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>> Matt Loesch: All right, good morning. I'd like to call to order the -- -- we'll, item 16 we'll talk about that that's on my orders of the day. So again I'll call to order the February meeting for the Federated city employees retirement system. And of course at the beginning we have some orders of the day. One of which is to defer item 16, and then I'd like to make notes on two other items, one is, 3 HHH, that the name is misspelled. The first name of Scott has only one T in it. Not two. And then item 3EEE, the position title of principal is miss spelled, it should be AL. Any other orders of the day or topics for the board? Seeing none. All in favor of the orders of the day? Got to get a motion, I'm sorry.

>> Motion to approve orders of the day.

>> Second.

>> Matt Loesch: Okay motion and second. All in favor, aye, opposed very good. Moving on. Item 1. Is not going to happen because the person is not been appointed by council at this time. So that one will not happen until March meeting. So I guess item 1 should have been deferred I guess. On the consent calendar, is there anything that needs to get pulled on the consent calendar? Okay. Can I get a motion on the consent calendar please?

>> Motion to approve consent calendar.

>> Second.

>> Matt Loesch: Motion and second, any questions or comments on the consent calendar? All in favor? Aye? Opposed, none. Thank you. So we're going to item 12. I'd like to request a moment of silence for those who have passed. [Moment of silence] thank you. And Marching right along. 13. Discussion and action regarding Cheiron's finding with respect to IRC 401 (h) testing procedures. Is that staff or is Cheiron here? I don't see them.

>> No, Cheiron is not here. I can go through -- Cheiron presented a memo dated February 2nd where they analyzed the 401 (h) subordination limit test. They had reviewed what CRS determined last year and in working result of Icemiller's review (inaudible) of the implementation date of 4 you 01 (h). (inaudible) icemiller advised we could go back to 1995, 1996. That helps the test. Cheiron changed the calculation process to include all contributions to 401 (h) trust in the calculation which works to the detriment of the test. That findings are that is that the test is going to be nearly violated in the current fiscal year. And if you look at the results on page 2 of tear letter, actually I'm sorry page 4, that are showing at the end of this fiscal year, the limit is 25 and for the next fiscal year, the contributions, if nothing else is changed will exceed 25%, almost 27%. So really, what is going to happen is once the limit of 25% is reached, there have to be restrictions on the contributions for 401 (h). And so really, that limitation is going to be in effect essentially starting July 1st of this year. In which case, the contribution would be restricted to one-third of the pension normal cost contribution. And my understanding is that the City Attorney has looked into what the remedies are in terms of establishing a differently (inaudible) looking at another vehicle to void the limitation problem. Mollie is going to speak to that.

>> Mollie Dent: Yes, we're working with -- we're working with the city, with the office of employee relations on getting a different vehicle for accepting some of the health contributions. It is an annual limit. So you wouldn't, assuming it does not -- that is correct, that it will not be reached this year, you would be able to fully fund in the first part of 2012, that's towards the end of 2012, the full funding that is currently being done would not be able to be done through this vehicle. And the type of trust that's being looked at, the 115 trust is a pretty common trust vehicle. There are some issues, though, that will have to be ironed out with establishing one.

>> So would the assets that would be transferred from this 401 (h) into a new trust or-

>> Mollie Dent: No those are some of the issues that need to be worked out. But what -- probably not. There would probably be two trusts. The assets that are in this trust would remain and probably go into a new trust.

>> Matt Loesch: Staff comment or decision on that? Any comments or questions from the board?

>> Arn Andrews: I guess my first thought is if we were unable to find a new mechanism to facilitate this trust by July 1st what does that mean to us as far as our responsibilities? We have contributions rates that are supposed to be transferred yet we will have a legal limitation on that.

>> Matt Loesch: According to the extent here, it really goes through that full year and since the employees are taken out biweekly, the city, even though they front theirs, at least that's the current practice, that they front their money at the beginning of the year we have if full year to get to that limit. The employees are biweekly. It is unlikely at the beginning of the year we would actually trip over the line so we don't have really July 1st, it's really fallish.

>> Mollie Dent: That's correct, you're unlikely to hit it right at the beginning of the fiscal year.

>> Matt Loesch: Anything else?

>> Yes, just looking at the relevant section of the Muni code there does seem to be in the provision the mandatory contributions to fund the 401 (h). That section also says the fund is supposed to comply with 401 (h). It's kind of as the facts emerge that we're going to deal with they are kind of contradictory and I think the least the board should do is direct staff to the degree it hasn't already been done to notify the cityto to notify them of this contradiction. They're not looking to us to deal with the 115 trust but we just want to make sure that we're not faced with the situation where the Muni code says X and you're supposed to comply with X but you you can't comply with X.

>> Matt Loesch: Just make sure this gets reported to the city. It is not like it's hidden.

>> Perhaps you could get some status report, maybe not all the bells and whistles but so you're apprised things are being done to remedy it so you're not faced with it.

>> Mollie Dent: The Muni code has to be amended in order for this to be established. The codes have to be amended in order to reflect where the new money is going. As always this board will look at the ordinance amendments. They have to come before us before they can be documented by council. So you will be involved as this moves forward.

>> Matt Loesch: Right and maybe like we did with all the tax compliance stuff over the last eight, 12 months maybe we have this as an old item as an oral update regularly from staff and city attorney's office on what the status is, and how things are moving along. Maybe that would be good instead of just notify the city this is an official report, report from the actuaries. Any other comments or questions from --

>> Just one question, regarding the asset allocation of a new trust, and is staff preparing for how that will work presumably you're going to utilize the same asset allocation that you're utilizing accreditation the current plan, but just to make sure that that's in place, so that we're --

>> Russell Crosby: I think over time you're going to want a very different asset allocation. It's a very different kind of animal. I'm not sure what the trustee structure is going to be, who the trustee is, how many trusts there are actually going to be. I think all those subjects are conversations between OER, office of employee relations and the city attorney's office.

>> Mollie Dent: The plan sponsor, of the new trust, will need to decide how they want that new trust to be formulated. What board or what administrator they want to have for that trust. You can't have a single trustee for those kinds of trusts. And whether or not they want the money to be co-invested with this trust or not. So -- all of those are decisions that --

>> Russell Crosby: -- set it up that way.

>> Definitely one thing is for sure, the liabilities of a health care plan are very different from pension liabilities. And the horizon specifically is very different, which if it were separate, would really mandate a different investment

program. Currently, since the assets relating to the health care component are very small, we haven't really given a lot of thought to having specific asset allocation. Also given that the assets are really physically commingled it doesn't make sense necessarily to have that split. But once you have two different trusts with very different liabilities, it is hard to justify the same asset allocation.

>> Sure but you know the plans are basically starting unfunded.

>> Yes.

>> So, you know, where you stick it is -- you know you're never going to get the returns you need to meet the funding levels, to begin with. But my comment is more related to just kind of being prepared for that, if this is going to happen as soon as July, to kind of at least have an action plan set up, or how you're going to initially fund that trust. And kind of get that process moving.

>> Mollie Dent: Yeah, I think we can give you an update as the chair suggested, as it looks like the plan sponsor starts to make some decisions regarding the trust.

>> Matt Loesch: I can't remember what the terms were of the negotiations exactly. I think it was up to the city to set that up, whether it was some that then the bargaining units need to be a party to it afterwards, I cabinet remember because that would be another thing that would need to be considered of whether it needs to go back. I can't remember the exact language of how the agreement was put together. My remembrance was that the city would endeavor to put that together, the trust would be compatible. It left a lot of wiggle room.

>> Mollie Dent: Your recollection is correct. Again there are some issues to be ironed out with compatibility of a new trust vehicle with the current status quo.

>> Matt Loesch: All right.

>> Russell Crosby: And Stuart, just to address some of your concerns,s this hate breaking news. GRS had a short time horizon on this and now we have Icemiller and Cheiron involved the time line has collapsed from a couple of months to a couple of years.

>> Matt Loesch: To be clear, Cheiron was just hired in the fall as a new actuary replacing our previous actuary. The previous actuary had a slightly different view to give us more time. And the current actuary has different thoughts you're seeing it today.

>> Mollie Dent: I will say this was coordinated with our tax counsel. This is a very conservative approach to running the 401 (h) limit, which both Cheiron and tax counsel thought was the most appropriate approach. Especially given the fact that we don't have our tax determination letter from the internal revenue service which would include the 401 (h) account, and if -- there may be some -- if there do turn out to be impediments with the 115 trust there may be some ways to look at this again. But right now, this is the best way to look at it, the most conservative.

>> I just want to point out based on these results, (inaudible) there is some urgency to get this done because you wouldn't want to wait until the end of the fiscal year 2012 and come in with a 26.7% result, because by then the money's already gone in and you've violated the limit. And based on page 4, it looks like as early as July or August of this year that we hit, this 25% would be exceeded.

>> Russell Crosby: My understanding from OER is this is proceeding on quickly, there is no delay on either end.

>> Just a question. Are there penalties for exceeding that limit?

>> Mollie Dent: Well, yeah.

>> Does it disqualify the plan?

>> Mollie Dent: Yes, it disqualifies.

>> There must be the remedy process.

>> Mollie Dent: Yes, the IRS has recommend dis.

>> They come from a position of strength.

>> Matt Loesch: Wait being patiently.

>> Just a couple ever clarification questions. First one I may have missed it. I think you said earlier. What happens to the current money that's in our system, does it stay in our system, does it transfer to the new trust and what are the reasons for not?

>> Mollie Dent: Well, it likely does not transfer to the new trust. We're just in the process of getting counsel on board to help with this. But so far, the understanding is no. You can't transfer money from the one vehicle to the other. The money that's in the existing trust though would continue to be available to pay premiums. So the fact that the new trust is not fully funded wouldn't immediately matter. It's a little bit of a -- you know obviously administering to at the same time isn't the ideal solution, but that may be what we'll have to do.

>> Russell Crosby: Running over the old account and eventually switch over to using the new one. The contributions would go into the new one in the meantime.

>> Pete Constant: And then what's the status of the other retirement fund, the Police and Fire funds as far as their limits, are they approaching the same limit?

>> Mollie Dent: Well we don't have -- I don't think we can probably get into that here today.

>> Their horizon is not as close.

>> Pete Constant: Okay, just generally like that that's all I want to know. And then my final comment would be, I think it would be important for this to be discussed Monday at the city council study session. Because we're -- we have a special study session on ordinances and their priority, and what needs to move through system. Because we have a backlog of 30 or 40 ordinances. And there's been this continuous weekly shuffle of what goes on top. So we've decided to have a council discussion to say, okay, we need to prioritize this and we need to basically stop coming up with these new ideas. And get what we have on the books done. I think it's going to be very important to make sure that the message of the importance and the urgency of this issue is entered into this discussion whether it comes from the city attorney's office or whether it's something that we need to have a memo out. I think it just needs to be discussed in that context on Monday.

>> Mollie Dent: Management in our area is aware ever that so --

>> Pete Constant: The council does some strange things and with new ordinances proposed each week I wouldn't want this to keep slipping.

>> Russell Crosby: No argument here.

>> One other timing issue is the city in the past several years has prefunded its pension contribution. So this could have an impact as early as June 30th.

>> Matt Loesch: What if the money is put in a separate vehicle? It doesn't necessarily bump over anything. Interesting.

>> Mollie Dent: Whether or not the city wants to prefund this year with the separate vehicle being established I think will be an issue.

>> Matt Loesch: Any other questions or comments from the board? So I guess we don't have an official motion yet. I'll make since we've been talking a bit I'll make the motion that we officially notify the city regarding the information presented from Cheiron regarding our 401 (h) limit approach. Motion, point to myself is that we get this as a standing item on our future agendas as a point of update. Can I get a second?

>> Second.

>> Matt Loesch: Motion and second. Any discussion on that that I missed something in the motion that needs to be added? All in favor? Opposed, thank you. Item 14. Approval of change of retirement date of Steven R. Wilson from January 22, 2011 to January 29, 2011.

>> Motion to approve.

>> Second.

>> Matt Loesch: Motion and second. All in favor, opposed, item 15. Staff investment overview presentation. Informed we need to get a sunshine waiver on the presentation that was just given to us, that is on the board behind us. Do we need to -- can we get a quick clarification what that means?

>> Mollie Dent: Sure. There's a requirement that staff presentations and memos and things of that nature be provided to the board seven days in advance of the board meeting and be posted so that the public can review them seven days in advance of the board meeting under the city's local sunshine resumes, sort of an adjunct to the Brown Act which is the state open meetings law. But if the board wants to consider the presentation when it's been submitted late then the board can, as of -- make a motion to waive the sunshine requirement. It doesn't -- and it then allows you to consider and discuss the item.

>> Matt Loesch: Right, and the concern in this case and often case, when we would see something like this, this is a presentation of a status not necessarily the change. This is where we would consider whether we want to waive the sunshine rules or not, go for the waiver and second, Mr. Constant is waving his arms.

>> Pete Constant: We never get any of our presentations ahead of time at the council. What's the difference?

>> Mollie Dent: I understand that.

>> Pete Constant: What's the difference? .

>> Mollie Dent: Because they passed it out, it's passed out like a staff memo.

>> Pete Constant: That happens all the time at council. I don't understand.

>> Mollie Dent: I understand. I think sunshine gets waived for you all at rules committee, that's where waivers occur.

>> Pete Constant: Not on presentations. I sit on Rules Committee. It's something that -- whatever. It doesn't hurt to do the sunshine waiver but it's just different than the way the council operates.

>> Matt Loesch: Just to cover us, why don't we go for one and --

>> Mollie Dent: I'll certainly check on that.

>> Arn Andrews: Motion to waive sunshine on item 15 because it is educational in nature.

>> Matt Loesch: Motion and second. All in favor, fire away.

>> Good morning. The first presentation today is to really presently some of the highlights of the asset liability study and to try and present a context in which the decision were made. So we're going to talk a lot about risk and reward because fundamentally the asset liability study establishes the tradeoff between risk and reward. So before we dive into the asset liability study, I just wanted to show the pension plan structure. A couple of comments. The consultants of the board on the actuarial side, Cheiron, Cheiron was hired recently. The investment consultant is the Mikita investment group. Again, Mikita is a recently development. The custodian of the trust is northern trust. That's it for this slide. What are the important documents? I guess the most important document is really the asset liability study. It quantifies the tradeoff between risk and reward. The statement of investment policy mandates that the ALM be reviewed annually. The last review was in 2010. And the Normandy industry is a review every two to three years because the ALM is supposed to be a strategic long term view that the risk can take on and not really a tactical view of the market. The statement of investment policy is reviewed at least annually, and typically you will see it two to three times a year. It -- obviously managers must comply and it's approved by the board. The monitoring reports are prepared by the Mikita investment group on a quarterly basis. You'll see the first monitoring report at the next meeting. Typically, staff reliance on this report to establish whether the managers are in compliance, if there is a problem with compliance then staff takes immediate action to see it rectified. Contracts and agreements, basically the various contracts with the managers and the dress are reviewed on an as-needed basis. So what I'm suggesting for today's agenda, we are going to talk about investment risk and pension plan context, then we're going to talk about what is the current long term asset mix of the plan and why is this important and then we're going to do a qualitative review. It's not meant to be a full blown ALM but just provide a little bit of context for the decisions that were made.

>> Matt Loesch: Could I ask a question, would you like to be interrupted with questions from the board?

>> Absolutely.

>> Matt Loesch: Folks have questions fire away.

>> Your consultant that provides quarterly performance, are they also providing quarterly risks reports to you on the portfolio?

>> Absolutely. I mean it depends what risk analysis would you be looking at. The performance, the quarterly performance report would be looking at standard deviation style and so forth. If you're looking at something in the line of risk budgeting, that hasn't been done yet.

>> Thanks.

>> We'd like to do it but I think it's more in the six month to one year range of implementation. We're probably a little bit far away from it yet.

>> Okay, thanks.

>> I'm suggesting a few topics for the coming meeting. First, we'd like to start diving into the rationale behind the funds investment structures. My suggestion is that we start with the equity investment structure first and so we'll cover that, alongside the quarterly performance report at the next meeting and that we then take on the other asset classes, the fixed income, real assets, and alternatives. We may break down alternatives by subcategories but we'll see when we get closer to it. Couple of other topics that we're suggesting. The management of the short term asset allocation. Currently, this is done through passive rebalancing. We're going to have greater discussion about how would the board like to approach it. Would the board like to take a more tactical view and then maybe how to implement it, if so. I'd like to suggest that we have a discussion on currency risk and currency alpha, and portable alpha. Any additional topics that the board would like to discuss, I'd love to hear from you, if you have further topics that you'd like discussed. So next I'd like to talk about risk. Risk in a pension plan context is simply the diversions between the growth of assets and that of the liabilities. The reason for that definition is quite simple. Really, you need to manage surplus. If you manage surplus, then all the financial ratios that you might care about will improve. If you don't manage surplus. Then clearly the financial situation, you're not managing the financial situation of the plan. There's a couple of reasons why the assets and liabilities would diverge. One is

equity or alternative investments, volatility risk and the second is interest rate risk. What is volatility risk? This is clearly short term volatility. Liabilities at large tend to behave like fixed term investments. So in allocation to equity investments or to alternative investments, creates basically a mismatch between the assets and the liabilities. As a result of this volatility, the short term return of the asset portfolio may deviate from the growth of the liability portfolio. So really, this risk is justified if the equity or the alternative investments generally have a higher expected long term return. Fundamentally if the return is fair then one can justify the risk. Interest rate risk, the reason the pension plan is subject to interest rate risk is because real interest rates, as well as inflation, impact both the asset sides, as well as the liability side. So the asset side is impacted by these factors impacting the returns of the various subasset classes and the various investments. Obviously, I mentioned that liabilities tend to behave like fixed income investments. So their impact there is through the choice of the discount rate. So then the next question is, okay, what is the long term asset mix and why is it important? The long term asset mix is very simply the allocation between equity, fixed income and alternative investments. And it's the fundamental decision of the plan, various studies have shown that the most significant factor explaining variations in returns in the plans is the long term asset (inaudible). This is an illustration, not necessarily this plan, but at large, when the asset liability is set, and the target allocations are set, policy risk is typically the majority of the pension plan risk. Active management risk is obviously a component of total risk, but typically because it has a very low correlation to the policy risk, it ends up being a very small component. Any questions? So this is the -- your -- the plan's current asset allocation. On the fixed income side, it is 7.5% allocation in TIFS, a 5% allocation to core government bonds, a 7.5% allocation to high yield and investment grade credits. On the equities side, a 25% allocation to global equity, a 6% allocation to large cap U.S. and international equities, a 10% allocation to small cap, a 5% allocation to emerging markets and a 3% allocation to global convertibles. A total of 49% in equities, and the remaining allocation is a 31% to alternatives that are broken down into a 10% allocation to commodities and infrastructure, a 5% to each of hemming funds, real estate and opportunistic investments and a 6% allocation to private equity. What's key about the past asset allocation is that the board made first time allocation to hedge funds, commodities and infrastructure. In order to improve the diversification of the plan the board also approved changes to the investment structure, an asset allocation that resulted iin an increase in expected return of .5% per annum which is a big increase for an asset allocation.

>> When were those changes made?

>> This was approved in February 2010. Two months after February 2010, approximately, a transition happened that tried to move the plan towards the target asset allocation and we're going to talk more about the specifics of the transition next month with the quarterly performance report. Now, on this slide, I'm actually showing some of the highlights of the asset liability study. The plan's actuary at the time provided actuarial projections for three scenarios that were requested by the plan's investment consultant, The Mikita Investment Group. By the way, the Federated Plan's 2010 unfunded actuarial liability is approximately $781 million. This is being provided just for context. The -- there are obviously the columns that you see in the table are the three scenarios, starting with the optimistic to the moderate to the pessimistic. In the second row of the table, it's basically the plan's 2029 projected deficit, so approximately the deficit in 20 years from today. Clearly, I think the most important element is the fact that there is a deficit every single scenario that has been considered. On the row following that the U.S. equity large cap return for that specific scenario. So for example for the moderate scenario, this corresponds to an equity return of 7.2%. Even an equity return of 11.8% under the optimistic scenario was not sufficient to help the plan eliminate its unfunded actuarial liability. The last row fundamentally shows the City's projected contribution for the Federated plan under each of the scenarios. So these scenarios by the way were not meant to be lying a worst-case or a best-case. They're simply meant to cover the plausible range of scenarios, so roughly it's the 25th and 75th percentile.

>> Two questions. One is, could you provide us more information, not necessarily here on how the scenarios were generated, what assumptions were made? Were they sort of you know deterministic or replace history or --

>> They were deterministic. The Mikita investment group basically year by year went through and just basically picked three economic scenarios that were drastically different. The optimistic one had a high, basically, return assumption, pretty much across the asset class. So you had pretty fairly high returns on fixed income as well aseth. Inflation was reasonable, so this was not -- you know, it was the moderate scenario, inflation was around 4.5% in context with the 7.2% return. On the pessimistic side, inflation was below 4%. So it was pessimistic because overall the portfolio return because fairly low. Any additional information on the scenarios?

>> That's fine for now. The other question I have on the projected contribution, are these real or nominal dollars? So 2029, is that in today's dollars or --

>> That's -- that's in 2029 dollars.

>> Pete Constant: And Carmen, for context, what is the contribution this year just so we have it in full context?

>> For the Federated plan, let me ask my --

>> It's about $90 million. For the upcoming fiscal year.

>> Pete Constant: Okay.

>> For the retirement plan only?

>> For the retirement plan only.

>> So about 90 million.

>> And so the board notes, I'm trying to keep notes, if you asked a question about maybe try get the scenario report from 2010, so you could see exactly, so there's things you want to make sure as we go along in context that we have in mind, something that's already generated, you don't have to create something new. I'll try to jot stuff down if we want to make sure that things from the past are pulled forward.

>> Now, the main reason why the unfunded liability remains in all the scenarios that you're looking at, fundamentally, there's two reasons. One is the fact that the actual -- current actuarial methodology, front-ends the benefit of a specific investment return assumption. That investment return assumption started two years ago, as

9.15 growth. So the actuary was making the assumption that the liabilities would earn 9.15. This translates into an ineighth 25 net return assumption. The board has since phased in the assumption to 7.75 net which really is 8.65 gross. And that obviously has an impact. But the portfolio expected return is set fairly low in the actuarial liability calculation. And since the benefit of that high investment number is actually front-ended, it generates the results. The other component that also makes a significant impact is the fact that as of June 30, 2009, the unfunded liability was amortized based on a 30 year amortization schedule. So that's the other reason why, in all the scenarios you're looking at, there is an unfunded liability. Going forward, starting from June 30, 2010 the board decided to change the amortization period to 20 years. However, that amortization schedule is still in place. The next section, what we'll try and cover we'll try to provide some of the context for the decision. First we'll try and talk about well, what is the investment objectives of the plan. And then we're going to talk about the risk contell. We're going to talk about what is the financial flexibility of the plan sponsor, what are the plan characteristics that are have an impact on the investments, and what are the peer group's long term asset negatives that are published. The long term assets really need to take into account the fact that the investment returns on the portfolio need to be optimized in order to deliver pensions at the lowest possible cost. However, the board has a fiduciary responsibility to ensure that members' benefits are protected. Fundamentally that last responsibility means that the asset allocation should be more tilted towards fixed income. So really the board has two responsibilities and they are almost contradictory. The conclusion is that the objective obviously of the board is to achieve the highest possible return without exposing the plan and the plan's sponsor and the members to excessive risk. So next we are going to talk about the flexibility in the pension funding formula. What you're looking at here is just the standard actuarial equation. Benefit payments and expenses need to be funded through contributions and investment income. I just want to highlight again the interplay between investment income. The investment income here is the assumption made by the actuary, the higher that assumption is, the lower the needed contributions are. The only really component of this formula that's really under short term direct control of the board is the contribution level. And that's why the volatility of contribution is highly affected by the risk of the plan. The investment income is clearly under your control, but typically in the long term, not in the short term. So the question, can the plan sponsor tolerate the contribution level of an unfavorable but possible investment scenario? The numbers that you're looking at at the bottom of the page is the -- first the actual city contribution for both plans, the Police and Fire and Federated plans, and for both the pension and health contributions. The idea was to provide sort of a global view. In 2009-2010 the contribution level was $135 million. In 2010-2011 it's approximately 180. And the budgeted city contributions in millions, going forward, next year would be at 256. And in five years, there will reach the 400 million mark at 401.

>> Carmen, looking at the scenario work that was done it would appear if I read this right that the city is budgeting somewhere between the moderate and the pessimistic scenario, is that a fair statement?

>> Not really. Because this number actually includes health and includes the Police and Fire plan. So the ALM results are there really to guide the investment decision on how much risk can this plan take? These budgeted numbers simply reflect the 2008 losses. Fundamentally the way the actuary methodologies work, when there is a loss, it takes you approximately five years to recognize it. And then, every year as you recognize a component of it, you amortize it, over currently it's 20 years, and you start paying it off. So the increase that you're seeing is just a reflection of partially, the cost of the 2008 market downturn, but also, it is the cost of reducing the investment return assumption. Both plans, the Federated plan and the Police and Fire plan, have made a decision to reduce their investment return assumption by 50 basis points. So far. And that cost is factored in. So --

>> Arn Andrews: Sorry, one other question. While it's good to see both plans combined to get an impact of the plan sponsor, if the other plan is not as familiar with Police and Fire as some of us may be, it is roughly a 40-60?

>> Yes.

>> Arn Andrews: 40 is related to Federated and 60 is Police and Fire? Okay, thank you.

>> So also the City's approximate current payroll is about half a billion. And the city has resorted to significant layoff and salary freezes over the past two years to make the last two years of pension contribution. Next we're going to talk about the plan characteristics. And these are specifically the plan characteristics that have an impact on the investment program. The nature of plan benefits, this plan provides a final earnings benefit. What that actually means is the benefit has a very strong linkage to inflation. The reason is that salaries, obviously, inflate at

inflation plus a merit increase. So in high inflation scenarios, the benefit increases exponentially, and so does the liability. Now, long term equity returns have a stronger correlation with inflation than long term nominal fixed income return. So the nature of the plan benefits, tips the allocation towards equity. Next I'm going to cover a couple of ratios, the ratio of liability to payroll. The higher the ratio, the lower the advisable equity allocation. And the ratio of deficit, when I say deficit, I mean the unfunded actuarial liability to contribution. Again, the higher the ratio, the lower the advisable equity allocation. Couple more issues. Funding issue and the market value ratio. Basically the funding ratio is simply the ratio of the actuarial value of assets divided 50 actuarial value of liability. Whereas the market value ratio is the market value of assets divided by the actuarial liability. Again, the higher the ratio, the stronger the fund's capacity to take on risk and so the higher the equity allocation may be. Demographic characteristics, there are a couple ever important demographic characteristics that you need to keep in mind. One is the average age of members and the other is the percentage of the plan that are inactive. The higher the average age or the higher the inactive liabilities, the lower the advisable equity allocation. So if I were to summarize the results, what this graph teams to show is for every single characteristic that we've discussed. Whether the resulting allocation to equities should be on the excessive side or on the aggressive side. So first, the inflation link. Obviously as I mentioned, the plan's benefit is a final average. With indexation at 3%. This suggests a slightly aggressive equity allocation. The ratio of liability to payroll is a whopping 13-to-1. Which suggests a conservative allocation. The ratio of deficits to annual contribution is a 9, which is again off the chart and suggests a conservative allocation. The City's credit rating, AAA, suggests that the city can take on risk. So this would provide a bit of a potentially a justification for a higher equity allocation. And finally, the funding ratio and the market value ratio, quite low, at 60% and 52%. Again, this is for retirement and health combined, and for both plans. The -- the ratio also of inactive liabilities to the total liabilities of the plan is just under 60%. And time horizon --

>> Carmen, inactive liability, would that be retiree liability?

>> That's correct. I think it's also includes vests usually.

>> Deferred vests.

>> Time horizons, this is essential whether the city has a long term horizon. Whether to have a long term horizon, the city has to have the capacity to persevere and endure the short term volatility of the markets. Given the numbers that you see in relating to the budget, I would argue that the city has really a shortly term horizon and that that kind of is yet another indicator that suggests a conservative allocation. So overall, there are a lot more red indicators on the chart than blue indicators, which suggests that a conservative equity allocation is needed.

>> Matt Loesch: Going back to some of our initial stuff about the 401 (h) thing I'd be interested to see how -- what this does if you pulled out the health plan and were just dealing with the pension and just of Federated, not including Police and Fire. Because that's the thing that kind of will be confusing if we're trying to make decisions off of this for the pension plan. This kind of combines the whole mess. And I would agree that it seems like the health issues because obviously the funding nature of that plan is so much diminished that you know it will take different thoughts whereas the pension may have something other than what's reflected here. And that's why I'd like to see those numbers as well.

>> Absolutely, we'll definitely produce them and I can tell you wheys going to come out is the funding ratio and the market value ratio is going to be slightly higher, rather than 52 and 60 maybe another 10% higher and the inactive liability ratio is probably going to drop a little bit. But fundamentally it's the same picture. So a couple of conclusions from the qualitative analysis. The plan has limited capacity for risk and the plan sponsor has also limited capacity for risk.

>> So if you don't take any risk, you really are not going to ever hit your targets, unless something changes somewhere else.

>> Absolutely. That's why it's a balancing act between the risk that's undertaken and the expected rewards. I mean it's a catch 22 situation because if you don't take risk one cannot afford the plan. You kind of need to take risk. But then the whole context needs to be kept in consideration. So the decision cannot be taken on one aspect alone, it's a balancing act between the risk and the rewards.

>> I don't want to skip ahead but are you going to see us where our current asset allocation mix kind of falls within this context?

>> Absolutely.

>> Arn Andrews: Okay.

>> So based on the ICC it is the independent consultant's comparative database, the equity allocation of pension funds with assets in excess of $1 billion is as follows. Equity allocation of 49% or less. 34% of pension plans would fit into that category. About 31% are in the range of 49% to 60. And 35% are great -- have an allocation to equity of greater than 60%. Now the plan's target equity allocation is 49%. So fundamentally we're conservatively positioned in comparison to peer pension plans. This is a little bit -- just a side note, on equity risk. The plan has a 55% allocation to both public and private equity. So this includes the 49% public equity allocation that I mentioned, and the 6% private equity allocation. That-d those two allocations account for approximately 80% of total plan asset risk. So diversification by source of risk is just as important as diversification by asset class. And that's kind of one of the reasons for the allocation. Short term equity volatility risk is currently not hedged. There's a couple of issues with hedging. It has a cost. And the supplemental retiree benefit reserve would complicate hedging. Because we'd need to overhedge in order to try and make sure we can pay the SRBR as needed and keep the rest for hedging purposes. Next the fixed income allocation. Again if you go to slide 37, the fixed income allocation of pension plan, there's 33% that have a fixed income allocation, at or less than 20%. About roughly 39% are in the 20 to 30% range and 28% have an allocation over 30. The plan's target fixed income allocation of 20% is low in comparison to peer pension plans. Now, we're going to talk about why it's a bit low. So first we're going to look at the risk context, then we're going to look at the reward context of fixed income. On the risk side, if interest rates increase by 1%, given the current fixed income allocation, we would have a loss on the asset side of approximately $15 million. On the liabilities side, there would be no release of liability. And hence, surplus would deteriorate by the 15 million lost on the asset side and the financial condition of the plan would deteriorate.

>> What's the average duration of the fixed income?

>> About four.

>> Four and a half.

>> Four and a half.

>> Has that been coming down recently?

>> Yes.

>> Okay.

>> I guess the question is why is there no anticipated change in liabilities due to the interest rate increase? Fundamentally staff anticipates that the plan's actuary would use that scenario to close the gap that existing between the return that the investment portfolio can support and the liability investment return assumption. So just explain what I mean by the gap. Staff has provided the board with a memo dated November 3rd, 2010, where staff estimated that over a 30-year period and based on the current asset allocation that the median growth cumulative annual return is 7.6 per annum. The gross return the 7.6 is approximately a return of 6.7 net of investment manager fees, administrative expenses and the estimated cost of the SRBR benefits. The board's current noninvestment return assumption starting from the June 30, 2011 valuation is 7.75. So really, this creates a gap between the assumption that the actuary is assuming and the investments and what the portfolio can support.

>> If you just added the SRBR back in what would it go back up to?

>> Sorry?

>> If you just added the SRBR piece back in it would go from 6.7 --

>> It would come back to 7. So the gap would be .75.

>> Administrative costs are about 75 basis points?

>> They're about 60.

>> 60, okay.

>> So clearly the gap shows that the plan may not be setting sufficient funds to meet further obligation. I guess the question would be, what would happen if interest rates decrease, given the current asset allocation, the asset side would generate gains of approximately $15 million to $20 million. On the liability side we really don't know because it depends on the actuary's interpretation or understanding of future rate. If the actuary says I don't believe the future rates would change, then there's no change on the liability side and the plan can pocket the 15 to $20 million. However, if the actuary believes that the change in market rates is actually a reflection of future rates and changes the discount rate appropriately, then the liability would increase by significantly more than the 15 to 20 million and we would went up again in a situation where surplus would be reduced and the financial condition of the plan would deteriorate.

>> Arn Andrews: And to put this in a little more context while the asset allocation for fixed income is 20%, we're still currently overweighted because we're still implementing the asset allocation that was approved last year, correct?

>> That's correct.

>> And the discount rate is -- it's not a fixed income rate that they're using?

>> It is not. It is representative of the portfolio asset allocation. Now, currently the reward of holding fixed income investments is currently quite low. So really, the reward to risk analysis justifies a low allocation, so we've made fixed income allocation specifically for risk purposes, such as TIFS and core government bonds and we've made allocations to specific subsectors where we feel the return justifies the risk.

>> Have you thought about putting high yield more in your equity bucket in from a risk perspective?

>> Absolutely, in reality that's where the high-yield belongs. So when we actually do a comparison, when we actually look at the portfolio as a whole, I mean, that's another reason why the equity allocation is where it is. It is because we have high yield. We also have in the alternative bucket, the opportunistic is really private depth, so all of these pieces, it's fundamentally the same risk factor. Fest next, just a discussion of real assets. We mentioned in the presentation that an inflationary environment, the liabilities would increase exponentially. So the board made allocations to real assets of 17.5%, 7.5 to Tifs, and 10% to commodities and infrastructure. If you like to consider real estate as a real asset then there's an additional 5% there. So in the next asset-liability study we'll need to assess whether the allocation is really sufficient to shield the plan from a high-inflation scenario.

>> Lara Druyan: One of the questions I was going to ask is have you -- I'm sure you have done this as well, models around low inflation or potentially -- I mean, it doesn't seem like we're in deflation, but certainly I wondered if you haven't talked about that at all here.

>> Absolutely. The -- actually, allocation to core government bonds is in fact -- it's one of the asset classes that would do well in such a scenario. However, it's hard to really insulate the plan against both inflation and deflation. So really what we've open is, I think we've gone part way to insulating the plan on the inflation. We have held some investments that would do well but I think the reality is on both sides. If inflation were to hit, the financial value of the plan would deteriorate, and also if deflation were to hit, I think we would be in a tough situation as well because if you want to hedge you can only hedge one way. So, so far, we've kind of sat on the side and we said we have certain investments that will do well in this scenario and we have others that would do

well and clearly the relationship here is the investments that do well in high inflation scenarios don't tend to do well in a deflationary scenario. So it's kind of a catch 22 situation. So that e-definitely, that's something that was covered in the broad asset liability study and although I haven't highlighted it here, it's something that we can revisit whenever we do the next asset liability study.

>> How or have we integrated credit risk into any of these analyses or policies? Do we do any sort of potential future exposures, limitation and concentration risk, sort of what's been the approach given all the fixed income?

>> Really, the fixed income is a recent addition to the plan and so far at this stage we're not -- I mean we haven't really done much risk reporting on that front.

>> I guess just adding a little bit to this issue of the credit, what we've done is that historically, the pension plan fixed income was on the Lehman act or Barclay act. What we've done in the past couple of years is that we moved from the bulleted structure in the fixed income which is really Lehman act to a borrowable structure in that we have removed all of our traditional fixed income, put it in the treasury market, and then, we've gone on the long end on the credit side. So we haven't increased our duration on the credit curve but shortened our duration on the treasury curve. And that give us a bar (inaudible) structure which has done really well but we do not have very good risk structure in place to look at our exposure in the risk market. Kind of wing it, do it mentally, but we don't have a mathematical background for it. But that's the situation in the fixed income.

>> You don't have an emerging market there. I don't know about bank loans and other sort of short interest rate sensitive instruments.

>> We have bank loans, high yield, and the private debt that we have and the bank loan and private debt are floating rates. Kind of have a protection. The high yield doesn't command that, they're a fixed rate.

>> So that is part of what I say high yield, it is really encompasses both investments.

>> Pete Constant: If I could just make a comment. Back on slide 17 that had the chart of the optimistic, pessimistic and moderate scenario, just to keep this in context, this again is just the Federated plan and if you keep in mind the 60-40 split approximately that moderate scenario would show that projected contributions in 2029 are about 900 million a year. From the city. And just for context that's more than our current General Fund is in total. In each year. So it's just for context I think it's important to kind of think of that, and what is the growth of the General Fund given the limited growth of government revenues have been historically where they're trending where we could be in just a very short time frame.

>> Matt Loesch: Not all our pension contributions come from General Fund, though, right?

>> Pete Constant: What's that?

>> Matt Loesch: Not all of our pension contributions come from the General Fund right?

>> Pete Constant: No but a significant part of it.

>> Matt Loesch: My understanding ours is about 50-50 from other funds as opposed to just General Fund which gets into more convoluted stuff so -- any more presentation?

>> Any questions?

>> Matt Loesch: I have a couple but it's more just procedural things going forward. Any other questions you have, status or --

>> I think we'll give you an opportunity to present on the asset classes in more detail, and I think that's you know we'll flesh things out over time and just learn more about what you've been doing there. So --

>> Matt Loesch: It looks like on page 6 of your presentation where you had the future meetings topic, that these are more towards educational type things as future meetings, right?

>> That's right.

>> Matt Loesch: More educational bringing up to speed type things. What things do you see future needs for, allocation moves, whether we need to make investments in particular areas or move off of things moving away from our long positions or our fixed income positions. Or is there anything we need to do in the short term long term that we need to include in this thought process about what's going to go on? We had talked before about hedge fund allocation coming up in the spring and doing some other real asset work to include in this mix of things to add to the meetings.

>> I think as we cover these things are going to come out specifically and at that point in time we'll kind of target that. So definitely, I think we're working on the hedge fund allocation, that's kind of one of the allocations that still needs to be filled. To bring us to our target asset allocation. Would like to work a little bit more on the fixed income side, maybe increasing the opportunistic bucket a little bit more. But specifically I think the key is just to keep -- we're on track with the equity allocation where I think probably 80% of the active mandates have been filled. So we still have to do a little bit of work on that front and on the hem front side to bring that forward. You see some of the issues that we would like to potentially consider putting in place, they're not necessarily -- I mean, I think the plan should consider putting in place a tactical short term asset allocation manager something in the form of AGTA or ATAA. Potentially, we should consider also whether we want to take advantage of currencies by hiring a currency manager. So I think some of the tweaks are not necessarily to the existing allocation. We might need to go some of that but we'll do it along the way while trying to accomplish a few other things.

>> I guess, not to change our allocation, but to fulfill our allocation, I guess was the better way to say it, to get into it. So as the one who tries to help put the agendas and plans together, as far as the hedge fund allocation, we were looking at a spring time frame in the fall, is when we said, and we're getting fairly close. Is that something we

would see in the next month or two, are we that close or is that something we would see later in the second quarter?

>> I would say somewhat later in the quarter.

>> We have a short list of the managers we are considering but I think one of the issues that needs to be discussed, that board needs to think about is that are we going in the direction of direct lending -- direct investment in the hedge fund or a funded fund? Personally, I thing the staff prefers direct hedge fund the fund, than -- direct hedge funds rather than hedge fund the fund. That makes a little bit of a complexity on the structuring issues, but saves the plan substantially, but if you are going one direction we have a short list from the manager to bring more due diligence on it.

>> The idea is to bring forward a plan, have a discussion and then kind of we'd need to go from there. Based on the direction of the board we can move either slowly or quickly.

>> Matt Loesch: Right,to thinking of to get it on the list of things to talk about we should have the discussion fairly soon, so if you're off base on what the board thinks in your efforts we won't waist much time of yours or if things are in line, the investment wouldn't necessarily have to happen, but fairly soon we could have the discussion at our level what we're doing and why, not necessarily who. If we could have that one fairly soon.

>> I would agree. If your target allocation is 5% of plan assets you're talking about you know less than $100 million in asset class that on a directly basis is going to depending how you structure it is going to require quite a bit of oversight and responsibility from the staff and the outside consultants. So I think having some discussion with us and how you would approach that and why you would view that as the right approach or not the right approach would be very helpful. I mean managing a very large direct program and knowing what it takes to run that successfully, I want to make sure that you've thought through all of the complexities of that. Because there may be easier routes, there may not be. But -- and then there may be changes to your asset allocation over time, through discussions mere, that may suggest that a direct or an indirect approach to that -- that asset class may be

more appropriate. So I -- in terms of future meetings, just coming back to the risk discussion, I think somewhere in here, we've got to understand the risk of the portfolio beyond standard deviation of returns. And I think you've really got to demonstrate both at the asset class level and at the manager level, to us, what are the sources of risk, in this portfolio, which managers are contributing to this risk, how are they contributing to that. Definitely, you know, some stressing of this portfolio into the tail risk type of world, and what are -- what is the maximum loss you can take over a period of time? And I recognize you -- you're working towards getting there. But seems to me, before we're doing a whole lot of rejiggering and hiring managers and doing a lot of that, you kind of want to have those systems and processes in place so that we have a lot of comfort in your recommendations on both asset allocation and manager selection there. So --

>> Matt Loesch: And I guess tying into it because we're getting into the budget cycle very soon as well for you, in fact tying into that if in fact that hasn't been done do you have the resources to do it? If you don't have the resources to do it, what resources do you need to do that? I know there's things we've talked about we've talked about similar things like this in the budget cycle. We need to get that stuff into play fairly soon so you can get it in your budget documents that then have to go through. I tie that in.

>> It takes pulling in a robust risk system is going to take you some time to get it working properly and actually valuing your particular fixed income with any level of certainty is going to take some time and effort to do that. So it's not something you can just flip the switch and provide a much of output that's meaningful.

>> Russell Crosby: And we have begun to look at risk systems. In fact that's how we ran across Mr. Armstrong and his company the initial looking at the systems and software.

>> No, I think it's the right direction. I'm just suggesting that it becomes a priority with this group, I think particularly you've got some investment people now on the board that are going to encourage you to accelerate those efforts.

>> I guess what would be helpful is to have, to the stent there are specific reports and measures that you'd like to see, it would be nice to know what they are. And then, to kind of step back and say, well, what is it that we need

to do to kind of get there. So that would be very helpful. If I -- if we can have that kinds of feedback, then we can turn around and assess, do we have what is needed to get it there, or if we don't, then what is it that we need to do, to get there?

>> I think we could probably propose some -- at least start at a high level and propose some basic variables that I think would be useful in presenting out to us on a regular basis.

>> Matt Loesch: Any other thoughts or --

>> I was just going to say getting back to the kind of scheduling concept, when we voted on our phase-in, our expedited phase-in of our assumption rate I believe Cheiron said that they were also proposing a reduction in the assumption rate and they were also going to present some type of presentation on their rationale for that. And then also in terms of scheduling for the other asset classes that were allocated for, you know we have a very cogent presentation here, on why 20% fixed income allocation is warranted and yet I still think we're somewhere around the 30s right because we haven't fully implemented our asset allocation?

>> That's correct. But the idea is as managers are hired we are going to use that overallocation to fund the managers. So it is not a long term, it's just a short term.

>> Arn Andrews: Right, but in terms of scheduling, the sooner we schedule this type of due diligence, the sooner we can schedule to these other asset classes, the sooner we get to what is appearing to be a recommended appropriate weighting for fixed income, so for scheduling I would look at that.

>> And I think the suggestion of having further risks measured are very significant and we can definitely move them up to the next couple of meetings, and try and fit that in, so that as we talk about these specific investment structures we can also be discussing the specific issue. Though the measures typically that drive the decisions at the asset-liability level, I mean, are fundamentally done within the context of the ALM. So the measures that

would drive the specific investment structure are different. So it's knot -- what we need to assess the risk at the manager and at the investment structure level and that is a bit different than assessing the risk at the plan level.

>> Just sort of a logistical structure, maybe this is directed to Matt. If I had a list of measures that I would propose we might want to consider, I mean, how do I distribute that? Can I send people e-mail and share, or how -- do we send it to Russell or --

>> Mollie Dent: So the way the board provides direction to staff is at a board meeting. So you can -- staff can provide information to you, but if you're actually trying to direct them to do something, I mean I think -- let me finish, Russell.

>> Russell Crosby: Okay.

>> Mollie Dent: One question is whether or not you're asking for something that staff already has in some cases. Sometimes you're asking for reports that they already have.

>> Russell Crosby: What he's proposing is to put together a list of measures that he would think are adequate to begin to measure this. I'll bet Stuart has a list that he would like to put forward, are Lara has a list. Send those to me, we can consolidate and get them to the board and the board can act. But we need to have input from all of you that have experience in this, get it to me and then we'll get it to the board.

>> Mollie Dent: That's correct. You can ask satisfy to provide information but in order to direct the information be provided you need to ask for that as a board.

>> In terms of the comment regarding being above your target allocation today, I mean there are certainly ways you could quickly get to the target. Is there -- I assume you've documented a rationale for why you've not chosen to sort of get there through derivatives or indices or things like that where you can --

>> We have. That's exactly the route we have taken, whenever possible. So on the equity side, on the commodity side, the board decided to go into it, for example, slowly, so from the 10% allocation, a 4% allocation, two to commodities and two to infrastructure, has been made. The remaining 6% is sitting in fixed income simply waiting for the phased in allocation. This is something that we'd like to bring back to the board, actually, for discussion, because we believe that, especially in a situation where the sort of extent this is done to hedge the plan's inflation risk it doesn't make a lot of sense to phase it in over a significantly long period of time. So that explains 6% of the overall allocation and the other bit is the hedge fund managers. At this stage basically the 5% is sitting in fixed income. So whatever possible on the equity side or in general, we have used indices and we have used swaps such as on the commodity and infrastructure side to achieve the exposure through a transition that happened in May. So that was a couple of months after the target asset allocation was approved by the board. So it's not that we've been sitting for a whole year with a whole lopside of cash in the fixed income side.

>> So the 5% to hedge funds, you're holding it in fixed income?

>> That's correct.

>> As your -- that's sort of your view that that's kind of the closest proxy asset class for the exposure you're likely to receive out of hedge funds or --

>> No, simply for -- waiting for us to formulate how to approach it. I mean the whole idea was, we could do passive replication but then we --, you know, there are issues with that and we would need to come to the board. So this was not something that could be done just immediately, a few weeks after the board decision. So it doesn't really reflect a specific few but just simply more along the side of we wanted to spend some time to figure out how to approach that specific allocation.

>> Russell Crosby: Also from us standing -- a timing standpoint, I from a staff view didn't want to really launch the process until the board was in place. There was a new board, with people who understand and know hedge funds and have maybe had some experience. I didn't want to go there knowing that the new board was going to

be in place and it was likely to contain some people between this board and the Police and Fire board we've got some good experience in hedge funds.

>> Good, okay.

>> Just to give a little bit of a background for some of the new members of the board, around last year this time we did a transition from the previous asset allocation. And very active management oriented. To the new asset allocation and we reused the number of the active management we actually have. We actually look at our allocation, majorities of asset is held by index funds. We move completely index funds and the logic behind that was we wanted to get the exposure, the best exposure for all of these asset classes and as we choose and we find managers that are sufficient to fulfill, have a positive outfall we remove the money from index and go to the alpha manager. The hedge funds was, it's a little bit complex issue because you really don't have a simple beta there in the market and we actually are very close, I personally like them very much, very replication model which is proposed by one of the income asset managers, I don't know if I can say it publicly or not because we haven't invested with them. They provide the beta for the investment ambiguousment, we invest with them until we find managers that we like and slowly move the money to the investment managers, the transition is get the beta in and then as slowly as you find active managers move to that asset class.

>> Or we can then move the money to hedge fund the funds if that's what the board decides.

>> Counsel, thanks.

>> I guess on the asset classes one thought is to actually pull the money from both the Police and Fire and Federated plan and to come to a common strategy. Between the two plans, if we can come to a common strategy, there's $225 million. And to the extent we can come to a common strategy, then direct might make more sense there. Clearly if the two plans aren't pooled on that investment for 80 million or so hedge fund allocation, it doesn't make a lot of sense to do direct. So that's one of the reasons why, you know, we've taken a little bit of time to try and figure out the direction that maybe we should proceed on.

>> Matt Loesch: Is there -- so in terms again of bringing these things forward, it seems like the risk measures we might want to move fairly close to the top, maybe next month, is the basic hedge fund conversation something we should have next month as well as far as the topics and talks around it so you can make sure you're following whatever the direction the board wants as far as moving through the second quarter, and then tie in one of these general topics over the equity or maybe even the remaining positions that have -- are indexed as opposed to active management that we want to move and so we can kind of do those things the things we want to move in order and then continue the education going out for several months? I mean what makes sense to you, both the board and the staff as far as ability to put this stuff together?

>> Would I say, I mean I'm assuming that after all of these discussions, there's probably a lot of things that either on the structured side or the asset liability side that may need to be revisited. There isn't really a necessity, there is definitely an urge to kind of get the risk measurement going, while covering the material. Right now we thought we'd be talking about hedge funds in three months, we can move that forward, I think by a couple of months. And sort of bring it forward ahead of the other alternatives. If that's the desire of the board. This way, we can get direction, and start the discussion rolling.

>> So your intention was we would cover one topic per meeting is that kind of was your thought?

>> That was the thought. We can --

>> I think depending on how many other agenda items we have maybe we can hit -- maybe we can hit two or three in a single meeting.

>> Sure.

>> And accelerate that portion of it because this is really background, educational and I think it's very important that you spend the time with us to get us up to speed. But I think we might kind of given our backgrounds we might be able to hit a couple of topics at a time.

>> Okay, very good.

>> Obviously it depends on what you put the information together. Some of it could just be you provide the basic data and we just talk about it and you don't have to put together 100 PowerPoint slides for every topic.

>> Okay.

>> Russell Crosby: And meanwhile if the board could begin to send me your first measures, indicators that you like to use, that you favor, we can begin that on a separate track to consolidate those and get those back to the board as well. So all of you, anything that you'd like to see there.

>> Matt Loesch: Because the intent now is to have these board meetings more lengthy open the investment end because we're not having that meeting the fourth Thursday of the month. The stuff that was typically dealt with at that time needs to be brought to these meetings and dealt with here. And so anything that's been trailing for the last month or two that hasn't been dealt with, those meetings on the end would be beefed up on the investment end so the expectation would be, fourth quarter quarterly review art the next meeting, whatever else in terms of other things.

>> Edward Overton: Maybe staff could look at our agenda as well and maybe some of the things that are on there we could recommend taking them off to create more time for the more substantial issues.

>> Matt Loesch: Any other thoughts or comments here? Any other reporting or things that you think from the past, that has been brought up through this discussion, one of which, the scenarios that were presented back

when that are inherent the points here, in the tables here, anything else that was brought up here you think might be helpful besides the individual items?

>> No, I think it was a good -- it was a good introductory. Thanks.

>> Matt Loesch: So that was 15, 16 was deferred. 17 is discussion of AB 1743, and action on amendment of the board's placement agent policy.

>> Mollie Dent: I can give a presentation but you have the memo in front of you. It's a pretty strayed forward issue to amend the policy so unless you have questions.

>> Maybe I'm incredibly naive, but -- I mean first of all have we ever had a placement agent come before us?

>> Matt Loesch: No.

>> Russell Crosby: It's a California thing.

>> Matt Loesch: It's required --

>> Russell Crosby: A state law requirement.

>> I'm familiar with the Cal PERS situation but this really doesn't directly affect --

>> Mollie Dent: I don't really know.

>> Russell Crosby: There's a state law that said we had to have one in place and assembly bill passed that all boards had to have one in place or Cal PERS or something would be put in place for you. So we passed our own

just to meet their time line to have something in place then there's an amendment that came through there was another law that was passed.

>> Mollie Dent: They've amended it to make it more stringent so we'll make our policy more stringent.

>> Matt Loesch: Any comments or questions, background needed? I'll entertain a motion.

>> Arn Andrews: Motion to approve amendments to the board's placement agent policy to be consistent with California state code.

>> Matt Loesch: A second? Motion and second, any further discussion? All in favor? Opposed. 18. Discussion and direction on proposed Securities & Exchange Commission rule relating to registration on municipal investment advisors and potential impact on board members.

>> Mollie Dent: You also have a memo on this one. This one is of more concern to the board the proposed SEC rule would require all of the members of this board accept the two employee members, including the retiree to register. As municipal investment advisors. And they're seeking comments on the ruling, as you can imagine pension plans across the country are commenting on the rule. The sample letter that I attached is not what we're suggesting be sent. It was simply to give you all an example of what some other folks are saying. The -- there is also, a position to be taken that the S.E.C. is stepping outside the boundaries of the legislate, because you're not advisors, you're decision makers and that's another comment that is frequently being made to the S.E.C. but in general pension plans and boards are expressing their opposition to the rule and so we wanted to get some direction to put something together for the chair to look at to let the S.E.C. know that we don't agree with the rule.

>> Matt Loesch: Mr. Richeda.

>> Just an additional fact element, you know, the SEC publishes on its website comments it's received. As of last week unfortunately they have received not a single comment from any public -- governmental defined benefit plan

or any association or group, national or state representing that constituency. I hope we're all gearing up to do it, but at least as of then, not a single one. You know we still have time. And in groups are circulating letters now. But we're kind of -- most of us are having a late start.

>> Matt Loesch: Seeing that we have 12, it's not the 22nd of this month they need to have any comments. Is what their date was. And obviously can I see the expenses that could come from something like this not only to -- I mean, not looking at the personal end but looking at the plan end of it the expense is to hire the lawyers to make sure that all the folks that are outside are in compliance to help them do that not only the liability insurance it would probably have to increase as a result of filing or whatever and then on top of that your personal risk that you then have to then file on these things, it seems like an individual filing type thing as opposed to the board filing on your behalf or something like that, you're welcome to speak on what your personal thoughts are as to the outside folks.

>> I think we should do both. We should probably send letters ourselves as well as on behalf of the entire board. And I probably ask that we get some direction on what specifically we probably want to address in our letter. So perhaps a draft of a potential letter that we could send ourselves, as board members. And then, also, we send one as a board in total to them. And then I assume you also have other organizations that you are part of where, I mean we certainly do on the corporate side where we pass these around and we build consensus so --

>> Mollie Dent: Right, it has been going around quite a bit, but as Mr. Richeda says, no one has submitted anything yet. The attachment to my letter was from the international municipal lawyers association which would be basically the cities themselves. It's possible that our city attorney's office will submit a letter just for the city, too. That's a possibility. Although it really does seem to be more a matter for the boards. So if you -- if the board wants to direct us to develop an individual template and a board template for the chair to review, we can do that.

>> Is there a role for elected representatives in this too? We have Congress people, senators.

>> Mollie Dent: It's a rule making and so they're expecting to receive comments. They're expecting to receive comments, they're inviting comments so there's a very set process for doing that for putting your comments in, in writing. But I'm sure there's always other avenues for approaching them. But this is a rule making process. It's not legislative.

>> Arn Andrews: I would just add that for the comment period I think we should direct the attorney's office to draft a sample individual letter for the board members, and then also to draft a member from the board. We just went through this process to create our new governance model which I think we were very successful in and I wouldn't want to do anything to discourage participation for current members or future members and I'd view this as something that could definitely be a discourage youing factor.

>> Matt Loesch: That isn't where our social problems were especially here, I just -- because I'm sure that I would like to make sure that the city attorney's office coordinates with --

>> Mollie Dent: Sure. I'll coordinate with Mr. Richeda.

>> Matt Loesch: Dealing with other places that are doing the same thing he might have some insights that would aid in that.

>> Mollie Dent: I have a variety of sort of samples from other jurisdictions. But it's not -- we can certainly work together to put together the two letters and have Russell take a look at them also.

>> Russell Crosby: Is that a motion and a friendly amendment?

>> Arn Andrews: It requires a motion to direct the attorney's office to draft a letter for us.

>> Russell Crosby: Yes.

>> Mollie Dent: And I think the authorization to have the director to sign the letter on behalf of the board.

>> Arn Andrews: Motion to direct the city attorney's office to draft both a letter from the board which will be signed by the board chair and to draft an example of letters that could be mailed from the individual board members.

>> Lara Druyan: Second.

>> Matt Loesch: Any further discussion?

>> Just to be sure we're not taking too sunny a view, it is important to remember there is fiduciary requirement, registration is bad enough but there's a new fiduciary layer, adds an additional bit of spice to the chilling effect.

>> Matt Loesch: Come help us out but look what you get as a result.

>> Unlimited liability.

>> Matt Loesch: As a bonus. Mr. Constant.

>> Pete Constant: I just wanted -- Michael asked about whether things should be sent out to elected leaders, I do think it should be sent to the congressional delegation for this area, and we can make sure we provide you all the contact information for that. Because they do have a lot of influence in the process and you'll note that the example letter also was copied to the congressional delegations and I think it's an important thing that each of you should do.

>> Matt Loesch: Any other further comments or questions? All in favor? Opposed, okay item 19 is nothing, 20, and 21 are note and file of up and coming training opportunities. Any future agenda items? Okay. Public and retiree comments. I just, to note, I was requested via e-mail to include an e-mail comment from a retiree and past

board member. To be included in there, and of course I left it on my desk. To be included. So the attorneys point out I'll get that submitted here and then get it to be included in the next board packet for your information. Any other further comments or questions? Seeing none we're adjourned.