money. This is the

plan, and the fund either refunding or not refunding money. So I think there's a little bit of confusion when we say the city. If the city contributes for pension and for medical it goes into the medical goes into the 401(h) as well as employees. So whatever refunds are begin back or credits are, the responsibility of the bore not the city. The issue you raise a good point however that the employees are getting refunded their retiree health care contributions out of the pension fund. That was as my memo, I don't know if you got a chance to see it, was changed recently to make it explicit when the plan was going through tax qualification. Because that's the way to make it tax-qualified. Because you cannot return the contributions out of the 401(h). So the way it very explicitly stated it's not coming out of there and it's coming out of the pension side. This is something that the plan does. I'm not sure I'm following the issue, and maybe Veronica, you can clarify, what credit the city is getting. Because the city does not get back any money that it contributes for either pensions or retiree health care. There is no return of contributions to the city.

>> James Mason: It's not a return of contributions, that's what I said, it's a credit. Now you're not paying as much. According to the code, I don't know if that's what's actually being done, that's why I say that staff needs to look into that. But by the code it says you are getting credited for your -- as soon as practical to reduce the City's contributions, which would be their future contributions. So it's not a refund, it's just a credit towards your future contributions.

>> Sean Kaldor: Veronica.

>> Veronica Niebla: That is not a function that's happening currently. The employee contributions are refunded back to the members, and then the employee portion -- the employer portion that's contributed to the plan remains in the fund to offset against future liabilities.

>> James Mason: You're referencing a refund. We're not talking about refunds. We're talking about, do they on their next contribution, take a credit or not?

>> Veronica Niebla: No, they do not. The city does not take a credit for any of the employee contributions that are contributed to the pensions or the health trust.

>> Sean Kaldor: And so it says the refund shall go to the exclusive credit of the employer. Since employees and employers are both sharing in the unfunded liability. Does that mean it only goes to the unfunded liability of the employer or does it just cover the unfunded liability and the contribution for the next year? In other words it doesn't go exclusively to the employer it goes to the cost of the benefit?

>> Veronica Niebla: From the way the plan is accounting for that's going back into the full pot of the money, so it's going to go back into the unfunded, but then it's split between the two. So it's not specifically going from one or the other. The employer contributions are staying in the general reserve which goes to apply against the employer contributions, and then the employee portion is separated as well.

>> Sean Kaldor: And is that compliant with IRS regulations that says it has to go to the exclusive benefit of the employer?

>> Jeffrey Rieger: I don't want to speak out of turn here. First of all, I just want to remind the board that Harvey is the one that's been dealing most with this and I apologize that he's not here today. Just to offer some comments or maybe some questions. Some of these credits we're talking about, I mean I assume when a member withdraws there's reduced liabilities to the system. So I think when you refer to a credit to the employer perhaps what's being referred to is the reduced liabilities in the system. And I don't know that that's directly linked to the member's withdrawal. It's not like the member's withdrawal is directly credited or directly linked to a credit to the employer. I'm just offering this as a thought. I'm not sure that that's the case but we can certainly provide more analysis on this, rather than me just frying to tell you what I -- trying to tell you what I think the law is right here.

>> James Mason: Well I guess my only concern is if you are saying that it's not being done, then it's worded in the code that it is being done, can be done so maybe I don't know what authority who would be doing that but maybe we need to look at what the wording is in the code and that needs to be addressed.

>> Sean Kaldor: So we pose the question, to Harvey, Harvey responded saying the -- for one fund, the employee shall get a credit, it shall not he come from the health care fund, it shall it just says it shall not come from the health care fund, it doesn't say where it will come from, there's two options but in the other fund there can be no refund about from any fund. The ongoing question is to get compliant with the code? And could someone come back at some point and say no, no, you're giving credit to employees for something they shouldn't get credit for and should we as a plan be doing that? And secondly, how do we administer these two funds so we can be compliant with the municipal code the IRS and should we get information back to the city or work with the city in a way to administer and be legal with all the different bodies?

>> Drew Lanza: Let's just be blunt here. You know we're being asked to commit an unnatural act. There's a reason why you're not supposed to remove money from a 401(h) and should continue to be why are you asking us to do an unnatural act? Why are you asking us to take money that was put in one pocket taken out of the other. I think as a board of a pension fund our reaction to all of this should continue to be why are you asking you to do this? I know it's a benefit, I know it's for police and fire member but our reaction is why are you asking us to IRS the second authority just short of God and we're messing with the IRS. This is crazy, I don't know who's asking -- I hear what you're saying James but this is nuts and we've been in closed session and discussed this and we're casing on thin ice here and I don't like it when as fiduciaries we'ring asked to commit an unnatural act that the IRS taking in some extent a dim view of. That should be our official response, why are you asking us to do that, great, you wrote it into the code, really Sean every time we talk about this I get the Hebe Jeebie servings y how do we put a camel through the eye of a needle, the answer should be why are you asking us to put a camel through the eye of a needle?

>> Sean Kaldor: To address that just briefly, when you think of the pension fund when an employee terminates or is fired pension fund.

>> Drew Lanza: And the IRS says that's great.

>> Sean Kaldor: There is a return of contributions in some situations.

>> Drew Lanza: That makes perfect fund. God bless you the IRS says you're not supposed to pull money out of a health care fund give the IRS a call and ask them why they said that. The IRS is a authority just short of God, when they speak and say, don't do that, I listen.

>> Alex Gurza: Mr. Chairman, we dwrea several years ago when we knew we had to create an alternative to the 401(h) because we were going to reach the IRS limits. Our outside tax counsel has indicated as clearly as you stated. With whether you do cannot return contributions out of that it can only be used for medical benefits. At the same time, the boards were going through tax qualification. There had been the history of the fan to refund these contributions. You know, so -- and so in order to make sure that it was tax compliance the board received my understanding is, advice from tax council 401(h) it's coming out of the pension side do we change that practice now do we keep it going and I think from just to let you know the Federated board decided not change that current practice because we are moving to the 115 trust and the 115 trust is very clear. What was referenced earlier that trustee Odell asked us to look at was okay you can't give it back in cash to the employee but is there anything else you can do if an employee doesn't reach eligibility to receive lifetime medical can you put it aside some other way so we agreed to look at or research those options. G's that will give you some contell the IRS regulations as we've been told for many years are very clears.

>> Donna Busse: What also came up in the Federated meeting from Harvey, in a lot of cases employee contributions they don't make contributions to their medical. So usually you're only factual approximating city side contributions. It's unusual that wu federated side with the possibility that up to 15% of the salaries are going to be contributed to medical and that that whereas an issue ll also, that they're going to make contributions they don't work here five years and they're not going to be able to get them back.

>> Sean Kaldor: Trustee Rounds.

>> Bettina Rounds: I would like to request that we ask the city which is you in this case Alex to give us the same information that trustee Odell asked for from Federated so we're all getting the same amount of information on something that is a very complicated issue.

>> Alex Gurza: We absolutely will. Whatever we learn in our research and report back to Federated we absolutely will report back to in board as well.

>> Bettina Rounds: Okay, thank you.

>> Sean Kaldor: Alex, just to be clear, so and we'll have that, I don't think we need a motion to make that happen. Is the city asking us to give refunds from the 115 trust?

>> Alex Gurza: No, not at all.

>> Sean Kaldor: So any contributions to that, we have no issue, we have no issue with that, they're not asking us to do it. Our issue is the 41, whether we should do it, the municipality tells us we must, stop doing or you want to continue to do refunds for contributions to the 41?

>> Alex Gurza: Well, before I answer that question I guess the issue had come up I guess in the other board as well is from a policy perfect what does the city think about taking money out of the pension funds when you have unfunded liabilities already and returning it from that pension side. So it's a concern. But we're not asking the board at this point given the fact that we are moving to our 115 trust, necessarily to make any change. If we were going to remain in the 401(h) then I think that definitely would be an issue that weed want to talk about is you know does the board want to continue -- do we want to continue that practice?

>> Drew Lanza: I think bents is right our input into but please top telling us to do unnatural acts, right? Please please stop tying us in knots with the IRS and stuff. Make this simple, make it clean. That I think should be our response Sean. I don't think we want to say whether people should be entitled to this or should not be entitled to

this. I think we should say you guys figure out what you want but just be aware of the fact that you are very near IRS, you are asking us to do unnatural acts, we don't appreciate it, we don't appreciate playing fast and loose fiduciaries, knock it off,.

>> Alex Gurza: This is not a city issue. It is city is not asking the board to do anything, that's not in compliance with the IRS. I want to be really clear about that. because Mr. Lanza, I don't know if you're thinking that we came and asked the board to start -- to refund contributions. This has been going on for many, many years. The issue that came up, a few years ago, is when the boards were doing tax qualification, counsel raised the issue if you have been doing this then you need to make it explicit that it's coming out of the pension fund. That's when the municipal code was changed as a recently anybody came and sct asked the boards to refund contributions you know for retiree hearing. It has been going on for quite some time.

>> Drew Lanza: Alex I hear you and you are essentially right, we are near the IRS in the sense that people believe had they could get those market benefits back health care benefits back. The yeah but we can take it out of the pecks fund. That's how it the IRS says you can't do something you want to do and we do like all good people do when they're dealing with the IRS, maybe it went into one pocket I'll take it out of the other. I don't like doing that. And that's what I mean when I say we're near the IRS and we're messing around. When the IRS tells you not to do something, pause, think, before you do an unnatural act. It's an unnatural act to have money put in one fund, 401(h) and take it unnatural act is we're creating an unfunded liability out of thin air. That's not normal. So again Sean our reaction should be why are you asking us to do an unnatural act. I hear you Alex that doesn't mean we should still raise the question of why are you asking us?

>> Alex Gurza: I absolutely agree. The question is do we contemplate a change now or as we shift into the 115 trust, you know, that's not going to be an issue because you can't do it. Now the question becomes, what alternatives are there for someone who doesn't reach the 15 years and all of those issues. So we hope in the near term the issue will be resolved in that sense.

>> Sean Kaldor: Okay, so let me recommend then, to resolve this I'll write up a proposed draft memo that we think the board could provide to the city in response to these issues and clarification of the 115, the 401(h) being in your words unnatural and overly complicated, to explore other options and let us know if there are other ways of handling this and also address any funds left behind being a credit overall to unfunded liabilities, however there's an agreement to pay those unfunded liabilities.

>> Richard Santos: I was saying Mr. Chair, not having you do the work but if Harvey is addressing these issues maybe he's have him do it instead of just giving you the workload. Just have him address these issues that we're all talking about today besides what are else he wants to look at.

>> Sean Kaldor: So Mr. Santos is proposing have Harvey democracy bring it back to the board.

>> I do want to point out obviously this is a tax issue, Ice Miller has its role here. We do have as mentioned in Harvey's memo we do have the -- a determination letter that's been approved for the Federated plan and one that's -- has the approval pending for this plan, basically the same issue. You know obviously when you have a pending determination letter with the IRS you want to make slur your tax counsel has they are your tax counsel so --

>> That brings up the question is this something our tax counsel you should be working with Ice Miller to draft this? It does seem that would make some sense.

>> We may have a role here I don't want to suggest that we don't. Obviously we need to be comfort considerate about the pes.

>> Ice Miller at Santa Clara and I will say that Ice Miller is very strong in tax on this stuff. And it seems if we have them -- if we have a history with them on our tax issues it would make sense to me that we would look to them for vision on this.

>> Sean Kaldor: Okay.

>> Richard Santos: Which we did in closed session, we did hear from both. (inaudible).

>> Richard Santos: Along with Harvey.

>> Sean Kaldor: Ice Miller and both. The concern with Harvey, Ice Miller doesn't have some of the involvement or some of the research that Harvey has been doing with the.

>> I look at Harvey as our general counsel. Ice Miller is still our tax counsel right? This is a tax issue, this is an IRS issue so to me you're kind of going out of bounds asking your general counsel who is a Januaryist to supersede your tax counsel.

>> Sean Kaldor: There is a logistic issue in that working with Ice Miller, I can't work with them, I.

>> Sean Bill: Understand that.

>> Sean Kaldor: We have to go to the city attorney's office to go through Ice Miller.

>> Drew Lanza: We have independent counsel not independent tax council.

>> Sean Bill: Canned we.

>> Richard Santos: Closed session last meeting.

>> Sean Kaldor: This is a big issue with our tax council. Our tax counsel is provide by the city attorney's office. We coordinate through city attorney's office, we have through the city attorney's office. So it's easy for me to work with Harvey and have Harvey try to go through all that because he has a good relationship with them.

>> Sean Bill: Sounds like a trust issue to me.

>> Alex Gurza: Mr. Chair if I could ask because I lost a little bit of track of where the board is heading here.

>> I have too.

>> Sean Bill: I'll second that I don't know where we're heading here. Hg you have the 401(h), I understand Ice Miller has said is acceptable to the IRS to you know understand Mr. Lanza's concerns. But meaning acceptable that the money's getting refunded out of the pension side. If the issue is ice Miller continued to say that it's okay or are you trying to communicate to us that we should consider developing that? That's a part that I'm a little not understanding.

>> Sean Kaldor: We want to clarify that there will be no refunds from the 115.

>> Alex Gurza: That is abundantly clear. out of the 401(h).

>> Sean Bill: We just saved $150.

>> Bettina Rounds: .

>> Sean Kaldor: I'll drop my recommendation.

>> Bettina Rounds: I hear all this but ask Ice Miller, if Ice Miller is a tax consultant do they have in their purview to say that something should come out of the pension fund? I don't think so.

>> Sean Kaldor: They can say whether it's legal or not.

>> Bettina Rounds: From a tax point of view, we have to worry about whether it's appropriate as fiduciaries to come out of the pension fund which I think is are trustee Lanza's point about unnatural acts too.

>> Drew Lanza: So Sean maybe I can help clarify. Three things have come up, paraphrasing what Alex has said, first I do think it makes sense to make its crystal clear 401(h) or 115. Let's loop back one final time, have a memo and we can hand it to our in one pocket out of another pocket thing and I think we should point out to people as fiduciaries, you're asking United States to do an unnatural act and we're not happy with that. Let's have this debate here at the board but it seems crystal clear to me, we're doing a fine, I get that. But then the third point is I think Alex has brought it up and that makes sense is, for the benefit of our members they have put money into these health funds. Is there some way that they can get a before if they can leave the system? Alec says something else I think you know we should ask that question independently to understand what the status of that is, ask the city to think about that, and so on. So those I think are the three things that come out of this. Again Sean make it clear you can't directly get a refund from this. Make it clear that the little trick where you get a refund from the pension fund is an unnatural act that makes us a little queasy, if there's no we fund from the health be trust fund is there something else that can be done since you have put money into, that and you cliesh from this.

>> That's where someone attempted to address that. It appears. Now it may not be being done but it appears at least on its face by what that says when it says that amount will be forfeited immediately, hoops that they will refund the contributions. If the city then refunded those contributions to the employee, to the member, and then they took a credit towards their future contributions that would make some sense. But taking it from the pension fund like I said earlier certainly doesn't make any sense and you're talking about how uncomfortable and how whole hardedly I agree. But it appears back we're just going to take a credit and everything is kind of even. But that doesn't seem as how that's being handled. Coming out of the pension fund instead of the city paying it themselves to the member.

>> Veronica Niebla: I'm not certain the additional sections you're referring to. I agree with Jeff I think that may be interpreted differently. And so in the past, when we've had these types of issues, it was helpful to go back to the original memorandum that was the cover to the ordinance for clarification as far as the intent for some of the

language. I can only speak to what practice is currently happening and right now, the -- you know the members are receiving their refund or the return of contributions from the pension side, once the contributions from any member enter into the plan they are not returned by the city. They are returned by the plan. I can only speak to the portions I know are happening. I understand the questions that you have and agree that there needs to be more retch on that code section.

>> If I could just provide a little context here. I want to assure the board that the issues of conflict between the plan document and the IRS is not unique to this board. The state law in fact is often in conflict with IRS regulations and IRS regulations change from time to time. So people deal with this all the time. One of the avenues that people take in these is are these filings with the IRS? You go to the IRS and you say here is how our codes says and your rules say, we hope to make sense of that at the same time. Sounds like the IRS has more or less done that here, they're not entirely done for this plan but they've done it for the other plan which operates the same way as I understand. If the IRS tells you it's okay it's okay. As arbitrary as it may sound, as arbitrary as their rules maybe once they say it's okay, it's okay. But the separate question is what do you do going forward, with a new -- with the new situation and that's the part that's in progress. And that's the part I think that needs the thorough discussion, makes sure everybody is on the same page. But with regards to the past practices as I'm reading the memorandum, it tells you the tax counsel has gone to the IRS, says the same thing for one plan and probably going to say the same thing for this plan.

>> Mr. Chair, maybe we could have staff do some historical information for us as to where this all started and how we came up that we were going to refund that money anyway. Maybe you can tell us where did that come from the refund and was that something the city agreed upon or put into the code or --

>> Alex Gurza: That is a great question trustee mason. I don't recall whether that practice was just part of refunding contributions. I do know that it came to light, the issues, when the tax qualification issue came up and we were also doing that research. Staff, retirement staff may be able to go back and say was this happening at the beginning? I don't think there was any explicit however that we were able to find back to the -- when this was

first put into place about contribution specifically. I think it was relied upon the general return of contributions language.

>> Donna Busse: And we'll have to go back to see when the actual 401(h) became part of this plan. It wasn't part of this plan originally in 1986 I don't think.

>> James Mason: It would appear as of right now from the IRS standpoint we're fine. The question as fiduciaries that we have is, it doesn't feel okay with us. So what are our options, from the 115 standpoint, it doesn't appear that we need any real options because it's explicit, there suspect going to be any refund at all. but I would like from the liability of my own as a fiduciary, is there some liability or is there some problem that we may run into in the future you know legally from a member standpoint or whatever else from a fiduciary standpoint that we've been giving money back out of the plan? So historical kind of time line where this stuff came from would be helpful and then maybe some ideas from tax counsel or whoever, as to other ways we could have been refunding this money or could refund this money in the future between now and whenever a 115 trust does or does not come into effect.

>> Sean Bill: I would say you would have to compromise your fiduciary liability coverage when you don't take the counsel from your tax lawyer. That's when you start to move away from your fiduciary coverage, right, if you don't take your legal advice? I.

>> James Mason: I think that's a separate issue. I think it may need be addressed but I think we're addressing that at other levels.

>> Sean Bill: I mean I'm just talking about, you're talking about your IRS says it's okay, question is are you covering your fiduciary liability.

>> James Mason: Correct yes I agree with you.

>> Sean Bill: Fiduciary liability, you get your fiduciary coverage by following the advice of your tax counsel.

>> James Mason: Agreed.

>> Sean Kaldor: So let me -- it's a good discussion there's a lot of points to it. This is some that needs to be more fully vetted and researched and brought to this board as a more involved nature. We can spend another hour talking about this and at the next three board meetings. I'd like this to be presented in a full memo full recommendation that we can all read beforehand, have this issue, that issue, have it be a ten-minute or five-my knowledge items. I've heard all the points being raised, acknowledging that's a well acknowledged fact, the 41 way much giving a refund is unnatural and complicated way, we prefer to do it in other ways, be interested in other ways being offered by the city and that clarification on this credit for money left behind being a credit to the employer and how we interpret that as being handled. And ensuring the city is good with that and ensuring both Reed Smith and Ice Miller have evaluated all of that and all those positions and our giving us a recommendation that's a good legal approach or approach.

>> Drew Lanza: I would add to that Sean maybe some understanding of do other systems have some way to give a departing member of a 41 some benefit maybe in kind or something like that.

>> Sean Kaldor: What I'm -- so aside to all that and to this point of an alternate approach what I'm sensitive to is what Donna brought up is add some point people were contributeing to a defined benefit plan and they said you will get your contributions back. Contributing to a health care plan ten el 111213, 14-k money back and now we're going to say no and everything that were put in or we might come back and say no and everything you've ever going to put in there you are not going to get back too. It does create a complication for the funds that are in there. It's not my goal to resolve that but why it's a big issue.

>> Donna Busse: And also James requested a history of the 401(h) ROC process is that correct? Kind of a history of the whole practice?

>> James Mason: The fact that we are going to give the contributions back and why they ended up coming out of the pension plan and what is the historical data is on that.

>> Donna Busse: Okay.

>> Sean Kaldor: So could we ask someone on staff to sit down and work through those points and come back with the history of the request to the city that a clear documentation of our understanding of each of the codes and get this down to one document, we can review and approve at the next meeting?

>> Donna Busse: Okay.

>> Jeffrey Rieger: If I could supplement some of the comments I made earlier, to logistic issues, notwithstanding those issues keep in mind the IRS filing, it is a safe harbor. Is what we have done okay? They say yes it's okay, sorry I didn't mean to hit that hard. And once they do that, though, if you change it, you're not in a safe harbor anymore. So youd in to be sensitive to that. And Ice Miller needs to be involved since they have this historical -- they've dealt with the tax qualification issues.

>> Alex Gurza: Mr. Chair if I could add to that, absolutely agree. Ice Miller nurse-practitioner issue that you're talking about here is that how to structure it under the 41. They also created the plan document for the 115 trust and so I think they're extraordinarily well qualified to answer questions about both of those items.

>> Sean Kaldor: All right. So the recommendation is simply to give advice to staff and have this come back. Is there any objections to that approach? Seeing no objections we'll just do that. There is no formal motion, just staff direction. Thank you. Item 3.7, update on pension administration system RFP.

>> Donna Busse: So we have the RFP went out, we have three responses that came back so the staff is now reviewing the responses. We're setting up day-long demos for each of the respondents. I don't know if exactly time line when we'll be ready for a recommendation but in the next few months, certainly by the end of the year.

>> Sean Kaldor: Any questions?

>> David Bacigalupi: Sorry, by the end of the year?

>> Donna Busse: Recommendation by the end of the year.

>> Sean Kaldor: Any questions, accept that update. Next, 3.8 discussion and action on the status of the retirees association dues change. Mr. Spence.

>> Yes, as you know, retirement services create a kind of a problem for us in trying to get our dues continued to be taken out of the advices of our members. And so we're -- been working through this and it's been a very slow process. And we've been in contact, Ms. Busse has been in contact with us. There has been a letter put together, we've had disagreement on the wording of it, as far as advice from Harvey was that 45-day notification to our members had to be in the letter that was sent out. Or what I would see as the total package of what -- how it's going to happen when we go forward. And so there's a couple of concerns that I have as the president is number one four years from now when someone else is president, I know they will be, how is this process we're now doing to make sure all our members are signed up, so we can change the dues. How is that going to be codified if you would. And also, the question is, are the current employees who are asking to be retired, are they now signing a form that says that henceforth, that the dues for the association will be taken out of their check if they sign up for it, at the rate that the association sets. And those are some issues that I think the board needs to know that haven't been resolved as far as I can see and I'd like if we can to get a few answers about that. And the third thing was in the latest e-mail I got from Ms. Busse is she said that the plan would not pay for mailings and I want to clarify to make sure that the plan is paying for the mailings for this time, to make sure that the law or the rules that the city has said retirement services has set so we can change our dues, they're going to pay for that but subsequent innovations to our members would be paid by us. And that's not clear and I wanted to get that here and especially with -- because Harvey was part of this process to say that you know the 45-day notice to our members we feel that that is kind of a redundancy, because our members would vote on this anyway and they

would know about it and I'm not real happy about the fact that that's in our current I'm going to call it a contract for lack of a better word that the board is sending out to the retirees on behalf of retirement services.

>> Sean Kaldor: Okay, so you've identified three issues the last one was about the paying for the cost of mailings, the middle one was whether current or new retirees right now are receiving notice and what was the first one again about the 45-day notice?

>> Yes, the 45-day notice that is currently in a I'll call a contract letter that we were sending out to people, that the city is sepgd out.

>> I'd like to perhaps Donna can speak to the first issue about -- I'm not sure I understand the question actually about the signing up.

>> Donna Busse: What is actually on the retirement set up sheet?

>> On the actual setup sheet it does say that once you sign up for the association if there's a dues change they're agreeing to make that change, as well.

>> So they would be in compliance what we would try to do was get other members on right now.

>> They should be.

>> That's what I want to make sure. I don't want to -- someone who retires today, I don't want to go back and try to get them, they've already signed their paperwork, to resign up, I guess, clarification on this.

>> Donna Busse: I hear you Tony but I don't know if Reed Smith bought into that completely yet.

>> The when this board can extend the courtesy to the retired members association I understand that it has historically tried to do that. But you know ultimately, this is I think a courtesy. In terms of the way that the board has decide owed to set this up. It is the members money. So if the members want to send it to the association, that's their choice. And the board is facilitating that process. So the question then arose, can we set up a process under which the member will sign off once, saying I want my deductions made to the association and I want them to increase or decrease when the association changes its dues. And our reaction to that was, consistent with this board's goal to help out when they can, yes, we can do that but it's very important to us that certain conditions are met. Because it is the members' money and our main concern is that the members understand exactly what they're getting into. And so that we don't have members coming back to this system later saying, I didn't understand what I was getting into, they drove the rates way up, I didn't -- I didn't get the right notice. And so all we've been trying to do in this process is to carry out the wishes of the association but at the same time, provide enough information to the members so that they're not surprised and so that we don't have to deal with the fallout if they are surprised. So the 45-day notice issue it's not so much about the notice of the dues increases. It's more about the notice of the deductions. That's what we care about. And if the numbers don't receive notice of the deductions then how are we ability to tell them well you could have come in and stopped it? When we set up the form we say you're agreeing with any increases or decreases but you can come in and shut it off at any time because it's your money. It didn't seem helpful to give them the opportunity to shut it off at any time if the dues are going to go up before they have a chance to shut it off. That's the 45 day period. We set it up so the strongly about that. What we feel strongly about is 45-day notice of the deduction increase from the retirement check. That's the end we care about.

>> If I can stop you right here for clarification. Is this for this initial period you're talking about this initial sign up? Because the council voted to give a 90 day window to get this done. So I'm kind of confused on what you're talking about here.

>> Jeffrey Rieger: I'm sorry 90 day window to get what done?

>> This new sign up process we have got to go through just to continue our members' ability to take their dues out of their check.

>> Jeffrey Rieger: I know there was a separate issue to keep it at the current rate is that what you're talking about? I'm sorry Donna maybe you could --

>> Donna Busse: I think 90 days was the shut off, you would have 90 days to sign up, sign the required documentation and then we would shut you off.

>> Jeffrey Rieger: Sorry I didn't quite understand the question. This is more of an administrative issue from staff's perspective. Minessing was, I believe boards had discussion on this before and it was in the rules the board did promulgate. efficient way so either we are going to have members do this one at a time and say I want to give this much or we're going to do a blanket authorization for this kind of dues increase or decrease. It's got to be one way or the other. And if you are doing this blanket authorization that means everybody has to be shut off or included in it. Donna please --

>> Donna Busse: That's correct. The 90 days was the shut off but 45 days was for the dues changes.

>> Jeffrey Rieger: So they're different issues. So the 90 days is just a way, we're giving members notice, the way we're doing this is changing. If you don't sign up for this, your deduction is going to be shut off. That doesn't stop you from going in and starting it up again. It doesn't stop you from paying your dues directly. We're just funneling everyone into the same model. The 45 days is a different issue, that's about notice, so the members aren't surprised when they see their retirement check go up, the deduction go up so that their check goes down is what I should say. And we just think that this is the only fair way to do it. You know we're willing to, I mean, obviously we're willing to entertain whatever concerns the association has. But we do think that the that a clear understanding, a clear sign-off by the members is very important. And then, the cost issue, this is again, this is a courtesy that the board is extending to the members, to the association, this is helping the association collect

more money from its members. So we think that the association should be paying for these -- for the mailing costs.

>> Sean Kaldor: Initial mailing? I understand everybody's I think has agreed on ongoing mailings but the transition period?

>> Jeffrey Rieger: We'd like them to pay for all of it. We're not trying to get in anybody's way, we're trying to help them, it's just a question of who's spending the money to make it happen.

>> Sean Kaldor: Is there an issue, I think Tony's point about new retirees, it says you pay whatever it is and Donna is saying --

>> Donna Busse: I think administratively what we can change to do once we agree on the letter is they change that letter once they retire, versus a check form.

>> I'm not sure, is there something else going on already?

>> Donna Busse: Right now they check off I want to have dues taken out of my check and we changed the language to say forever. But you're uncomfortable with that. Once we get a letter with the mailing and then anybody on a go-forward sign a form on retirement.

>> We'll have to deal with this, I wasn't aware of the other form.

>> So I'm sorry so to clarify, this new process, or the process that we -- the process that we had when the retiree retired like myself and I retired 11 years ago, I signed the form that said I wanted to be part of the association and that the dues would be taken out of my check. Now I have to re-do that process, because of a ruling by the City Attorney, about this situation. That notification to me to redo that that's going to be paid for by -- the retirement system for this first sign up, is that correct?

>> Jeffrey Rieger: That's not our advice.

>> See that -- and I appreciate that. That's really the issue here is the fact that we had a City Attorney who sat here who in my estimation was very arrogant about the fact that that was the only individual who could ever have interpreted the retirement process, when we had numerous City Attorneys before sit here and we were able to increase our dues, with a proper vote by our constitution, with notifying the guy in the city in the appropriate time and those dues were increased. And all of a sudden we come to today, when we are at loggerheads with the city on various issues and now all of a sudden we have to make up a whole new process because of this ruling. So that's why we're saying, it's not the fault of the association, because we're already implanted in this, it's now that retirement services has gotten this ruling from the city that has caused us to be in this discussion.

>> Jeffrey Rieger: Just a couple points. I'm not a City Attorney.

>> I understand.

>> Jeffrey Rieger: Harvey and I are outside fiduciary counsel. I don't know the full history of how this has been implemented in the past. What I do know is there were some board rules that were promulgated recently that allowed for two models. My understanding is this association wants to go under one of those model and it is a model that has a floating deduction. As fiduciary counsel we came on board this spring, the board has come to us and said, can we have a floating deduction model? We said we think you can under certain conditions and we've provided what conditions we think are fair and reasonable and lawful. And honestly, I don't know what else to say beyond that. We're trying to help the association as best we can. But we just -- you know and I don't know exactly what's happened historically. If the expectation has been set at the association I'll just say I apologize for that but all I can say is tell what you I think needs to be done to be fair to the members and protect the interest of this system.

>> Sean Kaldor: Councilmember Constant.

>> Pete Constant: So initially when we're talking about the mailing that was going to go out with open enrollment packets so there was no additional mailing is what I thought I remembered the discussion being.

>> Sean Kaldor: Going out with the paycheck right?

>> Donna Busse: No.

>> Pete Constant: Or was it in relation to no advice or direct deposit or something like that? Disb it was originally going to be in conjunction with direct deposit receipts but then Reed Smith said it was confusing, to keep the issues separate so now it's going to be only the dues.

>> Pete Constant: I was wondering if it held up open enrollment or something --

>> Sean Kaldor: We'll put it into a mailing contingent upon them signing that and that would keep the cost low. You've come to us with three issues, the 45-day wait, adequate notification. Are you okay with that for future changes?

>> Yes, we are.

>> Sean Kaldor: Second issue is regarding retirees when they retire, new retirees currently there's a check box and what the understanding is that that will suffice in the interim here but all the new retirees will be given this full document and sign off on that full document going forward on the full letter so they understand their dues will be a floating dues at the time they retire. Is the last issue simply a payment for the first or is there another -- am I missing other issues?

>> No, you're absolutely right. It's an issue of who is going to start the payment process to send out these letters. I mean even -- I think the board has to understand and that's why we brought it to the board was even if --

even if we have no deus dues increase and we just keep our payments as-is the thrust of what retirement services has done and what the city attorney's ruling has done has said that you now have to sign up everybody because the past dues increases haven't been signed off by members who side a contract when they first retired to have their dues upped, increased.

>> Jeffrey Rieger: And that's the part I'm not entirely up to speed on.

>> Donna Busse: Originally it was a set amount. When they signed up at retirement they signed up for a fixed dollar amount.

>> Exactly. That amount has changed. Since I retired the amount has increased. And we've done that through the board, through I meanists all papers and everything else to the board that's what I'm trying to get clear here is exactly who's going to pay for this situation.

>> Sean Kaldor: So what is the cost for the mailing?

>> Donna Busse: Veronica.

>> Veronica Niebla: It can be a few thousand dollars.

>> Sean Kaldor: Couple thousand?

>> Veronica Niebla: $2500.

>> Sean Kaldor: 2500, we'll split it with you. I just want to get this done. We're looking at the rule that understanding our attorney is saying hey they're told us somehow that's going to change, we want change or float we need to give them notification about that, you can say that's on us we should have clarified, you had a different

understanding, we is can say it's on you we want to be legal here. I just want to get this done and I don't want to kill ourselves but that's just me talking.

>> And that's why I'm asking for clarification. I have a board meeting next week and if that's something I have to take to them that's fine. It has been up in the air and it has been unclear and we've been working on it for February and Federated has again work being on it two and a half years, that's why I'm asking for a clarification for what should I take this to my municipal.

>> Richard Santos: I don't think anybody has taken the $2500 lightly. It's consistent, let's keep it going. It's good PR, good for everybody, I would say keep it going.

>> Sean Kaldor: I'll make the notion of split the cost in the initial mailing 50, 50.

>> My understanding is the.

>> Donna Busse: Issue came up to try to do the floating way, we tried to accommodate the retirees association by crafting language that I don't -- you I don't think agree with.

>> Sean Kaldor: Way back in time you retire say take $50 out of my paycheck. Several time the dues went up and we applied retired that those dues may change. We decided you need to agree to this we said that's a big hassle. So everyone one time go through this process your dues floats, any time it floats and you don't like it you can just withdraw from the retirees association.

>> Richard Santos: The newsletter can address these issues.

>> David Bacigalupi: Did you get a second on your motion?

>> Richard Santos: Yes.

>> Sean Kaldor: No.

>> My recommendation is that the association pay for it. I'll leave it at that.

>> Sean Kaldor: I understand your recommendation. I understand. I'm trying to get done for a nominal thing and understanding that some of this is us saying we're now seeing things differently or there wasn't clarification in the past I'm just trying to absorb a piece of that. There is a motion and second. Any discussion on the motion or an alternate motion? Seeing no discussion all those in favor? Aye. Any opposed? None opposed, motion passes.

>> Thank you very much for your time on this issue, appreciate it.

>> Sean Kaldor: Okay.

>> David Bacigalupi: Actually something we won't see next month?

>> Sean Kaldor: Trying to get this done. All right closed session stuff we'll get to hopefully we can get through the remaining items here before we go into closed certain at the time certain 11:30 and that will continue into our last closed session. 11:30 is not closed session. Okay sorry, retirements section 4, 4.1 service retirement has been withdrawn. Item B. 4.1 (b). John E. rose, police lieutenant, police department, effective November 24, 2012, 24.54 years of service.

>> David Bacigalupi: Move to approve.

>> Richard Santos: Second.

>> Sean Kaldor: We have a motion by trustee Bacigalupi, second by trustee Santos. All those in favor? Opposed? It poms, thanks for your service.

>> David Bacigalupi: The board has met him, lieutenant commander of talked about whether modified duty was available, not available, an OB backup to him, good trend, congratulations to him John if you are watching this someplace, thank you.

>> Sean Kaldor: Continuing with death noiks, this is a notification of the death of JosÈ Martinez, fire captain, an active employee, line fire captain died August 10th, 2012. We'll take a moment of silence. [Moment of silence]

>> Sean Kaldor: Thank you. JosÈ was a captain in one of our busiest stations and passed away quite unexpectedly. And so his loss is a tragic loss to the entire department.

>> David Bacigalupi: 41 years old.

>> Sean Kaldor: Young guy. Moving on to item 6. Committee reports. And recommendations. Item 6.1, investment committee, with a report from the chair of the investment committee, item A. Sean did you want to --

>> Sean Bill: Sure, Vince asked me to cover some of the stuff. Just give you guys an update. I wasn't here last month so I don't know what was covered last month but it's a general update. Obviously we've made some changes, wee reengaged the consultant with NEPC, as you guys are wear, Allen Martin was just nominated as the number 2 most influential consultant in the world. So we feel very lucky to have him on board and working hard. Try bring the plan back up to speed. So just going back, recapping what is happened, January through March we liquidated the real estate portfolio and transferred it to American realty. The board requested the termination of all active underperformance as you may recall we had some managers that were as much as 400 basis points under their deem that is no longer the case. We rolled into Pimco Disco 2, that first big decisions. We regeeked the ALM from staff on the asset minimum and we adopted a new ALM. If you go through up to April, we had -- we've created a new work plan to keep the investments moving forward. We have reviewed and adapted NAPC's ALM and asset mix. We began working on the transition plan. We reviewed and adopted private equity asset structure which we have approved a $25 million investment with TPG. We reviewed and adopted a 10%

absolute return allocation, we have worked on hiring three managers in that space already. And I think we have another three coming forward soon. We have committed to an opportunistic fixed income manager for European debt situation, this is the B ampSO 3 asset liquidation stuff, another $25 million investment. We have reviewed and adopted a new public equity structure and we have two managers that were approved today for the global equities. Another $100 million investment. We are reviewing the real estate asset class, and we are reviewing and adopting a global asset allocation program. So I'm just reading straight off Vince's list. He said make sure you make a nice summary. We've been doing double time on these meetings, we've been meeting twice a month. And I want to thank our stach staff, Heidi and Darren and Ron, and tran and everybody from working with NEPC very aggressively. Obviously, NEPC had a lot of things ready to roll and since we were ready to roll and so you're seeing the benefits of that, at this point I think you're seeing the plan move forward very aggressively. Of course Alborne we're working with very aggressively and you guys have seen how they go through the investment process, they're very solid. So just want to give an update from the investment committee we feel like I think we've approved I think it's what, eight investments since Carmen has left. And that's, we had one investment in the prior year and a half. So I think you're seeing a very big shift. We are relying extremely heavily on the consultants. And we're starting to actually get some of that money back that we were spending on consulting fees, I think. So we're pretty pleased with where we're at and I think we'll have another round of good stuff to report in the next couple of investment meetings.

>> David Bacigalupi: Mr. Chair.

>> Sean Kaldor: Bacigalupi.

>> David Bacigalupi: Sean mentioned his thanks to the staff. But I think as a tenured board member here I'd like to thank the investment committee. The hours and the amount of work we they put into this, we had a poor situation going on what could have been a crisis fiscally, fiduciary wise, the investment committee has brought recommendations to this board, they've moved fast, they put in a lot of time, and I, and I think the members of this plan, owe them a great deal of thanks.

>> Sean Bill: We appreciate that. I think that again this is something that the investment committee actually really enjoys working on. So I think we're probably spending at least 20 hours a month minimum outside these meetings. And with the consultants and the staff. At least Vince is.

>> Sean Kaldor: Yes to speak to that and to your point it's not -- these guys are the pros, I sit on there but I'm trying to follow along. Not only do they have multiple meetings every month and joint meetings with the Federated plan but has taken specific topic areas as individuals so the meetings are that much more productive and informed because it's already been thought through and worked out the questions that will come up. They are moving quickly I'm completely impressed with the work coming out.

>> David Bacigalupi: The expertise is greatly appreciated.

>> Sean Kaldor: So that's received and files. Item B minutes of the August 8th, joint Federated Police and Fire investment committee also received and filed. C minutes of the August 23rd, committee meeting filed. D, discussion and action of the revised placement agent disclosure policy. Ron.

>> At this meeting the (inaudible) policy was brought forward for the Federated board. They made a minor change where they look at investment with long lockups with the same category as private equity and real estate. I'm bringing this forward to the board to let you know that they're making the change, and it provides the same am requirements to the board if the stop paying fees.

>> Sean Kaldor: Page 4 do we need to adopt this as a board? We do. So I'm make the motion to adopt the revised placement agency disclosure policy. Motion by Kaldor seconded by Bacigalupi governance committee core tem phase 2. This is myself. I had the chance to talk with Tom Ianucci yesterday for a custom of hours, his project is moving along. He's in the process he should be contacting each of you. He's contacting city council members he's contacting employees and I guess labor leaders all with interest in this plan's performance and what it does and getting their various concerns and priorities and topics as well as thoughts about what a good model might look like and how that G.O. good model might be implemented. He is very much in the idea

gathering phase and concern gathering phase. He's looking to come through this relates to the strategic planning meeting, actually in sept pes process, but that is where that stands we have not yet -- we haven't a had a meeting to see his work in progress. Probably be a month before we have some work in progress. That's note and file. Item 6.3, the ad hoc personnel committee. Item A, a report from the chair of the ad hoc personnel committee.

>> Drew Lanza: As we reported last month checkpoint next week running about two weeks late in the initial process where we're ready to start whittling down the list of director candidates. We have a problem with that, and we'll discuss more of this in closed session for obvious reasons. We've had a win during the past month and we've had a delay during the past month. The win we've had is item 6.3, D. You remember we had to get two things. We had to get the City Manager to say that we would be part of the process of recruiting, and managing employees. The specific language we were looking for her to say was that she would seek our advice and consent and we thought that was sufficient to allow us to go into closed session which of course if we are going to help manage people we can't do it out in the open, we tried that and it was kind of a disaster. So we've got -- we haven't gotten that yet, the part of seek our advice and consent keeps going back again and again and again to the council as Harvey and Rick Doyle hammer out language. It's been an incredibly frustrating process. Sean, as you pointed out chewed up an inordinate amount of monetize. 6.3 D the second thing we needed to say was that the city could closed session and we won't sue you for violations of the Brown Act. What you see there is a memo from the City Attorney Rick Doyle that assess okay assuming we can get this hammered out I'm okay with you going into closed session. We've tried again and again and again to try get the language in the ordinance appropriate and I will tell you and we will discuss it more in closed session it's been singularly one of the most frustrating things I've done in my professional life. I'll leave it at that.

>> Sean Kaldor: Okay. Item B did you wish to address the city proposed ordinance?

>> Drew Lanza: No, we talked about it last month and it's still there.

>> Sean Kaldor: Still in and been deferred.

>> Drew Lanza: Few tiedges now.

>> Sean Kaldor: Item C, discussion and action on revised board communication plan regarding measure B implementation. did you want to address that on the off site?

>> Drew Lanza: Yes.

>> Sean Kaldor: We can take that off the agenda. 6.4, report of the audit committee.

>> All right so we're still waiting on the actual CAFR numbers being done before we can actually review them and we don't want to review a preliminary you know copy that may be changed or what have you. And no doubt the milk. So this is probably going to be a late October type of time frame before we can get to that right voik?

>> Veronica Niebla: Yes.

>> Sean Bill: So there are a couple of others that will just economic boxes that we should do as audit committee, and I suggest going on Wikipedia frankly. Confirming the independent auditor's independence which I think we have a study that Veronica's provided and we'll get that out to the audit committee members just so they can read it and be familiar with it. Review the qualifications of MGO et cetera which we can check those boxes and then I thought it would be good for us to meet with MGO, have a little bit of an overview discussion on you know, the accounting policies and financial reporting practices. When they have the statements ready, go over the statements with them, you know. And then, review the comprehensive report and then forward that to the board for recommendation. For a recommendation for approval so we know everything looks good. So that I think is the top priority for the audit committee is to get the CAFR signed off on, and then, I thought you know we could meet with one of the other things that we're supposed to do is meet with our legal counsel to make sure that we are familiar with all legal and regulatory requirements of the plans compliance and that we can check off on that review any claims or contingencies that could have a significant effect on the financial plan. And then going back to Wikipedia and audit committees meet with the management and county staff to see if there are any other things

that we should be looking at that maybe are not on our radar. From you know casual conversations with Veronica trying to figure out on the CAFR, it does sound that one thing we need to look at on the auditor, auditor that can rove around to help on things. So I think that's pretty much our initial foray, probably towards the end of October, as soon as we hear in MGO that they're waiting for us.

>> Sean Kaldor: Haverel Harvey brought up the Ice Miller invoices, is that on the list?

>> Sean Bill: I haven't CAFR done first and stamp it and then once that's done tackle Ice Miller. Is really our primary obligation as an audit committee.

>> Sean Kaldor: Okay. That's received and filed. With that we will take a five-minute break and at 11:30 we'll hear the time-certain item number 1.2. And then, continue with the agenda from 6.5 onward. Five minutes. [Recess]

>> Sean Kaldor: 1.2. Discussion and action regarding the portfolio transition plan and implementation options for the newly adopted, asset allocation. 1.2A discussion and approval to delegate the selection of passive strategies, for the current pending portfolio transition to staff and NEPC LLC and for the secretary to negotiate and execute agreements with the selected managers as appropriate.

>> Thank you, again. You know, this is arguably one of the more important if not the most important conversations we've had with you over the past couple of meetings. I just wanted to stress that up front, the importance of kind of this decision today, and how we move forward over the next couple months as we try to implement the new asset allocation decision. Sitting with me here, and on the line as well, as this is Travis Balgey from Russell investment and on the line is Russ overlay services as well as several other services that he provided for the board since that time. And they're here to you know address any questions on the specifics of the actual transition itself. What the process is that they'll go through, how things work logistically et cetera. I'll start I guess with the board approved the new long term asset allocation targets on August 2nd of this year. One of the largest challenges that pension plans face is how to implement new asset allocation decisions, in a time-efficient,

and prudent manner. So want to be cost conscious but also want to be kind of as timely as we can in implementing this. You know, new asset allocation decisions can include transferring significant amounts of assets from one asset class to another. Which can be costly on both an explicit level which is your trading costs or commissions associated with trading securities. But also kind of implicit costs which are the impact of being in and out of a certain market during trading periods. So for example, if you were transitioning cash assets from large cap equities to fixed income, you know, you'd be trading out of call it the S&P 500 to buy bonds, and you wouldn't want to sell all ever your S&P exoarl and having two days where you're out of the market or invested in cash which could significantly impact the portfolio on the positive or on the negative side. But we want to eliminate any of that quote up quote market impact that the fund may have. Again, to help I guess to say help manage this many plans retain vendors such as Russell to help manage them through the process. You know, the process could be complex, requires kind of constant communication with Russell or with the vendor throughout the process. Regarding kind of courses of action and the different areas that can be addressed are cost could change, maybe it's cheaper to implement using one vehicle rather than another. The market could move significantly, one way or another, which may impact your decision making for that day, you may decide you want to pull back on what you're doing that day to not impact the market more. But I guess the punch line here is that the ability to be nimble is paramount. The investment committee or excuse me staff along with us need to be talking to Russell kind of every day during this process, sometimes multiple times a day during this process, and so I think what we're looking for today, is the board to kind of delegate some authority to the investment committee to work with staff on this implementation plan as we move forward to eliminate the need to delay the process, to have to come back in November to say here's what we're going to do next, December here's what we're going to do next et cetera. There are any questions on that before I move forward generally what we're looking for here today? Okay great. So I'll move you into page 3 I guess of the presentation that I provided and it's called asset allocation implementation. This addresses the thematic changes of the new long term targets that were approved so one we're reducing the plan's overall exposure to equity, increasing private equity exposure the conversation we had earlier on the private equity exposure. We're re allocating to 30% of the plan into fixed income but where within fixed income? We're changing we're eliminating allocations to TIFs and longer emerging markets debts and some additional opportunistic credit strategies.

>> Add in there just for the board there the idea there is we expect that long term government rates are going to remain very low so you're going to see this allocation spread more income generation in the fixed income. Rather than just having a ballast in treasuries.

>> The third kind of thematic change is we're slightly reducing the exposure to inflation linked assets which we've categorize of categorized as energy type investments and then we we have also increased the absolute run and also added an allocation to global asset allocation or what we woo call tactical asset allocation managers. So moving to page 4, again this is just a snapshot of what the current positioning of the portfolio was in your current policy was and what the recently approved policy was. I do need to point out a misprint in these numbers. On the far right column, the recently approved policy and the total absolutely return section there, where it says hedge funds moderate volatility and the last row, 5% global asset allocation, 10%, those should be switched, 10% to hedge funds and 5% to asset allocation where you're at to where you need to go, I think the next page page 5 shows it even better and this is really the page I kind of focus some of the conversation on is you could see what your current positioning is. And these numbers are as of the end of August. So you see there your current market value, the current allocations, and then in the middle there what the recently approved target allocations were for those respective asset classes. And so then we've kind of you know estimated what the market value would be using those new targets and then the last column there is your difference. So with that shown there, that is for example on that first line that goes all the way across the total public equity line you're currently about 1.2 billion or 1.26 I guess, which is about 45% of the total plan. The new target is 29% which is about $818 million. So you can see the impact there is about a $450 million reduction in your allocation to public equities. That's a pretty significant trade to have to make. And that's again, we're working with Russell on different options there on how to implement that. And the action item that the chairman read was, with regard to the use of passive investment vehicles, on an interim basis, to get this exposure, get the plan exposed to the new long term targets or at least as close as we can get to them. I do want to stress that 100% implementation here is impossible due to some of the illiquid investment vehicles in your plan. We are working with Russell on proxies but hedge funds for example there are not very strong proxies to go against hedge funds in the market, that's something that's just not available. As you move down the page what I wanted to kind of make sure was clear to the board and address any questions you may have about it is, what these moves are, the red is showing where money is going to be

going out. Obviously the dark is money going in. And the net impact of kind of all of these changes this is what we're trying to implement over call of let's say the next three to four weeks. So the idea we've been working with the investment committee over the last couple of meetings with Russell's involvement to identify plans, get proxies for exposure in some of these markets we're still working over the detail there but we're hoping to come back to the investment committee next week, with a more close to final proposal. You know maybe address any tweaks that we need but the goal is to be trading into the new allocation, hopefully later this month. With the idea of being as close to implementation as we can, sometime in November. Any questions on kind of what we're doing there or what the process may involve?

>> Sean Bill: I would just point out for the board members on 5, you're basically shifting 350 million out of equity into your absolute return type oriented investment. The idea being there it would be less volatile but should have pretty solid returns.

>> I will say we are part of the memo that accompanied this presentation, as we are quite comfortable moving forward with Russell investments on this particular transition. Without having conducted kind of a broad based search so to speak. Like I said you've had Russell kind of as a manager or as a vendor for the plan since 2009. The contracts are in place quite frankly so in an effort to expedite this process, and be more timely, we're quite comfortable recommending Russell assist in this transition. We work with them on several other relationships and don't have any concerns about their ability to help us through this process. So I just wanted to make sure that was clear and up front as well. So unless there are any additional questions, I guess there -- I might turn it over to Russell to just maybe at a high level talk about page is that they provided that accompany this which are the last couple of pages of this presentation here. And it's really, there are two, one that says original and one that says absolute return prorated and I think the absolute return prorated is the one you should focus on at least for this discussion. And what that means is again, when I say --

>> Sean Kaldor: Just for the board this is a separate hand out, a separate sheet.

>> When we say absolute return pro rated I want to be clear what we mean there. So the fund has 15% in what we're referring to our absolute return bucket. 10% 5% to global allocation strategies as I alluded to there are no proxies for this exposure. There is no quick way to go and buy hedge fund exposure in the market. When we're saying we're pro rating the assumption on this page is that you're taking kind of 15% of the portfolio and reallocating it across the other asset classes to get to an end point. And so what you're seeing here, or I guess maybe I'll turn it over to Travis or Greg to walk through this piece.

>> Yeah, is Greg norquist on the phone?

>> Hi, I am, I'm having a heck of a time hearing.

>> Are you?

>> We'll try to fix that.

>> Yes, Greg, do you want to walk through the allocation shifts that we've put together for Police and Fire? Can you hear me?

>> Drew Lanza: Greg, can you hear me?

>> Yes, can you hear me?

>> Drew Lanza: Yes.

>> Sean Kaldor: Greg, can you walk through the, what is it again?

>> The asset allocation shifts.

>> Sean Kaldor: The asset allocation shifts.

>> Okay. So at a high level, I think they went through some of it. But basically we kind of went through the mapping from where you are today to where you need to go in terms of you know, your ultimate ideal target but then we had to overlay the reality of hedge funds and GTA and things that just can't be proxied with anything good. So what we did was come up with a solution for each asset class in terms of best proxy in terms of you know whether there is a suitable futures which is cheap and easy trade for some of the -- as we go into the fixed income high yield emerging markets actually have good proxies in the ETF markets. Eventually we looked at where there are suitable liquid low cost map ring as best we could. I think Dan memtioned the hole then is the 15% GTA and hedge funds which we preliminarily targeted to the -- allocated just on a pro rata basis, using fixed income. And just acknowledging that you probably don't want cash. But you want kind of the rest of the portfolio, liquid portfolio to be the proxy. And is that clear so far?

>> Sean Bill: Yes, this is one area we were trying to push on GTA getting it done rather quickly because it is difficult to get reallocated. Dan do you have any estimate on that chunk ?

>> 5% allocation we are talking about close to $140 million allocation there, we've had one discussion with the investment committee kind of introduce strategies for consideration and are planning to come back at the October 23rd investment committee meeting for a recommendation for managers. So I think to Sean's earlier point as he was giving his investment committee update we've already started to work to identify some of the managers on the back end of this transition. We're working through contracts you know to get some of those completed. But there will be the ability you know later this year or early next year to really implement some of the tradges you approved already and take away some of this exposure pretty early. this GTAA allocation we're working to adding to some private equity investment, what would be European credit some and in fact today there were you know some other strategies approved as well, to get the money to work. So again, this is an interim snapshot of those kinds of the way we want to get exposure. In the short term, and we're already fairly far along in several areas as far as identifying active management to replace some of this interim exposure. I also want to make sure everyone is comfortable with the fact that when we say passive exposure here, there are any number of ways to get

exposure passively. Greg kind of alluded to futures can be used. We could use swaps on the market to gain exposure. There are ETF, exchange traded funds to allow you to get past an exposure. We could purchase and passively manage index funds as well. There are several different ways and we are going to be using maybe all of them maybe one of them. But there are several different possibilities of where we're going to go and want to make sure everyone understands and is comfortable with the fact that we will be using synthetics potentially to gain exposure here.

>> Sean Bill: Would I add that you know the investment committee has directed that we prefer cash instruments where at all possible. So the ETFs that are available that are highly liquid that is our presence. Certain ones you know it's easy to replicate with futures and what have you. That brings up the question where does the cash that will be allocated, when you are using futures, you're only putting up 3 or 4% margin. Where is that cash vied?

>> I think that is -- in general that cash gets raised from assets that you sell and we overlay that with sweep account and is invested in a very safe vehicle with your bank.

>> We could discuss at the synthetic investment committee meeting --

>> If I heard that question then I wonder where the class sits for the futures.

>> Yes.

>> Is that correct?

>> Yes. Yes, so the account that we handle, would be primary be vest in your state street TIFs, a portion of it would be claim broker, but for the most part we're talking about fixed income is really about 1 to twor 2% of that cash value would be put with a broker and that's required by the exchange.

>> Sean Bill: And what have we done with the cash that's held by state street, is it like six, eight basis points?

>> Yes my guess is you're probably around there, that's probably maybe 15, 20 basis points at state street, probably some LIBOR --

>> Sean Bill: Annual rate. So there's a priority to get that money allocated to the proper allocations is the point.

>> And I think too, you know while we are looking for cash vehicles, to Sean's point, you know the use of some of those vehicles kind of gets us exposure, can be expensive. So while we are looking to you know do this in the most cost-efficient manner that we can, some of the exposure is expensive. And I think that kind of helps set the direction for us to some extent to say hey, you know, we don't want to be paying for this, for the next year, call it this is something we should really be working to get done sooner rather than later.

>> Sean Kaldor: So that's the big ask. Coming here turning a freighter, you can't ask the captain for a direction change once a month. You need to be responsive to a decision. You mentioned you're asking this board to authorize the investment committee, you said to authorize us to authorize staff. What are you looking for us to approve?

>> So we're looking for the board to approve delegation of open side of this transition to the investment committee, staff, a distance from NEPC and Russell so we can get from point A to point B as quickly as we can as prudently as we can to eliminate some of the tracking errors and turns we have for nonperformance versus the total fund benchmark. That's the idea and I think the -- excuse me, the memo that accompanies it gets a little more specific in saying that we're also looking for the board to delegate authority for staff to engage in relationships with passive investment vehicles, during this invitation, so for example, the decision is made to retain some index fund manager. We'd like to move forward with that without having to come back to the board and ask for authorization.

>> That's probably started largely by staff, going through a similar process with the Federated board right now. On a transition as well. And they've already largely started the process of identifying managers who provide passive exposure to find out you know what the most cost-efficient way of doing so is, I think, for both of us.

>> Drew Lanza: I think ideally if we can the right way to do that would be to delegate on a month-to-month basis as much of our authority as we can to our investment committee. How much of our authority can we delgt delegate to an investment committee? Or is there legal restrictions to delegating to our standing committees?

>> Jeffrey Rieger: Ultimately the board sets the policy and your staff and your consultants carry out that policy. You can certainly delegate to the committee the nuts and bolts are getting the work done. At the end of the day, the board is responsible for the decisions and there should be some ratification of them and it should be very clear what the delegation is. I don't know, are we looking for a specific action today?

>> Drew Lanza: So this plan outlines the policy and it sounds like what we should do on a month by month basis the authority to implement that policy to our investment committee and that would give them the authority to work with staff and work with everybody else. I'm used to seeing this when we do this in the private sector, every month we come back and revisit for yet another month. And that way it doesn't look like you've just carte blanche a bunch of authority point A to point B provided we get monthly updates and and see how everything is going and once you get to point B maybe there's a different situation going forward. Temporary situation, even though temporary might be how long --

>> Some of the exposure could be there for some time. I think it depends on how we prioritize that. For me to say it's you know six months or a year, I don't know that I'm comfortable saying that at this point. I would say it's our goal --

>> Sean Kaldor: 80% of it done within a year?

>> I would say that's probably right. With the exclusion of you your again the illiquid type draw down type vehicles that would still take some time.

>> Drew Lanza: I think I still would like to delegate that down on a month-to-month basis. It's the old thing that constantly expiring time line that gets kicked forward.

>> Sean Bill: I think that makes sense. I think the investment committee has been very forward with wanting these investments probed by the full board and not wanting to have the investment committee approve all the investments like some other plans do. I think that stay with that model and for now we do the temporary for this transition.

>> Sean Kaldor: I would restrict this only to the part that's being delegated to the investment committee strategy decisions or wants to develop a different way to work through each individual decision that committee can work that out but I'm not going to piecemeal that and begun committee.

>> Sure.

>> Sean Kaldor: Someone like to make a motion?

>> Richard Santos: So moved.

>> Drew Lanza: I move that we delegate the authority to implement this policy, this presented plan, to our investment committee, until our next board meeting.

>> Richard Santos: Second.

>> Sean Kaldor: We have a motion from treeflt Lanza, second from trustee Rounds oop okay, motion and second. Any discussion on the motion? Seeing no discussion you all those in favor?

>> Drew Lanza: I wrote just ask you if you see any blips or headaches with our investment committee or staff come back and tell us honestly how things are going tell us what we need to do or what we need to fix.

>> Sean Kaldor: Motion passes unanimously. Thank you. Thank you for bearing with us on the phone.

>> Thank you.

>> Sean Kaldor: All right, that takes care of 1.2A. And 1.2. We now continue with the body of the agenda, item 6.5, ad hoc disability committee are stating with A report from the chair of the ad hoc disability committee.

>> Richard Santos: Thank you, Mr. Chair. , I said again on a long category, kept everybody up to date, James is gone, but I talked to Bettina and Drew, I wish Alex is here because we had a conversation and then Donna gave us the information and the last thing I have, probably would be example, September 28th, talks about the cost. And so Alex e-mailed me back and I said please attach the cost of it. He did not. He's not here right now. I would ask this, again board members, and of course our chair has been kept abreast all the way through. Dr. Das, what is the final process that you have been given to you because all I know is what we have here. And so if this is the one it would cost $3800 to help you with this personnel issue, where are we at and what do you finally want?

>> Dr. Das: I think Davis Long is representing CalSTERS.

>> Richard Santos: When we talk we were always cordial. We are always in it together to help reduce loads, use as less money we can out of the retirement fund at the same time help you reduce that workload. That's what it was all about. I did want to have meeting over meeting, we don't need it.

>> Sean Kaldor: Thank you for joining us. The office is alluding that you may be able to he be lighten us.

>> My name is Dave Wong with encompasses the workers comp program Dr. Das's program and the safety programs. We have been working with Dr. Das to try to find a feasible way to provide him assistance and Donna had provided a supplemental memo dated September 28th and we originally explored what we thought might be an option that's with his nurse practitioners working up to 40 hours a week increasing from 20. We determined that is not something that she would be able to do. So we looked at an alternative, stepped it 20 additional for a period of 60 days. And that cost would be approximately $3800. And we're actually ready to start that, Dr. Das needs to confirm that with the nurse practitioner. And where you can possibly do it as early as Monday. Sometimes, you know, for bookkeeping purposes they want to do it at the beginning of the pay period. But probably as early as Monday. And we're going to be monitoring the progress to make sure we're getting you know the progress that we need from this. So Donna had provided me an updated report in terms of all the individuals that are currently on the disability retirement agenda. And we're going to look to see what the progress is week by week, to see if that reduces. We think definitely it will reduce it. But we'll be ready to report back with the status next month. So let you know what we've done and you know, that's going to help Dr. Das.

>> Richard Santos: That would do it Mr. Chair, address questions, have the other committee agree, take a vote and then the board could take a vote. The way I understand it, you're saying we start Monday.

>> We'll confirm that probably within the next day or two, possibly by the end of today. We need to confirm that with the employee.

>> Dr. Das: The employee doesn't work until Monday so.

>> Richard Santos: I think Monday is Columbus Day.

>> Probably as early as Tuesday or the following Monday.

>> Richard Santos: The whole thing was ASP let's get this thing going. Bettina brought up the cost item, 96,000, we want to get the workload reduced and go to work.

>> The employees wanting to do it, we want to confirm with her exactly that she can actually start.

>> Richard Santos: The same frustrations Drew has, it's really difficult when we make the phone calls and e-mails and don't get answers. I was as easy going as possible. I said make the phones calls, quit the e-mails, get things done. I would impress upon everybody to make direct phone calls and speed things up. It's a lot easier and simpler. I try to keep things simple, that's the way I understand.

>> Sean Kaldor: To your question, if we are going for expediency, that's the way, kind of last month we have new numbers now, this board should take a vote to authorize the disability committee to proceed, if the numbers are within a certain limit that's good to this board. That way you don't have to get information, approve it as a committee and come back to us as a board one month later. Give you blanket authorization here and now if the numbers come back within -- how much are you talking about?

>> Talking about there is no fringe benefit we are going to be saying. The hourly rate is 47.11, and the entire amount for four pay periods will be approximately $3800.

>> Richard Santos: So what I was saying why don't we take a vote right now. So if you don't mind I'm going to ask the committee, committee, Bettina and Drew all in favor of this?

>> Drew Lanza: Aye, aces.

>> Bettina Rounds: Acest.

>> Richard Santos: That's approval of the committee.

>> Sean Kaldor: Additional staff hours to help accelerate the processing of disability applications and I think that's with the understanding that all the current hours being put towards the plan continue to be put and these are purely splent 100% to this plan.

>> Drew Lanza: I'll second that.

>> Sean Kaldor: Any discussion on that? All in favor, opposed, none opposed, that passes unanimously.

>> Richard Santos: I even called Dr. Das on a Sunday, he answers the phone. thanks to the committee for this, we are getting something done, I appreciate it.

>> David Bacigalupi: While we're on this topic there was some confusion about what we're supposed to do. I know we're having a special meeting but --

>> Sean Kaldor: This is B. So if the chair of the disability committee will grant me the privilege --

>> Richard Santos: Heck yes. .

>> To arrive disability applications and make recommendations to the board what we decided is that we'll have a special meeting to hear these extra applications rather than a more complicated process. My understanding in talking to staph their understanding of our decision last month was that if there are more than five applications, in a month, that we will have a special meeting to hear all the applications. I've been advised that other trustees had a very different understanding that we'll hear up to five during a meeting and if there are any more than five then we'll have a special meeting to marry those beyond the first five, so we're always hearing five or less during a regular board meeting which would have allowed us during this meeting to get a few disability applications out of the way. I'm totally open to either way, I want to be clear that if we do it the way that I did not understand it to be that means we have the six application, we have the five and have a special meeting to hear the one application. I'm open to a new direction.

>> Richard Santos: Mr. Chair, I appreciate that but let's say we're going to hear six. We're talking about when you have ten or 15. The members here express the froes takings and long hours and hours. It's not because investment is more important, everything is important but it just drags on. Let's go about a to if it's sitting here we're going to hear five, if it's six we're going to take six. We know the hours are going to take time. We also want to make sure we respect the people out there give them the time they need. I know you all care. We want to hear five, it's going to be like ten or 15, that makes a difference. So and you know, we're making this thing too complicated when it's not. But I understand we had some miscommunication what have you. That's my understanding. We're going to hear 5, any over that than that. that has to get done. But Dr. Das should be able to tell us ahead of time. He should be able to say we got ten coming and we could understand it so --

>> Sean Kaldor: Bacigalupi and I'm sorry --

>> David Bacigalupi: Any question is do we know how many we had today around how many we'll have ready the end of this week, end of next week?

>> Donna Busse: Let me be perfectly frank. For this particular meeting, we probably would have zero ready for the time line for last month for the ten business day notification for the attorneys almost would have meant that drtd would have had to turn around some in about three or four days to make this meeting based on when the last one was. He knew he could have eight ready if we had a special meeting, at least eight, turns out 14 are going to be ready for the special meeting, we extended the time, it's October 4th, testify the 30th, so it's a moving target you know. It depends on what cutoff date you're going to say for when packets are going to have to be in if you can say the meeting daylight, he can have two you know. It's moving, it's a moving target depending on the date of the meeting.

>> Sean Bill: Quick question vmentdment if somebody has a problem with a particular one they can always pull it from consent and discuss it?

>> Richard Santos: Thank you.

>> Sean Kaldor: I hear you, Drew respect your speaking turn.

>> Drew Lanza: That's fine. I'm sort of okay doing what dick said, delegating it to Donna. If you can kind of ride a wild bull, if you can six, you can handle six if it's eight you better have an extra meeting, I'm fine with that. Someone has got to be watching this thing and making a decision, is it you Sean or Donna?

>> Sean Kaldor: I don't want to put her in a tough spot, saying this is if next name. A general policies I'm okay with saying if it's anything less than 7 we'll hear it in the meeting six, any neern, 5 in a meeting we'll bump them back.

>> Sean Bill: Question with regard to subcommittee idea. For retirees here which is pretty much everybody except Sean and I, you and I have a lot more time to attend these meetings than we do.

>> Richard Santos: No, we don't. That's an assumption. That's an actuarial question.

>> Sean Bill: Let me put it this way to. For us working, we have to go through hoops and hurled to attend, the governance committee meetings you know and it's a tremendous amount of time that's being required from board members who are -- have careers and looked at this as a volunteer thing where he they're dedicating, originally it was sold as one day a month, okay? It's not one day a month.

>> We're way past that.

>> Sean Kaldor: One day a week.

>> David Bacigalupi: You're good for 32 years already.

>> Sean Bill: Yeah, so I really think we should think about the idea of a subcommittee doing this. Most other plans do it.

>> Drew Lanza: That is meeting we sort of really trade to do that but really got a huge amount of push back from the City Manager's office. Is that fair to say?

>> Sean Kaldor: I'm in complete spurt of the idea -- let's talk about a few things. You're absolutely right, there was some push back, I want to be clear about what irheard them saying. If you are going to adopt another process, please look at the measure B process and go get three doctors and review these. I think that's what their request was. If we look at the subcommittee would who oostlesz being spited bases and are opted due diligence but in a smaller group that can be better studied and better informed come back with a recommendation to the board and then as long as the applicant can always petition to the board or the city can come and say no I don't like their -- there's protection there I don't have any problem with that but then we did run into those concerns at lases meeting.

>> So I mean the challenge for us who are trying to hold down full-sometime jobs is you can only make so many meetings. You have to figure out which meetings you can make a case for. and stability is obviously very important, you know. But it's very challenges to be asking your bosses about hey, I need to be out you know six days this month, for this board stuff. So I think you know maybe we could ask the City Manager and these other powers that be if they could reconsider that position. Because you know the committee's worked very effectively and they get these things done a lot quicker and could make these board meetings more manageable. I think that you're already seeing you have some fatigue here of all these trustees for all these meetings. People can't show up for all these meetings.

>> Sean Kaldor: Trustee Santos please.

>> Richard Santos: Lets make an impact on the 150 people making service. we've got a personnel meet helping Dr. Das, let's hear something and when we take something let's find out if it takes an additional meeting, now how

many people are ready to go? We really don't know these things so ltle take care of the five coming up this next month, bring a report to us and then we can decide what we want to do but lest start hearing something. Find out how many that he is going to have ready and then the board would say okay now let's get a subcommittee because we have 120 left and we need to do that.

>> Sean Kaldor: Request trustee Rounds.

>> Bettina Rounds: This may be something for the committee but there's got to be some way to streamline the process. Part of the problem listening to five takes five hours, you know, I mean each one goes on forever. I mean I still think that we need to find out how other you know pension plans do this, how their -- how it's streamlined. For me personally a recommendation from Dr. Das would be very helpful to know what to do. Because the problem is, we -- at every meeting we go through -- none of us are doctors. None of us have a clue, you get a package this big that gives you medical information and we all sit there trying to figure it out and none of -- we're not qualified. So maybe the committee a suggestion for us who, though I would like to suggest Damon is on the committee and that I get off it it, but maybe you know we just find a way of streamlining the process also so that at these meetings we're not all going you know it's going to be an extra five hours.

>> Sean Kaldor: To your point that could be something even though the subcommittee was not giving an reading them and then they get withdrawn to make sure all the paperwork's in place make sure we have a clear recommendation from the doctor involved just to have it be ready to go, would be an assistance that it's a small step, towards what Sean is talk ugh about but not nearly all the way there.

>> Drew Lanza: So I think concretely over the last two board meetings Dick and the committee have proposed two different ways to do that and both of them were shot down by the City Manager. So I think even if we did that, Sean, I have some strange feeling that it might get shot down.

>> Sean Kaldor: Yeah, here's the thing.

>> Drew Lanza: Or we should just ignore that and say we're going to do this and --

>> Sean Kaldor: This is a Police and Fire retirement board decision how we're going to process applications. The unions can't go back and say we don't want to go through a prehearing. We decide the process you have to do so, I'm very respectful to their concerns and their interest. If it's breaking us for a board, I'm getting calls from you guys saying I can't do this many hours and I'm going to be out of here if you keep this up. That's why I lean to the subcommittee, to also do disability be able to do that --

>> Drew Lanza: So there's a standing proposal from last board meeting correct me if I'm wrong Dick to have Dr. Das Russ Richeda, and Dick make up that subcommittee. And vet these things and make sure they're ready to go and then bring them to us so we can hear them in a shortly of period of time. Dick was that --

>> Richard Santos: That was list of those people that are not getting paid so we can accommodate them ASP. Workload that's coming up that we open November, that case care of these people that are not getting paid and then we'll go from there.

>> Sean Kaldor: To my understanding those are done.

>> Donna Busse: As far as we know the ones that are not in pay status have been taken care of unless there's new ones that come up.

>> Dr. Das: I don't get that information as far as pay status goes and I just what people tell me and I rely on the information that's given to me and I try to expedite based on that. But people have said they've come to me directly now, I'm referring them to the retirement analyst and so the retirement analyst can address that with that individual and if that person is going to -- is truly gals going to -- we can certainly work with them to try to move things ahead, move things forward.

>> Sean Kaldor: That report last month about where everyone stands right?

>> Donna Busse: We have added a layer to actually look at the pay status and the leave time availability.

>> Richard Santos: Go back to what Drew said, then when we get this next group the next group dmoms if people feel that we haven't panned put it in place, we have pern who's the professional and Russ Richeda who's worked on this thing for years and we can get this thing done and get this workload down and it will start working itself out. Once we get it initiated 120 people pending, it won't come in 30, 40 months it doesn't happen. Last year we had almost a year there were one or two a month. We'll go back to that. So we have the right to be fiduciary and get this things going, use this money appropriately. That's what we have the right to do, so that would be the request.

>> Sean Kaldor: The recommendation was for the committee to hear them over the next several months to get through the backlog?

>> Richard Santos: If that was needed, correct, if the committee would say six months, we could do it in four three two whatever it takes.

>> Sean Kaldor: The committee of the ad hoc disability committee which is trustee Santos, trustee rownldz and trustee Lanza and trustee Mason.

>> Drew Lanza: So the micial proposal was the ad hoc personnel committee, Richeda, today's and Santos, didn't go over well. The last month's board meeting was to pare it down to Bettina, Russ and Dick and Dr. Das.

>> Bettina Rounds: I'm not sure why it was Bettina.

>> Drew Lanza: Because yours become with B and mine begins with D.

>> Richard Santos: We got to get this thing going. We can't just keep on --

>> Move forward.

>> Richard Santos: Thank you.

>> Sean Kaldor: The motion is to paraphrase or clarify, to work through the backlog of pending accounts.will work with Dr. Das to evaluate each of the applications and Russ Richeda. Okay. [simultaneous speech]

>> Sean Kaldor: Okay and Russ Richeda to provide a recommendation to the board on each of the applications. Is that a recommendation?

>> A recommendation.

>> Sean Kaldor: So that Donna is adding a point to that recommendation, that the contract with Russ Richeda,.

>> Donna Busse: Yes, the issue that came up the last time that this was proposed was that Russ's contract does not allow. We would have to contract with him for that. Then there was issues from the city attorney's office regarding whether we would have to go out to RFP again because that's not --

>> Sean Kaldor: Okay so I --

>> Donna Busse: Because as he was changing his proposal originally -- (inaudible).

>> Having Russ a legal person on there move forward that needs to be done.

>> Sean Kaldor: Friendly amendment is to remove that Russ Richeda our legal component from that process but to try and work on the floor and see if we can include a legal component in there. It does not need to be -- it could

be Reed Smith it could be Russ but to work to include a legal component if possible. It would take eight months for an RFP so --

>> Richard Santos: Appreciate it.

>> Sean Kaldor: Do we have a second on the motion?

>> I'll second it. I'll say you know for the discussion from the City Manager's point of view that these are recommendations coming to the board from the subcommittee to try to speed up the effort, so it's not that it's an approval right? It still goes to the board for approval but it's their informed recommendation.

>> Sean Kaldor: So we have a motion and second. Any further discussion on the motion? Seeing none, I'll make one point of discussion, I'd ask that we just -- if we're going to do this, let's stick to it for the six months and not revisit each month whether we should keep doing it this way and also for discussion what I'd like to do is we have a special meeting set up for the 30th because we have a bunch coming through, I'll set a cap at 10, we'll get 10 through that and then all future ones after that 10, we'll do this process. Okay? okay. Sorry.

>> Donna Busse: We have like 14 ready for that special meeting I know that's going to be too many and the regular board meeting for November is two days later. Can we put ten on in the October 30th meeting and the other four on the November 1st meeting and then go to the new process?

>> Drew Lanza: Sure.

>> Sean Kaldor: Done.

>> Sean Kaldor: And this should allow for us to hear a much larger process each month and when you get through rubing it should be more expedited at the board level. Motion and second, any other discussion? All those in favor? Any opposed?

>> David Bacigalupi: Abstain.

>> Sean Kaldor: Abstaining one, would, five, Bacigalupi abstains.

>> David Bacigalupi: On the advice of counsel I need to abstain. Mr. Chair I got to say application pending since 2008 I think it's been ready and I appreciate the board moving towards this thing because I've been trying to get my own case here and it just keeps getting put off month after month.

>> Richard Santos: Thanks, Dr. Das.

>> Sean Kaldor: Item C, discussion and action for be review best practices. Any update on that, nothing?

>> Richard Santos: Just did. Okay. And D, discussion and action of the recommend of the proof procedural to hire a professional, we did that earlier that plelts that piece of the agenda. Section 7, the consent calendar, we've had a request from Mr. Spence to have one item removed and that is itemsen.6,C. Are in any requests to have yeast removed? Seeing none, we normally have the one motion.

>> David Bacigalupi: Move to approve the consent calendar.

>> Sean Kaldor: Awferls, opposed? That passes unanimously. Item 7.section (c) regard dated September 17th, 2012. Mr. Spence.

>> Thank you. Jim Spence president of the retirees association. I just wanted to I hope you all had a chance to read this. I know a number of you have been trying to move the retirement decisions you're making away from the politics of what's going on in the city and a few other things. And the SRBR seems to have fallen into politics more than anything else. In paragraph 3 of this letter we talk about that you're required to make the annual destructions, we want to thank you very much because you have done that. That was a difficult decision and the board has

done that and allocated those to another fund so we can try to free them for our members. There are citations about California law and I want to show that you the retirees association is not grasping at anything but what the California law has the fiduciary responsibility for the assets of the retirement system. The first paragraph on page 2 down about middle I.T. says the California laws were intended to insulate the administration of the retirement system from oversight, control by legislative and executive authorities making the looking for a way to balance the budget. The amount of money that we're talking about that needs to be distributed to our members is very small portion of actually what the budget is for this retirement system. And we really feel that it should be distributed in a proper manner. The next paragraph talks about the distribution of the money. And I just wanted to let you folks know that when the SRBR was put together, it was done in a way so that only the older retirees actually had a benefit from it. That's what we were looking at doing. There's been a lot of publicity put out that we have others retiring at a higher rate doing other things. They get a small portion if any of the SRBR. The bulk of the money is always and has always been to have the older retirees continue in a lifestyle that puts them above poverty level. And so I just wanted to let you see this. I wanted to thank you for your efforts that were going on for the SRBR. We don't agree with the position that there shouldn't be a distribution. And I know you have been advised that by the attorneys and also, that the city council has kind of -- they haven't kind of they have tied your hands in the ability to distribute. We find that to be very arrogant. And to do that, to the retirees the people who actually built this city, for them to be governing so to speak. And also I want you to know that this issue is not going to go away. This is going to come back in probably another format. And I am trying very hard and I think we've come to an agreement that we don't want to embroil this board all of you in any further litigation. So we're trying very hard to find another avenue to do this. The work you're doing here I have said this to several of you is terrific. What you're doing as far as our funds is fine, doing a great job. The SRBR is not something we're going to give up on and we're trying to get those distributions to go. I wanted to board to see that this is what Weaver going to go for and it's not going to go away. Please expect it to come back in another form and not necessarily in this board. Thank you.

>> Sean Kaldor: Thank you. Is there a discussion about the board? (inaudible).

>> Sean Kaldor: Yes, Mr. Leiderman provided us with an opinion, Harvey looked at it and gave recommendations what we could and could not do. Jeff you want to summarize?

>> Jeffrey Rieger: I appreciate the presentation it's not going to come back to this board, he is keeping you advised this is an issue they care about and it's good that the board knows that. I think best way I can describe this issue is by reference to a particular issue that was alive in California in the mid 2000s. The -- the issue of gay marriage. In 2004, the California Supreme Court overturned what Gavin Newsom did, I don't know if you recall, Gavin newsom said I have decided that the one ma'am man one woman law is unconstitutional and I'ming opening up gay marriage in the city and the California Supreme Court said you cannot do that, as a local official you can't declare a law unconstitutional and decide not to follow it. Fast forward a few years look what happened the California Supreme Court agreed with Gavin newsom. That was before proposition 8 of course. After the Supreme Court thought Gavin newsom was right, they had to decide whether he was right and fiduciary and legal obligation to administer the plan document as written. And here, we're dealing with provisions where the city, you know, we can go all day long about whether it was the right thing to do or whether it was a good idea, the members may even have constitutional challenges. He talked about litigation, maybe that's where they're going. But at the end of the day, until a court of appeal actually declares this unconstitutional this board has to follow the law. Or until a trial court enjoins it. But the bottom line is until that time, you just need to follow the law as written so it's not really in your hands.

>> Richard Santos: The reason I asked that because I was just saying, just say for instance it wasn't viewed as vested rights, again it is none of our -- not our problem. We just have to keep on administering the plan.

>> Jeffrey Rieger: We see this across the state right now, you're very familiar with it, with the measure B litigation. Obviously, everybody understands that there may be vested rights claims out there that may or may not succeed. But it's not up to this board to unilaterally say that it believes that there's a violation of the constitution and therefore it's not going to follow the law. It just doesn't work that way.

>> And we're very hopeful of course that with the change of investment that we will have excess earnings that will be put -- that will come before you that need to be distributed and again we would enjoin you to follow your fiduciary responsibility and set those funds aside for distribution because that's what you do. And if the city council wishes to not follow the recommendation, that would be a different avenue. But we appreciate your efforts on our behalf to make the plan whole and run as well as it has. Thank you.

>> Sean Kaldor: Thank you very much.

>> David Bacigalupi: Move to approve 7.6C of the consent calendar.

>> Second.

>> Sean Kaldor: Moved by Bacigalupi, seconded by Santos. All those in favor? Opposed? None opposed, that is approved unanimously. 8.2, concerns and seminars 8.3 Cal APRS training trustees round table in L.A. at the wonderful bur Banks airport, add the Burbank airport on seeing none are there any further public comments? Seeing none we will go to closed session. And this is for item 3.anyone, Closed session, conference with legal counsel, litigation pursuant to government code section 54956.9 (a). Paul Mulholand, et al. City of 3.10. Closed session, conference with legal counsel, existing litigation pursuant to goverment code section 45956.9(a) three cases. Measure B litigation. San José police officers' association versus City of San JosÈ, and the other two cases. And finally, 3.11, Closed session, conference with legal counsel, pursuant to government code section 54956.9 (c) deciding whether to initiate litigation. One case. We're going to adjourn from closed session, if there's a report from closed session we will give that and then we'll adjourn our board meeting. [Conclusion]