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>> Mayor Reed: We have I think 14 candidates lined up for us to talk to. And in front of us we have Elizabeth Rounds who has joined us. She will be the first candidate. We'll do the usual drill. We'll let you talk a couple of minutes about why you are interested in being appointed to our retirement boards. And then questions and answers. And we'll move on to the next candidate. And we're going to be here for a few hours because it takes a while to get through this many. So welcome and thank you for your interest in our retirement system. Why don't you tell us a little bit about yourself and why you want to do this.

>> And I apologize paws I have a cold so I have a cough drop. My background is human resources. I am not an investment management person and was just in a room with other candidates who were all discussing investments. So I should say that right up front. But my experience was primarily, I've worked for well over 30 years in human resources. Both in the U.S. and Asia. And my last corporate position was as EVP for HR for visa interim foster city. And in that capacity, I was the head of our benefits committee. I was also visa U.S.A. and visa international were separate companies at that time, but we had one board of directors internationally, and that was the board that I sat on, the compensation committee, to represent visa as a whole. And so I had a great deal of experience with our own defined benefit plan. Which we changed while I was the EVP of HR. And visa U.S.A. and visa international shared that plan. So we had to coordinate changing it. The board of directors had asked us to reduce it basically, because it was as many pension plans were, extremely rich as was our 401(k) plan which we had to reduce. And so we worked very closely obviously with our ERISA lawyers, and with our advisors in coming up with a way to change the plans going forward, while grandfathering the current participants of the defined benefit plan. And we did so successfully. I mean, the market at that point also helped us in that it was a very bad employment market. It was shortly after the dot-com bust that we began changing the plans. It was not, I might add, as bad as this current recession. And so I have always been very interested in the way that one can move forward for a company, which was my experience, not a municipality. And I think that the HR people who have had this experience tend to be a bridge between the employees, management and in my case the board of directors and represent all of the parties. Which I think is very important and is one of my interests. Obviously, as a citizen, I'm very aware of what the states and the cities are going through, because of the pension plans. And was very interested to see that San José in the recent elections had adopted the measures that Mayor Reed had hoped they would, and VNW so you have some ability to move forward. If not backward. But it -- I think it's one of

the issues that's actually facing our country now, not just the state of California. There was a New York times article on what pension plans are doing to the state of New York, as well. And yet you also have to be very aware of those people who are the employees, who are relying on the pensions. And so in my experience, with investment managers, also and listening to them, there needs to be, I think boards of directors expect that there will be impartial people who are not necessarily that involved in investments themselves, and the trades, and that who bring a conservative viewpoint to what's being done in the portfolios. Not from an investment point of view, but from the point of view of the pensioners, as well as the -- in this case, the City of San José, in particular, so that the future pensioners can be protected.

>> Mayor Reed: Thank you. I thank you for your interest in serving. I'll see if we have some councilmember questions. At this point I don't have lights so wave of hands would be appropriate. Councilmember Pyle.

>> Councilmember Pyle: Thank you so much for being here today, and bringing us all --

>> Mayor Reed: Councilmember Pyle can I get I to bring up that microphone.

>> Councilmember Pyle: In this important position. I'm very appreciative as I'm sure my colleagues are for you being here. When you talk about visa international I'm not sure what that encompasses but I would guess at least three quarters of the countries in the worlds.

>> Visa international, yes, it operated in -- visa international, when I was with it, it's now gone through an IPO so it's an independent company. It was a association of banks and financial institutions, it was over 500 members. It's a payment system, the banks who manage your credit card. So we were global. But we were not ourselves operating in all the countries. We had a presence in many of the countries around the globe. But it was a very small organization, actually. There were 5,000 employees. I worked for Citibank before that which was far larger before the merger with travelers. So that had well over, almost 90,000 at the time I was working for it.

>> Councilmember Pyle: As we look at unraveling, can you look at one thing that is an absolute must to recover?

>> Are you talking about your own pension plan?

>> Councilmember Pyle: Any pension plan in the United States.

>> I think the must is how you change the pensions going forward. That is tremendously tricky obviously from the point of view of lawsuits and litigation. I don't think the way that many of the defined benefit plans in most corporations in particular have moved off into 401(k) plans as opposed to having defined benefit plans. Our plan at visa was a four to one match when I got there. One of the things I did with the -- it was Huett at the time, we went through a study of all our plans and how we could balance and what the cost was. The defined plan and the 401(k) plan were astronomical. And the way we changed that was really to a one to one match. But for people who had ten years with visa, or hit the ten years, we gave them a two to one match. But our plan was -- all of our plans were extraordinarily rich because we didn't have equity. And so we tried to move to something that would allow a long term incentive plan in cash. But that wasn't nearly so rich. But we could only do that with new employees.

>> Councilmember Pyle: Tier 2 is a must.

>> Which I think is what you're facing here, it's the new employees.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you mayor and thank you for applying and your interest in this position. Can you explain to us your viewpoints as to the role of a fiduciary of a pension plan and how that relates to independents?

>> The first part is fiduciary responsibilities. I think that obviously, the main responsibility initially is to make sure of the health of the plan. That you have the correct advisors, that you've done the due diligence with your advisors, looked at their performance over hopefully ten years, and that at this stage you're in better shape to look at performance. Because we did have such a bad market for, still do in some ways. So you're not looking at boom years of performance. And you can get a better assessment of what your advisors, your investment management advisors have done. And benchmark them against others, I would assume that you also try to benchmark other cities who have been more successful perhaps, or you consider successful. So it's really the health of the plan initially, I think is one of the main responsibilities. I think you have a fiduciary responsibility to the city. And the taxpayers of the city. I think you have a fiduciary responsibility to all of the pensioners, both present and future. And I think those are the main fiduciary responsibilities. I think in terms of independence there's always a lot of press about how different investment managers and interested parties will try to wine and dine, and involve the board members in I guess one could call it favoritism. So I think from an independence point of view, it's transparency about your own financial situation, as well as maintaining a healthy distance from interested parties.

>> Councilmember Constant: Very good. Thank you very much.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you. And thank you for your interest, Ms. Rounds. You referred to the fact that you've, visa, you were very involved in the conversion of the plan from defined benefit to defined contribution. When that occurs is it likely that actuaries will deem the original plan closed, and adjust the discount rate at that point?

>> The plan didn't close. Because there were so many participants were still at visa.

>> Councilmember Kalra: Not that the entire plan closed but if you go from a defined benefits, defined contribution as you've -- (inaudible) (inaudible) (inaudible) (inaudible).

>> Became it just became a more modest.

>> Councilmember Kalra: If it had gone to a complete conversion would the original plan then have to have been deemed closed as it converted? It would eventually have to close out.

>> I think it would eventually close out the plan as people left the company who were grandfathered. But you know, it's a young company. Now we also, the reason we didn't go completely to a 401(k) plan again is we had no equity. So we didn't -- you know we had to be very balanced in how we looked at our -- at our incentives. Because we were competing with the valley.

>> Councilmember Kalra: And if a municipality like the city were to do something like that to convert to a defined contribution what, effect would it have to the City's plan, what if any -- would you foresee any difference in the City's contribution level to the plan going from defined benefit to defined contribution?

>> Yes, I think there would be -- there would be a big difference. Is that your question?

>> Councilmember Kalra: Yes.

>> Yes. I mean going forward I think it would help you enormously. But as you got to the contribution I mean I think that the real -- the real issue for us was communicating what we were doing. I wasn't the expert in terms of how the plan itself was going to work. I mean we had -- you know, we had hired compensation consultants and lawyers to really spell out the details of it. My role was far -- was really ensuring that we rolled it out properly so that all of the employees understood exactly what it meant for them. And had an opportunity to answer, you know, have all -- excuse me -- questions answered because what we were really -- and we were clearly concerned with, was that we would have litigation. We had none, as a matter of fact. I mean we didn't -- we had absolutely not one suit brought against us when we changed our plans. Either the 401(k) or the defined benefit. But we retained a defined benefit plan. We didn't go to a defined contribution plan.

>> Councilmember Kalra: Thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying, just a real for the sake of brevity, real simple answer, if you were starting a new city, the city management of that city, defined benefit or 401(k) which would you choose?

>> I would probably choose the 401(k).

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Thank you very much. Appreciate your interest in this very difficult job. Thank you for joining us. I'm sorry, Councilmember Herrera had a question. I missed it.

>> Councilmember Herrera: (inaudible) (inaudible) presentation thank you so much for applying for this. Ing I don't know if this has been covered but one of the things we do on the board is those applying for disability retirement we handle the retirees that are coming through administrative side, we have a high rate of disability in the city. Can you tell me from your perspective have you ever been involved in administering that side of things? Given the boards isn't expert in disability --

>> We did administer disability and we did have to make the decisions about who was going on disability . I have to be candid that it was -- for the most part, we had very little influence over the disability. I mean it was very hard to challenge it. But we did look at every disability case. And ours was less on disability retirement that I got involved in. It was much more that people just went out on disability and we just got involved in HR, also administering when they would come back. But we had very clear disability policies within visa as well and within Citibank. Which may have been more flexible than your city disability with the firemen and policemen.

>> Councilmember Herrera: If you have a blank and coming on the board and figuring out how to deal with this, had experience, the board did make a decision, this is a decision the board members make given medical input and input from a physician that works with the board, do you have any ideas structural how best to look at that ongoing issue?

>> Well, I think that you would have to decide, with the medical -- I don't know whether you have any flexibility over your own policy fund with disability. But I would say one of the things you had to be very clear on was what your own parameters for disability are. And that that, with your medical and your -- and your employment lawyers, as well. We were very careful with the disability, because it was very, you know, once a doctor had said, somebody was on disability, it's very difficult to challenge the doctors.

>> Councilmember Herrera: And let me be clear. These are folks that may have retired on disability and come back and are asking for service connected disability, which means that something happened while they were employed with the city in that function and I sit on the police and fire retirement board so I'm focusing on that.

>> I have not had that kind of experience.

>> Councilmember Herrera: Okay, thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Elizabeth thank you so much for your interest, your background is extraordinary and I appreciate all that you've done at visa and Citigroup and elsewhere. Given all the problems you know that we have in this pension -- in both pensions, what question do you think we ought to be asking of a person in your position and the other candidates to really get at what we need to, to be able to move the funds in a positive direction?

>> Well, I think -- that's an excellent question. Because the questions I've had is to what extent can you, going forward, still attract, you know, employees and particularly firemen and policemen as you grow in this city. I mean one of the problems that you're facing as a city that's growing and a budget that's shrinking in some ways. I mean having problems. And so I think the real -- the real question I would ask is how soon you can move to effect change in your pension plans, and particularly around the issue of your supplemental plans and the bonuses that you've been paying. And that it has to be fairly immediate, I would think, but that the real question you have to get is how are you going to get buy-in from the firemen and the policemen? I saw that they had raised quite a bit of money to oppose the measures that were proposed. And so part of the -- part of the problem you're going to have is not having any actions. And how you really communicate, how you realize manage the constituency that is active at this time.

>> Councilmember Liccardo: Thank you.

>> Does that answer your question at all?

>> Councilmember Liccardo: I think so.

>> Because that would be to me one of the big problems you're going to face.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: I think we're completed. Thank you very much for your interest. You're certainly welcome to stay. We're going to be here for five or six more hours it looks like and it's not required. We won't be offended if you decide to leave. Clerk will bring in the next candidate. Good morning, the clerk didn't tell us your name.

>> Stuart Odell.

>> Mayor Reed: We'll let you talk a couple of minutes about why you'd like to be a member of the board and have some questions and answers. So take it away.

>> Well, I was asked to apply for the position. And didn't know anything about the retirement boards. But bottom line is: I'd like to be able to help. I think my background and experience is something that where I would add some value to this group. I have no vested interest in other than wanting to help. I serve on -- as chairman of the investment committee for guide dogs for the blind in San Rafael. It's a volunteer organization, that's purely what I do because I want to help. There's really nothing beyond that. It's basically, if I've got the experience and I'd like to use it in other ways, I'd like to do that.

>> Mayor Reed: Thank you for your interest. I'm intrigued that the \$10 billion of assets that you manage for Intel. It's a pretty big number. Although we have several billion of our own that have to be managed.

>> Councilmember Constant: Thank you for being here today. How do you think your experience in Intel is going to serve you, in other words, what are you going to be able to bring that will assist our boards, whichever boards you may or may not be appointed to?

>> Well I think there's a number of areas. But probably first and foremost, around the investments, the asset allocation, thinking about you know, resources to be able to invest in asset liquidates, what it realize takes to find alpha, if that's the direction that the board wants to go. How to construct portfolios. I think that's probably where I spend 75% of my time. I think in other areas, around potential changes to the plans going forwards, should defined contributions start to become something that they want to look at, obviously, I have a lot of experience on the defined contribution side, both from the plan participant side, so how do employees make decisions around investments, et cetera. But also on the administration side. So you know how do you set up these systems and educate them and to be able to manage their own retirements. So there's a couple of different aspects. We do have a pension plan at Intel as well, although it's not a traditional pension in the sense, and maybe I should explain that with the \$10 billion it's roughly broken into two major buckets. One is an employer driven profit sharing plan and that's where we spend the bulk of our plan. And that's really managed like a pension or an

endowment or foundation. The objective is to generate a rate of return that's sufficient to provide a retirement benefit to our participants. Intel then backs that up, and that is defined contribution and Intel backs that up with a minimum pension guarantee. So we manage both plans. In the pension plan we actually manage in a liability-driven structure. So it is a fairly small liability for the corporation. It's about \$600 million. So given Intel sitting on \$25 billion in cash, we fully fund those liabilities and protect them. So we don't need to take a lot of risk in the pension side. But on the profit-sharing side we really invest for long term rate of returns. Which I think is similar to the way the assets in the employees' retirement system here are invested for a long term rate of return. So maybe that structure gives you a sense. And then the other roughly \$4.5 billion is an employee-directed 401(k) structure. And all of the work that we do on the profit sharing side, all the institutional management is made available to the participants in a 401(k) structure. Our employees at Intel actually have access to hedge funds and private equity and real estate, not the in a direct way but in an indirect way through something called target day funds which are diversified portfolios. So very unique structure at Intel that I developed, basically starting in 2004. To what we hope is give our employees access to institutional investment management in a defined contribution environment. So that's maybe a little background to give you. It's not just \$10 billion sitting in a traditional defined benefit plan.

>> Councilmember Constant: Great, well thank you and if Intel ever wants to fund our unfunded liability we're surely open to that. Thank you mayor.

>> We can talk about that.

>> Mayor Reed: As soon as we get repatriation through the United States Congress they'll be able to help us. Councilmember Pyle.

>> Councilmember Pyle: Thank you for being willing to volunteer for this position. I really admire your community spirit, the fact that you're with guide dogs for the blind speaks highly for you. Thank you.

>> Sure.

>> Councilmember Pyle: I had a question, when you talked about qualified and nonqualified what would that look like? You said Intel had about \$10 billion in qualified and unqualified funds.

>> Erisa funds, that gets recorded as a liability on Intel's liability sheet. We hedge that liability and my team is responsible for the assets and making sure that that liability is properly hedged, such as there are sufficient assets to pay out those deferred comp benefits when the participant retires.

>> Councilmember Pyle: And then when you talk about employees at Intel how many are we talking about? It is worldwide.

>> Worldwide Intel has about 90,000. The primary plans that I was talking about here the 10 billion represents 46,000 active U.S. participants. I do get involved in the non-U.S. plans as well. It's generally more of an advisory role rather than a direct responsibility, because of local laws in other countries. So generally, in places like Ireland and the U.K. you may have directed trustees or actually local trustees. So we act as an advisor. Because ultimately the liability comes back to the corporation. And Intel is ultimately responsible for funding any shortfalls in those pension plans outside the U.S. So we try to influence. But we don't have ultimate responsibility for those plans.

>> Councilmember Pyle: When you say that Intel has 25 billion in cash --

>> Yes.

>> Councilmember Pyle: -- you're talking about holdings and --

>> Corporate. I'm talking about the company. Intel generates about \$25 billion a month. Buy backs we'll give it back to the shareholders.

>> Councilmember Pyle: Thank you so much.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you for applying. Your background is great. I noticed on the application, the one I'm looking at says you want -- you were looking at the Plaintiff plan.

>> I said yesterday I'm not wedded to one. Growing up I was a volunteer fireman so I have just a personal interest in wanting to help them. But I'm willing to serve wherever you think is most appropriate.

>> Councilmember Herrera: Okay, I thought you had looked at the different plans and saw certain challenges in the police and fire.

>> I'm willing to serve where you motion want me to serve. First thought I would help the police and fire if I can.

>> Councilmember Herrera: They also have advisors that help them make those decisions and how does Intel stay out of the business of giving any advice or anything like that ?

>> We don't provide investment advice, that does cross the line so we're allowed to go as far as education, which is getting an employee up to the point of saying, here's the asset allocation that may be appropriate for you but in terms of saying you should invest in this fund or this fund that kind of crosses the line over to investment advice. We don't provide investment advice direct to our participants. When I spoke about the institutional investment nature, they are bundled into diversified portfolios. So the participant simply has to choose, I want to be in the target date, 2045 funds, which is designed for someone who is retiring in 2045. Inside that portfolio we will take hedge funds, real estate, equities, fixed income, et cetera and build a diversified portfolio designed for that target date. So they're not sitting there picking, I want this fund, this fund, this fund. We really try to make the investment decision for the participant as simple as possible. And now, we do give them the ability to go off the reservation, so to speak and they can choose individual options but alternatives are not one of those. So in other

words the employee can't say I want to be invested in you know, bridge water global, global alpha fund, pure alpha fund. We do not allow them to do that. But they can say I want to be in the target date 2035 fund which has exposure to a global macro manager for example.

>> Councilmember Herrera: It is a defined asset fund, and he we have a defined benefit fund.

>> Yes.

>> Councilmember Herrera: How would you feel about the divined contribution?

>> You mean moving towards a defined asset fund?

>> Councilmember Herrera: House wows feel about it?

>> They don't have the knowledge the time or the interest to make investment decisions themselves. He they were never equipped to do that and you're never going to be able to train them to make good decisions. It's very important that the plans be defined if you go to defined contribution in such a way that the default drives the behavior that you ultimately want in the investment choice. So inertia is an incredibly morful force.

>> Councilmember Herrera: Do you have a thought, from your perspective, whether defined benefit --

>> Personally if you could affords to stay with defined benefit it is ultimately the right decision for people. It is about whether or not the city can afford to take on that risk for the foreseeable future. But from a participant apples perspective and particularly I think in these areas of Police and Fire, et cetera, these are people that work for 30 or 40 years at your organization. Inat Intel the average employee stays seven years and he they leave and they take what they have with them. That's very different from somebody who puts in a career. So I think at the end of the day, defined benefit is a much better retirement structure for somebody. Now, whether it should be 95% of their final average pay, you know, those things I think you have to decide what's an appropriate level of

benefit. I can tell you at Intel our objective is is an employee retires from Intel at somewhere around 70% of their final salary. The many perspective is that soarkts will make up some of that. Only half of that is Intel's contribution to their retirement. The other half is the expectation that the employee puts away. So it's an quam sharing arrangement such that Intel will put in half, you put in half and if you invest that over a career, that you should have adequate replacement salary to meet your needs in retirement. So it's very much a shared responsibility in the structure that we've set up.

>> Councilmember Herrera: So our fund currently doesn't -- it's not 50-50 in that way.

>> Sure.

>> Councilmember Herrera: And he we have a tremendous unfunded liability that's growing.

>> I understand.

>> Councilmember Herrera: My concern is in the future we have a sustainable situation, we can truly pay out the benefits to our retire ease.

>> Absolutely.

>> Councilmember Herrera: Where do you see the unfunded liability and how would you address it?

>> Well, there are a limited number of levers that you can pull, based on where things are today. You can obviously take more risk, and try and achieve a Meyer expected rate of return to meet that gap. You can reduce benefits and tries and meet that gap. You can also increase contributions to try and meet that gap. But as I see it, you really only have those basic levers, around those are all difficult decisions to make. Obviously increasing risk to increase return comes with the down side much that. And I think that's a huge tradeoff. Because if you reach too far the draw-downs are not recoverable. You have reached too far to take too much risk on the plan. So I think

that's a big challenge. I think the concept of shared responsibility to the extent there's the ability to educate your active employees about potentially increasing their contribution, and if I recall it's maybe 10% of their pay they're putting in today or somewhere around there. That's not insignificant, I can tell you. It's higher than the average contribution rate for employees at Intel. But that may be you know one of the things that has to be you know you try discuss with your participants about if you want this high level of retirement benefit, we need to share in this responsibility going forwards.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Stuart, thanks for your interest. Very impressed by everything you've done at Intel. Given the fact that we have many candidates to interview, to help us, what do you think is the question we should be asking candidates, particularly mindful as you are about the enormous unfunded liabilities that our plans have?

>> The question that you should ask candidates, if the role here I presume is not to decide what benefit you are going to provide participants going forwards but really dealing with the assets as they sit today, the primary role is to really understand their views and the value-add that they can bring around -- around asset allocation, around dealing, working together with the staff, the professional staff that's actually managing the plans on a day-to-day basis, understanding what it is they're doing and how they're doing their job and make sure you're monitoring that role appropriately.

>> Councilmember Liccardo: Thanks.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thanks for applying. Looking for a short answer. If you were starting a brand new city would you do a pension plan or a 401(k) plan?

>> Starting a brand-new city, I would -- I would probably do a 401(k) plan. But I would limit the investment options that they had available to them. And I would make sure that you defaulted them into a well-diversified portfolio that was appropriate for their age and risk tolerance.

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Thank you very much. Thank you for your interest in this, appreciate your coming in and taking the time. Welcome to stay, understand you have a job and we won't be offended if you leave. Thank you. Bringing in next candidate at the current rate of progress looks like we'll be done about 3:30. So we need to get the candidates' answer shorter and move it along so try to ask them questions that maybe will be a little bit shorter for them to answer, it would be helpful. Because we're scheduled -- well I know there's a committee meeting this afternoon. Public Safety meets this afternoon. Kind of like to get done before that committee needs to convene. I think we divide the group into two, the second group is coming in at 9:30. I don't think we have gaps in time to get candidates in to talk to us. Good morning, welcome. We need to figure out what your name is because we're not sure exactly who's up.

>> Damon Krytzer.

>> Mayor Reed: Thank you very much for your interest in this very important job. What we do is give you a couple of minutes to tell us why you're interested in being on one of our bonders then we'll do questions and answers so take it away.

>> Okay. I don't know how much everyone knows about my background.

>> Mayor Reed: We do have the application in front of us.

>> Okay, okay. You know, why I'm here is pretty simple. There aren't many times in your life in your professional career where you have an opportunity to be really be intellectually honest, to have a stake in some way, whether it's a bias or whether it's clear or unclear and this is one of those cases. Just a place to really be intellectually honest, to manage the plan for what it is, to manage the plan for success.

>> Mayor Reed: Okay, questions? Councilmember Oliverio.

>> Councilmember Oliverio: Thanks for applying. If you were starting a brand-new city would you do a pension system or a 401(k)?

>> That's a deep question.

>> Councilmember Oliverio: Doesn't have to be a long answer.

>> Yes yes yes. Realistically a combination of the both. If you are starting a new city would you do the same? I think the reality ask that there is a responsibility to protect people from themselves in a lot of ways. You know, and not allow people to just invest as they see fit. I think there's liquidity issues as well and a lot of conflicting interests that maybe outsiders don't necessarily understand, so I think the idea of a pension fund is quite important but at the same time he we are in a country where you do need to take personal responsibility on yourself so the onus doesn't necessarily need to fall on the city.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: The Police and Fire and the Federated, how would you compare them?

>> My interest from the academic standpoint is the same.

>> Councilmember Herrera: Unfunded liability is a huge problem. With both funds. And how would you see that in terms of your participation on the board and how would you address it?

>> When ways back at UBS I ran a total return swap strategy for pension funds and two of our clients, this was back in 2004 where GM and Marsh McLennan, quite different from each other. GM had a deep boards, they didn't have a lot of finance experience Marsh on the other hand are financial engineers and they needed to be protected from themselves. They were quite sophisticated. But both groups had a very large unfunded status, their assumed rates of returns were 8.5%, markets very much negative. Both had unfunded health care liabilities as well, they had considered trading out of it. They wanted to change the strategic portfolio and reflect more what was happening on the world now. We spent more time educating on allocation. There's certain things could you do with an unfunded or underfunded status. One of them is not necessarily try to trade out of it. I think it's just to really understand where returns are coming from in the market, understand and reinforce the allocation. But then try to be opportunistic, as much as you can within asset classes, to try to trade your way prudently out of it. The other side of the thing is clearly the spending side. Frankly, I don't know what the -- what the role of individual board members is there, versus you know that being a political process. But you know I think that that's clearly something that needs to be addressed as well.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor and thank you for applying. I'm really impressed by your resume and your educational background.

>> Thank you.

>> Councilmember Constant: I think you obviously have the ability to do this kind of work so I'm glad we have an opportunity to interview you.

>> Thank you.

>> Councilmember Constant: Understand you have quite a bit of experience in risk analysis.

>> Yes.

>> Councilmember Constant: And as well asset allocation. Have you had an opportunity to look at the asset allocation mixes of the individual funds?

>> I did.

>> Councilmember Constant: Do you have any brief recommendations? What's your opinion based on what you have seen?

>> My biggest concerns was regarding the attribution of the funds themselves. The fact that -- I'm sure it's studied but the fact the risk for the amount of return wasn't reported. A lot of the managers themselves in the asset class were looked at from a pure asset standpoint, how are they doing, in the statement, it says managers are expected to perform in the top half their peers. If someone is taking four times the risk and they have a certain risk makeup to get you know, to stay in the top two, you know 2% of their peers, is that acceptable? I suggest not. The other area that was interesting and again, likely studied. I think in the Police and Fire portfolio six point something% was coming in technology. Right? that was the sector allocation within equity was in technology. But it didn't talk about the amount of risk. I had in the past had a client who had 20% of their equity portfolio in technology but because of the volatility in technology 75% of the entire risk of their portfolio came from that 20% position so in essence removing that 20% position would lower the risk of their equity portfolio by 70%. How do you look at the return of the portfolio and tries to quote unquote trade out of a spending deficit prudently? Well it's really looking at the risk side of things. You can't control a return. You could project return. Risk you can control depending how you're defining it and that's also a little tricky but understanding where the risk is really coming

from is really the first battle and I didn't see that in any of the documents. I also had a more of a question than anything else on the allocation to alternatives. I think there's a very large home bias from an equity standpoint still and I believe the portfolio at least in my opinion right now is pretty underweight internationals, you know given not so much what's happening in the world but where the world is going. There is a lot of opportunities overseas that are significantly underweight with almost a two to one domestic to global. But the allocation to terms seemed a little inflexible in its large size. And I guess my question more than my comment is, what's really -- what's really inside of the alternatives bucket? Because a lot of persons qualify trading strategy that fall within domestic equities or international or other areas. So I guess I'm a little -- there wasn't enough transparency into alternatives and I think that the portfolio should have less of a home bias and more of an overweight. One last comment to that as well is I noticed the international portfolio had good managers in it but they were all based in the U.S. There were no foreign based managers working in local markets. Every single one of them were in Pennsylvania or somewhere else in the U.S. and I suspect there are some really tremendous managers overseas who have on the ground folks that may be an interesting component to the portfolio as well.

>> Councilmember Constant: Thank you very much. That was very insightful.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Damon I also want to thank you for your interest, particularly given your impressive background.

>> Thank you.

>> Councilmember Liccardo: Sitting as we are in a position of being far less sophisticated with these investment decisions than the candidates we're interviewing and knowing the challenges he we have with these funds the huge unfunded liabilities what questions should we be asking of candidates sitting in your position?

>> You know I spent a lot of time initially looking at the current portfolio, looking at 2008, 2007, and I kind of felt it doesn't really matter, right? What's important for you folks to understand is the thought process and the fact manner how people make decisions, the decision making process in general what goes behind it rather than specifics to the portfolio. The portfolio has been changing quite a bit, right, there's a change in allocation, so I think you know, however in the past you've gotten to someone's thought process, is probably the place to start. Thank you. That's not very specific but --

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: I have a custom quick questions. Where were you an adjunct professor? Good I am now at University of San Francisco at the business school. I teach alternative investments.

>> Councilmember Pyle: Wonderful. And you do refer to some your classes in trust law. So do you have somewhat of a law background?

>> No. It's been by fire, unfortunately, working with a lot of pension funds.

>> Councilmember Pyle: Right but that's definitely an asset.

>> My asset liability experience is the same way. You know, I have an academic accounting background. I've never been a treasurer or accountant but done quite a bit of that from a client standpoint.

>> Councilmember Pyle: Being an asset manager for Oppenheimer is not thank you for coming down to talk with us and place your opinions. You have some very valuable experience here. What is the total investment with Oppenheimer?

>> I actually before I came in I left O'Byrne three weeks ago or so to start up an investment partnership with a few folks. We're investing in financial institutions, distressed financial institutions in frontier markets like Latin America, Africa, Eastern Europe.

>> Councilmember Pyle: Is -- does that have anything to do with the fact that in '07 you helped to develop a new currency in sub-Saharan Africa?

>> It has everything to do with it. I worked with him by out of it in Oppenheimer, what was hopeful that was going to be a portfolio we were going to be able to distribute, as well as the coos we built a portfolio for long dated debt to microfinanced institutions our back we had a really interesting structure that I won't bore you with but we had development banks, Spanish credit bank, German development bank KfW those were our investors so we raised long term short about \$180 million all said and done and the configuration year we were able to place \$13.5 million of it. There is so much subsidized money out there getting right to the chase we realized that there aren't enough institutions that have the transparency and the controls and the organization in place to be able to accept this kind of money so we started to look at what consolidation would look like in some of these markets to create bigger more sustainable banks. So my partnership is working with what's called tier 2 sort of smaller but developed institutions to recapitalize, reorganize and buy up some of the smaller institutions to make larger most sustainable institutions.

>> Councilmember Pyle: Sounds like a lot of fun.

>> It is a lot of fun.

>> Councilmember Pyle: Did you live in Geneva at that time?

>> I lived there about six months, half that time. Excellent chocolate out there.

>> Councilmember Pyle: Yes. Excellent chocolate.

>> Mayor Reed: We appreciate your interest. You're welcome to stay but we're going to be here a while. Looks like our next applicant will be Sean Bill, according to the list. Morning. Welcome. Are you Sean Bill?

>> Yes. That's correct.

>> Mayor Reed: Got the right person at the right time. Thanks for your interest in the particular position. We'll give you a couple of minutes to talk about why you want to be part of the retirement boards.

>> Thank you for the opportunity. I basically looked at this as an opportunity to contribute a bit back to the community. California's been he very good to me, and I was looking for an opportunity in the Bay Area, graduate of Bellarmine and grew up here and was trying to see how I could use my experience to have the biggest impact and have been involved in the fixed income markets for the last 16 years. Started out before the Chicago board of trade, working on the floor, and then came out to Los Angeles, and joined a fixed income manager, Bradford and marzac, started out trading treasury bonds, went on to be the mortgage and asset trader and corporate bond trader. The firm grew from 3 billion to about 10 billion during the four years I was there. Created an opportunity for me to get exposure, move up in the firm. Became the senior corporate bond trader, working with a group of six analysts, two portfolio managers, one high yield one investment grade. And responsible for about \$2.5 billion worth of corporate bonds. So I think that opportunity has given me a lot of exposure to you know everything from treasuries to all the way up to high-yield bonds. From there went into the hedge fund side of the business. And focused on global fixed income markets, primarily interest rate swaps and currencies. The people that I joined were from Pimco and that firm grew from 25 million to \$150 million under management. That experience introduced me to some of the more complex sides of fixed income in terms of forward rate he default swaps, interest swaps, currency rate forwards, et cetera. And then from there, joined a broker-dealer which had a proprietary trading desk which was looking to enhance returns on partner capital. The recent regulations have led to closing that operation down because basically you can contribute 3% of your capital for proprietary trading. This firm had a \$150 million in partnership, approximately \$8 billion in client assets. \$4.5 million available, prior to that we had a \$50 million. My wife and I said let's get back to the Bay Area, he we went to Danville and

rented a house, taking some time off and starting to get back into the groove. I came across this opportunity, this maybe an interesting opportunity for to you help out with fixed income and currency type mandates.

>> Mayor Reed: Thank you. Well, it is a great opportunity. Councilmember Constant.

>> Councilmember Constant: Well, thank you, and thank you for your interest in applying, and your interest in our retirement boards. Going through what you said and going through your application, questionnaire, resume, it seems that you have a very, very strong background in the fixed income area.

>> I would definitely say that my contribution to the board would be in the fixed income space primarily.

>> Councilmember Constant: And having -- if you had -- have you had a chance to look at the two retirement board plans?

>> Yes I did.

>> Councilmember Constant: Where do you see -- how do you see your expertise fitting in there and your contribution within that space? I know there will be all the other areas, specifically in that fixed income space.

>> Right. I saw that you had approximately fives to 10% allocate to the core and sounded when I read the guidelines you had 20% of that going to the he emerging markets. Core-plus type mandate so I have been directly involved in managing the core-plus mandate, at Bradford and marzac for county of Mendocino, San Bernardino, state of Nevada so forth. The emerging markets, you know I think that there are some contributions I can make there in terms of I've actually traded them, I've traded Botswana Colombia, the experience of really the whole gamut pi. I also saw that you had alternative investment that was pretty substantial. And I think that's another value I could add a lot of value because my experience on the alternative side as a principal at a hedge fund. Familiar with negotiating those terms. Familiar with, is the contracts in terms of you know swaps, in terms of doing and helping the board conduct due diligence on investment managers, I think that would have some

insights that you would normally have to go to an outside consultant for because we have actually negotiated this, with the help of the lawyers, the repo agreement, reverse repo tips allocation of ten% from what I recall, an area that I am very familiar with, traded Tifs, inflation swaps so very comfortable in that space. I saw that you actually had some allocation approvals for commodity trading advisors and having been at REVCO in Chicago, that was the largest futures merchant in the world. I'm very familiar with how those funds are structured and how they earn their fees, et cetera. And I understand where the pressure points are that you put on in terms of negotiating fees.

>> Councilmember Constant: Very good. That up.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Sean thanks for applying. I'm look looking for an extremely brief answer. If you are starting a new city and had the opportunity to set up a pension plan or 401(k) what would you set up?

>> 401(k).

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you for applying for this. One of the biggest challenges is the unfunded liability.

>> Mayor Reed: Rose the microphone is not quite picking up.

>> Councilmember Herrera: House would you address that, the unfunded liability?

>> When I looked at your guys changes you made to the fund the last year and a half to two years I think that's definitely on the right track. There's some interesting research on this from Steve Drawbe, who has written a book about real money managers working with pension funds and returns. The key drawback is 90% of the return will come from asset allocation. I think pension funds need to spend the bulk of their time and energy on getting the allocation correct. I looked at your guys allocation, 30% alternatives space gives you a lot of flexibility. And then the balance in equities and I actually thought that was very good allocation. I think that a common mistake with pension funds is 60-40 splits, 60 equity 40 fixed income the risk really turns out that equities are about five times more volume than fixed income so you realize end up with a distribution that is more than 90-10. But it seems from reading your investment policies that you're aware of that from what I can see.

>> Councilmember Herrera: Thank you.

>> I think the other point that Steve Drobne's book that illustrates, thought it was very good from what you guys are doing is to bring in outside experts for the boards.

>> Mayor Reed: We are. Bringing in outside experience experts.

>> Councilmember Pyle: You prefer Drew to Andrew?

>> It's Sean.

>> Councilmember Pyle: I must have misunderstood one of your letters. If anyone can go from 3 to 10 billion in four years I'm very interested. In reference to our retirement funds, let me ask you this question first. To get from 3 to 10 in four years you must have had at least medium risk investment. Mostly high.

>> Bradford and marzac is a very similar to like a PIMCO total return fixed income manager that caters to state and county and state funds. I think Ted Bradford was the CIO of Cal PERS in the '70s, fixed income. Growth was

because we were outperforming our by 200 basis points per year we attracted a lot of assets and that helped us grow the business .

>> Councilmember Pyle: So do you see room for investments that will get us closer to where we need to be? In other words, we've been a little soft on that and I just wondered if you see maybe a more aggressive approach but still --

>> Yeah, I think that the key point being that the growth at Bradford was also driven by contributions of new investors.

>> Councilmember Pyle: Mostly VC.

>> Right, it wasn't that it was all market risk or what have you. It was that the funds that were managed were outperforming the benchmark so strongly that people wanted to come in. In terms of the fund here, I think that you know, this is a tricky in termination of inflation versus deflation. There are a lot of similarities between what's hatching now between here and Japan in the '80s so it depends on what your big picture macrotop down view is of what's going to happen but the best chance to play catchup responsibly is looking for the best risk invested return is by increasing that allocation to the alternative space. Even not so much Real Estate and privately equity, but there are fixed income managers that are really spectacular when they are unconstrained. So they can't put a lot of the types of trades on often the traditional pension, you know, core plus mandate so they have to go through an alternative hedge fund structure, you'll see managers in that space add value through curve trades and steepness of the curves and stuff and relative value between countries and things like that.

>> Councilmember Pyle: Thank you. I'm very impressed with your Stanford, Harvard background. Thank you so much.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Sean thank you for the willingness to serve particularly given the extensive background you've got. Knowing that we're in the position of being far less sophisticated, particularly I can tell you I know nothing about fixed income despite sitting on this board a year. I know Russell is looking at me. What questions should we be asking candidates like yourself who are coming into the situation knowing we've got this huge unfunded liability in both plans what questions should we be asking you?

>> Well I think you know, going from a top-down, you know 30,000 foot view that the first thing would be our philosophy on asset allocation. Because that really is the driver in terms of your returns on your pension fund. There have been some studies on this if you look on the Internet, it is a Yale professor, and between 85 to 90% of your return will really come from being -- invest in the right sectors so you know whether it's equities, fixed income, currency maybe a mandate there or commodities or natural resources. So getting those balances correct is really your first goal. You know the other thing that I think would be an interesting one is to talk to them about how they feel about risk. I think that often when you're looking at a portfolio you can be misled by looking at your target return and trying to shoot for that target when you really would be better off to think of everything starting from the standpoint of risk. How much risk am I willing to embrace and then I'm getting the best return relative to the risk I'm taking.

>> Councilmember Liccardo: Thanks Sean.

>> There is also one thing that's kind of interesting, Ontario teachers fund was up and positive in 2008. They talk about how maximizing your portfolio on the frontier is really the goal. It's leverage, 10% 15% because if you are truly operating close to the efficient frontier, you can maximize the returns on the portfolios that way. Without really increasing your risk.

>> Councilmember Liccardo: Thank you Sean.

>> Mayor Reed: Okay thank you for your interest in this opportunity to serve and we really appreciate you coming in taking the time. Thank you. You're welcome to stay, you're also welcome to leave, we won't be offended.

>> When is the time line for your decisions, just curious.

>> Mayor Reed: Looks like about 1:30 today.

>> Oh, okay.

>> Good morning everybody.

>> Mayor Reed: Good morning, I hope you're Andrew Lanza. Right person right time right place. Welcome. We'll give you a few minutes to talk about why you would like to be on one of our boards then we'll do questions and answers, appreciate your interest.

>> Thank you.

>> Mayor Reed: Take it away, couple of minutes.

>> The serntion of civic duty is trowrng all of us given the current nature of our economy and our government. I think we need to build this marriage up between government and the people who know business again. I've recently retired as a venture capitalist. Ooms so that's what's driving knee specifically to be looking for opportunities in this area. Why this particular opportunity? You know, I'm not a fund manager, I've seen the resumes of some of the other people you're interviewing today. You've got a great list of people, people who have served at Cal PERS, hair vardz management, the fellow from Intel. Great people. But I do understand the nature of relationship with people who manage these funds. I do understand the nature of certainly teachers retirement systems as a venture capitalist we raised money and I get this basic notion that we need to both manage the

money well and you certainly have people who know how to do that but we also have to reach out through our relationships especially in classes of alternative assets to the people who are the atop managers. I went to Harvard and Stanford. I'm pretty well connected. You want to know why Stanford gets a good return, a lot of those people went to Stanford. Connections matter. They matter in our sector as well that is sort of what I would bring to the table and sort of what I would like to accomplish.

>> Mayor Reed: Thank you. Couple of questions, Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying, looking for a brief answer. If you were starting a new city from scratch would you set up a pension system or 401(k).

>> Sure why not. I would sippet a pension system or 401(k) you mean either or both?

>> Councilmember Oliverio: One or the other.

>> I would look at something that's a hybrid. There's a lot to be said for defined contribution as well as defined benefit in total. I don't think it really matters which one of those two you do per se. I think what matters is the set of rules around it are sustainable. You know, whoever built this up, did something not too smart over the years. They built an airplane that knew how to go up but didn't know how to go down. You can build a pension system that knows how to go up and down, you can build a 401(k) that knows how to go up and down, you can build a hybrid that knows how to go up and down. I think it depends on the type work the workers are the doing if it were me I'd probably do a hybrid. I like defined benefit. .

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you and thanks very much for applying. Your background's he very impressive. You talked about your relationship is one of the things you bring. In the past I curched serve on the Police and Fire retirement board. How can that be a problem qums.

>> You don't want to give business to one of your friends just because they're your friend. I think the filter needs to be in the right order. I would only apply those relationships to alternative assets. There are a number of managers out there that manage alternative assets like venture capital like real estate who have the very good backgrounds. The way I would go about doing this is I would pick out those alternative asset funds that have high performance then would I look at the relationships that help us get into those funds and not the other way around. It always has to be I'm looking for something of benefit oh and I happen to have a friend there maybe I can get it in. And when you do it the other way around we're looking for the best opportunity and we happen to know a person over there. Maybe that allows us to be the particular VC that gets into that opportunity.

>> Councilmember Herrera: Thank you for that explanation. We also have a tremendous unfunded liability in both of our plans how would you address that and where do you see that in terms of priorities?

>> I think you've already sort of addressed that to the extent you can, you have passed some measures in the recent election. You're obviously looking at changing the guarantees to new employees but there's really not a lot you can do if I read this correctly, our fiduciaries, we have recommend changes at some of the contribution levels but in where I stand you've already taken the steps that you probably need to take to fix this problem, at a first level and I don't know where the solution comes at the second level.

>> Councilmember Herrera: Do you think if investments will grow our way out of it the way the investments are managed globally that will certainly be a contributory manner. But there are people out there who feel we will be at a relative low economy for a long time. So do I think so personally I tend to be an optimist, by nature so do I believe the economy will return and things will start to boom, yeah I do. I think America is a wonderful country, Silicon Valley will solve a lot of the world's problem. The plan is when you design an airplane there are chances that things won't get better and I don't have the answer for that. I would compliment all of you it seems like you have taken all the right steps, there are more steps to the taxicab and the last steps are hazarder than the.

>> Councilmember Herrera: You mentioned 8%, we've changed that to 7.75 going forwards. Do you think that's the right number? Sorry to be putting you on the spot.

>> If I knew that I wouldn't be sitting here.

>> Councilmember Herrera: Do you think it circulate go lower?

>> You know what it seems to be me --

>> Councilmember Herrera: I should say Police and Fire set.

>> I people like if I'm one of you I'm sitting at a roox like at a train switching yard with a lot of knobs and switches on the wall and there's one knob that's marked, what do you knobs marks contributions, in your report you have a lot of other knobs like how do we allocate the assets, do we change what we give to new employees and so on, so forth. Would I turn that knob down, would I turn it from 8 to 7.75, I don't know that answer, that would require an awful lot of more home works but reaching for those knobs and turning them is a smart thing to do. On the off chance that the economy doesn't recover and there's a chance of that. Hard to be more specific than.

>> Councilmember Pyle: My questions have been answered, do I want to say my son went to Stanford, I know all about their aggressive money raising efforts, it's amazing.

>> It's Christmas, I've already gotten three letters.

>> Councilmember Pyle: Thank you for applying.

>> Councilmember Liccardo: Andrew, Drew --

>> Whatever.

>> Councilmember Liccardo: It's all good. Thank you for your willingness to serve, obviously you've got a great background. What should we be asking candidates, obviously we're far less sophisticated than the candidates. What questions should we be scug ?

>> You know I think the report you guys had dun indicate you sort of break the candidates up into two pools, there's two different set of questions for two differently candidates. The guy Cal PERS Harvard management Intel retirement. I think you should ask them very specific questions about how would they structure this pool of money, it should be 8, should be 7.75, should be 7.5. What do they know that the rest of the world doesn't no know? What would three do to generate the best rate of return? Then you have a second group of candidates in your cps I fall into the second group, we also need leadership and judgment there. You may deem to give this over to Cal PERS, that's a hell of a decision. I think the other set of people you need there are people who are capable of making fairly broad judgments, who are capable of leading, who are capable of making tough decisions, and you have a number of other venture capitalists on your list that's what we're trained to do an I think I would then be searching for, Andrews, house would you make the decision, how would you deal with complex questions of management and change. How do you make sure that the funds don't become dysfunctional. The good news is having met most of the people in the room you've got complercht candidates, you've done great job, wonderful people looking to help you here.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: I think you led into answering the question that I'm about to ask with Sam Liccardo's question. That's given the pretty the very good pool of candidates that we have what specific skill set do you see you applying? You mentioned leadership. We know we have some people that have a he very strong risk analysis, others have asset allocation experience. Where do you see is being your one niche that you could contribute most effectively?

>> Your pool of management will be in equities and fixed incomes and alternative assets. Alternative assets is finding the best managers and investing in them. One thing I bring with me is I'm very well connected. Odds are somebody managing that fund will be from Stanford, or Harvard. We can put our helped together we can get into it. That's one thing I bring. The second thing I specifically bring is you have this larger issue, how do we create a functional board, how do we make difficult decisions like meshing with Cal PERS, I can sit with large groups of people and regret them to starts to talk and start to run sfnl kinds of agreement. In virp capital, many people from all different background to form companies and work together and we do that every day. That's the skill set would I bring.

>> Councilmember Constant: Great, thank you very much.

>> Sure.

>> Mayor Reed: Thank you. Thank you for your interest. You're welcome to stay. You're welcome to go. We won't be offended either way.

>> I'm going to go. May I say, compliments to all on your staff. The materials on your Website were excellently done. I have high hopes that given that fact you can find yourself out of this conundrum to a brighter day.

>> Mayor Reed: Do you have any inclines who would like to invest?

>> We can look at that. Thank you and have a nice day.

>> Mayor Reed: Welcome. I hope your bijan Foroodian. If I didn't pronounce your name, tell me about that and we'll give you a couple of minutes to tell us why you want to be on the board.

>> What is it --

>> Mayor Reed: Anything you want to say, why you want to be on the board or nothing at all. We've got questions.

>> I guess the main motivation is I feel I may have some of the necessary skills to do this role.

>> Mayor Reed: Pull that microphone a little bit closer to you.

>> I feel I have some of the necessary skills to participate and have this role. And motivation to be of use, using my skills. So those are the two key things I would say.

>> Mayor Reed: Thank you very much. We have a few questions. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying. If you were in charge of creating a new city, and that city was going to start from scratch and choose a financial plan, would you choose a pension system or a 401(k) system?

>> I guess it would depend on a lot of different things. The tax regime that's in place --

>> Councilmember Oliverio: It's brand new from scratch it's your decision, you can choose, what would you like?

>> Can I change the tax regime as well? I would say if it's public employees then naturally it would be the scheme that you have. In the private sector, the 401(k) gives people more choice so they would be more involved in the direct decision making of how they see their future. So I would say for the city would I go for a retirement scheme.

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor and thank you very much for applying. In your application, the questionnaire portion. You state that you have a background in risk modeling. Can you tell us how you feel that would help the governance of either of our two boards and why, how would you fit in?

>> Actually, I had a similar question asked of me, I believe, two days ago, on the telephone. And I actually worked hands on on the modeling itself. In addition to that, I've supervised and then reviewed written proposals and then in my different roles that I've had in the past, and also been on the receiving end of other people doing the risk reporting and reporting to me. So depending on the infrastructure within the two retirement funds, and hi some brief information in the publications that were sent out, mentioning that there were some CFAs that worked with this scheme and various other accountants so I'm not quite clear what capacity already does exist within the retirement scheme. So I would say you know depending on the consultants that are engaged, what capacity exists, I could do anything between actually drilling down to individual investment decisions and investment holdings, aggregating between portfolios writing the report and reviewing it as well. It depends what capacity does exist within the scheme.

>> Councilmember Constant: Great, thank you very much.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you so much for applying we he really appreciate it. You went to the your University of Oxford, for engineering. What type of engineering?

>> It was called engineering science, it had a little bit of civic, electrical, or I would say it was engineering science

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>> Councilmember Pyle: I visited that university often three occasions I love to go there. at the University of London you started to realize your passion for finance and capital and investments I would think.

>> Yes. Actually, when I was at oxford I actually developed an appetite for that. It's just in those days the capital markets were kind of beginning to deregulate. And the investment banking was just as appealing as accountancy. And this was in the U.K. And the tradition tended to get a broad understanding of everything by doing accountancy first. And then specializing in the finance area. So I started off doing accountancy which covered law and accounting economics and a variety of different subjects with a view to going into finance at a later stage.

>> Councilmember Pyle: Thank you, I appreciate that.

>> Mayor Reed: Thank you. Are there any other questions? Councilmember Liccardo.

>> Councilmember Liccardo: Hi, bijan thank you for your interest. What question do you think you would ask if you were in our position, knowing that we're far less sophisticated about investment issues, than the candidates who are here in front of us? Knowing the very serious challenges we have with our plans, the unfunded liabilities, what questions should we be asking you?

>> I think it would be a combination of assessing the technical capacity, to the extent that is possible to do. And a more broader overall perspective of the overall economy, I would say, because that's going to be one of the determining factors of the difference between where the investments are going and the actual costs, expected costs in the future so it's a bit of a actuarial question as well. So that's my perception.

>> Councilmember Liccardo: Thank you bijan.

>> Mayor Reed: Further questions? Okay, thank you so much. Appreciate your interest, thanks for coming in taking the time you're welcome to stay or go. Either way. It will be fine with us and we've got quite a few, quite a bit more work to go.

>> Appreciate it.

>> Mayor Reed: Thank you. About good morning, hope your you're Michael Flaherman. We'll give you a couple of minutes to talk about why you might want to be on one of these boards and we'll ask some questions. Take it away.

>> Sure. I would very much like to be on one of the retirement boards of the City of San José. Most fundamentally the reason I want to be on the board, one of the boards is that I support enthusiastically the mission of the retirement systems to provide a defined benefit pension to the participants. I think that many people who have a lot of expertise in the financial industry at this point are not very supportive of that mission. And I think actually that's somewhat of a distinguishing factor in my case. I have, I think, a lot of very relevant experience to the role. I spent eight years on the board of Cal PERS the pension system for the state of California and chaired the investment committee there for the final three years that I was on the board. I also chaired the benefit administration committee there for four years, which is responsible for things like actuarial policy. For the last eight years, since leaving Cal PERS, I've worked in the investment management industry for a firm called new mountain capital. We are an alternative asset firm that runs a \$5 billion private equity fund and a hedge fund of about \$1.7 billion. In that role, I am the partner in the firm responsible for interacting with our investors. That means that I spend my time traveling around to pension systems all around the U.S. and around the world. Like systems like the City of San José. San José is not an investor. And that experience has given me the opportunity to deepen my understanding of how pension systems work throughout the U.S. and around the world and it's also given me an opportunity to learn more about the financial industry and the process of making good investments. So for all of those reasons I think that I could do a good job for you.

>> Mayor Reed: Thank you. Appreciate you coming in. We'll have a few questions I think. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for plying Michael. If you were starting a brand-new city from scratch and you were in charge of choosing the retirement plan would you choose a pension system or 401(k) system?

>> It depends on the goal of the pension system. The benefit of a defined benefit pension is that it should, over the long term, provide for a given benefit level, a lower employer cost. And the reason for that is because by pooling everyone's assets you can gain efficiency. You spread out risk in a way that allows you to take more risk with the same ultimate expected -- or you can take more risk without experiencing as much down side. And you also get the benefit of expert investment administration which you don't have when you leave people on their own with a 401(k). So from the perspective of an employer, the city, I think the lodge term cost minimization favors the defined benefit approach. You can construct arguments in favor of the 401(k) if you have different aims like you want to have an employment policy that favors short term employment and high turnover, then people would be better off with the 401(k).

>> Councilmember Oliverio: Okay, thank you. One other question. Since you sat on the Cal PERS boards were there decisions that were made by the policy makers that bewildered you on how to keep up with policies and having the responsibility of getting a return?

>> I'm not sure if I understand the question.

>> Councilmember Oliverio: I think over the years increased benefits you know you sit up a system to provide a defined benefit for a pool of people, but then policy makers may increase that benefit mid stream and Cal PERS has to deal with funding to make up for all those increases compensations.

>> In my time, at Cal PERS there was actually a benefit improvement that was enacted by the legislature. It happened I think in 1999, when the system was dramatically overfunded. And it, in retrospect, didn't turn out I

think the way the legislature thought that it would because of obviously what happened in the financial markets since 1999. But it wasn't -- it wasn't a situation where we were handed a new, unnodded liability and then left cram being to find a way to fund it. It was a situation where essentially the apparent surplus was spent down, but the system was still left essentially fully funded. So I think it just didn't -- it didn't realize happen is really the answer.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you. And thank you very much for taking the time to apply, and your interest in helping serve on our retirement boards. In your position on the CalPERS, I know CalPERS has different classifications of board trustee management. What classification, you were elected?

>> I was elected from the constituency of local government employees, city, county and special district employees that participated in the statement. Able San José doesn't participate but for example Santa Clara County does, so they would be one of the jurisdictions that together comprised almost 300,000 people that elect he me. I was at the time that I ran an employee for BART.

>> Councilmember Constant: Okay. And then how do you -- obviously the roles on the pension boards involve a pretty high degree of independence. How did you deal with the potential pressure or the pressures that you received from the groups you represented, to do one thing versus your fiduciary responsibility to the pension system?

>> I always did what I thought was right. I was always willing to listen to anybody who had an spoin, whether it was a suspends group, whether it was a member of the audience at a board meeting. And I was always, I think, humble about my certainty that my opinions were correct going in. So I think I'm by nature somebody who's willing to have his mind changed by good argument. But I ultimately take -- took and do take with the absolute utmost seriousness the blifftion a fiduciary to do what the fiduciary thinks is right ultimately.

>> Councilmember Constant: And then my last question, with all the myriad of things that a pension board deals with what in your mind is the single most important decision that boards make?

>> Well there's definitely a conventional answer to that question. The conventional answer is asset allocation. Because asset allocation over the long term will determine typically the number that is put out is approximately 90% of your return. So I think that -- I think that is a reasonably satisfactory answer. I think the other part of it, that people don't talk about as much, but is also very, very important, is the board's decision about what its risk tolerance is. Because you should decide what your risk tolerance is. There are many ways to get to a given end around funding the plan. And there are lower risk ways, which involve paying more contributions. And there are higher risk ways, which involve hopefully paying less contributions, and I think it's important -- it's important to have that on the table and to talk about that and make sure that the board knows, establishes what its risk tolerance is. And there are ways in mathematically modeling an asset allocation to take risk tolerance, an explicitly arrived risk tolerance into account.

>> Councilmember Constant: Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Michael, thank you for your interest. In our position being significantly less sophisticated than the candidates that are coming to us and knowing the very serious challenges we have unfunded liabilities in the plan what question should we be asking candidates like yourself?

>> Actually the first question that you would want to ask all of them is what kind of commitment do they have to the mission of a defined benefit pension plan. Because I think -- I think it's my experience that a lot of sophisticated people in the financial world actually don't have much of a commitment to that mission. So I think that's the first question I would ask them. I think that the question is on your applications and the questions you ask today represent a good cross section of questions in terms of asking people what they think the issues are. How they would go about solving them. I think another issue that you also need to be mindful of, is the

danger -- the danger of appointing a lay people, there is definitely a danger to that. And I have seen that play out in my role that I play now where I interact with investment boards all over the place. And that is actually that when you have people who participate in the financial markets on a day-to-day basis, they tend to have actually a very myopic view in the sense that they really tend to love the strategies and asset classes in which they actually work, right? They tend to favor investing with people they know. Because they know people. And you know they know them not only just by virtue of their professional employment in terms of returns but they know them socially, right? And there can be a lot of what might be described as soft conflicts of interest around that kind of stuff. Not stuff that -- not form 700 FPBC conflicts of interest, right? Not that's against the law but a tainting of the thought process. And I think that for someone in my situation, because I do right now actually exist within the financial industry, I think it requires a lot of self-awareness to recognize that danger. And to be compensating against it and fighting against it, I think you would be well served to inquire of the people who you are talking to about those kinds of positions.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. Thank you so much for applying. You have an incredible background. In terms of -- in terminates of our boards, and I'll talk about Police and Fire first, or I'm going to focus on that one, currently, in looking at an assessed rate of return we have gone from 8% to look at 7.75. What would be your opinion on that. On that rate of return?

>> I think that's a challenging rate of return poo to get. I think that to have a hope of getting it, you're going to have to embrace a fairly risky strategy.

>> Councilmember Herrera: So you would -- so hearing that I I'm thinking you would suggest moving it down to a lower rate of return.

>> Well, I would be interested -- I think the whole question of risk tolerance in the portfolio is one that is -- it's important actually to have a dialogue with the employer on that and you are the employer, you have to fund it right? I'd be interested in -- I need to know a lot more about the City's financial position and long term financial outlook to even have an opinion about its capacity to withstand the volatility that's embedded in a riskier strategy. But I would say, yes, that a 7.75 return threshold implies a riskier strategy. Now of course only God knows the future and it may be that you could own a portfolio of 100% bonds over the next ten years and reach that return. It's possible. Right? But one of the biggest challenges of this kind of undertaking is that everyone talks about expected returns, right? All we know are expected returns which realize means past performance, right? But past performance is no guarantee.

>> Councilmember Herrera: Anonymous garden, right.

>> But to get 7.75% implies that you're going to have probably at least 20% of your assets in various alternative assets categories that are, by conventional definition the most risky strategies.

>> Councilmember Herrera: And reducing that rate of return changes the contribution schedule, it has impact, in fact gets lowered.

>> Absolutely does.

>> Councilmember Herrera: If you're sitting on a board and you see folks not wanting to see that changes and you are thinking it ought to go lower how do you adopt a leadership strategy to do that?

>> I think you first have to really try to engage and educate all of the stakeholders about the tradeoff because there is a tradeoff, right? And the stakeholders in this case would be the employer, the city council and the mayor. Secondly, you -- the beneficiaries both active and retired. And everybody, everybody needs to understand what it means.

>> Councilmember Herrera: And my last question he is on unfunded liability which both plannings have considerable amount of, how would you address that or what do you think about strategies for dealing with the unfunded liability?

>> Well, it's actually -- it's sort of another way of asking the same question. There's a lower risk, higher -- lower expected risk, higher expected cost approach to paying it off, and higher expected risk, lower expected cost approach to and there needs to be a decision on where to fall on that spectrum.

>> Councilmember Herrera: Thank you.

>> I guess one thing I would say, there are some very unconventional things you could do to build in unfunded liability. You could actually borrow, could you go into the capital markets and actually borrow, issue compensation bonds to essentially lever up the whole plan and try to catch up on your unfunded liability that way. I wouldn't suggest that.

>> Councilmember Herrera: I'm glad to hear you say that.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you very much for applying. We're very grateful for your interest, in helping us out. The Cal PERS system is, which you've been involved for eight years is the largest investment system in the United States?

>> It's the largest pension system in the United States.

>> Councilmember Pyle: And it's also the world's largest private equity. I don't understand what that means.

>> Well, private equity is one asset class in the investment universe, so stocks are an asset class, bonds are afternoon asset class. Private equity is an asset class. And it's notable because Cal PERS is by no means the largest investor in stock or bonds. Cal PERS isn't even significant to the worlds of stocks or bonds but Cal PERS is -- at least was when I was there, was the largest investor in private equity in the world.

>> Councilmember Pyle: And what was their general assumed rate of return?

>> When I was there it varied. It was -- when I got there in 1995, it was 8.5%, and we brought it down to 8% and I think about a year before I left we brought it down to 7.75%. I think important to note is the context of that situation, I think if you looked at the -- what the 20-year return of Cal PERS was in neighbor en95, when I got there I think it was around 10%, right? So we were assuming 8.5% and the last 20 years had been 10%. In fact it's interesting how the world changes because we -- when I got there and we were assuming 8.5% we used to get beaten up regularly by both the employer, the state, and by the employee groups for being too conservative. Right? And that we were you know, that we were trying to just rake in contributions for our own aggrandizement et cetera. And then when we lowered it to 8% we were criticized similarly because even then, even after the dot-com collapse, in the early 2000s, the long term return of the system was still I think over 9%. And so eventually we were actually -- we were positing a 7.75 return in a face of a twoorld had returned 9% and still being criticized for it.

>> Councilmember Pyle: Gut generally speaking, that pension system is in pretty good shape?

>> It's underfunded as a vast majority of pension systems in the U.S. I think they have their problems. I don't think if you ask them they would say all is rosy with them.

>> Councilmember Pyle: Okay, thank you very much.

>> Mayor Reed: Any other questions? I think not. Thank you very much for your interest.

>> Appreciate the opportunity, reiterate, I'm very interested in the opportunity.

>> Mayor Reed: You're welcome to stay, you're welcome to leave, whatever you need to do. Okay we're halfway through the list if anybody's keeping track of the tally. It's 10:30 so that would get us done with interviews at 12:30 with some time for council conversation and discussion we'll still be able to meet the 1:30 start of the Public Safety committee, Councilmember Nguyen. That did not include lunch in there anywhere. Have to be afterwards. Welcome. Thank you for joining us. Vincent Sunzeri. I hope.

>> Yes, sir.

>> Mayor Reed: Thank you very much for coming in. We'll give you a couple of minutes to tell us why you are interested in being on one of these boards. Take it away.

>> Native San Joséan. That is something that has drawn me to this particular opportunity. I think the City of San José is very challenged with their budget situation, and the focus of this is as a result of the challenges that is faced for the pension plans itself. I have particular experience in the financial services industry that goes back over 20 years. In addition to my experience in our industry, I have sophistications that I think are very unique to working with pension plans. Offering certain skill sets that I think will be valuable in and a great asset to your board. I'm involved in the community here in San José. I'm on rotary, downtown rotary involved in sharing one of their largest committees, the enterprise leadership conference which is a sign of leadership, and also vice chair of the board for VS services one of the largest nonprofits in San José and I think I can make a difference.

>> Mayor Reed: Thank you. Councilmember Oliverio gets the first question.

>> Councilmember Oliverio: Thank you for applying Mr. Sunzeri. If a new city was set up, and you had the job of creating a new retirement system, would you create a pension system or 401(k)?

>> For a --

>> Councilmember Oliverio: A brand-new city. Doesn't have to be a long answer.

>> I would give a hybrid system. Providing stability for the environment we have working for a city and maintaining loyalty, having a pension would be very attractive. At the same time, having some ownership of glows having the ability to contribute their own dollars, manage those funds where there could be a 401(k) contribution would also be an attractive option.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Welcome Vince. Thank you for applying for this very important job. I notice your major experience for 22 years was a senior vice president of investment and investment management. And what types of investments are you -- do you work with?

>> All kinds. I work for Morgan Chase, Smith Barney, we're ultimate high net individuals, pensions retirement funds and the vehicles that we can use in managing this is, wide often to us. Including fixed income acknowledge alternative investments included in that are looking at things on a global basis, the resources that we have to us through Morgan Stanley is really unprecedented. I would say our firm is one of the premier firms often Wall Street for consulting to pension plans. I do work with pension plans, specifically, for I helped when I took over their plan establishing an investment plan, which they didn't have, have been working with them for the last 15 years.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks for your interest particularly given your extraordinary background Morgan Stanley and your background. The candidates we're interviewing about matters of investment and management

funds and knock that we've got two plannings with huge unfunded liabilities what questions should we be asking candidates? There's a lot of great questions you should be asking candidates. One of the questions I actually addressed this yesterday with Armando, was the role of a board member. I would ask that individual what their intention is on serving with the port and beyond that. I went to the meeting, the fourth meeting for -- fairly long term, the general budget fund deficit reduction, on and on, I don't know the actual term.

>> We don't either.

>> Mayor Reed: My group of.

>> Was he he the chair? Early November, fascinating meeting and I believe if you are a board member that you should be attending those things. That would be one question, is what is your intention to have an influence just beyond the serving on that boards than just serving the City of San José. The other thing I would ask with i've reviewed your core text report, I've reviewed pension sustainability. I've looked at the most recent report with the Federated city pension plan and I would be asking questions about how how you would handle assets allocation, asset liability management specifically risk management and probably more importantly how you would manage the outlying events that for one reason or another we continue to experience over and over again. 2000, 2007, these are experiences unfortunately that we are going to go through again and would I want to know how that board member intends to deal with that in providing investment advice.

>> Mayor Reed: Pete.

>> Councilmember Constant: Thanks for your interest and thanks for attending one of my boring meetings. You mentioned the latter part of Sam's questions about risk analysis and asset allocation amongst others. Where do you feel, is your strong point where you'll lend the most the most of your experience to either of the boards?

>> Councilmember for me it's global because there are a lot of issues. Having the designation that I have swy a certified investment analyst means we look at the entire picture. It's not just asset allocation, it's understanding

that but also understanding how it's being applied in this plan and I think I have an expertise in that. It's manager selection and determining the type of managers you should have, when you should retain them and replace those managers. When I looked at the most recent report, on the Federated city pension plan, what was apparent to me was that the risk management information was very, very limited. We've gone through a horrific environment, here in 2007-2008, and yet the most recent report does not address what the risk adjusted returns are for the portfolio. It addressed it for fixed income but it didn't address it for the entire portfolio. And more importantly we don't know what the down side risk is if we experience another one of those. I have expertise in understanding that and what I would call risk budgeting looking at asset liability management all of those issues for me are the comprehensive, and it's tough for me to just pin point one thing.

>> Councilmember Constant: Great, thanks vines.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thanks Vince for applying. How would you tackle the unfunded liabilities that both plans are facing?

>> That is a terrific question and that is something I hope to do beyond just serving on the board if I'm nominated. That means getting involved in these committees such as what Councilmember Constant is chairing. To have a voice beyond just the board. I believe that particular challenge needs to be shared by all stakeholders. And that was something that came out of that particular meeting. There needs to be collaboration. It cannot be just the participants, accepting reduced benefits. It can't be the city just making the plan whole without anyone working together, or the taxpayers understanding what this tax liability is, and why they're having to pay that. It needs essentially a coordinated effort for all parties involved and I think that some of the things that came out of that particular meeting were really addressed not for current participants but for the future generations of employees for the city. And it was things such as: Expanding the age for retirement. Looking at a sharing of responsibility of those participants. I was astounded to realize that when this plan exceeds a certain rate of return, that retirees receive that benefit, but yet, when the plan experiences a negative environment, the participants do

not experience that. That's sort of heads I win, tails you lose. That's not a good structure. I do believe that we are in a climate right now, where this is throughout the nation, and we are seeing it globally as well. If we look at what's taking place in countries like they call them the pigs, Portugal, Ireland, Italy, Greece, Spain, there are riots going on because pensions are being reduced for these individuals. They were promised things that we can't deliver. I think now is the time to be dealing with this issue when it is in the mainstream. It might be a liberal more palatable by the taxpayers to understand that we have a global problem and we are also dealing with it here at the city level as well.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: I'm not sure I understand your business. I'm not in it. And we've had a whole bunch of people interviewed that do a whole bunches of bunch of things that I don't understand now as I understand its you're helping people invest their assets and as opposed to pooling all their seaghts into a fund and manage a fund, that's right?

>> Correct. And let me clarify more specifically what I do. I am a certified private wealth advisor so I'm dealing with high net worth and ultimate high net worth individuals manage their wealth. They have numerous objectives and one of the advantages I believe I have in dealing with this time of arena is rather than coming from an environment where I manage a \$10 billion pension fund I see it all. I'm managing hundreds of portfolios for individuals. I deal with the behavioral aspects of how decisions are being made. The fact that I am a certified investment management analyst just means I've taken my spurs and I've gotten the designation that few financial professionals have. I'm helping individuals. I do help pension funds manage their money working with the trustees of the plan. And this includes profit sharing, 401(k), money purchased defined benefit plans as well. They all have objectives, we have all the resources available and I'm using the resources of my firm, Morgan Stanley, resources outside of my firm. I in addition to that will understand the behavioral aspects that will allow medium to move off course, that may prevent them from reaching their goals. And more specifically, in relation to this committee, I think the value that I bring and the asset that I will have on this committee will be the fact that sometimes, institutions move in a herd mentality. And they're chasing something and it might be at the

wrong time. Frankly, if we go back to 2007, there were a lot of signs that troubles were heading our way. It lasted for a while. It hit industry after industry. And sometimes when you're a little bit closer to what's going on because you're dealing with individuals and talking to them on a daily basis and managing their wealth versus meeting on a monthly or quarterly basis with a committee, you make decisions quicker. And you get to see what's going on and I think that will be a tremendous value to this board.

>> Mayor Reed: Okay. Thank you for your interest. Thanks for taking the time to come down here. You're welcome to stay you're welcome to leave.

>> And I'd appreciate your nomination. I'd be honored to serve on this boards. I thank you for your time and your service to our city.

>> Mayor Reed: Thank you. Next complicate is Jeffrey Perkins. Think we got the right guy, hope so. Welcome and thank you for your interest in continuing to serve and your past service. We'll take a couple of minutes why you would like to be appointed and we'll do a couple of minutes.

>> Big question, I ask myself all the time. I've been on the board for 14 years and over that time period have seen a lot of change. For me it's been pretty educational as all the lot of different issues have come up that we've dealt with. And so it's a project that certainly over the last few years because of the returns in the he economy things have not gone so well so I feel somewhat unfinished to kind of get things back on track. And I think I bring a -- some experience to the board. So from my perspective I think it's a project that I want to continue working on, to help get things kind of funded the way they were back when time before the economy turned. I don't know, it's not all in our power to do but we certainly are trying our best to keep the fund sound.

>> Mayor Reed: Thank you. We have a few questions. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying. Brief answer. If a new city was being set up and you were in charge of setting up the retirement system for this brand-new city would you choose a pension system or would you choose a 401(k) system?

>> Being in the private sector personally I have a 401(k). I probably a 401(k) system in this world today is probably the preferential way to go. If you were starting from scratch that sort of puts the burden on the individual rather than obviously the sponsor sets up some money and can put away. It takes away S things that we're e- some of the things that we're all dealing with. So in a perfect worlds if you were starting from scratch that probably would be the way to go. I don't know that we're going to get that option but that would be if I was running a new city.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. Thank you Jeffrey for reapplying and thanks for your service on the board. What do you see is the biggest challenge facing the Federated board?

>> There's so many things changing right anonymous, so you know there's new governmental standards look for how we account for our funded status. There's challenges in the investment community. You you know we still you know are constantly for me personally is a struggle is the whole disability retirement system and how all that comes for us on the board and there's plenty of issues right now I guess the biggest one is trying to prudently go about addressing our funded status. Does that impact benefits, it impacts you know the sponsor funding those things and so in a prudent manner not trying to overreact but do this thing judiciously and get the funding back to where it's not such an issue.

>> Councilmember Herrera: How would you address the unfunded liability?

>> I think we do it all the time. This issue is not unique to San José. I think San José has probably done a better job than most in addressing this. It's an economic issue and it's not just for the pension fund, its for everybody in

their lives. I work at a bank I can tell you people are challenging what the economic returns of the world so I think from misexperience, being here is that you just can't ooms fix it over95 rks and some of them he are easier some more difficult but you've got to take them on one at a time and you've got to chart a course where it won't happen overnight.

>> Councilmember Herrera: Are you satisfied with the rate of return that was set for Federated?

>> I think right now we're at 7.75. If you go back to the inception of the fund it was takes in it some really rough years so I think that return number again that's one of those things that everybody looks at what's happened here recently and kind of projects that out it's always going to be that way. If we'd taken that same approach five years ago that rate of return would be probably 12% or something. I think that again you need to look at these things not just individually but in the big picture and get your arms around it and make decisions that are prudent.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you mayor. Thanks Jeff for applying and it's been a pleasure working with you over the last couple of years ago as I've tried to figure out how to be an effective board member. Obviously know a lot about your spernlings on the board I've had an opportunity to watch you there but can you tell us about your nonboard experience that relates to the board? In other words your work at the bank, what you do there, and how your personal experience and education splice applies to the board.

>> Well, in my real life, I one a commercial banking group for Pacific capital bank. We cover -- we go from Monterey, we used to have an office in San José, we closed that down, in Morgan hill right now and so we take care of businesses that have needs from 200,000 in borrowing up to 25, \$50 million. So we focus on the business community. I have a team of 19 people that report to me. We have a little over \$1 billion that are outstanding loans right now and I've been in the barning industry, started with Bank of America, 23 years with Bank of

America, last 12 years were in Downtown San José, doing pretty much the same thing working in the commercial bank world in Downtown San José.

>> Councilmember Constant: Great thanks Jeff.

>> Mayor Reed: Any other questions? Appreciate your interest, of course you are welcome to stay and watch or leave either way is good. If any of you are thinking about ordering pizza you don't need to. Dennis is going to take care of, he's going to bring in food beyond the bagels. So you can get some lunch as we're continuing with the conversation.

>> Mayor Reed: Good morning, I hope you're Mike Armstrong. You're in the right place, so are we. Thank you for your interest in serving on one of these boards. You can have a couple of minutes to tell us why, and then we'll have some questions.

>> Sort of backing up a bit, I guess I'm not a native of the area but I grew up in the '60s in Saratoga, I've lived in San José in Willow Glen for ten years so sort of had followed sort of the evolution of some of these issues over a period of time. It was roughly a year ago I went to the Cortex meeting, the public comment meeting sort of interesting. Thought well if there was ever an opportunity, to be engaged, in some skill sets, I might want to take advantage of it. So sort ever have a natural interest in it, and I guess in a sense I'm also a stakeholder. As a taxpayer. Also, so. And kind of the perfect storm. If you will.

>> Mayor Reed: Well, thank you. You certainly have some expertise, that would be of help to us. I think some will come out with questions. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying Mr. Armstrong. If a new city were being set up, and a retirement system, your choice, pension system, 401(k) system, brand-new city?

>> I guess I don't have a -- I don't philosophically have a strong view one way or another on it. I think it has to be properly funded, and managed. I don't -- you know I think the idea of a Social Security type of system is a good idea.

>> Mayor Reed: I'm sorry, can you tilt that microphone a little closer?

>> Better?

>> Mayor Reed: Yes, better.

>> So you know I guess aims-d I probably don't fall in the camp where sort of the risk should fall on the expertise of the employee, if you will. But at the same time, you do have to be careful because defined benefit plans you know can kind of take a life of their own, and you know benefits get ratcheted up and if they're not managed carefully you can run into a problem. But to answer your question, you know, you could have a hybrid, could you have one or the other, they could all work. You could have a 401(k) plan where the matching is so that high that gives you effectively the same result.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor and thank you for applying. In going through your application questionnaire and resume, it looks to me like you have a strong background in risk analysis. Am I interpreting all this correctly?

>> I have quite a bit of experience.

>> Councilmember Constant: Okay. Can you tell me, or give me your viewpoint on how our boards approach risk, and what you would be bringing to the table, in that analysis role?

>> What I'll share are just some observations of what I've seen of how other pension plans work. Some things that I think that are pretty crucial. And this is not in rank order. But one is from an investment management standpoint, I think it's always crucial to have alignment of interest with the managers and what the plan is trying to do. So as much as possible you want to get the investment managers to act, you want them doing things and acting as if they were -- they were partners with you. I've seen a number of plans where frankly, you know, they hired a hot manager or something looked sexy but it really wasn't relevant for what the plan was trying to do. So that's number 1. Number 2, really need to integrate the management of the entire management side so the liability along with the assets side have got to be coordinated. You really have to have strong interchange with the actuaries in the system and the investment staff. That's -- you have to do both to really properly manage a system. And I guess sort of the third thing you have to have really good staff. You could have a great board but if the staff isn't there, and I've had the opportunity to meet some of the people from the staff and I'm quite impressed. I think you've got you know the makings of a -- one of the best pension plans I've seen.

>> Councilmember Constant: Great, thank you. And I noticed on your application, you checked the Police and Fire retirement plan. Are you equally interested in both?

>> Both are fine.

>> Councilmember Constant: Okay. Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, thanks so much for applying. I was looking, I think I have a summary of your resume, and you're a senior sales executive?

>> Yes. So what I've my career since I came out of University of Chicago, I've been primarily involved in the analytics tools business. I became a senior executive for a time to a company called Bar ra which we sold to

Morgan Stanley, good thing for everyone. I was tired of traveling around the world and I wanted to work with asset managers on the West Coast .

>> Councilmember Herrera: I notice in the application you height I highlighted that there might be possible conflict with your company, algorithmics, in engagements that might be happening with -- can you --

>> So when I -- so we're headquartered in Toronto. Although our ultimate parents are a company called Familac which is a French company and Hearst corporation owns 40% of us. The reaction from our management was, in general we support this kind of activity. We'd like you know we'd like to see you engage with it and if you are selected, then let's see what we can work out on the conflicts of interest.

>> Councilmember Herrera: Can you describe what that conflict might look like? Obviously I'm concerned about anybody that might have --

>> Conflict might be if the plan wants to use some of our tools. You know I can't be involved in those discussions. I guess that would be -- that's the most obvious thing.

>> Councilmember Herrera: Okay, that's very helpful. Our plans are dealing with substantial unfunded liabilities. How would you address that?

>> Well, you're starting to do the right things already. You don't want to ratchet up risk, because that's, you know, that will be sort of a I think a fool's errand, I think, ultimately. This may sounds completely -- I think you have to sort of keep pecking away. That's not glamorous but at the end of the day, economically improve performance, and take more structural matters that really don't relate to the investments. But you know, at the end of the day, if you're fiduciary, you're responsible to the people involved in the plan. That's kind of the bottom line if you're a trustee. So you know if the city wants to address other sort of funding issues, I guess as I see it that's not -- that would not be part of my brief. I don't know, does that --

>> Councilmember Herrera: You're answering the question, yes.

>> Okay.

>> Councilmember Herrera: And one last question. In terms of the assumed rate of return, I don't know if you've reviewed that in both our plans.

>> Yes.

>> Councilmember Herrera: Do you think those are at the right target, would you go lower?

>> Well, I have no doubt there will be some plans in the U.S. that will hit those targets. But I would say it's -- the likelihood is that most won't. So you know, I saw Cal PERS is lowering there is. CalSTERS, publicly, I thought we're not going to lower it, we're going to get those returns through more private equity. People seem -- seems to be coming down.

>> Councilmember Herrera: Where do you stand on it, would you lower it?

>> Hold a gun to my head right now, I ultimately I think you'll have to. I mean I just don't see risk premiums generating those kinds of returns.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: You came out of the risk management business and we heard a lot of people today talk about the need to look at the risk we're taking for the return and lots of ratios and things. So I'm not sure I know what an algorithm is but obviously you do. So could you tell me how you try to calculate the risk of a portfolio or an investment or whatever that is relative to the decisions made by our boards on risk management as part of the portfolio?

>> That's a long question Mr. Mayor.

>> Mayor Reed: You don't need to give it to --

>> Well, there are some commonly accepted analytic structures coming -- that have come about through financial research, and theory. And there's actually a -- there are a number of books. I mean one I think is very good is written by the chief investment officer of Yale, where they have very successfully integrated in private equity. In a place that realize doesn't generate a lot of sort of engineering kinds of ideas like Stanford. But you know, but I think what you are underlying at the end of the day what you want to do is understand what the risk and return drivers are. Of all of the assets you hold. You gather that, and then you want to be able to look at a wide variety of scenarios, whether they're statistical in nature or replays of history. But you really want to start to get a handle on what are possible outcomes over time. So in a sense I think risk is more of a process and a mindset that you bring to the table. Along with some good tools. And you start asking about sort of the unimaginable or do we have some embedded risk here that you know that we really haven't thought there and what are the implications of that. And then how can we mitigate that? What kinds of things what kinds of actions can we take and some are sort of investment actions that you can take. But so now, I don't want to go on, it quest more complicated, private equity has its own sort of unique characteristics. Makes it a bit harder to analyze. Not lots of historical data. But at the end of the day, you have to assemble a portfolio what I was mentioning earlier that matches up well with your liabilities. Because you know the retirees they need cash. You know you can't just -- you can't give them returns. I mean you actually have to write checks and you have to have a risk and investment policy that reflects that. So I don't know if I'm getting directly --

>> Mayor Reed: That was fine. I'm not sure I understand it but I do think I'm not going to be doing my own personal investments after hearing the comments this morning. By you professionals.

>> You're on the plan though right?

>> Mayor Reed: I'm in CalPERS. Councilmember Pyle.

>> Councilmember Pyle: Thank you, and thank you for applying. It's very much a name must for you to do that. I wanted to ask in reference to your activities with Reuters, Bank of America, you were able to coordinate the American European and Asian markets, did all boats float or were they in the three?

>> It was probably in the early '90s.

>> It was in 90 to 93.

>> To make a long story short, Bank of America had merged with security Pacific. Reuters who I had worked with for ten years had a very large global relationship with both organizations. When they came together it was fairly ugly and there was a lot of contention. When I moved back to California the first thing I got was CEO of Reuters and the CEO of Bank of America, in the same room and figure out what to do to make the relationship work going forward so once frankly once the word went out from both of those folks, all parties globally seemed to get along.

>> Councilmember Pyle: It's figuring out what the linchpin is.

>> It's sort of a relationship management issue.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Mr. Armstrong thanks for your interest, your willingness to serve particularly given your very impressive background and I was very interested in your response to the asset allocation question, I thought that was very insightful. The question I had relates to our position to many of the candidates. We are far

lest 76thed investing than the candidates who are in front of us, knowing that we've got these very serious unfunded liabilities in our plans, what questions should we be asking candidates like yourself?

>> Some of the questions you've been asking already I think are spot-on. I congestion I'm going to ask them frankly what value-add do they bring? What is unique about their skill set that is going to help the plans succeed. And I guess I might also ask them what mistakes they see being made. Because lots of times that's where you learn, what are some of the really stupid things going on and some of them still, they still do happen. So that would then give you some added insight also. But really, the questions you're asking now are I think the right ones.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Any other questions? Thank you very much. Appreciate you take the time to come down. Sorry you had to wait for so long.

>> Well, the food's quite good.

>> Mayor Reed: Good to hear.

>> Councilmember Liccardo: He's right.

>> Mayor Reed: You're welcome to stay, welcome to go. I think we have Franklin Atkinson. Is that right? Good, thank you, welcome, have a seat, take a couple of minutes and let you tell us why you're interested in serving on one of our boards and then we'll do ask some questions. Take it away.

>> Certainly didn't expect to meet the mayor this morning, pretty exciting. I'm interested in what I would call an opportunity, primarily for one reason and that has to do with the situation here with the city, and the challenging time it's going through. It's a microcosm of cities across the state. But coming to grips with taxpayer displeasures,

taxpayer revolts, union demands, city officers are left with quite a problem to deal with. And this of course becomes manifest with the city retirement plans which I understand are underwater. The fact that you've done a recent asset liability study working presumably with your actuaries have come to -- have come to shift a bit I think in the governance of the retirement funds makes this a challenging, very challenging situation. And I've temperamentally got a weakness for challenges. I respond -- respond well to them. And this seems very highly interesting.

>> Mayor Reed: We got our challenges. This is the place if you want challenges. We got them. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying Mr. Atkinson. If a new city was being formed in the area and you were called in to set up the retirement plan for that brand-new city would you choose a pension plan or 401(k) plan and brevity is fine.

>> I -- I don't quite know how to address that. I think I'd, quite fairly, I'm not an expert in 401(k)s. Not an expert in pension plans. I'm an expert in investing. Principally in the private equity, venture capital, development capital arena. And I know which is to be a part of any retirement plan asset base. So the specifics of that question I'm not up to responding.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. Thank you very much for applying. Can you tell us specific expertise you have.

>> It would be specifically because of my background of decades in private equity and venture capital, what you would call alternative assets or nontraditional assets as far as pension plans are involved. And my experience in that arena both internationally, across a wide variety of industries and domestically here in Silicon Valley.

>> Councilmember Herrera: I noticed you had Police and Fire retirement board as the board you were interested in.

>> As I understood that form it requires you to pick one. So I picked one.

>> Councilmember Herrera: Why did you pick that one?

>> I think it was a coin-toss.

>> Councilmember Herrera: Okay, both of our plans have unfunded liabilities. Substantial unfunded liability. How would you approach solving that problem?

>> Well, I think first thing you have to get a grip on is, as -- is to really quantify the issues. I understand you've really done that now with your asset liability studies. Then what you have to do is say how do we get there? How do we get these things funded? Is it going to be taxpayer contributions, is it going to be reduction in benefits? Is it going to be increased contributions from the beneficiaries of the plan? But once you get your hands around the figures itself, then you have to figure the best way to get there. And of course then you've got risk models that you have to deal with, et cetera. So it's come back to the word challenge. Am I responding to your question?

>> Councilmember Herrera: You are. And last question is, on the Police and Fire retirement board our assumed rate of return we've just moved it from 8% to 7.75. How do you feel about that rate of return, would you go lower?

>> Could you please repeat that? What did you just lower from 8% to 7.75?

>> Councilmember Herrera: Our assumed rate of return. 8% now 7.75 going forward on Police and Fire.

>> Well, I would think the target should be substantially higher than that. Your returns from the -- from I think it's the year 2009 were in the double digit arena. But if you are talking about targeted returns I would need a clear definition of that. That is a hurried many, that's a minute?

>> Councilmember Herrera: It is a rate of return. We have a defined benefit plan, we have to select a rate of return. We have had 8%, we've reduced it, and when you look at the other plans the direction is moving downwards.

>> Councilmember Liccardo: Can I clarify, it is actuarial assumption.

>> I'm on apples and oranges here.

>> Councilmember Herrera: Actuarial assumption.

>> If the actuarial assumption gets to you where you need to be to get the plan funded, which I'm sure that's where the actuarial analysis comes to bear. If that's -- if it says the plan will take 30 years to get fully funded, that's one thing. If a plan takes five years, that's another. I would suppose it would be the time that you have to work with.

>> Councilmember Herrera: Okay, thank you.

>> I don't think I'm responding to your question.

>> Councilmember Herrera: I just wanted to know if you felt that that was -- that rate was accepting or would you lower it?

>> Gig again, not being an expert in actuarial science, not being a expert in 4 '01 (k) plans, just being an investment manager.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you for your applying and taking an interest in our retirement boards. I assume based on which one you checked, you would be interested in either board, if we selected you for Federated or Police and Fire?

>> That's correct.

>> Councilmember Constant: Hopefully you've had an opportunity to look at our two plans. What do you see is the biggest threat facing our pension plans here in San José?

>> Well I think the biggest threat is simply being unfunded. And there are -- I don't believe the trustees have a role in negotiations or in restructuring whatever happens between the unions and the city. But simply put, once the marching orders are given and the funding requirements are well-known, I think putting together a plan with the best managers available, talking about the managers that the plans would hire, would be the first priority.

>> Councilmember Constant: Have you had an opportunity to look at either the plan's asset allocation and what's your perspective or input?

>> Yes, I have. I was pleasantly surprised to see that they were pretty aggressive in the nontraditional alternative asset category. The allocations I thought, I thought showed a real sophistication for plans that are, I guess you wouldn't say they're huge plans. Couple of billion dollars. But for the size plans they are he very sophisticated asset allocations with things like timbers and commodities, et cetera. He very broad, he very broad definition of alternative assets.

>> Councilmember Constant: Thank you. Thank you mayor.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Mr. Atkinson, thank you for your willingness to serve, very impressed by your background in venture capital and private capital. Knowing that we're much less sophisticated in investment matters than the candidates that come before us and often our overwhelming concern is around these unfunded liabilities that the two plans have. What questions should we be asking of candidates like yourself to help us understand who we should select for the board?

>> I would think the principal thing you'd want to hear from the candidates is their awareness and regard for the challenge, and you might even say crisis or subcrisis aspect of the situation here.

>> Councilmember Liccardo: Okay, thank you.

>> Mayor Reed: One of the things that has to be decided from time to time by these boards is the selection of investment managers and the people who are going to carry out the board's decision 40 years to select people to do investment decisions. Can you talk about the board might retain as investment managers ?

>> The board actually or was it the two plannings, actually I'm assuming have all their managers in place, that every been screened by your consultants. I would think in looking at the management firms I'd be want to look at well obviously track records, I'd like to look at continuity of management, I'd like to look at the age of management and I'd like to look at the models, the investment plans of these firms. As a for instance, if you had a startup venture capital company, trying to put together a billion dollar fund I'd say that's a big red flag. If you had a leveraged buyout, private equity firm trying to raise a \$10 million fund I'd say that's much more reasonable. So a lot of things have to hang together but it's principally the management, principally the people. But the plan, they're business plan for their funds have to make total sense.

>> Mayor Reed: Okay, other questions. Okay that's it, thank you very much, appreciate you taking the time to come in.

>> Yeah, thank you.

>> Mayor Reed: You're welcome to stay or leave, either one is fine with us. I know you have other things to do, you've been here a long time, thank you. Dporng.

>> Good morning. You must be Lara Druyan, I'm not sure I pronounced it right.

>> Druyan.

>> Mayor Reed: We have a long process here, we appreciate you being interest in our retirement boards. We'll give you a couple of minutes to talk about why you're interested in being on our retirement boards then we'll ask questions. Take it away.

>> Thank you very much for --

>> Mayor Reed: Pull the microphone a little closer.

>> So thanks for letting me be here this morning. I want to serve on the retirement board, I think I was first contacted by Russell Crosby to see if I had interest. I read, I know the retirement boards have some issues about obviously sustainability and the unfunded liabilities. And to to me, that's a great challenge and I relish, I relish trying to solve hard problems. So I've been in finance for most of my career. Have investment interests personally across asset classes and have done -- have worked on nonprofit boards, I'm still on a nofn profit board in San Francisco and would like to serve the City of San José, if that's of interest to the city.

>> Mayor Reed: Thank you.

>> Oh, I should mention, for me personally it's a great opportunity. I have not merchandising that kind of pool of capital and I think that would be a fabulous experience.

>> Mayor Reed: Thank you. Councilmember Oliverio.

>> Councilmember Oliverio: Welcome Lara thank you for applying. If there was a brand-new city forming from scratch and you were given the opportunity to set up that retirement system, again a brand-new city from scratch would you set up a pension system or a 401(k) system brevity is fine.

>> I'd set up a 401(k) system as opposed to a defined benefit system.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. Thank you very much for applying, Lara, as you know both retirement funds have substantial unfunded liabilities. How would you go about addressing that?

>> Yorn -- so I've ready the sustainability report and so on. And I think to address that you have to look at some easier things and some harder things. Some of the easier things although they are painful and very political I understand that, are how you look at some of the assumptions that go in, whether it's possible to adjust some of them, for example, the CPI are you going off of inflation, are you going off other things, other things are smaller you can tweak but he they matter in aggregate. The UK's method of Social Security was underfunded until they changed the index. Relative painless as opposed to changing other things but you probably also have to look at how much employees are contributing, retirement age, there are many variables that fall into that and that's a lot of spreadsheet analysis I think has to be done from the ground up to figure out where the real points of leverage are in the system.

>> Councilmember Herrera: Thank you. One of notices things that the board makes a decision on based on the input from actuaries, is the actual assessed rate of return which on the Police and Fire board was a rot, we just

moved it down from 8 to 7.75. Based on that rate of return would you 30 we should go lower on that going forward glm potentially, I know Cal PERS just reduced their rate of return, I don't know if it's down to the same number. But 7.75 might be reasonable. But I think it kind of -- it's hazard -- I don't have a crystal ball to tell you how investments are going to do worldwide and what the sort of best allocations, I have my own opinions about that. But I think 7.75 might be aggressive.

>> Councilmember Herrera: Might be aggressive, thank you. And lastly, what do you bring to the boards that is unique to you that would set you apart from the other candidates that we are interviewing today glm I looked at some of the other candidates, bios and you have a terrific pool of candidates. Congratulations for getting a greatly pool of candidates with diverse backgrounds. Iches worked in a variety of different Asians, operating roles like silicon dprasks, I understand the managers but that also transfers to things like hedge funds and other kinds of managers because having been a principal investor I kind of know what to look for. But I've also had, having had experience at a large company where I had responsibility for misown product line I also know how to get stuff done and gets my hands dirty if you will, which is a little bit unusual for people who consider themselves to be investors.

>> Councilmember Herrera: Thank you. GIs as really I think can be available for our panel. Where we are in our position as councilmembers obviously far less sophisticated about investment than people he we are interviewing. And we're very concerned obviously about the unfunded liabilities that we've got in both plans and the size of those. What questions should we be asking candidates like you?

>> You asked a lot of questions on your application which I thought were appropriate. I think that-d I think you got -- I really think you guys have covered a good base whether it is governance and questions you had about things we put into place. I thought you asked great questions about how we think about allocation and risk. I think the biggest things I'd ask about if I were in your shoes and I think anybody managing frankly any size pool of capital is really about risk and how do people think about risk, how do they assess risk, what resources they have, to think about risk. Because they're very I mean honestly there are very, very few people in finance broadly who really

understand risk. I mean and you can look at performance across a wide range of things from my alma mater's Harvard management companies disaster in '08 to numerous others. That to me is hardest to assess.

>> Mayor Reed: I'm not sure I understand the difference between an investment banker or venture capitalist. You've been both.

>> Sure.

>> Mayor Reed: What skills could you bring to the board to make the decisions that the board needs to make?

>> Investments barningers do a lot more frankly sophisticated large typically companies where there's a lot of data you can run various valuation analyses and so on. In that case you're an agent in a services business on behalf of a company or another entity. As a venture capitalist you are now a principal, we all put up capital and so on. While you don't do as many discounted cash flow analyses you are engaged much more in the business of governance and sort of the overwhelm view of the company. As annal investment banker you focus on finance, deeper in finance, but as a venture capitalist, we help grow companies into bigger companies. Working psz to maximize shareholders value, and understanding companies ranging from finance to product to human resources , does that help?

>> Mayor Reed: That was great. Other questions? Councilmember Pyle.

>> Councilmember Pyle: Thank you for applying. This is really wonderful thing to do and I notice that's your second passion, serving your community which is really great. As a former teacher I was especially impressed with the fact that you are with aim high which helps middle schoolchildren in the area and you assessed that very well because that's the area that we really need to put a lot of help into. That's fantastic.

>> Great.

>> Councilmember Pyle: So I just wanted to comment on that. The rest was all in here, you did a great job of answering people's questions.

>> I'm passionate about aim high.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Thank you for coming in.

>> Thank you, happy holidays to all of you.

>> Mayor Reed: You're welcome to stay or go. Good morning. Martin Dirks I hope.

>> Yes.

>> Mayor Reed: We'll give you a couple of minutes to talk when why you'd be interested in being appointed and then do some questions. Take it away. I need to get you a little closer to the microphone.

>> Does this work?

>> Mayor Reed: Great.

>> Well I learned about the opening roughly two years ago. When the consultant's report came out. And it looked like an interesting situation. So I attended a couple of the open meetings at that point in time. I have been in the investment industry for many years so it looks like bringing expertise to the situation and to contribute to the situation that I hope would be valuable into the process into the city.

>> Mayor Reed: Thank you, we can certainly use some help, appreciate your interest. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you for applying. Martin, if a new city was being formed and you were called in to set up a new retirement system, and brevity is fine, would you set up a pension system or a 401(k) system for that system?

>> Starting from scratch?

>> Councilmember Oliverio: Scratch.

>> A dwreend contribution, 401 cnches because of the difficulty in managing a process like this.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you for applying. And my question is arounds the unfunded liability. How would you move towards funding that?

>> I would do my best to reduce the risk in the portfolio, overall. And to improve the investment performance, and contribution rates would be the rest of it that would have to make up the shortfall.

>> Councilmember Herrera: And what qualification do you bring to the board that is unique in comparison to the other candidates that are coming today?

>> Sure and I'm not sure with all their backgrounds but I've been doing equity research and equity investment and portfolio management for roughly 20 years. Primary, hedge funds, but lot of experience in the investment industry, I've also been involved in private equity transactions so I've seen that world. I've been tiff in the venture capital round table which is a trade group based in Palo Alto.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Martin, given the relative position that we're in as councilmembers, far less knowledgeable about investment matters than the caijts we're interviewing and knock what you know about the unfunded liabilities we've got in our plans, what questions should we be asking a candidate like yourself?

>> That is a good question. I guess how we might do things differently than they have been done in the past of million you know, what our skills and experience are that we would bring so you might not have two people or more that have similar skill sets. I think you needs a diversion skill set.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you for applying for this position. This is really terrific. We're happy to have you on board for interviewing. I wanted to ask you about a particular thing here, had it just a second ago. It had to do - - boy, here we are. You had quite a bit of experience with financial theory or actuarial math. And how does that or would that have some kind of a bearing as an analyst, which you have quite a bit of experience with?

>> In my -- just to make sure I'm answering that question are you asking how my financial statistical namings background is used in my day-to-day work?

>> Councilmember Pyle: Exactly.

>> Sure. Use those basic concepts in just company research, doing forecast, what are the risks what are the evaluations. I don't do a very hard core quantitative portfolio but I do a lot of quantity taifs analysis.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor and thank you very much for your interest in applying to be a member of one of our boards. In your questionnaire you gave quite a detailed response on asset allocation with a first cut. Can you give us just a little bit of perspective or little bit of your perspective of what asset allocation means to the portfolio?

>> It is the allocation of the money, if you have great asset managers they can add value to that but whatever you start with is the benchmark that you've got. So it really is an important part of the system. You're looking at the future and say what asset class will do best? I need tips for fixed income and I need commodities as well or those types of commodity dispoars, so I don't have an inflation problem. It's a complicated balancing act. I don't think you want to change that frequently, that's a very difficult call to make. Most investors would say, there are no market problems, there are lucky people. I think you have to look over the investment horizon, I think if something is he very complicated around the folks sitting arounds this table are walking away perplexed, it's probably a bad item. There is probably something in there that is a hidden risk. Things should make a left common sense.

>> Mayor Reed: That is it on the questions thank you very much for coming in, we appreciate your interest, you're welcome to stay or leave. I know you have a job. Thank you very much.

>> That up.

>> Mayor Reed: I think we're coming up to our last candidate. Good morning, Mr. Herrick.

>> Good morning.

>> Mayor Reed: Welcome, thanks for joining us, thanks for your interest in our board. Sorry you had to wait so long.

>> Not at all.

>> Mayor Reed: We'll take a couple of minutes to tell us why you're interested in one of our boards here and we'll do some questions so take it away.

>> Thank you, mayor and thanks to each of the councilmembers for inviting me to speak here this morning. Obviously the pension plans of the City of San José are facing a number challenges and each of you have determined that there's a need for some efforts at reform. And I'm hoping that I can lend some of my prior experience, professional and personal, to help the pension boards achieve their goals. In terms of what I would be looking for if I were putting myself in your shoes, I think the first thing I would say that this is going to be a big job. And I think each of the public members of the prospective boards, nine total, should be prepared to put in some effort. This won't be something where you just come down one afternoon for an hour and a half meeting shake some hands go on your way and expect us to get anything done. I work two blocks from City Hall, I grew up in San José, I developed educational and professional credentials. But I'm back here as of four years ago raising my family, living and working here in the City of San José. So this is something that I care about very deeply, and I've read most of the commentary from you, Mayor Reed, over the past several months and years, about this problem and so it's not -- or the challenges that are facing the City of San José on a number of levels. So it's something that I care very deeply and that's principally why I'm here today. Thank you.

>> Mayor Reed: Thank you for your interest. Couple of questions. Councilmember Oliverio.

>> Councilmember Oliverio: Thanks for applying Mr. Herrick. If a brand-new city was forming and you were called up to develop a pension system, would you support a many retirement benefit or 401 K,.

>> The pension versus defined benefit, is probably the old us one in your retirement landscape as long as it's been going on I wrote probably I think there's an opportunity to run two types of plans and I think that that's what measure W was about to some extent, the opportunity to create a new plan on a go-forward basis. And I think there's a place for defined contribution, even in the area of public employment. I don't think, though, that defined benefit plans are destined to fail if they are run properly. So I would look very strongly at both plans. I probably would have a choice for each employee. They can opt out for a defined contribution plan or they can opt for a defined benefit plan depending what their interests were.

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Matthew thank you for your interest wanting to serve. Sitting in our position, knowing far less about investing than the folks that we're interviewing, what questions should we be asking candidates who are willing to serve on the board?

>> The first point would I make and thank you, Councilmember Liccardo, would be that I don't -- having read quite a bit about the plans, I don't view the investment performance as the principal problem for either of these plans over the last several years. I think the director on balance has done his job in a very tough environment. But clearly, on the board, you have to feel comfortable that you've got people who are incremental and who are going to be respected by people who are on the other side of the table, whether it is a private equity manager who is coming in to pinch his plans, a equity manager, you want them to sit down with people who are making decisions on behalf of the pension plan that these individuals respect that have backgrounds and credentials that meemed grab that. I'm pretty comfortable in saying that I have those credentials, having worked in the securities industry both in San Francisco, on Wall Street, I've worked for the charter financial analysts program which if any of you aren't familiar with the CFA program it is the global institutional investment standard and every manager that the pension plans might employ will understand that. And I think it's important that again, that you've got people on these respective boards who know -- who know how the game is played, if you will, in the investment managers

arena and who can cut through you know some of the -- some of the issues that have maybe plagued some public pension plans over the last several years.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you very much for applying. As you know the unfunded liabilities are significant in both plans. How would you address those liabilities going forward?

>> I think the approach is going to end up being you know, comprehensive, we're not going to work our way out of this. Solely on the basis of investment returns although we have to make sure that the -- the portfolios are working as hard as they can for the members and their beneficiaries. We're going to have to look at you know our actuarial assumptions and see where there have been some weaknesses there, our administrative have increased their contributions over the past -- have agreed to increase their contributions over the past year and residents contributing at significant rates. And the city as well. So you've got those issues, and then the other issues that have gone to the ballot, that are going to help us stop digging in terms of you know, making the problem worse. Measures V and W went to that to some extent. But as far as the unfunded liability goes it's probably going to take a decade plus to work our way out of the fact that we may not have contributed enough money based on the operation of the market, and we're in a different rate environment, that can sometimes exacerbate things. The good news is to all things there is a cycle and we're now into 11 years this March into a bear market for the U.S. equity. That will turn. We have been through long periods before 66 to 72, the late 20s to the 30s, stock went virtually nowhere. You go through a period like the early '80s to the low '90s, returns are very about. Riding it out to some extent will help but getting good returns, ask for more from all stakeholders and ensuring that we have the very best governed when it comes to expenses actuarial assumptions et cetera.

>> Councilmember Herrera: Thank you, around you mentioned clearly assumptions, Police and Fire retirement board, just recently lowered from 8% to 7.75. Would you go lower? Where do you think it should be?

>> Councilmember Herrera I think that that's probably a reasonable number over the course of you know the life of these pension plans. Maybe a little bit on the aggressive side. I think it's certainly not going to go higher than that. And I think probably the reason is that demographically situation is changing a little bit. We are paying more growth oriented investments has to -- has to be adjusted. As a result of that, of those increased you know need for paying benefits on a current basis on a next 12 month basis. So there might be room for -- here's what I would say. I would say that over estimating the assumed rate of return has not gotten us anywhere. I think Senate Bill 400 in 1999, top of the market, ratchet up rates of return. At the end of the day, we're not helping anybody by fooling our selves to thinking that we're going to do better on our investments than we can do. So I think that you know if you look around, seven, 7.5% would not be a ridiculous number. There are plenty of large institutions that operate on you know that type of return figure. And again, to the extent that a more realistic assumed rate of return is going to help us see what our problems are, instead of kicking them down the road a bit. I think it's helpful to be realistic and I applaud the director for taking at least a first step.

>> Councilmember Herrera: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor and thank you for your willingness to serve on one of our two boards. I was quite impressed at the things you have accomplished in your career.

>> Thank you, Councilmember Constant.

>> Councilmember Constant: Can you give us your viewpoint on the relative importance of asset allocation and your view as to our two funds.

>> There is some difference among the two, between the two funds. Asset allocation as I'm sure many of you know is the primary determinant of long term funds much more than security selection will be within a given asset class. And I think certainly the Police and Fire pension plan has been more progressive in its willingness to

potentially make some changes. You see a 28 allocation to alternatives if you will, not fixed income, not listed U.S. and international equities, things like real estate sat categories, like commodities, other real return vehicles and I think there's a place for that. I any that -- I think that where some of the pension plans have gotten into some trouble is not recognizing that there's a liquidity risk at times. With private equity, with real estate, and there's also cycle risk. We've just come through a spectacular bubble in real estate. I think history will tell us you don't run back to an asset class that has experienced that kind of bubble new will right away. Just like smart investors did not return back to technology darlings, those have not been the leaders over the last six seven years. So getting back to your question, I think that the Federated plan has some room to catch up, to where the world is today. And I think that it's important to know that we're in a secular bull market for commodities as an example and many pension fans traditionally have not invested in that asset class. Obviously, a pension plan is a very large ship that you don't move overnight. But there are some opportunities to make some changes. The other -- the last point I'd make is that we may be at the bottom of the interest rate cycle. Interest rates could stay low for a number of years longer but the reality is that we've been in a falling interest rate environment for 30 years and we may be nearing an inflection point and if big bodies like these two pension plans can catch those inflection points early enough, I think they can add some value, more than when it comes to picking a stock or individual bonds.

>> Councilmember Constant: Thank you.

>> Mayor Reed: I think that's it for our questions. Thank you very much for your interest, thanks for taking the time to come here. You have an opportunity to stay or leave.

>> Is there an opportunity to make a brief statement?

>> Mayor Reed: Sure.

>> I would look for people with multidisciplinary backgrounds, people that have more than one thing to bear. What we didn't talk about is I am a member of the California law, University of Michigan law school and worked at the Pillsbury law firm, in termination of holistic ideas are going to be on the table, having a legal practitioner on one if

not both of the boards I think will ultimately be of some value. As there may be additional ballot measures on the table there may be charter amendments on the table. These are not obviously things that would come from the board but they may come from the political process and so you've only got five seats in one place you've got four in another. And so insisting that people can bring more than one skill set is potentially a wise move. Thank you, Mayor Reed.

>> Mayor Reed: Thank you, that concludes our interviews, for 14 I believe applicants. Now we need to talk about how to move forward, narrowing it down. We will come back for an additional member on each board out of the pool. And I've spent some time thinking about this and talking to people and we want people independent and free of conflicts and have outside expertise and we certainly have got a great panel of people that have been in front of us. But additionally, I've been looking at people that have institutional investment experience in large funds, the billion dollar hedge fund kinds of things and specific expertise which seems to me the boards could have the benefit of on top of the expertise that we have with our existing board members and our existing staff private equity experience and asset and liability management and so I'm trying to screen the candidates through that kind of a lens. And one of the things we -- I think it would be helpful for us to do is to instead of trying to focus on seven positions, we just take the Federated board. There are three positions there. Talk about the candidates, talk about what those boards might need, based on what we know, we have a couple of board members sitting here, the kind of expertise that might be helpful for Federated, try to deal with that and then try to move to Police and Fire where there are four positions. I'd be interested in hearing from the members or two members of the Federated board that are with us what they think might be the kind of expertise might be necessary for those boards to start with. Pete.

>> Councilmember Constant: Thank you, mayor. First of all I agree wholeheartedly in your comments of the criteria that we should be using. And I think it's critically important that we look for balance on the boards. And I must say that I am very impressed with the caliber of people that came before us today. In fact, I think I said something similar last time we had employee applications to the board that we really got really the cream of the crop of our employee brain trust coming to the table and really being concerned about our retirement boards and contributing. And I think that we've seen very similar here. I don't think we could go wrong with any of the people

that we saw in front of us today because they all have some significant experience and strengths, albeit those strengths are in different areas. I do agree with you that the areas that we should be focusing on are looking for risk analysis, fixed income investing, private equity experience, the asset and liability management, and I think also, something that I would add in is, some board experience. Because board experience I think helps. And we have several people that came in front of us today that demonstrated that both in their comments and in their professional background. I think that from -- I think the easiest for me to say is who I think would be the best three people to appoint to the Federated board based on what I've heard today. And I think that Stuart Odell, he was the gentleman who was the assistant treasurer of Intel's retirement investment that \$10 billion fund, I was exceedingly impressed with him. And I think that he would be an incredible asset to the Federated board. I know that from what I've seen he's widely known throughout California as one of the top investors in the state. He speaks regularly, he's very highly thought of. I was particularly taken by his development of those target date plans that they have instituted in Intel. I think he would be a very good candidate. Additionally, Michael Armstrong who on his application said he was interested in Police and Fire but indicated to us that he had interest in Federated as well, has a very strong risk analysis background and I think that's something that we need to see how we can place on each of the boards. And he showed, demonstrated that he has performed risk analysis for many large institutional portfolios. And then I don't know if you pronounce your name Lara or Laura but I was very impressed by her. I think her background in venture capital, in the banking industry, and her equity analysis that she has shown in her years with Merrill Lynch, as well as her broad board experience, she had probably one of the more comprehensive outside work experiences on boards. And it was a very diverse set of boards. So those are the three people that I thought would fit very well on the Federated board based on my experience being there four years and what I've learned in the pension systems. And then I have equally strong feelings on people on the other side as well which I'll share at the appropriate time.

>> Mayor Reed: We'll come back to Police and Fire. We'll come back. Ash, you serve on that also.

>> Councilmember Kalra: They all showed an interest and appropriate expertise as was the goal of bringing outside expertise. I don't know that -- I know that Stuart Odell indicated Police and Fire and I was certainly impressed with that, I was going to suggest for Police and Fire certainly Odell, we have four for Police and Fire

and just three for Federated so I thought he he would be appropriate for Police and Fire and certainly felt the same way about Armstrong and he he had specifically noted Police and Fire, I don't know on their application they would one as opposed to either.

>> Mayor Reed: I think both of them said he they could go either way and City Attorney we're not restricted?

>> City Attorney Doyle: They are not restricted to the application he they said mere both.

>> Councilmember Kalra: So certainly in that case, they are both fine. I also thought that Andrew Lanza brings certainly a unique perspective, and unique experience, and I think that seems like he he would bring some leadership to the board which is also important. I think in my time that I've been there I've had good experience with Jeffrey Perkins. The time I've been there he's been willing to make decisions that have helped to improve the situation that we're in and it's good to have some people on the board that have independent expertise but also have some institutional knowledge as to where we've come as well and I think Jeff has certainly demonstrated that and I also have a thought that Lara was fine as well. But I think that if it's a matter of just choosing for this particular board I certainly suggest Jeffrey Perkins and Andrew Lanza and Lara Druyan, and some other individuals referred to, Police and Fire if we have to choose, Jeff Perkins currently serving he he would be appropriate to stay on the Federated board as well.

>> Mayor Reed: Okay, just want to check with the process. We've got three today and then the fourth one, the burped, after the board is constituted with the new members, the board is to select, nominate another person out of the pool for -- that will come back to us. Is that right? So that will take another month or whatever, is that got it right Dennis?

>> That's correct, Mr. Mayor.

>> Mayor Reed: Okay, I agree he with Pete's top three, I was just really impressed with this entire pool, Odell, Armstrong and Druyan. Rose.

>> Councilmember Herrera: I agree with Odell, Armstrong and Druyan. The vote --

>> Mayor Reed: Vote for three kind of ballot I think for everybody to pick their top three choices and do the tally routine and that would take care of the Federated peats and we'd try to do the same with Police and Fire. We stilt have the decision to do with terms, two year or four year term.

>> Mr. Mayor, we have paper ballots for both the Police and Fire and the Federated boards which list all 14 candidates for both boards so council would have the latitude to designate which members for which boards and then as you just said have the discussion of terms after you've selected the up to seven people between the two boards.

>> Councilmember Herrera: And I have one more comment. I just wanted to say just speaking on Lara specifically, I would very impressed with her background, the venture capital experience her career and her board experience and I also would argue for some diversity.

>> Mayor Reed: Sam.

>> Councilmember Liccardo: I actually agree with the selection, the three that Councilmember Constant suggested. And with regard to Mr. Lanza, I think the guy is positively brilliant. The one thing I had concern about was sort of two occasions he he mentioned the impis of relationships. He he mentioned the value of relationships. And the other candidate, the question of soft conflicts of interest. I'm frankly a little concerned about that and so that's why I'm not quite as enthusiastic about Mr. Lanza despite the fact he he has considerable intellectual abilities.

>> Mayor Reed: Pete.

>> Councilmember Constant: First of all I want to echo what rose said. I think both of our boards are male dominated and Lara is very, very highly qualified and strongly advocate for her. As far as Jeff pesh Per Kings, he he has been a he very strong board member, he has contributed greatly. But when I compare the experience level of the other candidates, that's what tips me in that direction. And I know it is important to have institutional memory on those boards. But we also have to balance in mind that the employee and retiree reps aren't turning over at this period so we have institutional memory there. I can't say enough about how highly I think of Mr. Perkins and the work he's done but I think that the three people that I mentioned just stand out head and shoulders above, in experience panned expertise that they're going to bring. And there's several others as I said that I'll bring you when he we talk about police and fire. But I think that's what tipped the scales a bit for me.

>> Mayor Reed: Comments on any of the candidates? Okay, Dennis. Ballots please. Now, this is a vote for three. This is just for the Federated.

>> Thank you.

>> Mayor Reed: So in this process, got to get to six votes, right?

>> Correct.

>> Mayor Reed: That's what we're ultimately trying to get to is six votes or the top three candidates I guess but you got to get at least six vote. Sam.

>> Councilmember Liccardo: Can I ask a question about process? Given the fact we recognize the boards have the similar needs as far as skills and ability, I'm trying to figure out, why he we are selecting for Federated and then Police and Fire as opposed to seven best candidates, and divvying them up. I'm sorry about throwing a wrench in the works.

>> Mayor Reed: Rose.

>> Councilmember Herrera: I think we should stick about the process we have and vote for these. We've already been thinking about in terms of Federated, we heard feedback about from Pete and Ash about these candidates, and I've been going along that train and thinking about those candidates in that way. And I do think I'm looking at other candidates in my mind for Police and Fire. And the candidates that we've just talked about I wasn't thinking about them for Police and Fire so --

>> Mayor Reed: . Pierluigi.

>> Councilmember Oliverio: I think this is an easy way to do it, to get this done.

>> Mayor Reed: Ash.

>> Councilmember Kalra: I agree with Sam. There are people that I might not be voting on so I could reserve it for Police and Fire. I understand the process is what it is but it may not end up in a result that necessarily reflects what our feelings are about these particular candidates.

>> Mayor Reed: Okay. Pete.

>> Councilmember Constant: I was going to say coy go either way. Initially I thought what Sam just said but I'm equally as comfortable going with it because I tried to as going through interview think of the two boards and try and fill spots so I don't think my voting would change in any way or my recommendations but I understand Sam's interest there and don't necessarily have a problem with it.

>> Mayor Reed: Judy you've been talking so much this morning. But we'll give you a couple of minutes.

>> Councilmember Chirco: I promise to misbehave on my last day. I really want to go with Sam and Ash because I was not thinking this one for fire and this one for Federated. I think they're he very well qualified. Almost

just check the seven and then whoever gets the six votes, the first three, you could even go alphabetically, fire and police and Federated. They just seem to care and we need really good people on both boards. I'm just not comfortable picking these three for Federated and these four for Police and Fire when they're all equally talented. So I would just as soon pick the seven and then narrow it down to the seven and we can figure out which three go on Police and Fire or three on Federated or four on Police and Fire.

>> Mayor Reed: Why don't we have a show of happened who wants to vote for three for Federated and that would be the -- one two three four of us. How many want to vote for seven? I think a majority, not an official count but I'm pretty sure the majority would like to hang on for seven. Hang onto your ballots and before we vote, let's talk about get comments ton Police and Fire board and what they might need and the candidates that people think might also serve on Police and Fire or Federated, the other candidates that we haven't already talked about. Anybody else wants to talk about for either board I suppose. Pete back to you.

>> Councilmember Constant: Thank you, mayor. So I'll give you my thoughts just like I did on the other side. There was such a wealth of knowledge. First of all, Michael Flaherman, the Cal peering's experience, his involvement with private equity firms and board experience and portfolio companies is just very extensive. And very compressed. I, his representation on Cal PERS away that of being elected as an employee representative but what impressed me was his independence. And again he he is another person that's very widely known in the retirement and investment industry, and I think his comments were very thoughtful. And I do feel that he fits those categories of what we're looking for. And I think he has a demonstrated ability of being able to represent an interest, but be independent, and strong in his beliefs, even if it's not necessarily what his electeds group wants. Next was Damon Krytzer, I believe. What impressed me was his experience and expertise in asset allocation and the asset and liability management. And I think those are areas that we have a significant need on our retirement boards. And he as well as what I mentioned with Lara has extensive experience working with boards and I think he really understands his role as a fiduciary. Not only in his comments but in reading his questionnaire and application, I was impressed with that and I think he would be just a very, very good asset. Next would be Frank Atkinson. What impressed me with Frank is such a strong background in private equity. And his overall very strong investment background. He also has sat on many private and public boards

and I think has a broad base of experience and a diversity of experience that will lend itself very well to either board and in my particular line, the Police and Fire board. And then my final recommendation would be Sean Bill. And what impressed me with him is his commodity, his understanding of commodities and currencies as well as his fixed income and investing experience, fixed income investing experience and his understanding of hedging strategies. And I think that as the boards move forward with the asset allocations that they have set out, and the goals that they have, I think his experience is going to be very, very helpful to either board. And in my mind particularly, the Police and Fire board. So those are my four recommendations, Michael Flaherman, Damon Krytzer, Sean Bill, and Franklin Atkinson.

>> Councilmember Herrera: I agree with all but Franklin Atkinson. Dirks, quantity tape of skills, Vincent Sunzeri, in terms of he answered the questions very well. And I like Sam was very impressed with Andrew Lanza's abilities but was concerned about those relationship issues. And I asked him that question, that's why I asked him the questions. I think that would be unfortunately a drawback with him although he he was very impressive. We just have impressive candidates, they're all impressive. Agree with everybody on that. But I'd like to hear everybody else's feedback.

>> Mayor Reed: I think I agree with Pete on Flaherman, Krytzer and Sean Bill and then Frank Atkinson who I thought gave not a very good answer to some of your questions but I was thinking of his investment background and very strong investment background, private equity background. He comes at it from a different point of view and I just think that's an important skill said that have to be made, I'm not certain what decisions they have to make, but that's my feeling that having a person with 40 years of venture capital experience would be important. Sam.

>> Councilmember Liccardo: I agree with Pete's first list completely and I agree with Damon Krytzer with the second list. Mr. Dirks, I was impressed, at the same time this guy has really strong technical skills he he also was very clear about the fact that we should keep it simple, investment should make common sense and if we don't then we should start to be suspicious about hidden risk, and his experience with hedge funds I thought that was many important. Mr. Suns, executive Vice President add Morgan Stanley, the fact that he he manages funds with

Saratoga and Los Gatos if I'm not mistaken, his focus on risk management was pretty compelling and the last candidate.

>> Councilmember Pyle: Mr. Herrick the fact having a lawyer on board isn't a bad thing particularly when we're thinking about all the disability claims we're constantly going to the lawyers and asking questions about interpreting the Muni code and what is or is not work related and on and on, having a legal background certainly helps, he is also specific with asset classes.

>> Mayor Reed: Judy.

>> Councilmember Chirco: Can I call for the vote?

>> Councilmember Constant: I'd like to make one comment before we call for the vote.

>> Mayor Reed: Make sure everybody has a chance. How many people want to keep talking a little bit longer? How many people want to stop talking and vote? Some people are abstaining so I'm not sure what the -- calling the vote. How about we just give it two more minutes.

>> Councilmember Chirco: Okay.

>> Mayor Reed: And we need two-thirds to call for the vote to cut off the debate. Certainly didn't have two-thirds there. Okay Pete.

>> Councilmember Constant: First of all as for Sam's comments I agree all three of those are excellent candidates in fact I was going back and forth on a lot of them except for Mr. Herrick's brief lapse in the spring of 2007 with an internship he he did, he's got an impressive work history. And then I wanted to address one thing that rose said. I understand your reservations about Mr. Atkinson and I know the questioning in the actuarial sense, it was obvious that he's not strong in the actuarial area, or -- and I think there was definitely a divide

between what you were asking and what he thought he he was answering. But I think that that is a little bit outweighed by his other experience and I was really trying to analyze this as what different skill sets could we bring that would all complement each other that would make a real good strong board of. I wasn't disagreeing with you I just wanted you to understand my thought process.

>> Mayor Reed: Any other comments Ash.

>> Councilmember Kalra: I still don't agree with Lanza, I think that's a style, he he was talking about riches, I don't think that -- I didn't see it in the same way that some others have seen it. And I tend to agree with Atkinson, I don't think everybody is going to come to the table about the type of experience, he was very up front about the fact that he didn't have actuarial experience, it wasn't trying to make up answers, he he very bluntly said he didn't know, or didn't have enough experience to give as complete of an answer. Odell, Per Kings, Armstrong and Druyan are the others I was very impressed.

>> Mayor Reed: He we vote for seven at this time, we're not saying, Federated or fire, we're just voting for seven, we'll have to sort that out, next discussion.

>> Thank you.

>> Lee Price: All right, I have them all now. We'll read off the ballots.

>> Councilmember Kalra, one vote for Odell, one vote for Lanza, one vote for Flaherman, Perkins, Michael Armstrong, Franklin@kin son, Lara Druyan. Councilmember Constant, votes for Odell, Krytzer, Sean Bill, Michael dplawrm Michael Armstrong, frarch Colin@kin son, Lara Druyan. Mayor Reed, votes for O'Del, Krytzer, Sean Bill, Michael Flaherman, Michael Armstrong, Franklin Atkinson, Lara Druyan. Councilmember Chu votes for Odell, Krytzer, Lanza, Flaherman, Perkins, Armstrong and Herrick. Vice Mayor Chirco votes for Odell, Bill, Flaherman, Sunzeri, Armstrong, Druyan, Herrick. Councilmember Nguyen votes for Odell, Krytzer, Bill, Flaherman, Sunzeri, Armstrong and Druyan. Councilmember Herrera votes for Odell, Krytzer, Bill, Flaherman, Sunzeri, Armstrong and

Druyan. Councilmember Liccardo votes for Odell, Krytzer, Sunzeri, Armstrong, Druyan, Dirks, and Herrick. Councilmember Pyle votes for Odell, Krytzer, Bill, LAN Dataport da, Flaherman, Armstrong and Druyan. Councilmember Oliverio votes for Odell, Krytzer, Bill, Armstrong, Druyan, Dirks, and Herrick. Councilmember Campos votes for Odell, Lanza, Foroodian, Flaherman, Perkins, Atkinson, Druyan.

>> Mayor Reed: Ranked preference voting. We'll be here for days. So it appears that we have six of the seven. We have Mr. Odell, Mr. Krytzer, Mr. Bill, Mr. Flaherman, Mr. Armstrong and Ms. Druyan are the six with at least six votes.

>> Mayor Reed: All right, so we have one left.

>> One left.

>> Mayor Reed: One spot to fill. So that would be a vote for one on the next ballot. So we can leave everyone on there that wasn't selected, I think, and see how that ballot goes and if we don't get the six we can drop off the low vote getters until we get to six.

>> So we'll distribute another ballot. Each councilmember will vote for one.

>> Mayor Reed: Can you leave that one up there so we know which ones -- don't lose your vote by voting for somebody who's already been elected. This is a vote for one, we only have one position left and we still have got to get to six votes.

>> Councilmember Constant: Ignore everything on the ballot and vote.

>> Except for the names.

>> Mayor Reed: Okay, we're almost done.

>> Mr. Mayor, Councilmember Pyle votes or the Mr. Sunzeri, Councilmember Nguyen votes for Sunzeri, Vice Mayor Chirco for Sunzeri, Councilmember Liccardo votes for Sunzeri. Councilmember Kalra votes for Lanza. Councilmember Oliverio votes for Sunzeri. I have one unmarked. Councilmember Constant votes for Atkinson. Councilmember Constant votes for Lanza.

>> Councilmember Constant: That wasn't me.

>> I'm sorry.

>> Councilmember Constant: I'm not in Chicago, I only got one vote.

>> I'm sorry, it was Councilmember Campos votes for Lanza.

>> Mayor Reed: So that would just for anybody who's paying attention, Councilmember Campos voted for Lanza.

>> Councilmember Constant voted for Lanza.

>> Mayor Reed: Who did you vote for Pete?

>> Councilmember Constant: I voted for --

>> Councilmember Campos: Lanza.

>> Councilmember Constant voted for Atkinson. Councilmember Campos voted for Lanza.

>> Mayor Reed: Okay.

>> Yes, we have two for Lanza at this point. Mayor Reed votes for Atkinson. Councilmember Herrera votes for Sunzeri. And Councilmember Chu votes for Perkins.

>> Mayor Reed: Does that add to 11?

>> So Mr. Sunzeri has six.

>> Mayor Reed: So six votes are suns. He's the seven. Seventh person. Now we have seven namings and we need to divvy them up between Federated and Police and Fire so let's go back to that discussion. Pete do you have --

>> Councilmember Chirco: Top 3 for Federated bottom four for Police and Fire.

>> Councilmember Constant: I disagree.

>> Councilmember Chirco: What a shock. Okay bottom 3 for Federated.

>> Councilmember Constant: With all due respect Vice Mayor, I really think it's important to look at the strengths of each one and the three that I mentioned originally for Federated all three got voted in so I would recommend that we -- and I don't know if it's perhaps good to do a motion at this point.

>> Mayor Reed: Actually, Judy's works. Top 3 for Federated.

>> Councilmember Constant: Top three vote getters or top three people?

>> Mayor Reed: Top three vote getters.

>> Councilmember Constant: I agree he with Judy!

>> Councilmember Chirco: Is that my parting gift?

>> Councilmember Constant: I was looking at top three on the ballot versus top three in the vote. So I do --

>> Councilmember Chirco: They're all well qualified they indicated an interest in either.

>> Councilmember Constant: I guess we'll take that as a motion and second.

>> Councilmember Chirco: Absolutely.

>> Mayor Reed: Let's first vote on the board assignments. So we have -- the motion is for Odell, Armstrong and Druyan to go on to Federated, on that motion, further discussion, all in favor, opposed, none opposed. Okay. So the other four go on Police and Fire. Now, we need to decide terms. I guess we could put them all on the same term or we could stagger their term because that's not specified. I think we need to stagger their terms because we don't have to get through 14 people every four years and it would get us a chance to get turnover but it's not specified in the ordinance we could do either way so Pete.

>> Councilmember Constant: I really think we should do staggered terms, I think that's important, I think we should take one person from each of the two and give them two-year, and the balance at a four-year terms. I think Judy warranted to add --

>> Councilmember Chirco: Yes put their names in a hat and pull them out.

>> Mayor Reed: Random selection is a suggestion, Rose.

>> Councilmember Herrera: I would argue that I don't see that many women in this group I would want the female person on there to be a four year term.

>> Mayor Reed: Okay, Kansen.

>> Councilmember Chu: I would propose we have the higher vote getters get the four year term.

>> Councilmember Liccardo: Doornt that.

>> Councilmember Constant: Because there's a lot of equal votes.

>> Mayor Reed: Let me back up and mayor he owe it down a little bit. Pete, you are suggesting we have one person have a two year term that would mean two people on Federated would have a four year term and three people on fire would have a four year term. The other seat that's going to be nominated that term is not set yet either?

>> No it's not that would be determined by the council at the time we made the appointments.

>> Councilmember Constant: Can I take a stab at the motion? I think it's important we balance the terms and not make one decision now and one decision later. So I would like to make a motion that we create from today's selection, two of the Federated terms be four year terms and one be a two year term. On the Police and Fire for three to be four year terms and one to be a two year term. The -- to be selected at random from the City Clerk a drawing so whoever gets drawn, randomly, gets the two year term. And I don't know if can I make this part of the motion so this part's up to the City Attorney, and the direction that the next positions be two year terms to keep the balance in rotation between two years and four years. That's my motion. I'll make it simpler.

>> Mayor Reed: I can make it even simpler. The City Clerk will draw a name out of the hat for the two year term on each board. Right? And so the others then will have four year terms and then the yet to be named persons that we haven't dealt with yet would be two year terms.

>> Councilmember Constant: That's exactly what I was thinking.

>> Mayor Reed: Does the city clerk have a hat?

>> Lee Price: Yes we do.

>> Mayor Reed: Always prepared. There was a second there?

>> Councilmember Chirco: Sam seconded.

>> Mayor Reed: Discuss on that Dennis?

>> We don't have our hat here.

>> Mayor Reed: So you'll do it today and you can let people know today. Whatever you draw out of the hat random selection, that is the motion, all in favor, opposed, none opposed, that's approved. Are we done?

>> Mr. Mayor, we have lunch for the council in the green room.

>> Mayor Reed: Lunch in the green room, you have a whole hour before the public safety committee meets. Thank you all.