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>> Matt Loesch: Good morning. I'd like to call to order please the March meeting of the Federated city employees retirement system. Under orders of the day, I would like to move the closed session in front of item 3.one. So we'll take the consent calendar, starting closed session, and then come out and dole with probably 4.3 right away I think one of the topics is item 4.2. And then we'll jump into 3.1 and then follow the agenda as scheduled. We do have one time-certain for the 10:00, so that might -- we'll hold that in place for 10:00. We have a fairly hard time certain for item 5.3. There will be a call in for Cortex for that. So for 11:00 we do move that one forward depending on how we're proceeding through the rest of the agenda. There's a quasi-hard schedule at 11:00 for that. Any other items on the orders of the day. Otherwise I'll entertain a motion.

>> Approval of 8A.

>> Matt Loesch: Can we do that on consent calendar? Under orders of the day? Can I get an approval? All in favor, opposed, okay. On the consent calendar is there anything you would like to pull?

>> Edward Overton: 1.8A.

>> Matt Loesch: 1.8A anyone else like to pull anything? I would like to pull 1.7 myself, anything else other than those two getting pulled? Otherwise I'll entertain a motion on the balance. Okay, motion and second, all those in favor? Opposed, okay. Item 1.7, the report for expenses, I don't believe we received that. I don't remember receiving that via e-mail and it's not in our packet. The blue note said it would come later in our packet and I don't see either later.

>> Oversight on my part. Gnome Noble I had prepared another board memo and didn't realize I had it before I did the monthly expenses, I believe I provided it on the e-mail on Monday or Tuesday.

>> Matt Loesch: For us?

>> Mollie Dent: You would want it for the public packet, you might want to defer that for next month unless she has a public packet.

>> I apologize.

>> Matt Loesch: Not a big issue. So until we have that we'll juts hold that item until we can approve it until we have it in our hands.

>> Mollie Dent: Looks like we'll have one in the public packet, why don't you defer it to the end of this meeting, later on in the meeting.

>> Matt Loesch: That's what I mean that will be on hold so please don't let me forget that. 11.8A Mr. Overton.

>> Edward Overton: There are a lot of expected dates from December and January.

>> Russell Crosby: It needs to be updated. Eel get an updated one.

>> Edward Overton: Move to approve.

>> Second.

>> Matt Loesch: All those in favor, opposed, all right, let's do the death notifications please. Like to request a moment of silence for those who have served the city and have passed. [Movement silence.] Thank you. Okay item 4.1 do you need to make the announcement for the closed session?

>> Mollie Dent: Yes. The board will be going into closed session for conference, with legal counsel litigation pursuant to government code section 54956.9(A), Paul Mulholand, James Unland and Mary Follenweider, Plaintiffs, versus Russell Crosby, Mike Moehle, City of San José and Does 1 through 10, defendants, board of

directors of the San Jose Police and Fire Retirement Board and the Board of Directors of the City of San Jose Federated City Employees Retirement System, necessary parties of interest, superior court of California, county of Santa Clara, and secondly conference with real property negotiators pursuant to government code section 54956.8 property at Milpitas warehouse, 746-876 south Milpitas boulevard, Milpitas California 95035, negotiator Ed Schwartz, price and terms of payment probable value of property exceeds $1 million.

>> Jeffrey Rieger: Thank you. This is Jeffrey Rieger, your new counsel. Hello, everyone. I would just like to note for the record on the litigation matter for closed session, it will only be me and the board in closed session, no members of staff.

>> Mollie Dent: Correct and on the real property matter, your -- is your negotiator going to join by conference call?

>> Russell Crosby: Actually -- she's here.

>> Matt Loesch: Would you mind if we took that one out of order?

>> Mollie Dent: You can take that one out of order first and then do the other, it's up to you.

>> Russell Crosby: Then the staff could leave.

>> Matt Loesch: Is that fair.

>> As long as the staff is clear it's just counsel and the board. [Closed session]

>> Matt Loesch: Welcome back. We'd like to reconvene, back into open session, report out of closed session, please, from the --

>> Jeffrey Rieger: Nothing to report other than the fact that direction was begin to counsel in connection to the response to the litigation.

>> Matt Loesch: Is there anything we need to do on the other item, on 4.2 Ms. Dent?

>> Mollie Dent: No.

>> Matt Loesch: So what I'd like to do is a little latitude on moving things around just a little bit. I'd like to do item 4.3 since we just discussed it a relevant topic under 4.2, I'd like to go into that and then go right into our time certain, 4.4 which is now eight minutes pastime certain. So okay if I have that latitude I'd like to go to item 4.3, discussion and action, to transfer Milpitas warehouse, separately held estate property, to American core realty fund and authorization for the secretary to negotiate and execute the incremental adoption agreement with American Realty Advisors for an estimated interest valued at $10.3 million to American core realty fund. Anything to discuss other than what's in our packet? Otherwise I'll entertain a motion.

>> Motion.

>> Second.

>> Matt Loesch: The motion was, I presume, the motion is to approve. The transfer of the Milpitas property.

>> Stuart Odell: Motion to approve the sale of Milpitas property to American core realty in exchange for units of the commingled vehicle, do I have that right?

>> Matt Loesch: And for the secretary to authorize negotiate to execute the contract.

>> Stuart Odell: Correct.

>> Matt Loesch: The incremental adoption agreement as it's estated here? That's the motion? Second? Any comments or questions on that? All those in favor? Opposed, thank you. So moving to item 4.4. This is the presentation of December 31 quarterly performance. We have representatives from Meketa here. I'll just remind them to speak directly into the microphone so can be heard audibly by us and the folks who are recording it.

>> Good morning. Thank you for invite having us and inviting us to report. I'm Laura Weirick. I'm pleased to say O&M who has worked with your account for the past about year and a half at Meketa investment group and we're here, we'll start with the fourth quarter performance and then I also have an estimated performance number through yesterday. Which I'll provide as well. So, I think most of you have seen our report format in the past, but if you have any questions as I go along, I'll be generally very concise because I'm assuming that you'll probably want to focus more time on the forward-looking investment structures, today given the new asset allocations, but you stop me at any time if you have a question. The fourth quarter as you probably know and have read in the news after a very tough sell off in the third quarter during which most of your investment managers were able to outperform and be defensive versus their benchmarks, the markets have responded quite GDP growth in the U.S. was just under 3% for the fourth quarter. Unemployment declined to 8.5%. The markets were strong in general and the European central bank injected additional liquidity into European banks in order to stem off some of the turmoil going on in Europe now. It's important to point out that U.S. markets were fourth quarter and then also for 2011 as a whole, the domestic equity index the Russell 3,000 index rose with a proxy for international markets gained 3.3% during the fourth quarter. Also emerging markets were stronger but that didn't help them come up much for the full year. They were down 18.4% for 2011 as a whole. Bonds also were positive for the fourth quarter, led by high yields. Does everybody have the materials?

>> Matt Loesch: I believe to.

>> I will skip to page 2012 as of the end of December the plan remained at $1.8 billion approximately. There were about $40 million in growth during the fourth quarter and also $30 million in outflows during the fourth quarter so about $70 million in total. You'll see here that some of the percentages, the asset allocations to different asset classes specifically fixed income fall outside of the target range as shown here and that's because of the new

asset allocation you adopted in the fourth quarter and the new asset allocation policy 45% equity in real estate, 10% fixed income 10% real assets and 20% absolute return. So starting with your ootion new targets will be reflected within the reporting.

>> And Laura has Meketa foirl signed off on approve the asset allocation come out and I don't know what the process is for doing that but I'd like to know that Meketa is fully henned the new asset allocation.

>> Meketa was not asked to provide an opinion prior to the asset allocation being adopted but we've since discussed it quite a bit with staff and we're quite comfortable with the asset allocation.

>> Thank you.

>> I wanted to address an issue that some of you may have heard about in the media, trade winds which is one of your global equity managers. As you probably know by now David Ivan who is the chief investment officer has announced he's leaving in about three and a half months to join another firm, a hedge firm not being uncomfortable at trade winds but more flexibility with his investing title so we're comfortable with using the normal process where the investment committee suss what to do with the trade winds recommendation which we'll bring that up to the investment committee in the next couple of weeks and bring that on at the nest meeting.

>> Mr. Ivan is going to stay on influence the end of the next quarter.

>> Great. If you don't mind we can skip to performance for the fourth quarter, starts on page 17 of 94. You can see mere that --

>> Edward Overton: Under barclays government bonds is down a .4 market value from 122. Could you tell me why that happened?

>> At the end of December, that account was primarily liquidated and some of that -- some of the cash went into the Russell overlay program that is being used to help move the portfolio towards the new asset allocation. And so that cash flow is largely because of the new asset allocation that was adopted as part of the fourth quarter. The .4, the $400,000 that is left in there is some residual income that was just left over in the account that will probably you know go away in the first quarter.

>> Edward Overton: Okay.

>> Matt Loesch: Any more questions Mr. Overton?

>> Edward Overton: No.

>> Great, on page 17 of 94. I think you'll probably recall from the third quarter that most of your managers and asset classes were able to be quite defensive during the selloff, specifically ooments risk parity commodity managers, during the snap-back in the fourth quarter many of the managers did not quite keep pace with their benchmarks for the fourth quarter although they revolt strong dispore.4% for the policy benchmark and 4.5% for the custom benchmark. You can also see here that the fiscal year to date and one year returns generally underperform the policy benchmark which is based on your custom benchmark which is a benchmark showing how you would have performed if actually allocated with those benchmarks. As we would expect, the more defensive managers in your portfolio, we would expect them to outperform in more stressed market environments, maybe not quite keep pace in very strong environments.

>> Arn Andrews: And you mentioned you had return data as of today or yesterday?

>> I do. I was going to mention at the end of the report. If you'd like it now.

>> Arn Andrews: No.

>> Okay, great. Just to quickly review the rest of the fourth quarter. As I mentioned the theme tended to be that the broad asset performance was slightly behind benchmarks but ahead during the fiscal year end period an the one year period. If you don't mind to flip to page 20 i'll just address a couple of the active managers here since you also use many passive index funds. We discussed trade winds a bit. Trade winds had a tough fourth quarter. They invested in a lot of precious metals stocks trade wins will making a decision about that sometime soon. Artisan global value however was able to outperform during both the third quarter and fourth quarter which was quite unique for global equity managers. They are in the top December I'll if of hired them. Most of their stocks were up. It's a relatively concentrated portfolio of about 40 stocks. They held google which was un26%, a jeweler named signet jewelers up out performed during the fourth quarter leading them to continue to outperform their benchmarks. Eagle and RS which are your two active small cap managers, eagle is small cap growth and RS is small cap sacral neither of them were able to keep pace with their benchmarks. Mainly just due to stock selection, not keeping pace with the stock selection of the same sectors within their benchmarks. RS also had a small holding in ms global which they sold prior to the bankruptcy, hurt them 70 basis points for the quarter. As I mentioned I think you probably want to move on to your forward looking investment decisions rather than spend too much time on the historical policy. So I'll just mention what's in the rest of the report in case you have any questions. We have calendar year performance for every manager and asset class then we have planned detail sections which show the overall global equity asset class how it compares to benchmarks, fixed income and real assets. Then we each manager so I'll just point you to one of them and just show you what's on notices pages. If you don't mind flipping to page 56 of 94. Just to give you a quick example in case you want to look at any of this information for any of your managers in detail, where the team is located and then a lot of other information like peer ranking, sector allocation to different sectors within the benchmark and then for example diversification, as you can see artisan has one of these pages for eve strategy within your portfolio. And then the very last section in the book is the world market section, if you are interested in how historical time periods that information is in this report, as well. Now for the update on performance that we estimate through yesterday, again, these number are preliminary and unaudited just want to make clear. We estimate that the return for January was about 4%. The return for February was about 3%. And for March, year-to-date we estimate that total performance was pretty much flat. So we would estimate a preliminary unaudited return for the year-to-date so far of around 7% for your

plan. And just to note, that doesn't include any performance for private assets since those numbers have not become available yet. It rose but it should be relatively close.

>> Matt Loesch: Questions from the board.

>> Edward Overton: Yeah, I hate to do this but open page 36, you have a a performance attribution chart are you telling me we benefited from not being in hedge funds with that graph?

>> Sorry, I couldn't -- I didn't hear, the .3, Ho, it's because the hedge funds were part of the policy benchmark but there was no allocation to hedge funds. And so if hedge funds performed better, than the overall policy benchmark, or if the hedge funds performed worse than the overall policy benchmark and you had no allocation, then your allocation effect, your portfolio is doing better because you had those assets in other asset classes that performed better than hedge funds. So that's why there's a .3 there. It just had has to do with the fact that there was an allocation in the policy benchmark but you had no assets there.

>> And so that's compared to a hedge fund benchmark. So who's to say how your actual hedge funds, how they would have performed. This is purely the.

>> Carmen Racy-Choy: So the answer to your question is yes. If you measure it based on what the hedge fund indices have done versus allocating the money into equity fixed income, and commodities as the board had decided to do a few months earlier. Clearly, this is just a result for now, six months. So it's not a long-term result. But just for that six-month period, and based on that approach, the answer is yes.

>> Edward Overton: Thank you. One other question on page 40. On the style attribution for RS investments small cap value, shouldn't that dot be more to the left, if they are a true value manager? It looks like more of core of growth, am I reading that right?

>> That's a good question and that's something that comes up with many of our managers. You want to --

>> Well I was going to say, I -- you're right. Yes. This chart, when you're looking at it on a global aspect --

>> Opportunity set.

>> -- it becomes a little more skewed to growth and up the cap spectrum. Because you're comparing domestic with international equities. So if we were to maybe reproduce this as just domestic only, and RS is a domestic-only manager, then my guess is that that would look a little bit more small cap value.

>> Edward Overton: So is RS including global small cap in their --

>> It is not -- RS does not have any global investments but this chart is trying to encompass every manager in the portfolio.

>> Edward Overton: Okay. Thank you.

>> Matt Loesch: Comments or questions. Talking about the comment from trade winds, is there a need one of my initial thoughts was, could the board delegate to the investment committee to perform that action on trade winds to maintain or liquidate the portfolio on trade winds because of the issues going on you guys are meeting in two weeks, the 28th?

>> 28th, yes.

>> Matt Loesch: Is there something we can do as a result? I just don't want to way wait and have to wait another month in case there's something that we need to -- last one out if we want to.

>> Mollie Dent: I.T. isn't agendized as a direct action on that manager. It may be that if the investment committee thinks something needs to be done quickly, and staff wants to get some sort of quick special meeting for the board that would be something you might be able to do I'll let Mr. Rieger address it as well.

>> Jeffrey Rieger: I certainly agree with the agenda, in the sense if you're thinking of taking an action that's not future agenda.

>> Matt Loesch: The question is just to delegate authority to -- we couldn't even delegate authority to the investment committee on that particular manager as to whatever it would be?

>> Mollie Dent: The delegation authorized would need to be and I'll say again I mean, if a quick decision needs to be made about something, there are ways to schedule a meeting quickly before your next board meeting.

>> Matt Loesch: Is it something that's important, not necessarily urgent, I'm trying to be cautious fanned there's a way to operate it, it could be more efficient.

>> Carmen Racy-Choy: I think if the CIO is leaving in two weeks we would be addressing it I think with greater urgency. Begin that the CIO is leaving a few months -- is a few months away, I think we can go through the normal process of going through the investment committee first and then escalating it to the board. So I think Meketa's recommendation at this stage will be to the investment committee to terminate trade winds and they're quite comfortable with that decision. Simply, it happened after the deadline for agendizing it so we haven't been able to do that.

>> Arn Andrews: I would just say to the extent after the investment committee has had an opportunity to discuss the issue, if they feel there's some urgency, then please move ahead and schedule a meeting as quickly as possible.

>> Mollie Dent: And we can work on making a special meeting like that on a one-subject item be as convenient as possible for the board and I'm sure Reed Smith will comment essentially.

>> Sure.

>> Matt Loesch: Any other comments on this performance report as-is? Okay, we'll move on to item 4.5, that's the discussion and action regarding the system's investment structure. Again with Meketa here presenting. We have in the packets the investment structure recommendations.

>> Great. So this is something we discussed with the investment committee a couple of weeks ago and asked us to bring it to the board as well. So as we discussed the board has adopted a new asset allocation and asked Meketa investment group to provide recommendations on specific investment structure and suballocation. So if you want to flip to page 3, in this presentation the numbers are in the lower right-hand corner, very small. This document presents our initial recommendations given month liquidity constraint which we understand is not much of a constraint for the retirement system within the asset lealings shown here receipted to this document. This is sorts of a broad framework that we'd recommend. In terms of our investment structure philosophy and sort of the guiding principles that we use to put this together, we wanted to put together suballocations within the overall broad asset allocation that would allow the plan to weather a variety of economic environments, deflation, inflation, different types of historical scenarios as well as ones that we expect to happen in the future. We also along with what we've done and recommended to the retirement system for the past couple of years is to use passive strategies and efficient bases and then use active strategies where we think active managers could add value. We also wanted to capture economies of scale where possible if there is the possibility of combining some assets with the Police and Fire plan then some additional strategies would be available such as concentrated manager programs. That would require a bit more assets than just the allocation within the retirement system. On page 5, you can see here the recommended suballocations. You'll notice here that we broke out domestic and international equities which is not something that we do in practice within your plan. This is purely for modeling purposes. But we'd recommend that you continue these global equity rather than breaking out equity between domestic and international. The one thing that you'll notice on here is a slight deviation from the adopted policy. Is

that the recommended suballocation to fixed income is slightly higher. It's the recommendation here is 15% fixed income rather than 10. And a subsequent reduction in the equity in real estate. This is a tactual temporary type recommendation -- tactical temporary type of recommendation get to the reasons for that in a moment. The international currency risk sort of part of the portfolio that we're recommending here will be 12% of the plan. That's just within the public securities. Within private equity and hedge funds there might be additional non-U.S. assets and then the percentage of this suballocation recommendation that's illiquid within private markets and hedge funds is 54%, so a little over half of the plan. If you flip the page, there's a bit more detail on this suballocation recommendation on page 6. So as you know, the adopted asset allocation moved assets pretty significantly from global equities and fixed income into real assets and specifically absolute return so the biggest difference from the asset allocation from the prior policy it went from 5% absolute return to 25%. And this shifts according to Meketa investment group's assumption would fluctuate regarding standard deviation and risk over time . If you want to flip to page 8 I can talk more about the equity and real estate recommendations. This is sort of our Meketa investment groups guiding principles in putting together the suballocations within the equity and real estate, the 45% of the plan that is within the prescribed asset allocation. We recommend that you continue to use global equity managers so your active managers have the full opportunity set rather than to be told to be international. We think that within more -- within environments or asset classes where active managers could be expected to add value, like emerging markets and frontier markets investing we recommend you use active managers and within things like large cap and large cap international we recommend remaining passive in those areas. If assets could be combined with Police and Fire you might be able to use a concentrated manager program which we discussed with the investment committee in the past. And then within private markets, within private equity and real estate that is a part of that 45% equity in real estate allocation we'd recommend putting together a direct customized program, we think that's the most advantage way of gaining exposure there.

>> Lara Druyan: So you're recommending we move away from fund to funds to do a direct private ecialght.

>> Vex committee in two weeks.

>> Lara Druyan: Okay.

>> And then on page 9 we just go into a little bit more detail on our philosophy for private markets. We recommend selecting managers here, whether you do fund to funds or direct on bottom up research. So we've included pacing studies and a commitment plan within these materials starting on page 21, sort of a sample. You see it says for example in 2013, commit to an Asian growth equity fund. Of course that is all dependent on whether or not there is a good manager available in any space. So we think it makes sense to plan but then if that bottom of research doesn't bear out a manager that makes sense in that space, we don't recommend that you commit there anyway. On page 10 you can see the fixed income positions recommendation. Because private debt is included within fixed income, that really would leave only 5% for other fixed income strategies within the 10% asset allocation so that's one of the reasons we're recommending here moving from 10% on a temporary basis to a 15% fixed income target. Really, the only thing that could protect your plan from deflation risk, the only thing that has a negative correlation, in severe market down turns is fixed income. High quality fix income, not necessarily private debt. So we think that it makes sense to overweight that. We also included in this recommendation a recommendation to go with long term TIFs and treasurers. With that said really just overweighting the fixed income by a bit gets you most of the way there to the dedplaition protection. If the not comfortable moving to long term treasuries and TIFs.

>> Stuart Odell: Could you explain why you have a tactical view of Philadelphia income of that level of 15%? Why isn't that a coons deflationary hedge and so why -- why 5% over right now? And then what are the conditions that you're going to see, that you're going to come back and say oh, no, no, it's 10 now? Because this is the only recommendation of the three that areas where you've taken a tactical view on the portfolio.

>> Slur. Tactical for us doesn't necessarily mean there is a set time horizon in which we would expect to make that recommendation I think we see heightened volatility within the current market environment and that there is a chance, perhaps a slim chance, that that environment changes, a couple of years down the road, maybe concerns about Europe are resolved, we don't see the huge swings in markets that we have over the past few years. So I think there is a future environment perhaps of more stability where we might change that recommendation to go back to the 10% long term strategic view.

>> Stuart Odell: What about -- we haven't done anything on hedge funds at this point. So not having any clue of what is going in that hedge fund portfolio, how can you really understand that it should be 15%, in fixed income? You know if those hedge funds, if there are guys in there that are you know, putting on tail risk hedges and doing things that are effectively giving you some of that same level of protection, wouldn't you really need to look at that in that full context of where is the -- where are the other exposures in the portfolio that are actually delivering that type of protection that we're actually looking for out of this overallocation?

>> Yes, that's a great point. We were asked to put this investment structure recommendation together prior to the hedge funds portfolio being constructed. So it is possible that these recommendations would change. Given the makeup that Alborne and the board adopt this in the hedge fund portfolio. Between the last investment committee meeting and this meeting we did work with Alborne to get some of their assumptions so you'll see a few pages ahead that the scenario analysis we asked them for their peak to trough assumption so they actually took the funds that they would recommend that may not end up being the ones that are in your portfolio. That is just sort of a sample. And they gave us a peak to trough return for those which was a negative 14.3% so we worked that into our scenario analysis. So that rather than just taking the hedge fund index return it was more what Alborne would recommend sort of the target sort of allocation of the hedge fund that they're likely going to work with the board on recommending. So given the low fixed income weight and the allocation to private debt within fixed income, we recommend not having exposure to bank loans and high yield and emerging markets set or some of the fixed income strategies that other plans would include within fixed income. We imagine you'll probably be able to get exposure to those areas within your hedge fund portfolio. The in which page just shows our recommended asset allocation, on page 11. You currently have 10% within your prior policies to risk parity commodity we recommend you get exposure to infrastructure, private natural resources and then private agriculture and timber when those opportunities are attractive through active investing rather than passive. Currently there's an infrastructure swap within the portfolio but we recommend hiring a manager to implement that infrastructure allocation. And then, in fact the absolute return as Mr. Odell noted, we don't have visibility into how that is going to be structured but we're happy to work with the trustees and staff and Alborne to incorporate that structure once it's implemented within our recommendations as well. The risk return analysis on pages 14 and 15, we took the current policy, so using

10% fixed income as well as market duration investment grade bonds and that is the less column here. We ran it through various historical market scenarios. So that's the current policy. And then on the right column you can see the recommended policies. So that incorporates 15% fixed income and long duration TIFs and treasuries. So we worked with Alborne to get their worst-case scenario return and that's incorporated within the calendar year 2008, fiscal year 2009 and global financial crisis scenarios. So that's not just for a broad hedge fund benchmark but for the managers that Alborne would recommend at this time. You can see here that the additional fixed income and it beings long duration, provides some protection from some of these historical market scenarios where marked have been quite stressed. The them page gives a little bit --

>> Lara Druyan: Laura, one question for you. Did you guys run -- since the current policy is the ink is still drying, did you do any analysis of what it looked prior, sort of what we had done prior to a couple of months ago?

>> We did and actually that was in the original document that we showed to the investment committee. We updated it figuring you might want to look more forward. And the current policy here had better outcomes than most historical stress environments did.

>> Lara Druyan: Thank you.

>> Edward Overton: Could you comment on the slowness of getting the asset allocation policy instituted? Seems like we are where we are rather than what's been adopted.

>> You know, we're happy to move as quick as the trustees. Why know there's some new staff members and new trustees. We actually before even reducing this conference calls with them. My impression is everyone is ready to hit the ground running once you adopt a new investment structure for your policy.

>> Edward Overton: Well, that doesn't quite get to my question but I guess it's as close as you can come.

>> Yeah, are you looking for a specific time line?

>> Edward Overton: You know, not some drop-dead date but you know, within six months, three months. , 30 days, whatever. When is the train going to leave the station?

>> You know, we've already started on it. And we're happy to work as quickly as staff and trustees would like.

>> Carmen Racy-Choy: Are you actually asking about the asset allocation implementation or the management impledges portion?

>> Edward Overton: Both.

>> Carmen Racy-Choy: The asset allocation has actually started through the end of December. Through the overlay there was an approximate long term targets. Now that ultimately for us to do a proper transition, we would need the next step is once an investment structure is adopted, that we would hire a transition manager, and then do a proper transition to come a little bit closer to the actual long term asset mix. Once that is done, the manager searches have been initiated. But ultimately we need to know what we're looking for. And that's part of what the investment structure does. So with respect to the manager selection, the manager -- our big emphasis is going to be on filling the hedge fund allocation first. Because that's a very significant portion of the allocation. The investment component of that will be potentially 3 to 6 months. But then there's contracts to be had, and the legal components will take a fairly significant time. You can expect the hedge fund component to take between 1 and 1 and a half years probably just because the legal work is fairly significant. But we'll start putting managers quite soon, which is probably about six months. Just taking into account that we'd need to go perform due diligence onsite, come back, discuss the issue with the investment committee, go through the legal paperwork, then bring it up to the board. With respect to other managers, in the -- outside of the hedge fund allocation, I think you can expect sooner, probably in about three months the equity component and then we'll be hitting the other asset classes soon thereafter.

>> Edward Overton: Okay, if we could have a little update each month on what the status of the process is, that certainly would be beneficial to me since I'm not on the investment committee. And there's almost a disconnect. You know, I get here and I see all of this and I wonder what's going on on the other side of the situation.

>> Carmen Racy-Choy: Sure.

>> Matt Loesch: Any other questions?

>> Sure, I'll just continue briefly on page 15. We looked at various scenarios between the historical policy and the current policy, and stress testing forward looking analysis. You can see here that with an additional amount in fixed income and that fixed income being long duration, that the recommended policy would lag the current policy somewhat, in rising interest rate environments. But also, protect in the environment where you have a broad equity decline and accompanying large changes in credit spreads, large widening in credit spreads. So as I mentioned before, you know just adding an additional 5% fixed income provides a lot of the deflation protection here, making it long-duration as well does that to a lesser degree. The rest of the document we included some -- the current global equity allocation versus the proposed global equity allocation but this will really change quite a bit based on the specific managers that the trustee select in each of these areas. And then as I mentioned towards the end -- I'm sorry.

>> Stuart Odell: Sorry. When you run your stress tests is your starting point the current valuation of these asset classes?

>> It is.

>> Stuart Odell: Or is your starting point the long term expected returns of these asset classes?

>> Yes, and you can actually, if you are interested in all of the specifics, they're on page 36 for all our assumptions of the asset classes. Of course this is more art than science. You know you have to make assumptions for a lot of these issues but we wanted to show you some analysis.

>> Matt Loesch: Does that answer your question, Mr. Odell?

>> Stuart Odell: Yes I guess.

>> Standard deviation assumptions that's the baseline.

>> Stuart Odell: You know are they current, you know expected returns of what you think bonds are going to do over the next 12 months? Or are they what you think bonds are going to do over the next ten years?

>> They're more long term.

>> Stuart Odell: I think one thing that's interesting to see is where current valuation of the bonds, what is the effective PE of bonds, probable 50, right, PE ratio. Expected PE of equities is 10 or 12. You know, big difference in valuations from your starting point. And it would seem to me, and in a stress test, you might want to start with current valuations and likely scenarios rather than long term expectations on where they are to give some sense of what's really going to happen, when you know, interest rates go up right now on your long-dated bonds that you're suggesting we put in the portfolio. Which is particularly the one area that I'm focused on because it's the one area where I think there's some disagreement between what the staff had originally proposed and what you guys are suggesting we tweak on the asset allocation.

>> Yes. As I mentioned, we're comfortable using market duration investment-grade bonds because really, you get most of the way to the deflation protection, protection in a stressed market environment just by having more fixed income and using intermediate duration rather than long duration.

>> And when you say intermediate, what does that mean? What do you call?

>> It means the duration of the Barclays aggregate and.

>> How much is that do you know?

>> I think it's about 4, 5.

>> Thank you.

>> Matt Loesch: Any other questions? I had one on 17.

>> Okay.

>> Matt Loesch: So this is not maybe as sophisticated as some others. The left column adds up to 100, the proposed column adds up to the 113, and the MSC Acqi adds up to 99.

>> I can explain that, that's averaging.

>> Current structure and assuming that's -- there's a reason for that.

>> Again, I wouldn't read too much into these numbers maim because the proposed global equity is just using benchmarks for each of these areas whereas we would recommend, I know that the staff and trustees prefer higher track managers in these areas, the likely hood of the managers using relatively low so this could change quite a bit.

>> Matt Loesch: Okay. And second question, on page 18. Seems like the current, compared to proposed, there's some significant differences at least in my unsophisticated mind of Japan and China and Brazil. Between the

proposed and the current. You know, are there current thoughts about Japan, China and Brazil that Meketa has, that guides that?

>> I wouldn't say that this was -- this allocation and the recommended suballocations were based on Brazil, China or Japan specifically. But we do think that emerging markets have a likelihood of outperforming developed markets over the long term. So you'll notice that the proposed global equity, as compared to the current global equity, overweights emerging markets somewhat as compared to the developed. That's really the theme we were trying to get across.

>> Matt Loesch: Okay.

>> And then the rest of the documents include the private market sample plan which I alluded to earlier. Which again is just a sample based on the suballocations and is quite subject to change based on individual manager opportunities and also whether the committee and the board decide to use fund to funds or direct investing.

>> Matt Loesch: Questions, comments?

>> Arn Andrews: Just two comments. I'd like to echo Stuart's comments, overweighting to fixed income while we were parking funds there. We've discussed you know current not long term but current one to three year time horizon, duration concerns, and so I also found it interesting that you were recommending not just increasing the weighting but also extending duration. And this is probably a question for staff. I know the last time we were together we were talking about our commodities exposure and at the time, I believe you said before the holidays we actually wept into an index as opposed to risk parity. I was wondering where we are on that fund trade winds they were overexposed to minerals are we overexposed to energy as well quoops oops.

>> Carmen Racy-Choy: 10% that Meketa was proposed with actual risk parity based managers. I don't believe. When we actually implemented through the overlay I really didn't know what Meketa was going to be proamg and I don't -- I do believe we actually use the Dow Jones UBS swap. So not the Rick parity benchmark, to

get us more exposure to commodities. Keep in mind at this stage once we will increase the allocation to he my guess is we would terminate these two percentage points that Meketa is recommending increasing in the commodity space and we would get exposure through the risk parity benchmark. And we would try to decrease the exposure to the Dow Jones UBS, not just as a reduction due to the 2% shifting over, but also by making actual investment in agriculture infrastructure and so forth. So do we still have the exposure? Absolutely because we need this document to kind of move forward.

>> Are there any other questions on the investment recommendation?

>> Matt Loesch: To be clear, the investment looking at numbers is on page 5 and 6, right?

>> Yes.

>> Matt Loesch: That's the guidance you're looking for today and direction? , is that correct?

>> That's correct.

>> Matt Loesch: I guess we're looking for a motion for that direction or other guidance you'd like to put forward.

>> Arn Andrews: My only comment would be on page 10 where they have the section that says however if trustees are uncomfortable with extending duration adding the 5% allocation to market duration fixed income, I'd say I'm probably one of the trustees uncomfortable with extending duration. So to the extent there are other trustees who are, I want to make sure that gets incorporated into whatever motion we make on pages --

>> Stuart Odell: Well, yeah, I'm not only uncomfortable with it, I'm not convinced that Meketa's analysis is thoughtful enough, around this 5% number. You know, I -- I heard your reasons. But I just -- and I see the output. But it's not -- to me it's not that compelling what you've said. The 5% number, I mean I can see you coming back and saying you know you should stay at 20 or you know. But I just -- I can't get a sense of whether

you threw the 5 in there because you, you know, you felt 10 would have been better but you didn't think you'd get 10 through the board so you kept it at 5 or you know how you really optimize around that 5% number. And I do get a little uncomfortable when you say, well, we think long duration is better, but if the board's uncomfortable we're okay going short duration. Well, you're talking out of both sides.

>> Yeah, you know we found the discussion at the investment committee to be really helpful in directing us to go back and nd do more on analysis. And while we still think long duration would protect you better in down market environments according to historical long duration would add and so we found the discussion useful and went back and did more analysis and came to the conclusion that really just overweighting fixed income would get you to the point where we'd be comfortable with potential performance in these down market environments. Of course it's associate of a balancing act to how much extra we recommend towards fixed income versus how much protection you want opt we want to outperform by 5%, the broad market benchmarks if we have another 2008, you know that's sort of a judgment call. And so you know, we think that an extra 300 basis points for the retirement system's bottom line is worth a 5% overweight to fixed income. That's something the trustees can inform us, no, we don't want any additional protection from the stressed income or we want to outperform the benchmarks by 10%. The 5% was sort of a happy medium that we arrived at based on better deflation protection if we have some of these historical scenarios where the retirement system's returns are really quite negative.

>> Stuart Odell: I guess I would -- you know, I'd been -- I would have been more comfortable if you came back and you know just said, you know, intermediate term fixed income. As a tactical view maybe long duration, fixed income, if you saw in the markets, fixed income markets start to normalize, I could sort of see how you could make the argument valuations were somewhat back to normal. And you could still get the protection out of it. But not take such a one-sided bet, that I see out there today, anyway.

>> You know of course the big question on fixed income is from a fundamental perspective we agree with you. It does not look attractive, valuations are much different than they have been at most points in the past from a technical perspective, though, should the markets experience, you know, outsized volatility, historically everyone

has flocked to treasuries and specifically long duration. So as much as we agree with you, not a fundamental good place to be necessarily. They have served their purpose historically.

>> Stuart Odell: Okay.

>> Arn Andrews: I guess personally I'm still lupt in the short term to change the allocation especially in light of you know we don't know what our hedge fund components are going to be yet and what portion of the hedge fund managers portfolios are going to be negatively correlated to the market. But it also sounds like we won't know the outcome of our hedge funds for a year or year and a half.

>> Carmen Racy-Choy: I think the investment committee will have -- will start having information about our managers probably May or June. And at that point in time. I think what we'd like to do is to keep the names of the managers secret until we can actually complete the contracting. Because if we bring the manager names forward to the board for approval, it is very difficult at that point in time, the manager will not yield in negotiation on any point. And our experience suggests that we want to first get the investment committee comfortable with the managers, and once the investment committee says we're comfortable we want to go back and negotiate without telling the managers that they have been selected. And then, come back to the investment committee and to the board. So I apologize that the process of information getting to the board will be slow. But if we don't follow that process, we will lose significant ground from a legal perspective and from the perspective of putting in the legal contract things that protect the city. So we feel it's kind of an imperative step to do the contracting without having the manager information become public.

>> Arn Andrews: Thanks. And I didn't mean to infer that I was questioning the time line. I was just saying that the two time lines don't sync up but thank you for the clarity of that.

>> Matt Loesch: Mr. Armstrong do you want to say something?

>> Michael Armstrong: Coming babes what risks are we trying to mitigate, is this the best way to do it?

>> Sure. So if you take a look at pages 14 and 15, this is what we were trying to illustrate through the scenario analysis and the stress -- testing. Again, these numbers for the calendar year 2008, fiscal year 2009 and the global financial crisis include Alborne's assumption for how hedge funds would perform in those environments. Again you could also say you're not going to take the recommendations and you pick completely different funds. That could change. This alborne's actual assumption of peak to trough performance of the portfolio they would construct today if given discretion. You can see here in 2008 it would have saved you about 3% of negative performance. Fiscal year 2009, you know, the global financial crises again would have saved you about 3% so having it overweight to fixed income. And then if you look on page 15, you can see that you'd give up in an up market environment so say that a rising interest rate environment, you'd give up about 1.4% if treasury bond rates rose 100 basis points, and then you can see here what you'd give up in different rising interest rate environments. So it's sort of a judgment call on how much protection do you want on the down side versus what you give up in a rising interest rate environment.

>> Arn Andrews: 15 is the chart that caught my eye because it's a 12-month period, the short term period which is I think where I'm hung up on fixed income. So if you look at the different rate up scenarios versus the decline scenarios in the interest rate bips. The current policy would be beneficial, 1.400, 2.82 hundred 3.84 on a 3 .9 of a 2.9 and a 1.9, I guess if you're inclined to think that an interest rate rise is possible, in the next 12 months, our current policy just from a differential outpaces the protection we get on a down-equity scenario.

>> Of course just to point out from a behavioral finance perspective, you know we just found that it hurts a lot worse on the way down than it does to give um little bit on the way up. If you are in these right interest rates environment you're still reaping theoretically based on assumptions your actuarial return whereas on the down side you know if equity markets were to go down 40% like this did in 2008, there is some protection there. That is a judgment call for the trustees to make.

>> Carmen Racy-Choy: I would just add on the down side we do enter deflation protection, you do tend to have significant liability gains. So really even if you were to get a zero percent return on the fund the contribution level would probably go down.

>> Matt Loesch: Do you want to do something to alleviate your concerns or with what would you like to do?

>> Stuart Odell: I'm going to stick my neck out a little bit further. I could accept the recommendation of Meketa, but with respect to the fixed income, I think the duration call is the one that gives me the greatest discomfort. The reason why I'm okay with the 15% is primarily not necessarily their rationale for adding it. But I think the private debt piece really does have a credit component to it. It has a component that will have some equity market risk associated with it. And so if you look at it from that perspective, that even a minimum of 10% in sort of non-credit-related fixed income, could be reasonable, I could get comfortable in that scenario.

>> The other characteristic that the highly illiquid, right? Which therefore I think it's really important to have a greater allocation to other fixed income, right? Because it's going to behave differently to your point. The illiquidity is scary to me.

>> Carmen Racy-Choy: At this stage we are a very liquid plan.

>> Lara Druyan: I know we are now but I agree with Stuart, private debt is going to act more like equity and also it's a ten-year fund right? So ... but I also agree, I'd like to see us in shorter duration, long duration makes me uncomfortable.

>> Martin Dirks: I agree as well.

>> Arn Andrews: I agree, the longer duration.

>> Matt Loesch: Would you like to set a range or a target? How would you guide them?

>> Stuart Odell: Kind tfs intermediate this is a government recommendation right, no credit in this? I would go sort of intermediate.

>> Arn Andrews: 3 to five?

>> Stuart Odell: Index, probably got a duration of -- ltd that's what the Chinese are doing.

>> Stuart Odell: I would think a similar duration would be fairly appropriate. You could come back and recommend something different but that would be my initial thought.

>> Matt Loesch: Okay. The one question I had in addition, is is staff comfortable with that recommendation then? I know you made a recommendation slightly different. Now with this modified recommendation is staff comfortable with that guidance and that direction?

>> Carmen Racy-Choy: Absolutely. I mean I think when we first started discussing the topic with Meketa, Meketa said we are veg very uncomfortable with -- we absolutely want to convey to the board that we are uncomfortable with shorter or medium term duration partially because we feel you have a small allocation. So I'm -- personally, I would prefer a shorter, as opposed to a longer, duration. Because the deflation scenario on an asset-only environment is important. But when you put the liabilities into the equation, I don't think you're going to have concerns, because you're going to have a lot of gains coming from the liability side. So even if the investment performance is very short of the target at the actuarial rate of return, you can still keep the City's contribution constant or probably even below targets. My -- you know kind of my concern is about the fact that the rising interest rate environment is right now a very real possibility. The Fed has put in place the operation twist which has actually lowered the longer term by about 180 baips. The operation is going to end in 2014, and if you are holding very long term duration instruments, the plan will get significant losses. So at the time when you really need the return. So I'm personally comfortable with medium term. I'm also comfortable with shorter term.

>> Matt Loesch: Okay and just in clarification Meketa is comfortable going forward with a recommendation of medium term duration?

>> Yes of course and if the interest rate make sense to make even shorter version.

>> Matt Loesch: Guidance, sure.

>> Stuart Odell: I mean I could even live with an active manager that you know is able to play within short to medium term duration calls and be able to do that more actively than you could if you wanted to do that, as well.

>> Carmen Racy-Choy: Absolutely.

>> Matt Loesch: Okay. So sounds like we're coming down to a consensus here.

>> Carmen Racy-Choy: Would Meketa be comfortable with an active manager that has the capacity to make the duration calls? Because the reality is if we set it in the structure especially given our staffing situation, we might not be revisiting it very often short of a very significant shift in the economic environment. So I think if Meketa is comfortable going with an active manager that has the capacity to make that call and the track record to make it well, we would be comfortable with that as well.

>> I would say in general our philosophy is that we like to find active managers and give them as many degrees of management as possible assuming they are skilled. good in historical market environments at adjusting at the right time. I cover fixed income managers for our firm and it's amazing how a couple of years ago, everyone was pounding the table that rates were rising and they you know we're happy to work with staff to try to search for an active manager who has been successful at adjusting duration at the right times at task but I can't say thus far.

>> Stuart Odell: I totally agree so the duration call is the one that's been the hardest for them to get. But it's maybe worth looking at if you don't think we can act quickly enough to respond to changing market conditions.

>> Matt Loesch: So I guess the motion will be and I'll just make it so it's consolidated, to 5 and 6 with medium duration term of three to five for sismed income and also that there be monthly updates to the board as to the progress detail-wise how we are moving through moving into this allocation. That's the motion.

>> Edward Overton: Second.

>> Matt Loesch: Any comments or questions?

>> Stuart Odell: The only -- my only comment would be that once we have the hedge fund managers selected, that we should come back and revisit the structure. Because then you've got the real details.

>> Matt Loesch: Sure.

>> Stuart Odell: That you need to model. So that's really important that we kind of put that on, that we will come back and revisit this structure.

>> Matt Loesch: Put that as a friendly amendment to add onto the motion only just for legal sake. So the friendly amendment is that once the hedge fund allocation is adopted, and the manager is selected that we revisit this entire structure and the allocation.

>> Arn Andrews: Right, let's see what the through put is for every asset class.

>> Matt Loesch: Is that --

>> Arn Andrews: Yes .

>> Matt Loesch: All those in favor, opposed.

>> We look forward to working with you on implementing the allocation. Thank you.

>> Matt Loesch: Thank you. Okay, beg egg for a little latitude, we have a few folks that have been calling in April and so one of which is Cheiron. And then also, Cortex on 5.3. What ride like to do is beg your latitude is to deal with item is it 4.6 discussion and action regarding the allocation methodology for the evaluation of administrative expenses as between employees and employer. I believe you have it in your packet. Item 4.6. And we have a Representative from Cheiron on the phone.

>> Gene Kalwarsky: Can you all hear me? This is Gene Kalwarsky and I have Al with me.

>> Hole.

>> Matt Loesch: The floor is yours.

>> Gene Kalwarsky: We're trying to keep this presentation brief given everything you have to do today. Giving you background on page 2, prior to the June 30, 2011 valuation, expenses were considered covered by earnings so there was no explicit charge for that. Starting with the June valuation we recommended and the board adopted that the administrative expense cost would be added to the normal cost explicitly. That raised the question of this municipal code, splits the normal cost between the city and members in a ratio of 8 to 3. And the question was raised at a previous meeting should the administrative expense here we are asking for normal cost also be split 8-3. We understood from council that the answer these costs were I split historically, and it was our understanding that if the show you an example and in fact these members were paying for it, due to a reduced discount rate to cover the -- those expenses. I'll have an example to show you how that works. However, if actual expenses are greater than expected that flows through to the unfunded and the city would pay that whole cost. So that's just some background. Slide 4, so historically, looking to GRS's 2009 experience study, they developed a gross investment assumption of 8.6%. And they subtracted 90 basis points to cover for both the SRBR, investment and administrative expenses and that's how they arrived at 7.7. What we're suggesting that 2011 experience study is

that administrative expenses you could either look at it two ways. They're about $2 million so they could be .7% of payroll or .3% of assets. And I think what puts this whole presentation together easier to follow is the very last slide. Since we're saying the $2 million could be covered by earnings but we would have to lower the discount rate to 7.37, I'm going to walk you through two examples. The left-hand column is the specific earnings we would have lowered the discount rate by 13 basis points. So going to row 2, the normal cost, the total normal cost under the explicit approach is 20.55. Under the implicit with a lower discount rate slightly higher, 21.2. We take away what the city pays for reciprocity and the net normal cost that will end up being split in the ratio of 8 to 3 is 20.34, for explicit and 20.98 for the implicit. The member pays 3/11 of that line. We get 5.55 versus 5.72. But then under the explicit approach we do add directly the 19 basis points and the member ends up paying 5.74 versus 5.72. On average, that's a difference of about $14 per year per member. And so we were just asked to provide what the impact was and what the history was, and that's really all we have to present here today.

>> Matt Loesch: Ms. Dent.

>> Mollie Dent: So let me go back to slide 3, and so the reason this came forward is you all have already approved your valuation. And your valuation does shift the normal cost, the approved valuation does shift the normal cost to the cost split between the employer and the employee on the 8/113/11. And issue did come up in the Police and Fire board on their valuation before they approved their valuing on whether or not that split should occur. And so the answer from our standpoint was that it may depend on how the costs were split historically because it's clear that to the extent that the costs were split historically, you can do that. And so what Cheiron has presented here, appears to show for this plan that historically, the costs were split. They were split in a different manner than calling them normal cost but there's a very little difference between 5.74 and 5.72. If you wanted -- if you wanted to have your new outside counsel look more closely at this issue, before you adopted the final contribution rate resolution, you could do that. You could also say, if -- you know you could also say is this -- is this really an issue at all? So I don't think we said that it did depend. We said that it might and that as a minimum we should look at how it was done historically because it might provide a basis for just saying you can go forward with the valuation you have approved.

>> I'll just add since new counsel was referenced, we obviously haven't reviewed this issue. sound like some decisions were obviously made in the past. These issues are going to be governed in terms of the plan itself and how you interpret those terms and historical application may inform that analysis. And then, of course, a lot of the time the plan terms recognize either explicitly or implicitly that there's going to be actuarial assumptions and methodologies and practices that go into these things. So if the board wanted us to conduct that analysis we of course could. But from what I've seen this is some that's been going on for some time, it's really just up to the board whether they want to ask to us look at it.

>> Mollie Dent: I would add that the magnitude of it doesn't -- maybe Cheiron, I think they did speak to it. But the magnitude of the difference between how it's been done in the past and how it would be done as approved by the board seems to be very, very minor to me.

>> Matt Loesch: Okay, questions from the board or comments from the board?

>> Edward Overton: What do you need?

>> Matt Loesch: I'm sorry, we're going to make a choice whether we make it explicitly the explicit versus the implicit or where they do their rates coming back, right?

>> Mollie Dent: It's a question of whether or not you all are interested in revisiting your valuation again based on the information that's presented or you simply want to go forward with the valuation as it was approved, which will be for the member contribution rates to be set based on the more explicit split of the normal cost.

>> Gene Kalwarsky: So it comes down to the last page of the presentation which column, as prepared it would be the explicit column. If we change it, it would be the implicit column. Disd if we do it.

>> Mollie Dent: Analysis on your plan in terms of historical. They decided to -- not to implement the shift this year, for the member cost. And to revisit it with the valuation next year. So two differences between the two

plans. One was, that they kind of confronted that issue before they did their valuation. But the second is that the -- the historical analysis for them was different than historical analysis for you. They had a different prior actuary. GRS is your prior actuary. Segal was their prior actuary. Part of what Cheiron was doing was trying to construct what the prior actuary's were and they were doing it differently, correct? Am I speaking correctly?

>> Gene Kalwarsky: That is my understanding. GRS was more -- very explicit as to what they were doing and Segal less so.

>> Martin Dirks: Is there a cost analysis 14 dollar per member issue here.

>> Mollie Dent: Yeah and I think you would also probably have to look at whether or not you wanted additional legal analysis on it to support not doing it. Because the municipal code does say that the normal costs are supposed to be split this way. So that's why Cheiron did it that way to begin with. So I do think you could, like I say, it is not a substantial difference. It doesn't seem like.

>> Martin Dirks: If I could just make some very general comments and I want to be very clear that we have not analyzed the specific code and the specific facts but just some general facts, I've seen these facts play out in other systems and case law. And basically what you're looking at with these types of decisions, regarding actuarial principles, is that in some cases, you've -- it's a question of what does it mean to be normal cost, or what assumptions are you using with your actuary, what are the methodologies you're putting in place, what are the assumptions you're using. When the board has discretion to do those things it's very much within the board's discretion. Whatever it decides is going to be okay. The other really is when you're actually changing something in a way that is -- that is different from what the plan says. I mean there have been cases where, for example, a system in the Fresno city system in the case in the '80s started charging members for a portion of the unfunded liability. Historically, they had not done that, the members challenged that, and the court ultimately said, the plan document does not allow you to charge members for the unfunded liability. So that was struck down. So you could -- it could fall on -- and I'm not commenting on this particular case because I don't know. But that's the kind of thing you're talking about. Are you -- the bottom line is, you need to stick within the parameters of the plan so

the question is, is was the old practice, and is the new practice consistent with the terms of the plan? And if you feel comfortable that that analysis has been done, and you've made a decision based on that analysis, then you certainly move forward. But if you have questions about it, then you know, we're here to help that kind of thing.

>> Matt Loesch: Okay want to entertain a recommendation or a motion?

>> Edward Overton: Isn't our current valuation based on the explicit treatment of --

>> Matt Loesch: That's what I Mollie is saying moving forward --

>> Edward Overton: I would want to continue that.

>> Mollie Dent: If you wanted to change it you would have to provide some direction that the valuation would have to be revisited and legal input. Otherwise it's going to go forward with the explicit assumption.

>> Edward Overton: That would be my motion.

>> Matt Loesch: Just to note and file?

>> Edward Overton: Yes, just to note and file, or go forward with the explicit treatment, either one that works. Dpm I mean do we even need to take action?

>> Mollie Dent: No.

>> Matt Loesch: Technically didn't seem like it, we could just note and --

>> Carmen Racy-Choy: I think from staff's perspective we wanted to make you aware of this shift that had happened. We didn't want you to find out at a later stage and say we didn't really capture that. And the reason the

way it was done before, through the implicit approach, was suboptimal because in part what was happening, a very significant chunk of the admin expenses were being paid for through the unfunded liability. Which is fundamentally like taking a mortgage to pay your admin expenses. And so this is the reason why Cheiron recommended to go to the explicit approach. As a result of moving to an explicit approach, basically, this becomes normal cost, and normal actuarial jargon, although it doesn't have to be qualified as normal cost and was split 8 to 3. So we really wanted to kind of make you aware that in the past, due to the implicit treatment, the city picked up more of the admin expenses than what is currently happening. And you know, it's really up to you to proceed from that point on, as you see fit.

>> Matt Loesch: So I guess the things -- were you finished? I'm sorry. Is it fair to say that from the legal perspective, Ms. Dent, that it was just to be clear, that it is the practice, if we go with the explicit route as our valuation was done, it is -- it jibes with our document our plan documents and historical practice?

>> Mollie Dent: It definitely jibes with the plan document because the plan document calls for normal cost to be split. And so they're calling this a normal cost. I also -- I understand, for the Federated plan, that this analysis is actually saying that the administrative costs historically were split in large part with the employee -- with the employees through the way the investment return assumption was built. So that I -- I view -- that's how I view page 5. And if I'm wrong about the way I'm reading that, I think then cine can address it. But I view page 5 as saying that they think that GRS did in effect take the cost into account in normal cost by the way they set the discount rate.

>> Gene Kalwarsky: Yes, we are saying that. And we also want to say that we think the explicit way's a cleaner more transparent way to do it and the implicit way has other implications that we haven't talked about, the normal cost and unfunded and that gets kind of complicated so we have a strong preference for the explicit approach.

>> Matt Loesch: To give clear guidance and speak the voice of the board, I would be more comfortable just making a statement whether we don't have to or not because we have accepted the valuation, this is the way we understand it and this is the way we're going to proceed on this valuation and give guidance for future valuations

until things change. Whether it's different legal advice or different actuarial advice. That would be where I'm at. I just -- if folks are comfortable I can turn that into a motion that we make an explicit statement that -- so I'll make that motion, that our policy on this valuation account explicit approach and our guidance to staff and Cheiron is that our future valuations be accounted for in that method.

>> Second.

>> Matt Loesch: Okay, any other comments or questions or things I'm missing?

>> Carmen Racy-Choy: That the cost be split using the 8 to 3 approach.

>> Matt Loesch: That the normal cost be split, and reimplement. All those in favor? Opposed, thank you. Okay do we need to -- 11:30. We had quasi-time certain for 11:00 for 5.3. Do we need to get hold of them and so forth? Should I try to pound through a couple of items while you get hold of them? That okay? Why don't we do that?

>> Gene Kalwarsky: And are we threw?

>> Matt Loesch: Thank you.

>> Gene Kalwarsky: Okay, bye.

>> Matt Loesch: Let's just walk through the agenda here. You were provided the document for item 4.7, plan expenses for January 2012. If the board is satisfied we can move approval on that. I mean it's really approval of the expenses. So -- if you want to table it for a month to get a chance to look through it, this was provided on your desk while we were in closed session.

>> Edward Overton: I'd move approval.

>> Second.

>> Lara Druyan: Second.

>> Matt Loesch: Any questions, comments? All those in favor? Aye. Opposed, okay. Consent calendar. . Let's go to 3.1. Discussion and action on proposed date for a study session and request for proposed topics. Since I'm sure that you are all flooding staff's e-mail boxes with ideas, thoughts and schedule ideas for a study session, they unfortunately didn't explain that, that there wasn't any guidance really provided. So I'll help provide some and see if you agree with me. What I'd like to do is we had decided not to have a retreat, it was discussed last time that we would come back and have a study session. Essentially we'd adjourn this meeting and have a special meeting right after that where we could have specific topics. I don't know if there's necessarily a advantage, disadvantage, that could be debated, it would be the same place, same people, cameras on, maybe not. One thought I had as far as guidance was looking through the special agenda that was put together for the Police and Fire plan, what they went through. Some of the topics seemed applicable, some of them we're covering today so not necessarily. The major one I was looking at was, was item 2 on there, discussion and actuarial options to minimize contribution volatility. Some of you had sustained Cal APRS general, local meeting not the general assembly, the one that was January the trustee preeghts, Cheiron made a presentation at that time that folks had federated plan, so might be plan specific, might be as well as plan numbers, folks had found that very interesting as far as ways to minimize the volatility through some of their advice. Folks had thought it was a good idea. I was thinking about having that in April. What are the thoughts there? That some of the other things that we've been talking about, could be added to that as well. That is on the agenda so we could either table the things currently on our agenda, that was under -- I should have written down the thing. Item number -- the one that has to do with the fiduciary insurance, item 4.10. There was a fairly lengthy presentation and discussion on fiduciary insurance. My mind it might be good to have. I don't know if Reed Smith was ready to item 4.10 and discuss it in greater length similar to the way it was discussed in the study session at the Police and Fire board. Want your thoughts there on that so we can table 4.10. I'm not making that motion now but this is my feeling, bring that up in

April, there might be further discussion in May. I'm just going to have two topics for now in April. Does that seem -- so we'd have an extended meeting after --

>> Stuart Odell: Two, three hours or --

>> Matt Loesch: I'm thinking, along with the presentation, the Cheiron presentation, an hour?

>> No, more.

>> Probably like 40 minutes.

>> Stuart Odell: It was three hours.

>> Matt Loesch: Then you think a topic like that for legal stuff, maybe an hour.

>> Arn Andrews: And I will say, the topic on Cal APRS legal discussion could have gob on forever. We do have new counsel, they may have topics they think might be relevant for us. I think just having a legal bucket and we can put this as one of the definite topics to discuss.

>> Matt Loesch: Well, of course we need to agendize it so there will be Brown Act --

>> Mollie Dent: The new general counsel may talk about using legalizing topics, things of interest to the board.

>> Jeffrey Rieger: We've given all types of presentations on fiduciary insurance, fiduciary principles, just being a fiduciary, conflicts of intreflt. I mean we've done all that, a lot of it is already in the can so to speak.

>> Matt Loesch: Keep your idea on the legal bucket, let's do the fiduciary principles and then the coverage, the fiduciary insurance that we have in relation to that. As an April discussion. And then have Cheiron presentation on the minimizing contribution volatility.

>> Arn Andrews: That work.

>> Matt Loesch: So maybe two, two and a half hours keep it as a limit as what we'd be shooting for. So if we were to put a time to it, 12:30 to 3:00. As you know I try to keep things fairly expeditious.

>> Mollie Dent: I would suggest you not actually do a time on it but it's extended part of your agenda so you can get to it as soon as you want to, that's my suggestion.

>> Matt Loesch: Other folks concerned about having the camera on? It's going to be recorded either way, whether it's audio, video and audio, is there a reason we wouldn't just have it as part of an education session at the end of the agenda?

>> Russell Crosby: If I could weigh in. The cine presentation, when I saw it at the offsite location, really wished that it had been videoed, it would be very useful for city people to see that presentation, as well.

>> Matt Loesch: Okay.

>> I'll second that.

>> Mollie Dent: I'm going to say if you are in this facility and it's really to tag on to your regular meeting, it should be videoed, and it just is seems to make sense to me that --

>> Matt Loesch: I don't have any concern. Everything is so public anyway. These documents, whether it's audio-recorded, whether it's a picture too --

>> Pete Constant: We have a technical issue, the Public Safety, Finance and Strategic Support meets at 1:30 in the council chambers. So you'll have to check with them to see, what are the technical aspects that they could do both. I know they couldn't stream both. I just want to make sure on that.

>> After 1:00 we can only audio-record this meeting and not video-record.

>> Matt Loesch: They can't even record either?

>> Russell Crosby: Only audio, that's my understanding as well. (inaudible).

>> Mollie Dent: That's one reason I'm -- I mean I don't know how long your April meeting is going to be. But it's possible that maybe you will get to your special stuff a little earlier.

>> Matt Loesch: Well, how about this. We'll leave it kind of loose as to where it is on the schedule for now and let's see if we can work through some of the machinations and recordings and so forth and we'll have it on the agenda regardless in April, those two topics, those two topics, the actuarial and the legal. Is that fair? So then it will be my motion that we have -- add on to thee agendas, we don't technically need to, I don't think, but to give the board direction that this is what we are proposing to do on these study topics.

>> Arn Andrews: Second.

>> Matt Loesch: All those in favor, opposed, okay. Since pulled out of a conference as it is if we could jump, and I appreciate the patience bopping back and forth. This is item 5.3. I guess what I'll do is I'll move through each A and B first. This will be the concluding records from the ad hoc governance committee and we'll buys off on this so this will be the final report. We have two minutes in our packet here for 5 and -- January 5 and January 16. Do I need to -- do we need to accept those minutes? This is under 5.3. I apologize for the --

>> Mollie Dent: No, you don't -- you do not need to take any action on the minutes of the committee meetings.

>> Matt Loesch: Okay. So A and B are for your purposes. 5.3 A and B. And then there's a larger packet, 5.3C which I'm sure was a lot of pleasure reading for those folks in getting ready for this. But it was meant to, and I'll certainly lean on the folks who are ton committee to make sure I give a quick summary and a guidance here. And I really do appreciate both the extra work that Mr. Armstrong and Mr. Odell went through to read through these, and I believe Mr. Dirks who was the alternate who got the fun of reading it, as well, who wanted to try to clarify a lot of the roles and responsibilities, make sure they're all in harmony. So we had a good governing document that this is, you know, a way to set kind of in stone, loosely, how we're moving forward as to how we should be acting. There was a good bit of give and take on some of the items. I think Cortex did a great job in cleaning up the policies and making sure they were best practice to the extent we could. There's two things in here that were place holders that we wanted to caution about. The role of the personnel committee was the main one. In that that was to review and give guidance and provide the annual review for the CEO. At present, we don't have that role, and responsibility. And so it's just kind of a document that was put in place that we had gone through a couple of times and looked at it. We are going to have it as a place holder, noneffective or not a guiding principle going forward. So Tom did you want to add to anything I'm saying here? I should have let you present this yourself.

>> No other than the same concept pertains to the CEO performance policy place holder or use that as a template for future use once the board gets the authority that it needs to really carry out that process effectively.

>> Matt Loesch: Okay. Anything from the committee members, as far as thoughts that you had? Our recommendation, that the committee clearly was recommendation to approve these policies going forward, that was the recommendation coming out of the committee. The policies are in the packet. Any questions, comments, add-ons from the committee members?

>> Edward Overton: Asking questions on this document?

>> Matt Loesch: You may as well since committee members aren't shouting at me.

>> Edward Overton: Okay, under the role of the investment committee, page 2 human resources, line 13, can someone explain to me what that means?

>> Matt Loesch: Wait a second, give everybody a chance to switch to it. Audit committee. Investment committee, so unfortunately these aren't number.

>> Edward Overton: The role of the investment committee. The pages are all one two one two. Under the role of the investment committee, on the page two of that particular section. Line 13.

>> Matt Loesch: I'll just read into the record. The investment committee will rube the decisions of the CEO regarding and advise the CEO and the board accordingly.

>> Edward Overton: What does that mean? What are we talking about there?

>> Matt Loesch: The point there was that the investment committee will provide an opinion to the CEO about the performance of the CIO. And the trouble will be, I'm assuming that legal would look at in this current perspective is we don't have personnel powers, right? And so --

>> Mollie Dent: We generally had a couple of comments on these policies needing to still be cleaned up some from the standpoint of, the CIO specifically because I think there's also language in here about the CIO being hired by the CEO which of course is not currently the case. So there are still some -- there's still some issues in the policy with respect -- embedded in these policies with respect to the current employment relationship. I don't -- there was also, I think I pointed out at the Police and Fire board meeting, some inconsistency in the communication policy between a couple of the policies on media communications. 16 and 20 are not clear. So I think the -- I still think that needs to be cleaned up because it's not very -- it is not at all clear whether or not board members are saying that they won't speak to the media, or they're simply saying that they'll only speak to the media when they give a disclaimer. So I think there are some little knits remaining in these policies.

>> Matt Loesch: Did you provide these comments to the committee?

>> Mollie Dent: I provided them to the committee and the consultant.

>> Matt Loesch: Okay, find that page. Because I remember us talking about the communication policy in regards to the media.

>> Mollie Dent: Yeah.

>> Matt Loesch: Because we have issues with some of our outside folks in what are might be interviewed by the media in their existing role outside of here. I'm sure this didn't preclude, for example Mr. Odell, if you don't mind me sharing your -- for example, if he's sitting in his panel in his Intel role, is he issuing a statement that he is not in his Federated board position. That's why I'm trying to find it --

>> Mollie Dent: The problem is I'll say it againist on page 3 of the communications policy. The policy numbered 16 says, that the matters will be referred to somebody else. When it's the media. And then, policy 20 is the new one that you talked about, really, when you're speaking at an event or something, but it also tacts about the media. And my only comment is because the committee spent time talking about this, and wanted to put a clear rule out there, I -- it's not very -- it did not come through very clearly. And the same thing with respect to the sort of the employment relationship, although the personnel committee policy got cleaned up, a lot of the rest of this didn't get cleaned up to reflect the current employment relationship.

>> Matt Loesch: Tom, do you have additional revisions that you can do on this thing that you've again given guidance on or do we need to give you additional guidance?

>> No, what I thought was in the case of the Police and Fire board, the board did not approve the policies but rather decided to take some more time for the full board to digest all the materials and provide additional

comments. Comments at their last meeting and I thought we might want to try the same approach here. I realize there were some issues raised at the last Police and Fire meeting which are applicable to your board as well so we do have some minor issues to clean up but I think it still would be useful to get additional input from the board.

>> Matt Loesch: Okay.

>> And if you'd like to take more time to again digest the material and provide us with additional comments we can certainly clean up all the outstanding issues as well as any additional input that you might provide.

>> Matt Loesch: Okay so since I wasn't privy to any issues that were brought up at the Police and Fire meeting in addition to what happened in the governance committee --

>> There were the two issues that were just raised as examples, clarifying --

>> Matt Loesch: Any other additional ones besides those two? Those things seem simple to change.

>> Mollie Dent: I think Mr. Liederman said their firm would you know take a look at the governance policies, too. Mr. Mayor.

>> Matt Loesch: Okay.

>> Mollie Dent: But I don't think he raised any specific issues with them.

>> Matt Loesch: Okay Mr. Constant.

>> Pete Constant: I raised some comments, there were some inconsistencies between board operations and committee operations on what was explicit and what was implied. And I suggested they should be exactly the same because all the bodies operate under the same laws and rules. Specifically like the quorum designations

and stuff like that where it was explicit on some and not mentioned on others. Since people would go back to them to refer to them as their quick reference it should have that. And also in the area under the training and orientation, it talks about a lot of the applicable laws, and what should be in there. And I just stated that given the fact that the Brown Act and the sunshine ordinance in the City of San José, those two things guide almost everything you do, that those should be in those are orientation materials and handbooks and be explicitly stated.

>> Matt Loesch: So it sounds like we should have one more crack at this and give Reed Smith an opportunity to read through and see if there's anything they flag and come back next month. Tom, let's see if we can clarify, the media stuff on the communication policy.

>> Absolutely.

>> Matt Loesch: And if we can reference the city policies under the education stuff that would probably be prudent. Anything else that --

>> On the media just to be clear, I believe our intent or intention was for there to be one person who speaks for the board. And that would be the chair, in general.

>> Matt Loesch: The way these policies were put forward is that the spokesperson for the board would be the chair. And we try to spell out what that person would be doing then. It's not their opinion, they're only speaking on actions the board has taken. And things that the board has presented, what has been presented, not to reargue it. They can look at the minutes or they can look at the video if they wanted to see that. That was kind of our discussion, right?

>> Right.

>> Matt Loesch: As spokesperson for the board it was to elucidate what the board had said. Not their opinion of what the board had done. Once they had spoken, the role of the board chair in that spokeman role was to state what the board stated.

>> Not to rehash the people on the committee I thought it was an important point that if we're approached by the media and we have a vote and it was four to three or something and you're one of the three, the view is, what's your opinion, well I expressed it at the meeting and that's sort of the end of the conversation.

>> Matt Loesch: It was one of the things we spent a lot of time on.

>> Michael Armstrong: Yes.

>> Matt Loesch: Try to be clear and consistent it's what the committees wanted. The role what the chair's role was and also the communication policy around that person's role. Okay? So it sounds like we'll table it.

>> Arn Andrews: And since we're tabling it --

>> One more comment though.

>> Matt Loesch: Tom, go ahead Mr. Andrews. Doctors under the chief executive officer position until we get to pint where we might at some point have control over the hiring process, are we saying that as a board we're not going to engage in any sort of a performance evaluation? When we say we're tabling this or using this as a place holder, do we want any aspects of that? I know sometimes CEOs will just provide a self-evaluation like an end of the year summary.

>> Matt Loesch: We did hash around it a little bit on it and the lawyers opined a bit on it that really, it's up to the City Manager whoever that is to inquire whomever they want to have guidance on any of their reports in this

case. If you wanted to speak directly it would be up to Ms. Figone, I want to talk to the boards and hear their opinion on it. That would be her role.

>> Arn Andrews: Argument for us to be able to share you know with Russell or Russell to share with us, not using any other conduit, do we have a mechanism to have feedback to one other, I guess is my point.

>> Matt Loesch: It was opined.

>> Mollie Dent: I know Reed Smith can address this but it depends on whether you want it to be in a confidential format or open format. As long as the individuals are not your members you can't really do it, not your personnel you can't really do it in a confidential format. You can't have a closed session. You can't -- it's not going to be part of their personnel file. Whereas if it were done in the framework of the City Manager's personnel evaluation, say interviewing board members, then it would be part of the personnel file. So -- and I think the firm can -- you know --

>> Arn Andrews: Keep it because of the way --

>> Mollie Dent: There are ways that you could have input to it, there are ways that you could have more input than you do now short of having the individuals be your employee. But I -- I viewed this policy as saying, this is the policy that would apply, if these -- if they were your employees.

>> Arn Andrews: Right and that's what I took away too. But then that's just a question as a board, because of our current governance structure we have no mechanism for any type of feedback or dialogue at all. Which I guess just begs the question, again, that at some point we have to really address the construct how we function currently.

>> Let me suggest that this might be an area that warrants some specific attention. And away I mean by that is that, most boards that I've worked with, clearly have control over their administrative staff. Most boards that I've

worked with, appoint the administrator or you know the top position of their staff. So this really isn't a question for most boards at a I've worked with. I understand in this system, we're not terribly familiar with it yet, but I understand the way this board works is a little different in the sense that the top executive is appointed and evaluated by the city. I suppose. So to the extent that this board is looking for ways to have more input in that process and have more control over the top executive, I think that's an important topic and I think maybe it's worth singling out outside of these Cortex policies.

>> Arn Andrews: Maybe we have another study session topic for April.

>> Matt Loesch: Hold open a second.

>> Just because I'm not as familiar is ahow this board operates, did I understand earlier that there was going to be sort of an extended meeting in April and May to have opportunities to receive presentations?

>> Matt Loesch: Well, the intention was, we talked a obit before in the last several months, whether or not we wanted a retreat to delve deeply into some topics, whether we could take action or just have them as educational presentations. And since the board was not flooding the e-mail box as far as guidance, I looked through what had been decided for the Police and Fire fund. And how they dealt with their retreat. And I was -- rather than having a full day I was thinking of breaking it up over two meetings. And just -- our board expressed look we're all here, since everything is done exactly the same way it would just be in a different day, maybe in a different place. Let's just extend our day when we're here and commit to that time as opposed to commit to another time. So we'll look at two board meetings instead of splitting it up oifer a day, do two days or a couple of hours.

>> Over the course of it wouldn't necessarily have to be limited to April and May I understand if you wanted to extend educational programs you could could this indefinitely. If I could suggest partly because oicial this is going to impact work we have to do condition Harvey is not here today and a lot of it impact hims. I'm eeption in this regard, if I could just suggest we've already heard some things that the board wants. You want a general fiduciary duties presentation, something we've done over and over again. You want fiduciary insurance presentations,

something we have done over and over again. And now it sounds like you might want a presentation on management and direction of staff, which we've probably given presentations in a similar realm not particularly the same, so it's probably a little more for us to chew on. So if perhaps could you leave some amount of discretion among the staff, and your consultants, as to when would be appropriate to bring these but with the understanding that they are things you want to hear, within the next couple meetings. If I might suggest, just because you know there's a lot coming down on us right now.

>> Arn Andrews: It sounds like you're advocating the latter topic be a May rather than April topic.

>> Jeffrey Rieger: It all depends on how long these are going to be.

>> Arn Andrews: I'm fine with that.

>> Matt Loesch: Seem fair? We'll shoot towards the May time frame on that one. But other than that, trying to get back to where we were. Stabling these topics for the chance that next month for these revisions to come through. Tom will you be available for the April meeting?

>> I believe so.

>> Matt Loesch: The 19th?

>> I'll double check my calendar. Don't have it with me right now.

>> Matt Loesch: Any other things we need to get into the -- I mean this is not as I said set in stone. It is quasi-set in stone, set in stone for now until we chisel something else out of it. My recommendation that once we get fairly close that we accept them and put them in place. And then get moving on them. There's evaluation periods put into every one of them. Once every year, I mean, these things will be continually evaluated to make sure they're effective.

>> Arn Andrews: Other than a few tweaks I thought it was very comprehensive, very thoughtful, a very good job with the ad hoc committee that was tasked with it.

>> Matt Loesch: Okay the committee is done tbhawt document is not.

>> Mr. Chairman just one point.

>> Matt Loesch: Pardon me?

>> Just one point if I may.

>> Matt Loesch: Yes.

>> It's got to do with the role of the investment committee.

>> Matt Loesch: Yes.

>> It was I think the ad hoc joint governance committee was actually like mind on several issues, one area where there was difference of opinions is with respect to the investment committee's role in manager selection. And I think the -- if I remember correctly, the Police and Fire board, appeared comfortable or approve the appointment of federated wanted to think about that further. And the draft you have in front of you clearly states that the investment committee may approve the appointment of investment managers, that's praiser 9 in the role of the investment committee. That doesn't need to be discussed today. I just wanted to draw that to your attention that that is one of the only issues that I thought there was some divergence --

>> Matt Loesch: The Federated board folks spoke of one mind and our recommendation was that presently, and this was -- and you know to say I presented this as my perspective, and neither Mr. Odell, Mr. Armstrong

disagreed, was that at this time, just because we're all kind of still getting used to this new structure, to maintain that the committee would make a recommendation to the board, and the board would make the final decision as to hiring. And that was the -- that's the current structure as we have going now. And if at such time we're more comfortable in their current setup that we want to delegate that authority to the investment committee but at present my understanding was that the Federated governance committee members were very cheer that our decision, recommendation to the board would be that it would stay as-is, that the investment committee make recommendation to the board for final approval, hiring or firing managers.

>> Then I apologize, I need to -- I would need to correct the language then in this current draft.

>> Matt Loesch: Okay, do you remember differently Mr.-- okay. And I mean we could ask the board now if you have a different opinion or if that jibes with what you're thinking. That was my current thought and that was the recommendation from the committee. Okay. Okay? Anything else Mr. Ianucci?

>> No, that's it.

>> Matt Loesch: Okay, so moving on to another day on those. Let's do this. Let's take a quick, ten minute recess so folks can replenish themselves and refresh with food over there and be back in about ten minutes. [Recess]

>> Matt Loesch: Okay, I would like to resume the meeting. On to the agenda for two reasons. One, the last meeting we had or the meeting before we had recommended that two people go and speak with the City Manager. That was Ms. Druyan and myself. And we did that, still to be scheduled, a second one I know we're would being on schedules to get those clears so the second meeting can happen. But it was really to address some of the short term issues and not to deal with any of the longer term issues on staffing and salary. So it's not of -- it might roll into some of the conversations that Mr. Rieger was talking about, about staffing and independence and how we're dealing with it. And administering the plan. My thought was, I know P and F guys are meeting with the City Manager on the current issues and they have a second one that's dealing with the longer term issues the ad hoc committee. And what I would like to do is, I would like to create an ad hoc

committee that deals with kind of the longer term issues and dealing with staffing so that we can get -- but have a kind of very short time frame, three to four months, for the -- this committee to -- life span would be fairly short with the idea that it comes back with recommendations to this board as to what structure we should be having here, to administer the plan. And what we should be doing around compensation if anything. So basically farm off all these conversations we keep having at the board level to the ad hoc committee, so it can come back with a representation to the board, it may be, go have a conversation with the City Manager, go have a conversation with the council, write a letter at board level, I'm not going to presuppose general practice are, again I don't want to presuppose what the governance -- what this ad hoc committee will come up with. But just the creation of it and to give it guidance and to kind of shorten the leash, that it's quick time frame not ad nauseam with clear guidance. That's kind of my thought around this. What are your thoughts?

>> Arn Andrews: I mean I think it sounded like a reasonable proposal. We do keep touching on a lot of different points that at the end of the day are going to have the same intersection which is, you know, are we going to be functional, are we going to be able to fulfill our capacity as fiduciaries as board members if we have no control over the governance and the structure, if there aren't any alternatives to that, what are ways we can leverage and utilize the existing system better to make sure that we are fulfilling our obligations. So I think to your point without trying to figure out away it would be, having a separate entity look at all these questions it's probably a good idea.

>> Matt Loesch: Okay, Mr. Armstrong.

>> Michael Armstrong: Are you thinking all staffing or more focused open investment staff?

>> Matt Loesch: I didn't necessarily qualify it in my thought. The board could certainly set that as a a qualifier. The way we kept on phrasing as the agenda setting meeting do we want that topic in there because it's been perpetually on there. I would like to have a committee dedicated to work on that to coordinate with Police and Fire to the extent tear doing similar things that we're interested in, it makes sense. We could work with some of Cortex's documents they were putting together as far as what that looked like because they have some governance stuff in there as far as what -- if it's looking at the CEO position or the -- that kind of thing. Work with

some documents or kind of put together on that. Whether it's just let's say the executive staff of that group or the line staff, it really wasn't contemplated, I didn't contemplate limiting it if you think it ought to be.

>> Maybe this one thought that I had and maybe it is expanding it more than you had thought but having served on a couple of subcommittees we had consultants or people like consultants to us who could provide us with best practices, benchmarks, references, here's how other people do it and I found that helpful in kind of organizing our thoughts and directions, wonder if something there like --

>> Matt Loesch: Do you think Cortex would be applicable? We just got to make sure the board buys off using Cortex in this circumstance.

>> Simple like at Cal APRS, people were sharing things like compensation for investment staff, I certainly wouldn't are known where they had success and what people you can attract.

>> Matt Loesch: My vision would be to schedule a meeting fairly quickly to sort of work on the scope, get our hands around the problem a little bit schedule out what the next couple of meetings would look like and who to involve and not hopefully schedule a meeting fairly quickly and schedule a regular meeting on the topic.

>> Lara Druyan: (inaudible) Cortex had and some of that was included in the letter to the City Manager.

>> Matt Loesch: We had asked in the communication that we had that the snerl City Manager was putting together a salary survey in addition to that one. That we could incorporate those that worked that Laura and I had been working on, getting that information in there, in that committee's hands to kind of work on and work on a recommendation from the board to act, not to act, that's why I didn't want to presuppose what the outcome would be. Making sure that the committee could utilize Cortex or utilize Reed Smith in their access to information and other plans and best practices and so forth. My understanding by the current rules even though the ones we didn't set up is that I could establish one. I didn't want one, I wanted the board to set the frames for the group and send

them off and know that they had to come back fairly quickly. It's not meant to be a six month expedition. So other stuff?

>> Stuart Odell: You know I think we should do it but I also, you said something about the Police and Fire board. Also working on this. It would seem to me, we would benefit from each other's viewpoints, et cetera. So I would suggest pain more of a joint --

>> Matt Loesch: Well to the extent that A they want to meet with us and B the issues that they are dealing with are applicable, I'm assuming they would be.

>> Stuart Odell: Aren't they the same issues?

>> Matt Loesch: I'm assuming they would be. I don't know exactly what scope their board put on their ad hoc committee to deal with it. And so I'd have to ask.

>> Mollie Dent: I tried to remember what that was for that committee. It seems to me their ad hoc committee was more on the short term solutions, if I recall correctly, you're shaking your head to Russell.

>> Russell Crosby: I think so too.

>> Arn Andrews: You have your reactionary mode which is trying to isolate your current vacancy, you trying to figure out a strategy for filling current vaibtses, and you have a proo active approach where you try to anticipate where current issues arise, you try to address them before you have current vacancies or whatever, and that starts to encompass the yeefl career ladder, do you have structures for mobility upward or dprks.

>> Matt Loesch: Some of the jean 60s is we don't want to be the sweeing wheel barking at the administration. We'll take an active role in providing some kind of guidance of where woo think it ought to be, rather than fix that. This is the reason why we kind of think, that's the reason I think this group could help the

board come out with a voice saying, instead of fill this, this is the problem, we've done some work on this and this is the research that gets us to and this is the work that gets us to this recommendation or request.

>> It's actually generated by the City Manager's response to our letter which really generated a short term solution that we can debate whether or not it was really a solution in termination of what our view was towards, say, median salaries and what they felt that they could do in terms of degrees of freedom. And then there's you know and then they absolutely said that is not the long term solution. So that -- I think that's part of why you end up with a -- with the response to the short term. But also, trying to have a path to fixing stuff that may be more structural in nature for lack of a better term.

>> Matt Loesch: Any results from legal?

>> Well, this does sort of intersect some of the things we were talking about a moment ago in terms of management. I certainly think it would be helpful to have a focus group focusing on these issues. As far as the message that it delivers, I mean I guess we would have to wait and see what it comes up with. But --

>> Matt Loesch: So --

>> Jeffrey Rieger: I'm sorry, go ahead.

>> Matt Loesch: Usually when I create ad hoc committees I don't usually ask other people to do it without doing some of it myself. I did contemplate who was going to be on there, I was going to suggest myself, Ms. Druyan, Mr. Overton and Mr. Dirks as an alternate and I would take a chair role as far as the ad hoc committee since I'm creating the work for folks. If that's something that is acceptable, I wanted to have the outside representation, plus, Mr. Overton had been in the organization for decades, might help short change some of our thoughts as well and get to the quicker end. Not eager to step in line necessarily but if that's acceptable to the board and to the folks I'm recommending --

>> Lara Druyan: That's fine.

>> Matt Loesch: I'm ep visioning a three or four month hopefully, report back. We might have intermediate reports as to status updates but that's kind of my hope.

>> Could we have access to Cortex or (inaudible).

>> Lara Druyan: I sure hope so.

>> Mollie Dent: Yes I mean there will be provision, there will be provision for Reed Smith to help you with that, if that's what the board wants.

>> Matt Loesch: That's another reason I wanted to bring it to the board as opposed to just create it, to make sure resources, interactor with Russell a I little bit.

>> Stuart Odell: Are those plan expenses we are able to take through the plan?

>> Mollie Dent: I think it's within the course of figuring out how you think the plan can be best administered million let them address that.

>> Jeffrey Rieger: Certainly and as far as establishment of the ad hoc committee, from our point of view as council, we respond to the questions we're asked. and if this board asks us to provide analysis on any particular subject, we'll provide it. And we'll provide it in appropriate format. Whether that be a presentation to the board or whether it be a letter, you know, in some cases, and privilege setting and in other cases in a public setting depending on the circumstances, litigation and things like that. But the ad hoc committee is just a vehicle. It's a question from board governance standpoint do you want a group of people that can focus on this and help formulate the questions to us and work with us to get it done. We could do the same thing just by responding to a

question that the board has on these subjects. You don't necessarily need an ad hoc committee for it but I agree that an ad hoc committee is a good idea.

>> Matt Loesch: Mr. Overton are you okay with participating in that one?

>> Edward Overton: Sure.

>> Matt Loesch: The committee will be to research and make a recommendation to the board. For future action on staffing and salaries.

>> Second.

>> Matt Loesch: Okay. Cortex has already helped you.

>> Matt Loesch: I believe so as well.

>> Arn Andrews: You can pull quite a bit from their role of the personnel committee the policy and strategy section.

>> Matt Loesch: Okay, so I'll add on to the motion before you accept it that the committee has access to Reed Smith and Cortex in this process.

>> And second with that addition.

>> Matt Loesch: Any other comments or questions? All those in favor? Opposed? Okay.

>> Edward Overton: Now -- trying a motion, next steps. We have a committee, next steps, who we wait for to communicate with Police and Fire do we set up a meeting?

>> Matt Loesch: This was my thought, since you've now appointed me chair of that committee. That within a two week period or so, we'd have our first meeting, fairly abruptly here. And I will I believe it's Mr. Sunzeri of the Police and Fire fund is the chair of that committee, I think I'm not certain. Otherwise I'll reach out to Mr. Kaldor to find out who's on that committee, see who is on that committee, what if anything they have done and see if we can piggyback on that, communicate to staff to Reed Smith and Cortex, how we can schedule. My hope is we would have a he meeting a week after and every two or three weeks. If we can piggyback on you already being here all the better. Is that fair? Okay. Agrees go on to 4.7.. Discuss and actions on rules and regulations for voluntary deductions for pension benefit payments. I believe this is for Ms. Busse.

>> Donna Busse: The council did approve for the ordinance to clarify the deductions for the retiree dues as subject to rules and regulations approved by the board. So what I brought forward is our rules and regulations for your approval. So for us to administer the third party deductions. I have met with the retirees association yesterday, a group of them on how to administer their dues changes. Because this comes all originated with the dues change from them. And so we're working that out. I don't think that's part of the rules and regulations on how we're going to administer their particular dues changes. But this is eligible guidelines for anybody that wants a third party deduction.

>> Matt Loesch: Sorry.

>> Donna Busse: I don't know if there's questions.

>> Matt Loesch: Questions?

>> Edward Overton: Yes, I had a brief discussion with Donna during the break. And my concerning is that the association may just end up worse-off than it is now. Because the default is that those people who do not return the authorization for $4 are cancelled as members. Now, and my question to legal is, is it possible to set up, after

a 90-day period of response or follow-up or so many follow-ups or whatever, that those people will be automatically enrolled for $4 unless they object?

>> Mollie Dent: Well, I guess the question in my mind -- I'm not sure what the current dues level is. Our problem is that we have -- we have authorization from members at a specific dollar amount dues level. If -- and if you're saying could we keep them at the previously authorized dues level?

>> Edward Overton: I hadn't said that. I mean that's one consideration. But my -- you know we've been going with this for two, three years. And my consider -- my issue is, we sent out information to people and the retirees, I'm retired. This is a whole lot of complacency for what is perceived to be junk mail. And I'm saying if we get back a substantial number of people saying yes, I will be okay with going to $4, and we have some stragglers, can we go ahead and make them $4 unless they come in and say hey, wait, I don't want to pay $4, this is 2 or nothing.

>> Jeffrey Rieger: Let me jump in here. No. If you have an existing authorization, and I don't know all the details in terms of the history and what's being proposed. But if you have an existing authorization for a deduction for a retirement check you can stick with that for however long it's valid. If you are planning on sticking that line, that's fine but requiring a higher deduction, that is the member's money you cannot do that.

>> Mollie Dent: I'll say I will just jump in one of the reasons that we're doing what we are doing is we actually do intend to have the new mailing that will go out, will be that they will pay the dues at whatever the association dues board as set. We're going to be asking them that, in the future. So that they don't have a specific dues amount. They can always cancel out of that at any time if they want to. But we are going to be -- and Reed Smith can work with staff on what the paperwork. But the goal was to have paper work that would make it clear to the member that their dues were going to float with the association board approval.

>> Jeffrey Rieger: And that would be a separate question that is not as easy to answer with one word. But clearly the members are going to have to authorize. Whatever authorization means the members are going to

have to authorize it. We're not going to be able to say, everybody else did it, you're not paying attention so we're not doing it for you, I would recommend against that.

>> Mollie Dent: And that's how this whole thing came up.

>> Edward Overton: Yes, so even if a person, even if the staff sends out something that says, you agree that you'll pay whatever dues the organization sets, the person says, yes, I agree. Then we can go ahead and set it up as $4 without a specific sign --

>> Jeffrey Rieger: I'm not really prepared to answer that one now. I've never analyzed that issue. I don't know if you could have a blanket authorization that gives a floating number. I really don't know the answer to that question. I thought the question you were asking before was just could you raise it based on nonresponsiveness.

>> Edward Overton: That was my question.

>> Jeffrey Rieger: That I think is a pretty clear no.

>> Edward Overton: But Mollie gave me an out.

>> Mollie Dent: I think it's fine for Reed Smith to look at the issue, that's great. What I wanted to raise with you was, what was being presented before was going to be the concept that we would only -- we want to keep all of the members at one rate, whatever that rate is. Administratively. And we don't want to be changing it all the time administratively. So the concept was that the members could change and they could cancel any time they want to. And I'm fine with you, with staff working with Reed Smith to make sure that it's a form that Reed Smith is comfortable with.

>> Edward Overton: Okay.

>> Donna Busse: And Ed in my meeting with the retirees association I did tell them that if it was a very small percentage of people who wanted to remain at $2 we probably could work with them. But it can't be the way it is now, or -- it's not even half and half right now. So because otherwise it's an individual deduction changes, we can't change it at the system level. We can work with them if it's a small percentage that has to remain, that wants to remain at $2 we could probably work with them.

>> Edward Overton: Well, this is being done in conjunction with cancellation of the advice notices.

>> Donna Busse: That's an opt-in. It's not automatic. They would have to opt in.

>> Edward Overton: One authorization does both things?

>> Donna Busse: No, separate, I'm envisioning separate check boxes for different issues. One of them is do you want to join? Because we're going to be sending it to everybody. So you might get more people.

>> Edward Overton: Okay. That's all the questions I have.

>> Matt Loesch: Okay any other comments or questions? So I'll guess I'll entertain a motion on the rules and regulations of voluntary deductions.

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: All those in favor? Opposed? Thank you. Item 4.8. Discussion and direction regarding anticipated pension reform ballot measure. There's nothing in the agenda, in the packet on it. At least in my packet.

>> Mollie Dent: I think it was agendized just to let the board members to know to the extent that they don't already, that the board -- that the council voted on putting a measure on the ballot on March -- I mean they -- the vote was -- last week, and there's a measure going on the ballot in June for pension reform. I think probably most of the board members have read about it but it's an opportunity to, if you have read about, the councilmembers here, can probably describe what happened at the council meeting open the ballot measure.

>> Arn Andrews: Do we have a copy of the final ballot measure ?

>> Matt Loesch: I don't think -- it was not in our packet, we can request --

>> Pete Constant: It could be distributed. There are a few things that could be distributed. I informed the Police and Fire board during their study session or retreat. One is the actual final ballot language. Because that went forward last Tuesday. There's been several different revisions. I think there's seven revisions or so out there. We make sure that we have the one that's passed by the city council, there's also the council motion was to put it on the ballot, and to immediately seek judicial review in the form of -- it's called a declaratory relief action before imposing issues of changed compensation or increased rates. In other words, if it passes, Tuesday evening on the 5th, hopefully, Wednesday morning we would go to superior court, file this declaratory relief action, and until we get word from a superior court judge, we would not implement the changes in compensation or contribution rates. So we really want to make sure that we have something that's legal. Before we go forward. Or confirmation that it's legal. Also, the city council released a publicly, a legal opinion from the city council's outside attorney who provided all the legal advice to the council in closed session on the deliberations of this. And I would suggest just for your information you have an opportunity to see that because it spells out a lot of the issues that surround the ballot measure. Other than that, we'll see you in June.

>> So do I understand that parts of the ballot measure would implement immediately but other parts would be subject to some sort of validation action, some declaratory relief act in court?

>> Pete Constant: Yes, there's a -- so there will be a couple of key things that you'll need to look at. One the council action which the minutes I don't think have been made public yet but if you go into the council agenda, there is a memorandum that was signed by the mayor, the Vice Mayor, me and a couple of other councilmembers, and there was a second memorandum issued by Councilmember Liccardo. And that deals with the declaratory relief area. Those two were combined into one motion and that's what the council passed on an 8-3 vote. I don't remember the exact wording so I don't want to say one way or another which ones are included there.

>> If I could just suggest, this board's the independent body of administering the benefits. Once they're granted, obviously it's the employer that grants the benefits. I think one of the rebbes this was on the agenda is to make sure that everybody here knows what's happening. That it's happening. In that context, I think your role here is to understand what's been passed, what it actually is, what's in it. To be able to educate your membership as to what's been passed, to be able to educate the public and the employer about the costs of what's been passed and some of the downstream effects of it. Because once you understand what's gone into place it might change a lot about your plan. It might change -- might even change your investment allocation, for example. The other thing you need to be aware of, is be prepared to implement whatever it is that you feed to implement when it comes down. And you can't do that unless you understand what it is and when it's going to come down. At the end of the day, these are -- this board's going too have to make decisions of, you know down the line, about how to implement this and about if there's challenges to it, how -- if and how you're going to participate in it. So I don't want to prejudge anything of that but I do think the information flow is very important. I would encourage this board, everybody to get copies of everything we just heard about. Whatever it is if there's public legal analysis, legal analysis that have been made public absolutely I any everybody should get those.

>> Mollie Dent: I think all of that was actually posted to the council agenda.

>> Pete Constant: It was. Everything was posted. All of it is on the clerk's Website. My request at the Police and Fire board is that there's a deliberate action by the board to make sure every single person on each board has those documents that it's disemnecessitated to the board so everybody has it.

>> Matt Loesch: Let's do this, make sure staff electronically e-mail out but also have them in our board packets next month so make sure that okay if you don't read the e-mail that went through we know that you've at least gotten a hard copy of what's moved forward. I could commit to moving this on to an an old agenda item or new agenda item, to make sure it keeps going, whatever costing we want to do going forward.

>> Mollie Dent: Could I ask the councilmember I'm sorry, there was one thing that was presented you had a mark up of just the title toft ballot or something.

>> Pete Constant: Yeah so --

>> Mollie Dent: Is it possible to get a copy of that? That's hard to see.

>> Pete Constant: Thanks for reminding me of that. I also made a motion to clean up the 75-word description of the ballot measure, the part that the voter will see, if they don't go to the part to see the full text. The actual full text of the ballot measure was not changed on the dais. But there were some grammatical and some punctuation put in to make it read better. So the clerk has that, as well. So we can make sure that that gets distributed.

>> Arn Andrews: And following up on the education discussion point, at the board we have been kind of tracking this conversation and as a board we didn't feel it was appropriate to really contemplate it until we knew there was definitive final ballot language. Now that there is definitive final ballot language in addition to disseminating to the board all of us know what the actual final language is, I would make a suggestion that we do direct legal counsel to also do a review of the ballot language and educate us and inform us if there's areas that we need to be concerned with from our fiduciary role. And then also, any other insights you might have.

>> Jeffrey Rieger: That's certainly something we can do. It will definitely be targeted at this board's role without passing any judgment on you know whether it's a good or bad idea. It's going to be what this board's role is.

>> Arn Andrews: And in the past when we've discussed it we have discussed it in the role of being singularly focused in our role as board members.

>> So in that regard, going back to governance and communication policy, and very specifically now that we know this is going to be on the ballot, if we are asked, what we think about this, what is our response? As individuals?

>> Arn Andrews: Ask Matt. [Laughter]

>> Matt Loesch: I don't -- you say you don't think? In this matter, the board has not made an opinion and so I don't think you should express it. If we have a discussion at the board level your discussion -- your opinion will become public, right? And because then we'll have that public discuss here and you can express your opinion as a board member here. I guess you'd have to look at legal, and say you as a citizen how do you -- because you are a citizen of San José, and you will be placing, I assume you're a registered voter, you get to vote one way or the other. Folks are asking you what do you think of this as a person. That's a different role and you're not speaking on behalf of the board or even really in your board role, I just think you feed to be clear about that, this isn't the board's opinion. This is my personal opinion. But you know to the extent that it's a media publication it should come to the board chair and the board chair's response is the board has taken no action on it. Board research.

>> Arn Andrews: In addition to having no opinion, I know on the city side there's very specific laws about balloting about campaigning and then you also have a role as an employee. So I'm wondering if there's also rules regarding campaigning and having a role as a board member and maybe that can be part of the educational process for us next month. What that line is and what we are and are not allowed to do.

>> Jeffrey Rieger: Well certainly you wouldn't spend any system assets on campaigning one way or the other. As far as each individual board member and having their own outside lives outside of this board -- is that what you're referring to?

>> Arn Andrews: Yes more.

>> Jeffrey Rieger: Certainly it's kind of in the broad range of conflict of interest, not necessarily financial conflict of interest.

>> Matt Loesch: If you are looking for an endorsement.

>> Arn Andrews: In your private life are you allowed to have an opinion? I guess I don't know the answer to that. I wonder if you could help us.

>> Jeffrey Rieger: I'll just -- very broad strokes don't take too much with this and run with it. But in general you don't lose your First Amendment rights because you sit on a board, okay? I mean for whatever that's worth if you have more specific questions and you start running into issues where -- I mean obviously you're a fiduciary to this board. You can't take actions that would be inconsistent with your douche duties to this board. That's of course the case but in terms of your views on public issues, and certainly you cabinet spend this system's money on them, but you're allowed to hold those views. You don't lose your free speech rights as an individual.

>> Matt Loesch: Mr. Constant.

>> Pete Constant: I would like to say the city has a policy in relation to the boards activities related to those duties. We also have a memorandum that gets circulated before every election that spells out dos and don'ts. I could suggest these items be forwarded to you, keeping in mind that that applies to your official time, not your personal time as was just mentioned. But I think it's really important that you understand where those lines are, because three can sometimes appear fuzzy, but the two different documents make them a lot more clear.

>> Jeffrey Rieger: And that is a good point. This board for example can promulgate regulations called inconsistent activities, where you decide there's certain things board members shouldn't be doing. I don't know if that's been promulgated here. I 19, there are -- that's why I said, don't take this too far and rub with it because

specific questions should be addressed to us. But in general I just want to say you do not lose your right to free speech.

>> Matt Loesch: Does that help Mr. Armstrong?

>> Michael Armstrong: I want to see the documents, okay?

>> Matt Loesch: Did you want to say something Carmen?

>> Carmen Racy-Choy: The ballot measure could potentially have a very significant impact on the actuarial value assumptions and may be potentially on the investment side as well. The Police and Fire board, at their retreat, asked Cheiron to look at whether they had enough information to actually come back to the board, and show -- discuss at least some of the implication of the ballot measure. And so Cheiron is basically looking at whether they have enough information at this stage. I could like to recommend to the board to consider asking Cheiron to come back to do a similar analysis for the Federated system whenever they have the information.

>> Arn Andrews: I would agree at some point we have to have an understanding of what a legacy system is going to look like. I know it's hard to determine what the demographics of the legacy system is going to look like but even if you could do an all opt in or all opt out scenario, just so you could get a band of what potential is, I do think we have to have some sense of the financial implications.

>> Carmen Racy-Choy: Implication.

>> Arn Andrews: Implication, yeah.

>> Matt Loesch: Thoughts?

>> What, in that regard, is there a document readily available that the city has to show us what their -- what the City's view of the anticipated changes, what the impact on expenses would be, and assumptions prohibited that?

>> Pete Constant: So another document that you may want to get is the City Manager's fiscal reform plan and that was a plan that was approved adopted by the city council and what that does is not just in retirement changes but in a number of issues that we've been tackling over the last year it gives ranges of estimated cost impacts. Because it's almost impossible to predict behavior so we don't know exactly where that will be. And the city council has made modifications to the ballot measure. So it may not be 100% accurate because some things have moved. But that will give you a good idea of the information that we relied on. And that's a public document that was approved by the city council. But I really think it's important that each person take the time to read the ballot measure. There's a lot of misinformation about what the ballot measure contains and what it doesn't contain. I don't want to give you my version of it because there's a lot of things in there, and I don't want to miss anything. I think it's really important that you take the opportunity to read that so you can ski what's really there and what's really not there.

>> Carmen Racy-Choy: I just want to add that the estimates of City Manager may have provided don't take into account that your actuary may potentially need to change your actuarial assumptions. This is really the critical information that you need to understand, and that potentially may shed some additional light on the matter. And so I'm not really sure what the City Manager did on their side to come up with the estimates. But I think the source of information that you have, which is your actuary, is the right source for, well, you know, basically, if the ballot measure goes through, what does this mean for the plan? And for the assumptions that they might be comfortable continuing with, or the ones they might have to change?

>> Carmen do you envision that being done before the election, that being completed or the work being done after the election?

>> Russell Crosby: There's a pretty big gap what the new plan might look like. Likely is not Cheiron is going to come back is a list of unknowns, they can do some potential costing around some elements but if whole picture

isn't going to be known until the new plans are negotiated with unions. So, you can only go so far with this process. Also in that same vein there will be substantial administrative aspects as well. We're going to have to modify pension goals. We're in the process of moving to a new administrative system anyway. There will be cost and time involved in modifying the administrative systems to account for whatever is happening overall with all of of these pieces. So it's really three pieces you want to see, one is from the actuary, one is from the staff and our outside vendor, pension gold, on what are the administrative impacts.

>> Arn Andrews: And our legal counsel.

>> Russell Crosby: And your legal counsel on what does all this mean.

>> Arn Andrews: I would say just from earlier council talked about meme education and member awareness, to the extent we have information that cine thinks they're cable of working with, before whroot language and that will probably require fine tuning, as things continue to evolve how those variables fall in and what the implications are either administratively,.

>> Actually if I can ask if you know, absent that validation measure is there another date certain? I mean?

>> Pete Constant: So not really. Because there's a couple of things that have to transpire first. The voters have to vote on the fifth. We'll have the validation measure that goes forward for items that aren't subject to the validation action, there have to be the implementing ordinances that have to be drafted and approved. And that process, as you know, but for the rest of the board there is a process that follows where the council has to take an initial action for the first reading, has to come back for a second reading, and then there's I believe the 30 day period before it actually goes into effect. Now, because of our sunshine rules, which give the advance notice for the first reading and also our policies on how things that affect the pension systems also come to two different retirement boards for review, that time line can be rather long. So what will not happen is, the pension measure pass on Tuesday, and implement on Wednesday. That will be the beginning of the process to implement. So -- and as you know, there's going to be a lot of questions. Someone mentioned here, we don't even know what the

new tier is going to be yet because the pension measure just creates the box from within the new benefit has to fit. That still has to be negotiated. We have the unknowns on how many people may opt-in or not, what the validation measure would be, what the IRS will say as far as the determination letter, all of those things. And I don't think we can give a time estimate on any of those. But it's likely to be months.

>> Jeffrey Rieger: So even the provisions that are not subject to this validation action, would take at least several months before they actually went operative.

>> Pete Constant: Exactly. There are issues we have to discuss as we draft those ordinances for lack of a better word the pipeline issues. What happens to applications that are in process? That haven't been acted on for whatever reason? Where is the effective date for certain classes of employees depending on applications, so there is a lot of work that needs to be done to sort it out. But not any of that work can be done until we know the ordinance passes.

>> Jeffrey Rieger: I don't know if this is news to anybody else, some of these issues are scary but they make your job easier the fact of the matter is that you know after it passes you're still going to have time to wrestle with some of these issues. So one of the things to think about now is how much of your time and money is worth dealing with this now, before it's passed? And I think there are elements to this that are worth dealing with now. Clearly, understanding what's in it. Educating your membership what's in it. That stuff of course should happen. But in terms of, I mean you're not going to start moving heaven and earth to implement the administrative changes before you even know what they are. But it's just very important to be on top of this just to know these things, just to know that it's going to be several months before anything goes into place and a court judgment and even after the court judgment there's going to have to be some provision for some administrative lag time. And then there's going to be ordinances I suppose.

>> Pete Constant: And then the ordinance issuing and as I mentioned the Police and Fire board it's highly unlikely that the city council would look to the administration, say this administration, and say we're sorry that your software administration system isn't going to handle it. Do it anyway. So we have to look at the practical

implications of can we do it, given where you're at? Now it's good to know know that those systems are being changed, and all that is happening. But the council is clearly aware that it would be foolish to say do it today when the software won't be ready for two weeks. So those are all timing issues that we need to work out, or two months or -- giving that as an example.

>> Russell Crosby: Lot longer than two months. Lead time on the software, you're nine months a year kind of time frame.

>> Pete Constant: And I just think that's really important that those are the issues I think that we need to have you guys talking about, the practical things so that it can all be worked into the implementation. And one of the things that's important to note when you get an opportunity to read the ballot measure is some of the changes like the changes in contribution rates, or pay, don't take effect to a date in the future, even if everything is validated. Say, the courts move swiftly and it's validated within 60 days, the contribution rate changes, or the pay changes don't take effect until June something of the following year. So there's a lot of steps that we have to go through.

>> Stuart Odell: Are there any items that, once the superior court rules on, would then be retroactive to the voters date, that we then have to go back and recalculate benefits back to June, even though we're now, time has gone on, it took the courts three months to make their decision, they make their decision, would it always be prospective or would there ever be anything that will look back to that June date?

>> Pete Constant: I will never say always or never, but we did contemplate those things and that's why the date for the contributions or compensation changes are in the future, to allow that time. Some of the other things, you know, there are items about the definition of disability, the standard that you'll be weighing against. How disabilities are determined, because there's a portion in there to have a legal board make those determinations instead of you. Those may come a lot faster than the other issues because they are more administrative in nature.

>> Arn Andrews: I think we should keep this as a standing item.

>> Matt Loesch: I agree.

>> Arn Andrews: And I think we should break this into three items, actuarial issues and legal issues so at any given point in time someone can opine on those given topics as you they come forward and voflt. It is going to be an iterative most just surfaced as part of a operationization of potential blool ballot language but I think we should keep it --

>> Matt Loesch: Okay, the one thing we haven't gotten clear direction of staff is the Cheiron work. Do we want Cheiron to go and opine whether they have the information, come back with opinions, as far as cost? I mean, what was -- how did you say that Cheiron worded for P and F?

>> Carmen Racy-Choy: Cheiron was going to do that for P and F, they were going to opine whether there was sufficient information for them to do work. At that point in time the further analysis or not.

>> Matt Loesch: Okay so not doing any calculations just evaluating whether they had information to do calculations.

>> Carmen Racy-Choy: Yes.

>> Arn Andrews: And I think that sounds reasonable because it does sound as if there will be time for more reliable calculations to be done as more pieces fall into place but in the interim it probably will be beneficial to hear what they think you know the variables are going to be and what is going to be needed for them to actually be able to do some type of viable calculation.

>> Matt Loesch: Okay, so wrap this up into a clear direction. So do we need a motion on this since it's direction, probable ought to.

>> Mollie Dent: I think that you --

>> Jeffrey Rieger: This was agendized only for discussion and direction.

>> Mollie Dent: I think you want to offer direction with respect to the Cheiron work because there have been issues with that before so I think your director would like there to be some direction from the board, to at least approach Cheiron on the issue.

>> Matt Loesch: Okay, so just I'll see if I can make a motion to direct staff to distribute the documents via e-mail that were listed here about the ballot initiative and the legal things. And all the documents have illustrated so write them down.

>> Arn Andrews: An the campaigning items.

>> Matt Loesch: And the policies around campaigning and the board and commission policies. Electronically, also to include them in our board packet, hard copy for next time. And to direct staff to coordinate with Cheiron, to evaluate whether they have information to do the calculations. Is there anything else?

>> Arn Andrews: And directly lead counsel to evaluate.

>> Matt Loesch: Reed Smith to come back.

>> I think what would be appropriate is just to -- if you want input from us, this is the first time that was on the agenda I believe because it just passed, this is just beginning discussions, I think it would be appropriate to have us come back to the board in April or may, with whatever input we think apples appropriate at this stage of the process.

>> Matt Loesch: Right. Great. Is that fair? Got it?

>> Uh-huh.

>> Matt Loesch: Second?

>> Arn Andrews: I second.

>> Matt Loesch: Any other comments or discussions on it? All those in favor? Aye, opposed. Okay.

>> Russell Crosby: Sorry, who was the second on that? Thanks.

>> Matt Loesch: 4.9. We don't have any documents in our discussion and direction because it said the blue sheet that we would have 4.9 we're not ready at the time of distribution.

>> Donna Busse: There was -- we anticipated we would have information but we did not have any information. The reason why we originally put this on the agenda is because we thought that we -- we were going to have to do a special open enrollment relatively quickly and then we would have information to give you as far as what that was going to all entail. But at this point I don't think the city has decided on whether or not there was going to be a new high deductible plan. Let me back up. The city was in discussions about implementing a new high deductible plan for the active employees which, in turn, would have to be offered to the retirees, which also affects the lowest cost plan subsidy that we pay out for all the retirees. So it would change everybody's suns did I for the whether they move to the high deductible plan or not. We have somebody from the OER as to whether they have an update but as far as now we have no information on when that will go into place.

>> Matt Loesch: So nothing has been received from council is there any update? You don't have to -- you could sit or stand, doesn't matter.

>> Good afternoon, Aracely Rodriguez from the office of employee relations. We have been in negotiation with the union. The last on-record proposal we made to the unions was for an April implementation date. Obviously that's not going to happen because we do have to allow for open enrollment and open implementation. So we are reevaluating the effective date of the high deductible plan and would consider enough time for an om enrollment and enough time for an implementation. So there is a no determination on the effective date of the high deductible plan.

>> Matt Loesch: So as of right now there really isn't even a high deductible plan in existence.

>> That's correct.

>> Matt Loesch: Okay. So --

>> Edward Overton: What are the salient points of the high deductible plan?

>> I'm sorry can you repeat the question?

>> Edward Overton: Do you have the parameters of the high deductible plan?

>> We do, we have that on our Website, we can forward those to the secretary so it can be distributed to the plan. We provided them benefit summary so we can certainly pass that along to all of you.

>> Matt Loesch: Again there's been no agreements yet, so it could be that plan or some variation of that plan.

>> Matt Loesch: Again there's been no agreements yet so it could be that plan or some variation of that.

>> Edward Overton: Well, if the train is coming I want to hear the whistle.

>> We'll make sure that it's forwarded to Russell so it can be distributed and that it's what we have proposed to date.

>> Edward Overton: Okay.

>> Matt Loesch: So as of right now there's no direction to do anything except wait. I don't think we need a motion. 4.10, discussion and action regarding the retirement board administration fiduciary insurance coverage terms and conditions, I'm going to move that we table this and defer it again until next meeting when we talk about it with Reed Smith. 4.11. Discussion and action on First Amendment to the agreement with Cheiron, Inc. for actuarial services, increasing total compensation to an amount not to exceed $550,000.

>> So in your agenda there is a memorandum explaining the additional increase that we need for the Cheiron agreement for the Federated system. It's mostly due to the transition cost, the switching over from GRS over to Cheiron. There's a lot of initial kind of pieces that need to go back that go into the additional line pieces as well as some of the ALM work which was done which are also under the additional services line. I'd be glad to answer any other questions you have on the memo.

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

>> Edward Overton: Move approval.

>> Matt Loesch: Can I guess a second? Two of those. All those in favor, opposed, thank you. 5.1 there's nothing. 5.2. Investment committee. Next meeting is March 28th. We have the meeting minutes from January 25th, 2012 in your packet. And we have item B, update from the chair of the investment committee, Ms. Druyan was present.

>> Lara Druyan: So since I attended part of the last investment meeting by phone I'm going to ask Marty to describe the meeting because he chaired in my place. But before we do that I just want to make the full board

aware of something that the investment committee's been doing. It's in -- it's all of course as part of that, and Matt has gone to some of the meetings so he's aware as well. But we've been meeting or trying to schedule various asset managers who have track records and are some of the best people in investment management in the country if not the world who do asset management for a variety of people ranging from superhigh net worth individuals to Abu Dhabi, Qatar, small endowments, et cetera. There are a range of these folks out there. And these are, some of them in the case of McKenna, are run by by people who used to run Stanford endowment, in the case of High Vista it's the form are head of finance at the Harvard business school. And the idea that we have been kicking around and evaluating is, not to outsource our plan -- our fund management but to effectively rent some of the best thinking in finance by putting some plan assets under management with these guys. They typically have access to fund we could never get into, frankly, they're closed, in terms of hedge or private equity and it's something we're evaluating, it's all part of the record and we just want to make you aware. Marty can describe the presentation we had from high vista, at our last committee meeting. But that's something both we and the P and F folks have been evaluating.

>> Martin Dirks: Yes, the first item we had in the vest committee meeting was the high vista presentation and both Lara and I have had AndrÈ Pareld as professors at Harvard business school. The edge that they get in their investing essentially comes from knowing and having access to some of the best managers out there. So either they were their students or they're part of the community that they've come to know very well. They don't use quantitative managers and they don't use -- well, they just use fundamental managers is the word I'm looking for. Where they believe they have an edge a sustainable edge they probably specialize in specific industries and where they can spot the trends and capitalize on those prior to the rest of the world really becoming aware of that. But that's the essence of what their investment edge is. They pay a lot of attention to risk control. AndrÈ was on the board of Harvard management company, the endowment for Harvard University for many, many years and so their approach is somewhat similar to Harvard management companies.

>> Lara Druyan: Yeah and I think for all of these, there are a range of them but in the case of AndrÈ Pareld and I think in the case of Chris Gatesey who will probably come in and present again, I think what some of these folks are really leaders in is how they think about risk and also how they think about return. I mean, they do something I

have yet to see reported by our -- the various consultants we have which is they actually go through and alpha. So they are very -- they won't pay for alpha when you're really getting beta. And I think that if you looked at some of the stuff that high vista had in terms of figuring out where returns really lie, it's very sophisticated and not something we have access to, given our budget constraints and so on.

>> Arn Andrews: And so is the thought when you say put a piece of assets and mainly you know give them a small piece, but by placing assets with them, you know, we get to kind of watch how they perceive the markets and how they perceive risk and watch how they put those assets to work and have it as kind of like an educational opportunity?

>> Lara Druyan: Absolutely. So in the case of --

>> Stuart Odell: So I don't think we've ever talked about this topic at the committee. So I think it's -- it's all about what we don't know yet at this point what the model would be.

>> Arn Andrews: Okay.

>> Lara Druyan: We are trying to educate the investment committee to by seeing a bunch of these -- you know the best people we can find and then come back to our boards with you know, recommendation then we do an RFP process et cetera. But part of that of course I think different firms work differently. McKenna's local, they have people from GIC or other places come sit in their offices you know, so it depends on the firm.

>> Martin Dirks: And there's a chance that you could take the best practices from several and have have something even better than what they have.

>> Arn Andrews: So it sounds exploratory.

>> Martin Dirks: Yes.

>> Matt Loesch: Okay.

>> Edward Overton: Again on the joint investment committee meetings. I think it's just a typo, on paragraph 2, second paragraph, second sentence, Dan Lebold has stated that NEPC has changed their their recommendation on NEPC from hold to neutral, the trustees felt comfortable with Sykes following the discussion. No action was taken. Should that be, recommendation on Sykes?

>> Correct.

>> Matt Loesch: So that was accepted by the committee and presented to us, as far as minutes, assuming it's not of grand nature that it's just a reference, whole rest of the paragraph is talking about Sykes.

>> Mollie Dent: You can take that corrected minutes to the committee.

>> Matt Loesch: Okay. Item 6.1, 2, 3 I'll note and file all those and 6.4 just as a note that trustee round table is again here on June 8th and apparently some folks you're involved in setting up with Sean Bill?

>> With Damon.

>> Matt Loesch: Some folks from our board are helping put together that.

>> Martin Dirks: Yes, we are putting together an agenda so if you have a speaker that you think would be good please let me know.

>> Matt Loesch: I think Mr. Dirks should speak. But future agenda items? Seeing none, public or retiree comments? None from the floor are jumping up. We're adjourned.