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>> Matt Loesch: I would like to call to order the October meeting for the Federated city employees retirement system. And the Federated city employees health care trust, open them up simultaneously. Under orders of the day, I have a few notes here that I need to read in please. So under consent calendar item 1.4 A, board minutes correction on item 3.5. Change contribution to correction. Under new business, item 4.1B the September 30 flash report was received late so I'm going to request a sunshine waiver on that even though it's just a report. But for the trustees to know for sure that the one placed in front of you is even newer than the one that was e-mailed to you. So the one that we're referring to is the one that was placed on your table. Item 4.3, was received late, that's resolution 67-89 so I'd like to request a sunshine waiver on that one. That's a resolution. Item 5.1 S there's a correction. On the bottom of page 1, item 2, parentheses 2, added the word "partial" after regarding to read partial, outsourcing solutions, and at the top of page 2, second line, to read, partial outsourcing solutions. I apologize for the typos and so forth. Other than that we don't intend to -- for the first time in the history, don't intend to rearrange the history of the agenda since we moved one of the closed sessions to the front. We will do the balance of the agenda, the second set of closed sessions I will do it at the end. It shouldn't hopefully affect attendees here in the audience. Any orders of the day changes? Or notes? Otherwise I'll entertain a motion on those orders of the day. Okay who's got food in their mouth? Will someone please make a motion on orders of the day?

>> Edward Overton: Move approval.

>> Lara Druyan: Second.

>> Other than what was in the orders of the day, I'll entertain a motion.

>> Move to approve.

>> Second.

>> Matt Loesch: Comments or questions on the consent calendar? All those in favor? Opposed? Okay, we're all the way up to item 2, death notifications. I would like to request a moment of silence for those who have passed. [Moment of silence. ([

>> Councilmember Pyle: Thank you. Moving on to item 3, old business. Those --

>> Edward Overton: Mr. Chair.

>> Matt Loesch: Yes, sir.

>> Edward Overton: Before we move on I don't remember whether this document is a permanent record or not. But on item 2.1, it shows years of service of 11.448. Am I misreading that? It looks like it should be a lot greater than that.

>> Matt Loesch: Yeah, I noticed that as well. Should have brought that up.

>> I can verify, for John massen?

>> Matt Loesch: Yes, there is an issue of years of service. The hire date was 46 and he retired in 75. A lot longer than 11.5. There is a chance there was a gap in service or something. Okay. So noted. So item 3, 3-1, 3-2, 3.3 will be moved to the end. We're on to 3.4, update on pension administration RFP.

>> Donna Busse: We got three responses in, we are starting to have all the presenters, the respondents do an all day demo with different business practices that we run. So hopefully that will be done by the end of the month and we are hoping to bring a recommendation on a pension administration system December or January.

>> Matt Loesch: December or January okay. And when you do that you are obviously going to get the process of what it's going to take staff wise and equipment and so forth.

>> Donna Busse: That will appear in the budget area.

>> Matt Loesch: That will be a big deal.

>> Edward Overton: Wasn't there a request for demonstration?

>> Donna Busse: You are talking about board of packets? This is the pension administration.

>> Matt Loesch: Did you plan to have a pension administration demonstration?

>> Drew Lanza: Did you want the vendor to come in at the same time?

>> Edward Overton: Maybe I could go to the office --

>> Donna Busse: We could have them come in and do a short one some sure.

>> Edward Overton: Okay.

>> Matt Loesch: Item 3.5, presentation in the packet, presentation on lump sum versus dollar cost averaging. Frederick is here from Meketa.

>> Hello.

>> Last, at the meeting last month, the trustees asked Meketa investment group to analyze the impact of receiving lump sum contributions from the city versus biweekly contributions. So this memo is our analysis on that topic. Let's say up front that the returns data is available on a monthly basis so we did this on a basically compared lump sum versus monthly contributions, as opposed to biweekly. Just because it is very difficult to try

and get two-week returns data. So the concern raised by the board was whether there was any unwanted market timing risks. By taking lump sum contributions from the city. For the last four years, as you know, the city has been contributing lump sums that are invested during the first month of the fiscal year. In return, they receive a discount for doing that. So generally, and I'm on page 2 of the memo. Generally the benefit from the lump sum return for -- if the return for the fiscal year is greater than the expected or the assumed rate of return on investments, then receiving the money up front is going to be better. If the -- if the return is less than the expected rate of return, then it -- then basically dollar-cost averaging could be better. Monthly volatility may have an impact on performance and I think some of this is intuitive. So a couple of examples that are in the second paragraph, for example, in fiscal year 2010, the fund returned 11% during the first three months of the year. And negative 5% in the last two months. So if you have the full amount in the first -- at the first and the first three months are up 11% that's going to be a lot better than receiving 1/12 of the amount up front, experiencing some good gains there and then at the end of the year, when are you have the full fiscal year contribution then you have that, you know, if the market was down the last couple of months of the fiscal year that's going to be worse. So in the flip side, in fiscal year 2012, the fund declined 9% during the first three months. And in that case, you would be better off weighing into that over time. So what we did was, tried to put some hard numbers to this. And at the bottom of page 2 there is some assumptions that we had to make. And you know, so I'll briefly walk through this. What we looked at was not only the last three years but since 1995. And what you have to first come up with is, hypothetically what Wass would the lump sum be and what would the discounted lump sum -- what would the discounted lump sum be and what would the monthly contributions be that are not discounted? So what we did was get the contributions from the CAFR, and basically, divided that by 12 so you get a monthly contribution rate, and then that was what we used for what we call in here DCA monthly contribution or dollar cost averaging is what DCA means in here. And using the assumed rate of return we could estimate what a lump sum would have been for each of those past fiscal years. We run those contributions through what the actual returns were, and we can come up with some numbers to look at. There are some pretty big assumptions that are made here. As there are where a lot of these kinds of analysis. One is that we're not looking at any transaction costs. And we're also assuming that monthly contributions are invested on the first day of the month, which may not actually be the case in reality. So on page 3, there's a table here. To look at the annual gain-loss of contributed capital estimated. So on the first column you see, we thought it was useful to include the fund's annual performance. And right away, what you'll see if you compare the first column with the last column which is the difference, is when you have good performance, the difference tells you, what the lump sum would have done versus the monthly contribution. So if it's a positive difference that means the lump sum would have been better. And what you'll see is when you have good performance, better have the money up front. When you have negative performance, it's better to have dollar cost averaging. Those are not grand insights. That's what you would expect to see from the data. At the bottom, we linked the last four years, since it started, and then also the last 18 years. And so what you see on the bottom's pretty interesting. On the bottom right and under the difference column you see negative 1.1. That's the last four years. So what this is saying is that over the last four years and this is not additive. You can't add the numbers the last four years the difference because it's all linked together in terms of performance. Is that the dollar cost averaging may have been, would have been better over the last four years but over the last 18 years, receiving the money up front would have been a lot better. And it would have been better in 13 of 18 years and essentially flat in one year. So this -- are there any questions about this table? I understand that it may not be the easiest thing to read. I'm going to try to explain some of the assumptions that were made in this analysis.

>> For the monthly calculation did you take actual monthly performance of the fund?

>> Yes, yes.

>> Okay, thank you.

>> So for performance the cash flow should not really impact performance to any degree because the performance calculation that is used which is modified Diets methodology, essentially removes cash flows so that you get the return on assets. So yes, that is what was used, the actual monthly performance. We have data on the actual monthly performance going back to beginning of 1994, but that was a partial year so we started with fiscal year 95.

>> Arn Andrews: Not necessarily questions but this has been the area of interest to me and this is exactly the kind of back dated analysis that I was interested in seeing. And you know clearly, you have to make some

assumptions but I think the way they were made is consistent with what I was trying to get out of this exercise. And I mean seeing just in the past four years that 1.1 million to me is not material especially considering one of the assumptions you made was no transaction costs and one of the other assumptions you made, whether or not you assume all the moneys were invested as opposed to possibly being used for other purposes. For myself personally this is one of the questions I was frying to get answered in terms of has this had any type of detrimental impact to the actual fund itself and it appears as if it hasn't. And if the city were to continue this and if the board were to continue to adopt it long term it could actually be additive. So for myself I appreciate the analysis. And I have no questions.

>> Matt Loesch: Okay. Councilmember Constant.

>> Pete Constant: Quick question on the columns to make sure I understand this. You have a column that says lump sum that's bigger than the monthly number. And my understanding is there's a discount when you pay lump sum. So can you tell me, give me the background on this so I can explain it to other people.

>> Yes. What I did here, what we did was include just the annual gain and loss. So the lump sum column is the gain or loss. It's not the actual amount that would have been the lump sum. So an example would be last fiscal year 2012, you see two negative numbers there. I believe the lump sum was 88 million. The discounted monthly, undiscounted amount would have been like 92 million. And so those are the total amounts, that this column represents the gain or loss off of those amounts.

>> Pete Constant: So I think what would help this column, so people could understand the difference, is what the dollar difference in the lump sum versus the monthly cost. In other words, what is the savings in the discounted lump sum? And it probably would be easiest to show for the years that we have done it because we know those numbers.

>> For the last four years it's been approximately $3 million of the discount. And then prior to that, it was about $2 million, and you know, 15 years ago it was a little over $1 million.

>> Pete Constant: Okay.

>> Arn Andrews: And when we discuss discount, I mean that's a budgetary advantage on the City's side. The gain and loss is the impact on the plan side.

>> Right. The other slide has some other considerations here. Dollar cost averaging will increase transaction costs. I do want to clarify that. You know, dollar cost averaging in this case, and this is -- the last point here, cash flow needs, addresses whether or not that money is really invested. And whether that money is used to pay out, or used for benefit payments. So you know, that analysis that we did is, is based on the assumption of it investing it but I'm not sure that that's actually what would happen. And I think prior to receiving the lump sum that the money was not invested on a biweekly basis. So if it was invested, on a biweekly basis then it may increase transactional cost. If it was not then it would not increase transactional costs. The second one, how is the noninvested balance invested? In theory if you can receive the lump sum but you're not, what's happening to the rest of it? Over the course of the year? Is it sitting in cash? Or is it invested? And that's not something that it would probably be at the city, you know, or if the -- you know, if they can give $100 million but they're choosing to give $8 million what's happening to the other 92? Or you know, that is a hypothetical question. But --

>> Arn Andrews: It is a city side question, and it would be invested in the City's operating pool.

>> So theoretically if the assumed rate of return is 7.5%, that's the bogey the city would have to achieve if it didn't lump sum?

>> It's one of the cost benefit decisions the city makes when it contemplates prefunding.

>> Pete Constant: And I'll tell you from a council perspective when we have talked about it, quite clearly, especially in the times when we had budget deficits, if the discount were $3 million, we weigh the cost of not cutting $3 million worth of service through the whole year, versus the impact of taking our cash out now. And our

cash return on our investment pool for the City's ongoing cash balance is minuscule, Arn probably knows the number but it's below 1%.

>> Arn Andrews: I prefer a word other than minuscule.

>> Microscopic?

>> Arn Andrews: We've got under a five-year maturity horizon so all of us know where five-year yields are right now and so yeah, it's sub-1% or heading that way very shortly.

>> Matt Loesch: Okay.

>> There are two other points that I would make. One is that depending on the, you know, how this money is invested, contributions, whether it's lump sum or dollar cost averaging. If it was dollar-cost averaging it would probably require some kind, if it was intended to be invested would require some parameters around the rebalancing and how that would be done considering the amount of private market investments in this fund. And it would likely also, if it was to be invested, would increase the demand on staff resources. I think in conclusion, in any single year, you pay see some significant volatility, one way or the other, under either kind of contribution strategy, if you -- we can call it that. But over the long term, it appears that the data would suggest receiving the money up front would be preferred.

>> Matt Loesch: My thought when I read this, it seems like dollar cost averaging, biweekly or monthly, over decades, we're dollar-cost averaging every year, over decades it would be yearly.

>> Arn Andrews: Just after doing it for years I thought it was prudent to look to see if it has any germane effect or not. It appears in the last four years it hasn't been material, since 1995 it could have been additive.

>> Matt Loesch: Okay.

>> Stuart Odell: I guess one comment. This basically doesn't give me any kind of information I didn't know before but what I think might, and we could consider although I'm not necessarily advocating it, is more around the tracking error of the portfolio, relative to its target asset allocation. And whether or not you would improve the tracking error relative to what we're doing today. Which is you know, we have a rebalance policy, and presumably Russell and others on the team are rebalancing on a regular basis or when they get outside their bands, et cetera. To the extent you tighten that up, there's potentially some benefit to the system from doing that. That analysis is not part of this. And again I'm not necessarily advocating we go off and do that. But I just would point out that that might be the potentially advantage to the system if you wanted to tighten up tracking error.

>> Matt Loesch: Okay. So we'll note and file that. Item 3.6, discussion and action regarding delaying a new RFP for electronic board packet software, not just software, hardware too right? Until staff can finalize exploratory discussions with second place vendor from the request for proposal 11-01-2011-MC dated November 2, 2011.

>> Donna Busse: That's what happens when you have an I.T. person writing the agenda, they're very technical. We're still vetting out the second place person. We had the demo, it was good. Better than the first time we saw them. And we just had some outstanding questions we wanted to see a new proposal from them, and that's kind of where we are now. We have been on the same track, still talking with sire. They, as she said in the memo, wants to try to retain our business, so we're evaluating that as well. But I think we're at this point today from when the memo, really close and we will have a recommendation next month.

>> Matt Loesch: Okay, I don't know that you necessarily need to act, just wait until next month.

>> Donna Busse: Yes, I think it was just our commitment to come back this month.

>> Matt Loesch: Any other questions on that? Okay, item 3.7, got out of order here, update on retirement services organization and staffing. Remember, this is just the item I'm going to keep on here until we get a little

more stability on the staffing side and to give Ms. Busse a chance to address the board on any changes that happened or any changes she needs from us so we can support her this period.

>> Donna Busse: We did have some changes from last month, one of them is that I had Veronica appointed to be acting deputy director, of my former position, or my real, current position, mainly additional signature authority. When Carmen and Russell left I became the only person left who could sign on behalf of the department. Some of my signing duties a lot of the stuff I have to review on a monthly basis I gave to Veronica. And the other one is I asked Heidi to be the lead on the investment side just to kind of manage the work flow and priorities. And then good news. On the far right, we did make an offer to a division manager and she accepted. And she'll start on the 29th. So that should help a lot on that side.

>> Arn Andrews: Internal or external?

>> Donna Busse: External. She's coming from the USCW pension plan, not there when Russell was there, but her position there was pretty much equivalent to what she would be doing over here.

>> Lara Druyan: So what kind of progress are we making on the investment side recruitment? If any? Not really?

>> Donna Busse: I don't know.

>> Lara Druyan: The IO?

>> Donna Busse: That's part of the alliance process.

>> I just think everybody should have an update about how that's going.

>> Donna Busse: I think Heidi is very close. She's interviewing. We're going to get a temp person to at least help with some of the lower level analytics. Heidi if you want to comment on that.

>> Great like (inaudible) so we have engaged with an (inaudible) mostly focusing on (inaudible) in terms of the IO recruitment actually the current investment group (inaudible) personnel committee.

>> Matt Loesch: Yes, I was going to give the update as to what the ad hoc personnel committee was doing when we get down there. So we'll address the current search on the IO, the CIO and the CEO, director search. One thing I would like to ask, you sent brief e-mails up and sometimes you've sent them just to me. Maybe any of these updates even the specifics of them, what things exactly, signing for, so forth, this is an update to the personnel committee not just me. That way a brief update and if we need to convene the committee to support you I need to know that as chair of that committee so we can provide the support. If you can send me the updates, with the detail, a little more robust detail on what's going on with the IO temps and what role Ms. Niebla is taking over and the specifics under the division manager stuff. You've done those things already but if we could get them to the whole committee and not just me I'd appreciate that. Anything else? Okay. Item 3.8. Discussion and action regarding the asset allocation newsletter. We saw this a month or two ago, I can't remember when it exactly came through. We kicked it to the investment committee, but since Mr. Regere was going to be here anyway we figured we should bring it back to the full board to take a look. It's been vetted through the IC and many of the notes and comments appears from the board meeting I think were adopted.

>> Donna Busse: I think when it went to the I.C. the committee wanted something added regarding the volatility. I think they added a fence. That's why they came back, I.C. wanted another sentence added, and now brought back here for approval.

>> Matt Loesch: Mr. Regereing in to add?

>> No We add they'd to the paragraph on page 2, I believe it's in the second sentence or second or third sentence. The reduction in volatility. That was the request from the investment committee. To add something

about the volatility. And the rest, we added on the first page the fund actual returns experienced to that chart. Second page we revised the chart showing the potential value and then, on the third page we added a glossary.

>> Matt Loesch: All right. Again, the intent was for this to go out in the next mailer posted on the Website. And for those watching or here in the audience who weren't familiar with this, since we've done so many asset allocation things in the last two or three years we wanted to encapsulate what was going on in hopefully some more common language people could understand, what exactly we were doing, why the changes were made, the kind of motions we're going through and also so we could transmit this to the beneficiaries and the recipients. Nice bare bones nice size document. I would request Councilmember Constant take this and would you want to submit it to the full council or would you be willing to take it and submit it to them?

>> Pete Constant: I'll do it as part of are my monthly update or weekly update.

>> Matt Loesch: I would like the entire document submitted to them for their reference as well.

>> Pete Constant: Will do.

>> Matt Loesch: Thank you.

>> Arn Andrews: I would suggest that we continue to do this. I don't know if it's appropriate every six months or every year but conceptually I like engaging our stakeholders, I think it's a good tool.

>> Matt Loesch: Precise memo what the decisions are and when we get more involved in some of the hedge fund stuff, they come funded, probably another document has to come out who why what and where and what the process was.

>> Stuart Odell: I just have one comment I have not seen this since they added the volatility sentence. First off just to confirm it reduces the expected volatility by 13% or it takes the expected volatility down to 13%?

>> Matt Loesch: Reduces.

>> Stuart Odell: Then my follow-up comment might be be that we consider we are putting an expected ROA in here target of 7.5%. Do we at some point want to give an expected volatility target for the portfolio as well going forward? So either that is something or --

>> In the table on the top left of that page.

>> Arn Andrews: But to Stuart's point, I don't think the boards set an expected volatility.

>> Matt Loesch: By the allocation but not specifically.

>> Arn Andrews: Not specifically but that's something we might want to contemplate at some point.

>> Stuart Odell: Yeah I mean the other thing is for us to report on the actual volatility that was realized versus what we expect so that we can kind of set expectations, here's what actually happened, is it within the range of what we thought was going to happen.

>> Matt Loesch: Even then, the quarterly book that something that we do ask Meketa to track and make sure there's an explicit slide on, wouldn't you say?

>> Stuart Odell: Or earlier, annually --

>> Matt Loesch: Yeah, we'd probably notice it and pay attention to it annually but quarterly at least its there for the record.

>> Pete Constant: Matt, may I say something?

>> Matt Loesch: Yes.

>> Pete Constant: Since this is going to people who don't have the investment knowledge or may not have the investment knowledge I really like the glossary, that's been a good help. But we all know what a rolling ten-year return is but I'm not sure how many average councilmember or city plan members know what that is. I'd suggest adding that in so it's reality clear what it is. Because you can misinterpret that if you don't understand what rolling ten years.

>> We can add that.

>> Pete Constant: And anything else, I just want to it would be nice to give it to someone who knows nothing about anything, and ask them do they understand anything and see if there's any other glossary terms that we could add in. Because we take a lot of things for granted because we see it all the time. Especially those of you in the investment world who see it every couple of minutes.

>> Stuart Odell: Yes, I agree.

>> Matt Loesch: Quarterly book has a pretty decent glossary, if I remember right. There was a pretty decent glossary in there if we just include that it might have that.

>> Pete Constant: So what I might do is give this to one of my staff members and ask them to read it and tell me whatever term you don't understand. So whatever terms are used in here it's clear for people and maybe we can get that update in the next.

>> Matt Loesch: Just so we're clear the board is saying go out and publish it the way it is and we'll add more to it so don't wait. Okay?

>> Arn Andrews: Just following that theme, just so I can can add quickly, risk return tradeoff and hedge could be more defined terms.

>> Matt Loesch: Why don't we do this. If you have more add-ons ask the staff to refer, if we have further comments, let's e-mail to staff so we can get them included in there, is had a fair? Okay. Item 4.1. This is investments, discussion and action on the performance reporting time line. We have a memo from Ms. Doan in our packet here and here she is.

>> Good morning trustees. You have a memo in front of you, it's on the performance reporting time line from Meketa, I mean from me, but it's a memo that give trustees the sense of when Meketa will report their monthly and quarterly reports. Right now Meketa provides us four different performance reports. The monthly flash report for the pension, the quarterly report for the pension, the quarterly report on private markets and quarterly report on the health care trust. Going forward Meketa will also present a monthly report on health care trust. In general it takes about 12 business days to complete the monthly flash report and depending on the timing of the investment and board meeting dates, they may be hand delivered. On a quarterly basis Meketa will present a quarterly performance report in conjunction with private markets report at one quarter lag. So in December trustees will get a 9-30 performance report with a 6-30 private market report. These two reports can be completed within 55 business days after month end. The exception is Q1 reporting because it takes longer to get Q4 data from private markets managers due to year end audits on the fund. For each June the board will get a 3-31 performance report with 12-31 private market report. But some of the data might still be preliminary. The quarterly health care trust completed -- health care trust can be completed within 30 days after quarter -- after month end but that's based on the current funds lineup if you add a liquid instrument to it that may delay the time line. Currently staff provides Meketa with manager fees on a quarterly basis and fee simples on accrual basis, that is when fees are incurred. To speed up the performance reporting time line Meketa and staff agreed that makes sense to switch it to a cash basis which is when fees are paid. Generally there is very little difference between the two methods and

there isn't an industry standard on which method to use as Meketa has clients whose fees are booked on cash basis and some clients whose fees are booked on accrual basis. In conclusion, staff and Meketa seek adoption from trustees regarding performance reporting time line and adoption of the accrual -- of the cash basis of booking fees.

>> Matt Loesch: Okay. Questions from the board? Nothing. Fantastic. I'll entertain a motion if there's no questions.

>> Motion to adopt. Move to adopt the cash accounting basis report. As recommended.

>> Matt Loesch: Okay.

>> Edward Overton: Second.

>> Matt Loesch: Comments or questions? All those in favor? Opposed?

>> Thank you.

>> Matt Loesch: You're welcome.

>> 4.1B, presentation of the flash performance report of August 31, and September 30. Again, August 31 booked report was in your packet and September 30 the new one was on your table here. It's not the one in your e-mail it's even newer than that was put on your desk today. Mr. Regere.

>> August flash report, page 1 index return. This report was presented at the investment committee meeting. August was a very positive month. You see in the first column you see August returns. Very positive for equity assets. Mid cap and small cap performed the best. For the first two months of the quarter, markets were very strong. You saw some -- I won't say resolvement but support for the Europe -- in the European sovereign

debt issues. Have been support from the ECB and then in August, there was more anticipation of the fed and whether or not they would do more quantitative easing. And was announced in September. Next page look at the fund value at the end of August, just under 1.9 billion. The two changes in August to mention, private debt there were $15 million of capital calls in private debt, and there was $100 million invested in real assets. So the physical assets increased for real assets. Now to be clear, the overlay had been achieving the exposure in real assets. And so the overlay was modified as the physical investments were made in August. On page 3 we look at the performance, August performance for the fund, 1.2%. Just slightly below the policy benchmark of 1.3 and the custom benchmark of 1.3. Global equity returned 2.1% in August. And real assets had the strongest return of 2.6%. Because we're going to look at September as well, I'm going to move on to that and we can look at the September performance. You'll see on the first page, the index returns that risk assets continued to -- risk assets continued to perform well. There were strong returns in September. International equity performed better than domestic equity in September. You see the biggest gain on this page came from the emerging markets index which was up 6% in September. For the fiscal year in the second column you see foreign equity performance was better than domestic equity. Foreign equity ranging from 6.9% to 7.9%. Versus domestic equity returns fiscal year which is also the quarter and the 5 to 6% range. At the bottom you'll also see the Dow Jones commodity U.S. index fiscal year up 9.7%. So the take away here is, some of the things that hurt this fund in fiscal year 2012, which were commodities and international equities helped this fund in the fiscal year to date in this last quarter. On page 2, the fund value at the end of September, $1.94 billion. Not much in terms of asset movement during the month of September. There's going to be significant amount more in October. As the transition to some of the new index providers has or is taking place or some have been completed and some are still in process. As we've mentioned, many times and as you already know, the target allocations, there's an overweight in equity and real assets. And I'm sorry, equity and realities assets, fixed income -- real estate assets and fixed income as this fund builds out the hedge fund program. So if you look at performance, in September the fund was up 2.3% and that compares with a policy benchmark of 1.5 and a custom of 2.2. And fiscal year to date, the fund is up 5.1% compared to the policy benchmark of 3.7 and custom benchmark of 5.0. What that tells you is the policy and custom benchmarks, the difference between the custom and policy tells you the allocation effect. And so the allocation effect for September and fiscal year is positive. And the reason for that is because you have equity assets and real assets that perform better than the hedge fund index. And so because those assets are overweight, that's why you have a positive allocation effect right now. The selection effect is the difference between the total fund and the custom benchmark and in both the September and fiscal year that was negative .1%. For the September month, global equity returned 3.4%. Oh you know what I did want to mention that the policy benchmark, there are two components that were not available at the time of in report, and that's the venture economics benchmark and the real estate benchmark. So once those come in that may change slightly. Global equity returned 3.4% in September and was the best return among the major asset classes. On the next page you'll see real assets return was 2.1%. Fiscal year to date, real assets up 7.6% and that was the best asset return for fund to date. We will be, as was mentioned the full third quarter report with all the manager information will be presented at the December meeting and we can address individual managers and any performance issues or manager issues at that point.

>> Matt Loesch: Questions, comments.

>> Edward Overton: Yes, on the fixed income piece you have inception date of 1-1-12. Why is that?

>> So when this new allocation was adopted, this fixed income includes public fixed income and private debt. The former allocation, private debt was under a different -- under its own allocation. And now, it's under the umbrella of fixed income. So the full history of fixed income is seen in public fixed income. So you see there the inception date is 1-1-94. That is what was prior to -- prior to the current allocation, that's where the fixed income allocation the history was, so this new one that includes both public and private only began in January of this year under the new asset allocation that was adopted.

>> Edward Overton: Thank you.

>> Matt Loesch: More questions, comments? Okay. Seeing none, thank you. Moving on to item 4.2, discussion and action on system expenses for August 2012. We have in our packet the memo of the monthly expenses. Any questions or comments on that?

>> Arn Andrews: Just one question, every month when we list the monthly expenses I make the assumption that these are transactional. Are these actually transactional?

>> Veronica Niebla: The management we are.

>> Stuart Odell: Not the transactions the actual trading?

>> Arn Andrews: Yes.

>> Matt Loesch: Any other questions? I'll entertain a motion.

>> Move approval.

>> Second.

>> Matt Loesch: All in favor, opposed, okay, item 4.3. I assume Mr. Hallmark is on the line.

>> Bill, are you there?

>> Bill Hallmark: I'm here.

>> September 30th, 2012 for tier 2. We have the revised memo in our packets would you like to introduce it Ms. Niebla.

>> Veronica Niebla: So this resolution is the first resolution for tier 2 for the Federated members. Staff tried to include all the whereases to give the full picture that this is a new tier that is coming in and that the medical contributions that are applicable to tier 1 are also applicable to tier 2. We coordinated this with Cheiron and Reed Smith to ensure that we had a comprehensive resolution. The only pieces that I would call your attention to would

be some of the footnotes. We tried to footnote a lot of the bases for the rates and the tables because the second tier is coming in in the middle of the year and it wasn't anticipated in the valuation. There are portions of the unfunded for tier 1 that will still be due by the city for the earning -- for the payroll for tier 2 and we tried to footnote that in this resolution.

>> Matt Loesch: Okay. Are there questions?

>> Arn Andrews: Other than I assume coordination on the city side also with payroll and --

>> Veronica Niebla: I'm sorry, we did, we did send a draft version to payroll and to City Manager's office as well.

>> Matt Loesch: This is typically we don't go into this much department after a resolution from the prior month but because there is so much to do and because this was a new tier it was a big deal to get the accounting right. This is why we are emphasizing this in this meeting. Most of these are cut and dried, this one is a buying deal. Questions? Otherwise I'll entertain a motion.

>> Arn Andrews: Motion to approve the rates as recommended in the resolution for tier two.

>> Second.

>> Matt Loesch: All those in favor? Opposed? Okay. So we're on to committee reports. Item 5.1, sorry, over two pages. So we have our packet 5.1A, the meeting minutes for September 12th, 2012 meeting, joint Federated and Police and Fire investment committee and item B the update from the chair of the investment committee.

>> So in this investment committee which we actually already discussed, we spent significant time discussing our -- well we had an -- a partial outsourcing solution presentation from Wertz and then we spent a significant time also from Police and Fire trustees going through our first three commitments to potential commitments to the absolute return portfolio. With both staff and with Alborne. And that was all in closed session since those are

potential investments we discussed, and we have since brought those to our board for approval in our last meeting.

>> Matt Loesch: Okay. Questions or comments on that? I'll entertain a motion on the approval of the minutes.

>> Arn Andrews: Motion to approve the minutes.

>> Second.

>> Matt Loesch: All those in favor? Opposed? Okay. On the audit committee.

>> So I guess a couple things. We have decided to have our first meeting in November. Which just Federated only, not Police and Fire. And we're going to synchronize it such that we have the comprehensive annual report, a draft of it, to be able to review ahead of time and then discuss in the meeting. So that should occur in November. And then, in December, we anticipate having a joint meeting with Police and Fire to discuss a number of common issues, one of them, we want to meet with our attorneys with the auditors, et cetera, et cetera. Because the first step though is to review the draft, and meeting time on that is a function largely when the draft is done.

>> Matt Loesch: Got it, okay. Only thing I want to add is make sure you bring the audit committee policy or charter as we called it to the committee just to help scope whatever December meeting you have so the discussion -- I mean your work is really governed by the charter that we all passed so help guide whatever discussion points you have. Okay. Governance committee, there is no update because nothing's happened since then. You should all be getting phone calls from Cortex or request to participate in a phone interview we'll call it as research. I would heavily request and heartily request that you participate in that. So if you have not had a conversation with them I would very much appreciate if you would, they are seeking as many people's input as they can into their research on Cortex phase 2 governance report. Okay. On item 5.4, this is the ad hoc personnel committee. Update from the chair. Discussion and action regarding the scope and composition duties of the

committee and the memo from the chairs of the Police and Fire plan and the Federated city employees retirement system regarding the retirement board fiduciary duty dated October 1, that's in your packet. As far as an update what's going on with any of the searches or any of the work that's going on. We have been interacting with the city attorney's office and the City Manager's office regarding the ordinance that was proposed at the last, so going back to last month. The board said to the committee, to wait until the ordinance was passed, in an acceptable means to the committee to participate further in both the search and with the city management on those searches. That ordinance has not passed yet. I did take a leap of participation, and publicly announced that there was a meeting with the City Manager and the Police and Fire committee that did not have that similar constraint. On looking through the configuration brush of candidates for the CEO. For the director's position. It was review of the book, and then setting of some parameters about what the interview process was like. I took the leap of saying, not to gum up the wheels because there has been some good-faith effort going back and forth between our attorneys and the city attorney's office to try to come to a mutually agreement on what that process will look like and what our engagement will look like. It's still not done yet so I can't really say what it will be because we're still working on it. As far as changing the scope, I think at this point the committee needs the -- a little bit of leeway to say go gently with whatever the process is. And really, I don't think we need to change our scope right now. Because once the CEO search if there is a formal interview process that the full board is going to be offered the opportunity to participate, not just the committee. Itself, the full board will be offered to participate itself, the constituents both Police and Fire and ours. On the CIO search they are still trolling for -- they do have two books together for the CIO candidates of people who have met the minimum quals that rose to the top of that, I believe that number is in the ballpark about 18 people we had been punching that those books be reviewed by the investment committees, that's probably the best team of people to look through those resumes and look through those applications. But at the same time, we've also said that we really think we should have the director placed so that they could participate in that process as well since they will be a direct report of that person as well. So it doesn't seem to -- we've kind of lagged the CIO search just a little bit so we can get the director search done. In the same sense with the investment officers, they are gathering a pool, I believe they have a soft close on the job offer for the investment officers. And again the intent there was to have a pool of screened candidates that we can then provide to the CIO when they come on, to say here, you have some empty slots, here are some qualified candidates, a good pool of folks you can look at to kind of fill those spots, to short change some of their search efforts and shorten that time once they're in place. Have I missed anything?

>> Donna Busse: Nope.

>> Arn Andrews: Just one question going back to the memo of 5.4.

>> Matt Loesch: Yes.

>> Arn Andrews: The ordinance I think it was on the council calendar. Was that pulled again or -- I believe it was on the consent calendar this week.

>> Matt Loesch: I believe it was deferred.

>> Pete Constant: It's been deferred, council doesn't want to approve something we have do undo. Trying to let the personnel committees and attorneys and everybody work together to hopefully come up with something that we can pass and not have too much disharmony over.

>> Matt Loesch: Any other questions?

>> Is there a timetable sort of extended date in which we would extend an offer anyway to a candidate?

>> Matt Loesch: Tentatively there's a date set for some interviews of the book of candidates that was kind of threaded down to a smaller pool of the second week of November. And pending what happens with the ordinance and pending what happens with the MOU, depending what happens with our participation in that there is the first -- and it's not the final interviews, it's the first glance of getting in front of these people or getting them in front of us or whoever is participating in that. So it's second week of November is the first chance of looking at it. So what does that mean? Let's say they were approved the next week. Then there's -- because it's a director of a

department they have to go through city council approval as well and that has to be agendized, couple weeks process there as well. We're probably talking, at the earliest, slay slam-bang middle of November.

>> Arn Andrews: There won't be another council meeting until the end of November.

>> Matt Loesch: Director position the council you can tell me what the process is exactly but any director of any department goes through council approval and it's in an interview in closed session. And tell me --

>> Pete Constant: Yes, basically council ratifies the decision of the City Manager. And if the council does not ratify, then the process starts over again. I haven't seen that happen since I've been hereof. And I think we can get it on the agenda in shorter than two weeks because it's a personnel, and closed session issue.

>> Matt Loesch: Okay.

>> Pete Constant: But I can't 100% say that. But they usually move pretty quickly.

>> Matt Loesch: Okay, any other questions?

>> How likely is it that second of November interviews will be open to anyone on the board?

>> Do you want to go there?

>> Matt Loesch: The vision is that it's open to anyone on the board. What happens legally and what happens agreement-wise, I don't know. It's a pretty quick paced process. But a lot of ambiguity and lack of clarity. Interesting deal. Okay? Moving on. Item 6.1. 62 and 63 are all educational notes and trainings. Going to hang out Meketa down in San Diego at their investor conference. Note and file those. Any future agenda items? Seeing none, public or retiree comments?

>> Hi, my name is Yolanda Cruz. I'm the president of AFSCME local 101, MEF chapter of city employees mas well as a plan participant. I'm here today because I want to better understand how or if the -- how much the board is paying in fees for, and no disrespect to the councilmember, but for the councilmember to get educated as a nonvoting member on the board. This is the first part. The second part of that question that I have is that, as a nonvoting member I'm assuming he's been appointed by the mayor. And when he's not here, he sends a staff member as opposed to there being an alternate from the council that should be on there. And then my last part is, wanting to know if he is in fact participatory in closed session meetings.

>> Matt Loesch: Okay. Answer directly, in the fees, all of any fees that have been paid, I don't have the number off the top of my head. But it's reported, all of our monthly expense reports, if there would be any. So for example in this current month there would be none. They would be listed per his name, any other trustee or any other board member's travel or any other expenses would be listed there. As far as absence I'll let him speak to that as to why his chief of staff or another person -- there is an alternate listed. I don't know the reasoning for that. And his closed session he has not participated in any of our closed session on any topics, period.

>> Pete Constant: I'll just add my expenses not only get listed here, they are 50%, they're split between two boards because I'm a member of both boards and I'll just note that that was a topic of discussion at both boards when we changed the governance and the boards, both boards agreed that that type of travel and education was appropriate for the position I hold as well as the council took a vote on that as well. The -- when I am not here, if the alternate is not available, I do send a member of my staff, because I think it's important that I'm able to get the information of everything that happened, so that person's available to answer questions or transmit information to me. And then as far as me being on here, it's not the mayor just doesn't send me here. It's a council action, and my participation in both boards, just like each one of you is appointed by the entire city council.

>> Matt Loesch: And as far as absences, it's -- there is a question, the second one, the alternate is which councilmember?

>> Pete Constant: I think it's Rose Herrera for this board.

>> So I -- I have a concern. And I believe that when the board, when the makeup of the board was changed, there was a lot of discussions with the unions in regards to doing that. And I respect and was actually in favor of the changes, and have been extremely pleased with the professionalism and expertise that these new board members have. I know that we have employee reps as well as a retiree representative on this board, as well. But my concern is that there is another aspect of this that has a challenge, and that is in regards to the labor unions, and things that are going on. And if there is a person appointed as a nonvoting member, that then there should be some opportunity for there to be a labor appointed person to also be able to participate in trainings and to have a better understanding of what's going on. Because I believe that we are put at a serious disadvantage when we are unable to -- all of our training and experience has to be done on our own time, and also, on the -- we have to rely upon other experts to assist us. So that's a challenge for me. I've talked to a couple of other people. I know it's a very big concern for all of -- for a lot of my members and who are also plan participants. So I'm just questioning because when the makeup was first made, there was never any discussion about a councilmember being on that. As a matter of fact, I believe that all councilmembers who were participatory on the board, majority of them and all councilmembers in general said that the reason why they wanted off of these boards was because they do not possess the expertise or the ability to address, and move this forward. So I'd like for you to just -- I don't know what the process is for that. I don't know what's going on, we are looking into what alternatives are that we have, and so I just want to make it very clear, that we have a very big concern about that.

>> Matt Loesch: Okay.

>> So I also have one other item and it's just -- it's totally unrelated. But when we're here at the council meetings I mean at these meetings, generally we try -- I try and watch them while I'm at my desk as opposed to being here. So I don't print out all of the things. I don't know if it's possible especially when you've got an update, something that comes -- if there can be something that's on an overhead so those of us in the audience can see what's going on. Either that, or provide some copies.

>> Matt Loesch: Additional copies.

>> For us to look at.

>> Matt Loesch: Typically we do and it was a last minute thing on this one, on the investment flash report. The next time we'll make sure we do or have copies placed open the agenda. Thank you.

>> I'll just briefly say in terms of the board composition and who sits on the board ultimately that's a plan design issue. So I mean obviously, if this board wanted to agendize a discussion at a future meeting and discuss the possibility it could certainly do that. But ultimately it's not up to this board to decide who sits on it. That's really a city issue.

>> Matt Loesch: Okay.

>> Arn Andrews: I would just add that I don't know what the appropriate approach is. But I think stakeholder education is critical, I mean I think that's why we're trying to come up with that news letter. So I would like to agendize the concept of other modes of stakeholder education. Because I think it is very important. And whether that's a governance construct or whether it's just providing more educational sterlings, or maybe there is a way. I don't know that a portion of plan assets could be used for educational sessions that are open to stakeholders or something to that effect but I would like to continue this topic at future meetings.

>> I'd agree.

>> Matt Loesch: Noted. Anything else? Okay, the pension is adjourned. We're moving on to the health care. So this is on the health care trust fund. Under item 1.1, approval of the Federated employees health care trust minutes of September 20th, 2012. You have in your packet the minutes. I'll entertain a motion.

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: Comments or questions? All those in favor, opposed, none. Item 1.2, discussion and direction regarding the Federated health care, you have up here another presentation, Mr. Regere on the asset review.

>> This was presented to the investment committee last week. It approves one recommendation which is to rebalance the health care trust under policy A which is on page 6. As well as to move forward with establishing an investment policy statement. The health care trust was funded in July of 2011. With a $21 million contribution. At the time, the direction was to invest in the liquid assets of the pension trust. Until a separate policy was developed. So that is what's been done. This year, in July there was an $18 million contribution. So the fund is valued at a little over $40 million. On page 2 you see the current asset summary as of August. On page 3 you see the manager roster. There's five index funds run by Vanguard. And there are two, the two real asset managers, Credit Suisse and first quadrant is the same for the pension fund. Because of the size of the account, it was not possible to engage all of the pension trust managers and so that's why the low-cost option of the Vanguard funds was chosen last year. On Page 4 we look at the asset allocation targets. When the new asset allocation for the pension fund is was adopted there was no change made for the health care fund. And so on page -- let's see, on page 6 is a policy option that we're suggesting, or that was recommended to rebalance towards, and that is consistent with what was done when this fund was set up, which is to invest in the liquid portions of the pension fund. So the -- the two columns on page 6 show the current targets. And the actual allocations are very close to those current targets. And then policy A is what is recommended. And so equity and real estate would have -- would be equal to the policy target of 45. Real assets would be equal to 20 and essentially what policy A recommends is that the 25% absolute return allocation be moved to fixed income. These funds are largely held in mutual funds so transaction costs should be minimal. And our recommendation is to come back with an investment policy statement that would include an asset allocation review that there should be a separate policy for the health care trust. And as we discussed at the investment committee, we were anticipating that full implementation of a new investment policy statement asset allocation and possibly getting into the -- and then implementing that assess allocation could be a six-month kind of a time frame. And so we thought it appropriate

to be consistent with how this fund has been invested in the past to go ahead and move forward with policy A and then conduct and asset allocation review and come back to the investment committee with that.

>> Matt Loesch: Okay. Questions?

>> Arn Andrews: Just one question. I assume under policy A you know in order to move into more liquid assets you start to move down your expected return.

>> Yes.

>> Arn Andrews: Policy A has an expected return of 6.8. Which means from an actuarial standpoint when Cheiron comes to us the expectation is that we're going to have a large difference between what is currently adopted and what this policy would result in.

>> I think that brings up a great question and what is unclear to us is, what -- how the health care trust is different from the pension trust and does it have different objectives, different goals, different liabilities, for example. And whether it will actually have a -- if the policy is established, it may have a different expected return, expected standard deviation but one has not been set.

>> Arn Andrews: And I think I would like to know that too. If there's a difference in cash flow requirements which require you know this construct to be more liquid as opposed to what we currently have adopted. I would want to know those differences before we are presented with an actuarial assumption that's going to acquire us to possibly make a very big change to what is currently adopted.

>> I would only add that the assets for the 401(h) are invested, commingled with the pension piece. So their valuation will include not only include the 401(h) assets that are invested separately and can't go into the illiquid markets that the pension trust has, and then it's combined with the 115 trust, which has the different asset allocation. So the valuations would be a representation of the combined assets between the 401 (h) that are

invested separately and the 115 trust again separate allocations to come together to be included in the health valuation.

>> Matt Loesch: So they are aggregated into one whole mix, and that's something we would have to consider as well, is what's going on in the 401(h) side for those investments because they are really to pay that particular benefit and if we do an evaluation or assumptions around that, all of these investments should be tied, thought of as a pool.

>> Veronica Niebla: In addition the way that the ordinance for the 115 trust was written all of the expenses so all of the health care premiums that we are paying for active retirees are coming out of the 401(h) fund at this point. The only expenses that are running through the 115 trust are the investment manager fees related to this specific trust and anything else that is specific to the 115 trust.

>> Arn Andrews: The current liabilities come out of the 401(h) which is commingled in the exact asset mix that we have on the pension side long term liabilities on the 115, so we could theoretically have two different asset allocations based on those two different mandates.

>> Veronica Niebla: Theoretically.

>> Matt Loesch: This is a bigger topic --

>> Arn Andrews: Yeah, I think personally this is a bigger topic and I would like to see coordination with the actuary on this, too, so I can understand it globally as opposed to just incrementally.

>> Matt Loesch: This is going to be a piece of the funds for the health care, it's not all of it.

>> Veronica Niebla: Just to add, this year's financial statements is the first year because this is the June 30th, 2012, the first year that we have the 401(h) and the 115 are reported together as one plan for assets to be used

for health care benefits. But there are supplemental schedules that have been added to the financial statements that present the assets for the 115 and the 401(h) separately so they can be tracked on an actuarial basis.

>> Matt Loesch: Okay. So timing-wise it's going to be interesting because we have the CAFR to do, we have the evaluation to do for our health care and investment mix for this part of the 115 to be considered all in one. The valuation for the health care was December-January time frame, right? So why don't we wait until that comes through and then have that -- this piece come in, can probably January sometime frame for IC, does that seem to make sense to people? And then looked at as a whole as opposed to -- and what's going on so that we're investing this part maybe to complement what's going on in the 401(h) as opposed to just stand-alone.

>> Arn Andrews: And I think you know on page 7 that staff will continue to work with Meketa on defining, develop investment objectives. What is the plan's long-term return objective, trying to quantify more exactly what are going to be the requirements of the 115 versus the 401(h).

>> Absolutely. I think it's unclear to us at this point, and so we would recommend --

>> Arn Andrews: If it's unclear to you, you can imagine how we feel.

>> Matt Loesch: It's interesting -- some of that discussion has to happen here first to guide you on the investment. Maybe we have the discussion here at the January board meeting, and then, make it goes to the February I see. That probably makes more sense because that way we can give guidance how to do with the investment and we can talk about the assumptions, to give guidance to both investments. Does that make sense? Okay. Any other comments or questions on this? 1.3 -- did I mistakenly adjourn the pension side?

>> You did.

>> Edward Overton: And there's no do-overs.

>> Matt Loesch: I'm going to unadjourn and reopen, we are going to be going into closed session on the pension side.

>> Didn't hear that word.

>> Matt Loesch: But we are not going to have a closed session on the health care side. When we do adjourn we will adjourn on the health care side. Any old business? None, communication information reports none any future agenda items I think we spec'd out, so January meeting here for Val. And also investment concepts and assumptions and then go to February for the IC.

>> Arn Andrews: And stakeholder education.

>> Matt Loesch: Stakeholder education for this as well. Good. Anything else on the future agenda items on the health care side? Public or retiree comments on the health care side?

>> Edward Overton: Oh, have we resolved the issue of the limits on the 401(h) contribution, or are there more discussions that need to be held?

>> Matt Loesch: I think we're waiting what the valuation says on the -- how much time we have left on the contributions in the 401(h), I think that's going to come in the discussion in the December and January. Retiree comments? Anything else? We're adjourned on that side, let's take ten minutes and reconvene in closed session. Thank you. [Conclusion]