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>> Matt Loesch: Call to order please the June meeting for the Federated city employees retirement system. And under orders of the day. I have a couple things to move around and a couple quick simple edits. So what I would like to do is, under the movement category, I'd like to take item 4.2, and move that right after 3.1, right after the governance policies. Because we've got Cortex calling in and then we have a couple of calendar things. And then I would like to move item 3.3 back to after 4.5. So we go 4.3, 4.4, 4.5 and 3.3, so we have all the accounting stuff around each other. The simple edits, on 1.4 I, the word reciprocity should be listed there, and it is not. And then under 4.1B, on the agenda, instead of April 30th it should be May 31.

>> Pete Constant: Which number was that?

>> Matt Loesch: That was 4.1B, the flash report, the paper sitting on your desk with the date on the agenda is the wrong month. Okay? I'll entertain a motion. Anything else on the orders of the day.

>> Arn Andrews: I have one item, 1.9 A, I was unable to attend so I will reimburse the plan for those expenses and so it should say cancel under my name for that CalPERS round table.

>> Matt Loesch: Hold that under consent. Under orders of the day, anything else? Otherwise I'll entertain a motion under orders of the day.

>> Move approval.

>> Arn Andrews: Second.

>> Matt Loesch: All those in favor, opposed some okay. 1.1 through 1, 9, under 1.1A, we'll note that that one was cancelled, not attended. Entertain a motion.

>> Arn Andrews: Motion to approve.

>> Second.

>> Matt Loesch: Comments or questions? All those in favor, opposed, under item 2, death notifications. I'd like to request a moment of silence for those who have passed and have served the city. [Moment of silence.] Thank you. Item 3.1 discussion and action on governance policies developed by Cortex, Mr. Ianucci, are you on the phone?

>> Yes I am. Sorry, Mr. Chair, can I begin?

>> Matt Loesch: We're just getting the volume up on our end so we can hear you better.

>> Okay.

>> Matt Loesch: We've been chunking through three or four policies or charters, ad hoc governance committee for revisions. So in front of us we have the investment committee charter, the chief investment officer charter, the reporting and monitoring policy and the strategic planning policy. So I'll let Mr. Ianucci I'll let you carry the ball.

>> Thank you very much. Mr. Chair, members of the board staff and members of the public. For the record this is Tom Ianucci participating in the meeting by telephone, Cortex applied research. By way of background, this could be the second to the last batch of policies, there will be three more remaining after today. So hopefully those could be reviewed and approved by the board at hopefully the next meeting of the board. Moving into today's policies I'll begin with the investment committee charter. There have been a few changes, and additions made since the board last saw these. They simply reflect the other policies that have been approved by the board. We simply want to reflect as we go along all policies reflect previous policies and charters that were adopted. I'll just draw your teens to a few of the changes. One change, on page 1 paragraph 4, sub point C, this was actually a change that the Police and Fire board requested at its meeting this month so I thought I'd share that with you. It originally read that all actions of the investment committee shall be approved by the board, the P and F board suggested that instead it should read all material actions. They wanted to provide the opportunity that the board

could provide minor or less material issues. But the board did want to be informed of those actions nevertheless. So we've made changes to the P and F charter and to this one for your consideration as well. So I draw that to your attention. Paragraph 5, we added the investment structure --

>> Matt Loesch: Mr. Ianucci one moment, we have a question from one of the board members I think on that topic.

>> Arn Andrews: Right. When I was reading this I was just curious: Is material a defined term anywhere?

>> No, it's not. The TNF -- that was raised in TNF software so they could deal with that sort of on a case-by-case basis. But no, it's not. It's not defined so we don't have specific actions that would be deemed to be material or defined as material.

>> Matt Loesch: Seems a little shaky.

>> Lara Druyan: Without it, without defining a threshold, I don't know, I'm not counsel here but that seems unusual.

>> Um well we could revert to the original language and then think through how to -- you know, other specific -- again the original language read that all actions would be approved by the board unless otherwise provided herein. And at one point.

>> Matt Loesch: What type of actions did they have.

>> Arn Andrews: Perhaps we could take this back to the investment committee and bring this back as a defined term. I don't know if we could define it right now but the concept seemed concerning to me a sow so maybe we should come back.

>> Russell Crosby: The discussion was a change in guidelines in one manager's portfolio, why does that need to go all the way back up through board? Those are those kinds of, call it modest changes that come through.

>> Lara Druyan: Got it.

>> Russell Crosby: But I think the definition --

>> (inaudible)

>> Arn Andrews: Right, it's clearly part of the investment committee so every decision does not necessarily have to funnel back up to the board. But if we are going to define something as material I'd like to get some sense of what it is required to bring it back to the board.

>> Well, we could certainly take that back to the committee. The board could perhaps approve, if it's comfortable with the rest of the document, approve the charter without that change. So I would reverse the changes to paragraph 4C and once the committee has had a chance to define that more clearly, then the charter could come back with those changes. And that way, at least there is a committee charter in place.

>> Matt Loesch: That's fine. Let's keep going, we'll see if there's any other issues, and maybe that will be okay.

>> Okay, great. Next change just draw your attention in paragraph 5 we added the concept of the investment structure. As one of the policies that the committee would develop and recommend to the board. Because that is specifically noted in the version that is being considered. I thought those words incorporating it here. Paragraph 8, again, as well, because it's mentioned in the -- I thought it was a good provision so I thought it was included for your consideration in the investment committee's charter. That provision requires the committee to review from time to time staff-level procedures and criteria involved in manager due diligence. Paragraph 9 replaces the old 8 and 9 which are now struck out. It reflects the fact that the board has decided that the board would approve investment managers so that has all been captured in a single paragraph along with the other investment related

vendors. And paragraph 9 is also consistent with the policy on the rules on vendor selection which the board has already approved. A minor typo in paragraph 10, you'll see the word system was replaced by plan. We should not have done that, it should read system. So I'll correct that. Paragraph 11 is a more concise way of stating what's below that, that's all struck out. And indicates that the investment committee of the board would typically interview investment consultant finalists being recommended by staff but is not required to do so. Just -- I'm not sure of a way as I said restating what's below that paragraph. Paragraph 13 under human resources. This language has now revised, is consistent or reflects what's in the director's charter which the board has approved with one small change. The paragraph begins, "the director will advise." It should read, "will consult." That's what the director's charter says so I would correct that. And those are the only significant changes I believe for this document.

>> Matt Loesch: Any questions or comments from the board on the investment committee charter?

>> Stuart Odell: I just have one question. In paragraph 4, it says the investment committee shall keep minutes of the open session meetings. Does that mean that everything we do in closed session, we keep no record of what was said or discussed?

>> This was a change I think we've made across the various committee charters. At the request of general counsel. My understanding is you're not required to keep minutes of your closed session meetings. And if we did not specify in paragraph F open session meetings then your policy would require you to do that.

>> Stuart Odell: So as a matter of practicality, do we keep minutes to our closed session meetings?

>> Matt Loesch: No.

>> Stuart Odell: And is there a reason we don't?

>> Harvey Leiderman: If I may, when the board goes into closed session to consider an investment, a specific investment, then it has to do that. It keeps minutes, those minutes are not public minutes but they have to be

kept. The investment committee does not have the authority to make that decision. It can hold those discussions in closed session. But it need not have minutes of that. Only at the board level.

>> Stuart Odell: It may not -- we're not permitted to keep minutes?

>> Harvey Leiderman: You can if you wish but you're not required to.

>> Stuart Odell: Seems to me in all closed session we ought to be -- even though the meetings aren't public we should keep records what we discussed and what decisions were made there,

>> Harvey Leiderman: That's a decision that the board can make, if it wants to do that for administrative purposes.

>> Stuart Odell: I would just strike open session and just say we will keep minutes of our meetings.

>> Why would you not keep minutes?

>> Stuart Odell: That's sort of my question.

>> Harvey Leiderman: If that's the board's decision that's fine.

>> Stuart Odell: The open session is additional language that was added so somebody decide they'd that was appropriate that we only keep minutes of open sessions.

>> Matt Loesch: Do we need to note that we're required -- it's required under the Brown Act that we keep minutes, right? Where is the generation of the requirement for minutes?

>> Harvey Leiderman: The requirement's in the Brown Act. Okay? So from the investment committee standpoint, because the full -- I mean there are certain things you can go into closed session on. And the board can go into closed session to consider a specific investment. Or investment manager. As opposed to the broad asset, as an example oops can't go into closed session on that. If the board goes into closed session to consider a specific investment or investment manager it must keep minutes of that. It can be abbreviated minutes, not the same level of minutes you keep for open session meetings and the votes should be recorded if any votes are taken. It's not required to do that on the investment committee because the investment committee does not have the authority to bind the board at that point. It is going to be making recommendations to the board and so that will come to the board in a public session. So it's really up to the discretion of the board. The only thing you need to understand is that closed session minutes are generally not made public. And they need, other than recording the votes by roll call, they don't have to be in the same granularity if you will as open session minutes.

>> Lara Druyan: And Stuart, some of it is -- we had a couple of meetings ago we had a potential secondary that was, you know, under the radar screen and obviously the selling fund can't make that public, right? And so I do think for things that we would evaluate that are touchy for in terms of if they're not publicly known and can't be and we sign nondisclosures to do that, I don't see how we could do that in a session where we had the same standard. Not because we were doing anything untoward but we would never get an opportunity otherwise.

>> Stuart Odell: That is not relevant to my question. What I want is some documentation of what that closed session discussed and kept somewhere not open to the public but you know later open we go back and go, why do we pass on that when it came through? We have nothing in the record other than what you guys talked about in a closed room. So I'm not suggesting we disclose the information. I'm just suggesting we keep track of closed sessions in some manner.

>> Arn Andrews: Is there a best practice of abbreviated minutes versus no minutes?

>> Harvey Leiderman: Everybody is all over the board on that. Some are one liners that are just the vote, for example, topic A came up, a discussion was had. The votes was X. Others of them go on for page after page of

who said what and whose position and you know reads like a congressional report. So -- and then there's everything in between. It's really up to how you want to handle those from a governance standpoint.

>> Matt Loesch: Mr. Constant.

>> Pete Constant: I just put in for input that council does keep minutes of our closed session. They are kept 50 City Attorney. They're not made public but there are records so that when we have questions we can go back.

>> Matt Loesch: Sit required? Is it a standard requirement? Every single closed session has minutes, we're goods to choose to keep minutes on this session?

>> Pete Constant: For us it's a standard practice. We keep track of the votes and the topics. The attorney keeps it but it has the extra layer of attorney client privilege not just closed session I would assume.

>> Stuart Odell: I would recommend we take out the word "open session."

>> Matt Loesch: Any other thoughts about that?

>> Arn Andrews: I'm inclined to like some type of abbreviated record. I certainly understand the necessity to maintain confidentiality. Some type of brief record.

>> Matt Loesch: Those discussions of how they want it recorded. Strike an open session? Any other comments on the investment? I'll entertain a motion, I'll make the motion based on the changes that were made to items 4 C, striking the ads, striking 4 F, open session, on item 10 change plan to system. And item 13, change advise to consult.

>> That's right.

>> Matt Loesch: Can I get a second?

>> Arn Andrews: Second.

>> Matt Loesch: Any other comments or questions on that? All those in favor? Aye, opposed, okay. Next one Mr. Ianucci, chief role of the investment officer.

>> Okay, this document, there have been some minor changes since the board has last seen it. Minor typo, we have decided to call these documents charters. The title should be cheefntion charter. Paragraph 6, we deleted a bit of language there with reference to applicable agreements, city policies and procedures, we felt we had to recover in paragraph 3. Above. We thought we could streamline the paragraph 6 further by deleting that unnecessary language. And again the other changes are really very minor, and paragraph 8A, by adding the words, "or overseeing the execution of portfolio rebalancing" we thought was more accurate. The language in paragraph 3 we thought was not necessary, we think it's understood and that's bit. Do you have any questions?

>> Matt Loesch: Comments or questions from the board?

>> Stuart Odell: I don't have any comments to the additional changes you made. But on item 13D the cost effectiveness of the fund that the CIO will monitor that, is that language strong enough for us, are we comfortable that it covers everything with respect to expenses on the funds? So I just looked at it myself and sort of said well, it's pretty vague. Doesn't really suggest we monitor perform and compliance with risk, and things like that, we sort of open-end cost effectiveness. I just put it out there as a suggestion. If -- do we need perhaps something tighter.

>> Matt Loesch: Something like cost effectiveness and presenting to the board comparisons to other public, likewise or something like that?

>> Stuart Odell: There's certainly the absolute expense review or relative to peers or benchmark et cetera, giving us some level of comfort that the plan expenses are being appropriately monitored.

>> Just by way of background there's a similar provision or statement in the investment committee's charter, under reporting and monitoring . That would be paragraph 14 F. So although that does include the concept of portfolio transitions. But it's essentially similar language.

>> Stuart Odell: Right, yeah, similar comment there.

>> Matt Loesch: What we could do is prove it as is and have work done by Cortex.

>> Stuart Odell: I don't have a specific suggestion. I looked at it and said it's pretty vague.

>> Could I make a suggestion? We don't want to necessarily make the charter too specific. We could have a very short policy elsewhere that provides -- it is a fairly what that means and how one does it and to what depth so maybe a short policy that gives us a sense of what's expected, helpful, rather than a lot of detail in this document.

>> Stuart Odell: I think that's fine.

>> Matt Loesch: Any other thoughts or comments? So Mr. Ianucci would you work on that policy or do you want us to kick it to the investment policy so they can work on that?

>> Certainly.

>> Lara Druyan: Sounds good.

>> Matt Loesch: Early just make the motion here to keep it moving. The only change is the word charter put in the title so I'll make a motion to approve the role of the chief investment officer by adding the word charter into it and otherwise accept it as is.

>> Arn Andrews: Motion to approve.

>> Lara Druyan: Second.

>> Matt Loesch: All those in favor? Opposed. All right. Moving on.

>> Very few changes here regarding paragraph 14, item 14 in the table. Staff suggested we added additional language of 20 year combination evaluation report, which is combined page 10. Item 14 under the actuarial heading. It is a minor change. Turning the page to page 12, item 27, in the investment section, this was a -- you'll see the item derivatives update. This concept or this report was identified or the need for this report was identified and suggested, I believe at investment committee meeting. I thought I would incorporate into this policy. I think the committee suggested that quarterly report would be appropriate. Around we've given a short description of what would be in that report, including long short and net positions. I believe also on the topic of cost there's something here as well.

>> Lara Druyan: Yeah, I think it was item 30.

>> Item 30, that's correct. We could think through again what would the nature of that report look like. When we consider the cost policy.

>> Stuart Odell: I would actually suggest on item 30, the costs are beyond investment cost. This is an overall, should be a plan expenses across the plan not just investment expenses. So you've got all of your administration, all of your providers, all of those expenses need to be reviewed on an annual basis.

>> Okay.

>> Matt Loesch: Submit plan cost reports or -- use different words.

>> Stuart Odell: Annual expense review, something like that.

>> Okay if that's the case we would probably move it to -- not necessarily in the investment category but we would find an appropriate maybe put it under governance because it applies to the whole part.

>> Matt Loesch: Item 23 --

>> Stuart Odell: You may have a subset of that report that is just the expense ratios and talk about plan investment expenses. That may be appropriate as well. But somewhere I think you need to bring in the administrative cost and other providers.

>> Matt Loesch: Item 23, retirement plan experiences report.

>> Stuart Odell: No, that's the monthly flash report that we receive which tells us nothing. It's just a list of the expenses. It's not a -- an analysis of the expenses, are they reasonable. You know, how do they compare year over year.

>> Matt Loesch: My point, it could be placed there right next to it as an annual thing.

>> Stuart Odell: Oh yes, sorry.

>> Lara Druyan: Right.

>> Matt Loesch: But there are specific things here that are required for CAFR reporting right? Specific thing, that's the other thing under item 30, says there are specific things required in the that might not be board discussions I think that are required per the CAFR reporting. So whatever that is, if there's something we need to retain on item 30, unfortunately Veronica isn't here yet either a specification type of report that is not as thorough as you're -- specific type of report that is not as thush owe as you're.

>> Arn Andrews: Regulatory standpoint or legal standpoint you know either from the SEC you know in order to maintain our tax status? Which items actually have a mandatory-regulatory time line associated with it?

>> What we could do is considering that question, perhaps put a note in the far right column under the heading of reference.

>> Arn Andrews: Right, this is why policy, I would like to make it a little more robust and go one more step and say you know, is something required from an SEC standpoint, an IRS standpoint, you know so we know which of these items aren't discretionary for all intents and purposes, let's put it that way.

>> Right, very well, okay.

>> Matt Loesch: Any other comments or questions? Mr. Armstrong.

>> Michael Armstrong: Do any of the other reports report on risk, absolute and relative risks of our holds portfolio?

>> I apologize, I couldn't hear the question.

>> Matt Loesch: Do 80 any of the current policies include the concept of overall portfolio risk, is that the splidges?

>> Michael Armstrong: Right, I don't know if this is embedded into one of the existing reports or if this is something we need to look into.

>> No, current there is no specific report on risk. Unless it is covered on your quarterly investment compliance report.

>> Lara Druyan: Not really.

>> Michael Armstrong: Not really.

>> Stuart Odell: Unit the rule of the CIO item 7 risk management it says that the CIO will develop the risk management policies and make sure they comply and review them with the committee and the board annually. So it is not something that is requiring a regular risk report and it's identifying what kind of parameters we want to see osh it. So that might be a reasonability request.

>> I think it's to thely under that request category.

>> Matt Loesch: You have other type auditing things as well. Where would it be so it's all encompassing rather than just investment risk? Was that your vision?

>> My perspective was looking at the marketing credit risk. At a minimum sort of looking at marketing, counterparty exposures, stress testing our portfolio. So I guess in my mind probably investment committee is the logical place.

>> Matt Loesch: Any other thoughts about it? So --

>> Edward Overton: Can Meketa include some further statistics in our regular report when we do it up for more than annually.

>> Matt Loesch: I can ask them what capabilities they have and how we can include them if they want that. Unless you want to discuss it now, we can address it in the quarterly report.

>> Edward Overton: Yes, that's fine.

>> What we could also do is review eligibility reports. If what is on these reports don't currently exist, so the reared knows these are to be developed or under development. I will let the reader know these are not necessarily in place.

>> Matt Loesch: Item 33, follow a risk assessment.

>> Arn Andrews: Right and just parrot with item 7 in the CIO. It just says there will be a review to the board in a report format.

>> Matt Loesch: Put it annually and then item 7, of the CIO charter.

>> Okay.

>> Matt Loesch: Is that fair? And thin we could have the investment committee put on their agenda the discussion of that. Mr. Leiderman.

>> Harvey Leiderman: Maybe it was Mr. Overton, that we add investment risk analysis as well as operational risk analysis as well which would encompass things such as cash flow to the system and other -- and personnel issues and other such issues.

>> Matt Loesch: K okay.

>> Harvey Leiderman: Along the lines that you're most familiar I guess it used to be called a SAS 70 and now renumbered to something else.

>> Matt Loesch: Maybe unit administration and operations --

>> Harvey Leiderman: Have a separate Rick analysis.

>> Matt Loesch: So did you get that Mr. Ianucci?

>> Yes I did.

>> Matt Loesch: After I-30 we'll have an operational risk assessment.

>> Very well.

>> Matt Loesch: Annually sufficient? And maybe the recipients could be the audit committee, does that seem the right location?

>> Lara Druyan: Yes.

>> Matt Loesch: Followed by staff and consultants, probably pull in the auditors right? Any other comments or questions?

>> Harvey Leiderman: To address Mr. Druse' other question driven by the SEC for example, and the IRS requirements are sort of folded into the Goldman Sachs requirements. So that's what we would look to and then we would look at the outside auditor Macias, Gini to make sure those are covered in the outside audit.

>> Matt Loesch: Okay. So the monitoring reporting policy, the changes that were referenced here adding an operational risk assessment after item 13. Changing number 30 to an annual expense review rather than an expense report and adding in there a risk assessment report at the end after item 33, to pair it up with item 7 of the CIO charter. Does that seem like we got it all there? Okay I'll make a motion to approve the policy with those changes.

>> Second.

>> Matt Loesch: Comments or questions? All those in favor? Opposed? Moving on. Okay. So after 3.1, I pulled in item 4.2.

>> Harvey Leiderman: Did we miss strategic planning?

>> Lara Druyan: Yes, did we miss strategic planning?

>> Matt Loesch: Got lost in all the sheets. Strategic planning policies. Mr. Ianucci.

>> No changes made to this policy since the board has last seen it. Again it provides a basic approach for planning, I think it's quite flexible. There's not been any changes to date but I welcome suggestions to this policy as well.

>> Matt Loesch: Comments or questions from the board? Seeing none I'll entertain a motion open it.

>> Move to approve.

>> Edward Overton: Second.

>> Matt Loesch: Comments or questions? All in favor, opposed, now we're on to 4.2. Thank you, Mr. Ianucci.

>> Thank you, bye-bye.

>> Matt Loesch: Under item 4.2, shuffle through here. We have discussion and action regarding tier 2 and the Lowest cost health care plan. We have a memorandum from Mr. Gurza from the City Manager's office and the

attached documents that were sent to the city council. Did you want to just address it first and then have a discussion or how did you --

>> Alex Gurza: If I could, good morning, Alex Gurza deputy City Manager. So as the board may know, the city has been working on a second tier for new employees for quite a few years. And we wanted to provide information to the board as quickly as possible, that the city council has approved a new plan for new hires in the Federated retirement system. And we fully realize that one of the most important steps is an actual ordinance but we wanted to at least inform the board that it has been approved and we know there are a lot of administrative steps that have to be taken that I know the Department of Retirement services has been thinking about in terms of having a new employee in. Just a couple of points of clarification. When we originally were planning it we had hoped to have it effective for anybody hired into the Federated retirement system effective July 1st. We know because of a timing of whether the city council approved it and the need to have an ordinance, as I indicated in my memo we know now it's not possible. It is not something we can do retroactive, it is as soon as we can get the ordinance effective and the effective date of that ordinance. We are working on the ordinance and have made significant progress and we hope to provide it to the board early next week. And that way, can start reviewing that and one of the things that I would like to discuss with the board is how you would like to proceed in reviewing that ordinance, who, either the department, your consultants will review it. As I indicated in my memo we would be happy to have our actuary talk to your actuary. If there's any questions involved in terms of making sure things are clear or any other thing that would expedite that process. Because our goal is to go to the city council with the first reading of the ordinance in August. And then, very briefly, the other element is a new lower priced retiree -- not retire e, only retiree, a new lower priced health care plan that would be made available to retirees. That is not effective until January of 2013. So it will be made available as part of the open enrollment process in the fall. I did have a typographical error in my memo, I apologize for that. I was referring to contribution rates and I inadvertently said 12-13. I meant rates for 13-14, which would be rates you develop effective for the valuation date of June 30th of 2012. So with that I'd be happy to answer any questions or discuss how you would like to proceed in the review of the ordinance process.

>> Matt Loesch: Comments or questions of the board? I'll kick off the discussion if you'd like. Okay. What has staff done, anything about looking at the plan, I mean has it been sent over to Cheiron to look at and start costing? Has it been sent over to them? I assume that would be step 1, right?

>> Donna Busse: When we did the ballot measure we gave them analysis and they had a lot of questions until those things get answered through the ordinances there's nothing to send out.

>> Matt Loesch: So to the extent that -- so to say I did a side by side comparison this second tier it is a what it was in the ballot language I didn't do that. Is there anything differently that was in the ballot language that was in the tier 2?

>> Alex Gurza: To be clear I understand there are questions regarding the second tier versus the ballot language. Really you can set that aside, this can stand alone outside the ballot measure. The only connection to the ballot measure is the ballot measure sets max of what a second tier benefit would be. Just for your information the second tier that the council put in place is the maximum benefit that the ballot measure would allow. Even if the ballot measure didn't pass or isn't effective for any reason the second tier stands alone. The city has the authority to establish the second tier under a different ballot measure which is measure W which is over a year ago. So in terms of what can be sent to your actuary, there's a few documents that could already be sent and documents coming. One of those is the actual documents that I provided to the board, which is the council memo that articulates the second tier. The actual -- any of the versions of the last best and final offers that include the elements of the second tier. Mr. Bartel's costing which again if I didn't mention this to this board previously, we had to have our actuary do the cost but we fully realize it is this board and your actuary that will determine the rates. Then finally the next document that will be coming will be the actual ordinance which is the municipal code changes.

>> Matt Loesch: Okay. I just want to make sure we're talking about two different topics here. One is the tier 2 and the other is the lowest cost plan. Let's deal with tier 2 so we'll know what we're talking about.

>> Arn Andrews: On tier 2 Donna, there is a working group that is speaking about how it would function through the Department of Retirement services. There are currently efforts underway to identify how this would be operationalized?

>> Donna Busse: That's correct. On a working level we have been working with to administer the new hires but as far as the actuarial side we haven't done any further work on that.

>> Matt Loesch: So it sounds like we could approach this as the same way that we did with the ballot measure. This is now we have language and we'll have very soon have the ordinance language that the city is drafting that could be sent to Cheiron to say can you provide a -- are there questions here based open this stuff that still have voids that you need answers to? And to the extent there are those questions we can have those questions propagated through the system so they could be addressed, answered, because I think otherwise it is the same kind of approach. Make sure that we have all the answers to what we need to so they can calculate what the contribution rates would be, right? So --

>> Alex Gurza: Just a point of clarification. As you well know, the ordinance simply puts into place the terms of the second tier so I think Cheiron would have a lot of information by simply providing them the documents we already have.

>> Matt Loesch: That's what I'm saying. We already have these existing documents you can supply them to them and when the ordinance is drafted could supply them to them as well and see if there are any questions they have around calculating what the contribution rates would be. I'm trying to think, do we send it to Reed Smith to also look at -- to review make sure there's no hiccups in the ordinance writing as well that is going to cause us heartburn down the road. What other things am I nighing? Yes?

>> Harvey Leiderman: I think the most importantly piece of information Cheiron will need is the effective date. When is it going into place? Then they'll no when it is effective bring contribution.

>> Alex Gurza: We don't have an exact date right now but we can estimate pretty closely. Since we're not going to make it retroactive, it is on the effective date of the ordinance. It has to go to council on two readings then effective the 31st day after reading. We've done some calculations and we think that's going to be in September. And so again, we'll as we move forward we'll refine that date closer but we're -- our target date is September of 2012.

>> Edward Overton: Alex has there been an assessment of an estimate of the number of employees that would be in tier 2?

>> Alex Gurza: Well, you know it all depends, Mr. Overton, as you know in how many we hire. We actually the city is actually doing a lot of hiring right now. And we have several hundred vacancies that we are actively filling. So that's our reason to get this in place is so that we can start putting the employees in the lower-cost tier. So I don't have the exact number for you but about even in the first month it just all depends on our hiring cycle. But I think even in this next fiscal year you know we anticipate that dlo there could be several hundred already even in the first year in the second tier.

>> Edward Overton: Okay. I think probably there would need to be some assumptions about turnover rate and rehire rate and things of that nature. So from a budgetary standpoint, does the budget office have any assessment of --

>> Alex Gurza: Yeah, that's a good question. When we were looking at second tier one of the things that we fully realize is that savings of the second tier are very small at the beginning. Because we realize that it doesn't affect the unfunded liability that already exists at all. The savings is the difference between what we're paying now and normal cost and what we will be paying there so we've done some estimates but we again anticipate that the savings at the beginning are going to be small. And they'll grow over time. Because again, there is a lot of turnover, people retiring and all of that. So from a budgetary perspective we've been looking at that but from Cheiron's perspective,.

>> Edward Overton: That's what I was looking at from a budgetary perspective. We'll ask Cheiron about that.

>> Matt Loesch: The last best and finals that were presented to the bargaining units and send those over to both Reed Smith and Cheiron and see can a questions or comments come out of it. The additional thing I would like for both Reed Smith and Cheiron to answer is what if any effect on the existing plan, call it tier 1 folks existing members of this change. So we're going into it knowing what effects on Cheiron's calculations if anything and what other effects we might have.

>> So to be clear, if you're in tier 2 the entire population still will sit in our health trust? Correct?

>> Alex Gurza: Yes --

>> Everything well be commingled?

>> Alex Gurza: In retiree health care, the second tier is only for the pension side. So it doesn't really affect the retiree health care benefit or contributions. What's being put in place right now is omit second treer for pension benefits. I believe that answers your questions.

>> Matt Loesch: The retiree health care has not been changed. It's just modifying the new employees pension benefits. There is another part of the packet that's talking about the lowest cost plan, that is something we're going to talk about. Separate but similar. Separate but connected. Are we missing any other questions? I guess one thing we need to do is authorize, make sure both Reed Smith and/or cierp need to communicate with folks in the interim. Presently we're not scheduled to meet until the third week of August. Obviously waiting that long for any board action pending having to call a special meeting in July or something, is there anything we would need to do to provide authorization to anybody to act that we need to think about? Mr. Constant.

>> Pete Constant: Just a comment. What was discussed as far as direction to ask Reed Schmidt and Cheiron to figure out what questions they need to ask. You may want to consider asking them to actually cost it out, and if

there's any questions that they get those directly answered from retirement services and city administration so that when you come back you have --

>> Matt Loesch: I don't want generating -- I get it. Don't just generate questions. To the extent we can get them answered and get calculations that makes sense. That was what I was intending by what I was saying. Any other comments or questions? Why don't we do this as a motion just to make sure we're clear. We direct staff to provide the documents that are in this packet in the second tier to both Reed Smith and Cheiron and authorize them to interact with the city copying in through retirement services so we can come in in August with calculations of cost.

>> So moved.

>> Russell Crosby: And you also had a concern about the existing effect on --

>> Matt Loesch: Any comments on Reed Smith or Cheiron on the effects of tier 2 as it's proposed on the existing plan.

>> So moved.

>> Lara Druyan: Second.

>> Matt Loesch: Comments or questions ? All those in favor? Opposed? Okay. Let's talk about the lowest cost plan.

>> Alex Gurza: Yes, again, I know that there are many of you that are more recent to the board. So just for background and I apologize new already know all of this -- if you already know all of this our retire ehealth care benefit it is tied to our active employee health insurance. So -- and it is a pooled arrangement where the city goes out and seeks health insurance that is -- that gets us rates for both active employees and retireees in a blended rate environment. The actual retiree health care benefit, that eligible retirees received, is tied to the lowest cost

plan that are available to active most. And it is 100% of the lowest price plan. Whatever the lowest price plan is, the retiree receives the full premium for that lowest price plan. The retiree can choose among many options that are more expensive, and they simply pay the difference. It's very similar on the active side. The difference on the active side is that on the active side, the employees pay 15% of the premium of the lowest cost plan, on the retiree side, it is 100% of the premium. Clearly you can see the lowest price premium changes. And in the council memo I gave you it shows the dramatic increase in health care cost, not only San José, nationwide we've been seeing of what 100% of family coverage for example and how much it has grown. So the cost of retiree health care is completely tied to the premium. It's not fixed in any way. Many places that provide employee health care, a fixed amount, very typical, ours of somewhat different. For many years our lowest price plan was Kaiser with zero deductible for office visits. Now it's become very unusual to have that kind of plan. We have made changes to our plans in an effort to try to control costs, not only on the retiree side but on the active side. Over the past few years we've gone from the zero co-pay for the Kaiser plan to a $10 office visit plan to a plan that's $25 plan. That is just the office co-pay plan, there are other plans there. There are other charges that health care continues to escalate even as we adjust the plan design. So this is a next step and it is bigger than the step we've taken before which is to go modestly from the zero to ten to 25 to go what's referred to as a high deductible plan to offer that as part of our options that are going to be available to actives and to retirees. And so the plan premium was for even though we don't have it yet, was estimated to be, if we were to have had it in 2012, 24% less expensive than the plan we currently have. That, as I mentioned earlier, it's not going to be effective until January of 2013. And we don't have finalized rates on what exactly that will be. Because obviously every year health care costs continue to go up. We simply wanted to make sure the board was aware of it. For one fortunate reason, we wanted to provide it to you so that your actuary can take that into account, this change, when they do the retiree health care valuation. And so, even though it's not going to be effective until January, we wanted to make sure that we provided it to you, and then as your actuary goes through the retiree harem health care valuation, if they have any questions about the plan design itself we can provide that as soon as we have more updated rates. We don't have rates for not only that plan, for any of our plans yet finalized for 5013. We can provide that to you. And during the open enrollment process, as I intaited, active employees and retirees will be able to choose. And a retiree can still choose the other plans. Could still choose the $25 co-pay plan however they will have to pay the difference in the premium cost. Hopefully this provides the board with some background of what this action is.

>> Matt Loesch: I'd add a little more nuance. This conversation has been going on since 2008 and then 2010 and then now. Mr. Gurza and I have had many conversations about this both when I was in this position and prior. The one thing I continually emphasize because it's always mischaracterized in the press, it always bothers me, it is 100% almost gifted by half by the city and that's what the retiree health care contributions by the employee is supposed to be half of that as well. Granted you could look back and see how those contributions have been ramping up and so forth but the intent is it's half paid by the cities and half employee is picking up the other 50%, that's the intent. Now I'm not saying you mischaracterized it but it is one of the things that we get 100% of premium as sumsome gift. It's not, it's meant to be paid for that's why the increasing contributions. The other thing that's kind of been, I have questions on, how is in being dealt with, with the bargaining units, because lots of folks have been imposed on lately, last best and finals and so forth rather than a contract that's agreed to. One of the things that's an issue in the past is who sets the lowest cost plan is it the board or is it the city? What is the lowest cost plan, who declares what's the lowest cost plan? That's kind of going back and forth. Back in 2008 we asked the attorneys, what's the best plan, the city attorney's had a position and Russ Richeda had a different position. And because we -- and I begged and that's why I beg again to clarify the language a bit in the municipal code, that it provides a little bit of ambiguity, depending on what the status is of the negotiations. We have eight bargaining units Mr. Gurza, in Federated?

>> Alex Gurza: Nine.

>> Matt Loesch: If one group agreed to a plan that's much less cost does that affect all the Federated retirees? That's how the thing rolled out. I don't know the status of the agreement and how this is playing into the active employees.

>> Alex Gurza: If I could comment, I describe what the benefit is. How it's funded as you indicated is is very different than on if pension side. it is funded where the employees in the city, whatever contributions are needed the employees put in 50% of the contribution and the city puts in 50% of the contribution. And that's as you well know, we are facing in 13-14, going from a total of a 15% contribution rate, total, to 32% contribution rate. Just for

the retiree health care. I know you know that's stunning. It's stunning for the city and for employees. So part of that is the cost of the benefit. That is part of our plan to try to moderate, I use the word moderate the cost of retiree health care because it is the active employees and the city that it's funding that benefit so thank you for clarifying that. On your other point about the status of the low-price plan we actually don't think that there is much confusion. The lowest price plan can available to city employees is the one that has the lowest premium. We think that that is relatively simple. And the lowest priced plan is, almost always has been Kaiser. Doesn't necessarily mean it is but generally it has been for theest price plan. We don't think that's confusing at all. The issue Mr. available just to one employee, and I think you know, or the does it have to be many or how many does it have to be when it says available? So it doesn't say, it says available to active employees. In the case that you're asking, the city council did implement this for all of the bargaining units in Federated. So this isn't like this is an agreement or implementation only for one.

>> Matt Loesch: That was the issue before. Several groups had negotiated an agreement on health care costs or contribution rates and there was some head contracts that were spanning over that and so how does this play out? That was the stuff going on in 2008 and then in 2010 and that's the reason I want to get on the record the status of the agreements or lack of agreements whatever the case is. Depending on if a group has agreement, it is not effective for them so how does that come into play. So Mr. Leiderman.

>> Harvey Leiderman: Thank you, Mr. Chairman. I'd like on behalf of the board members and also the retirees make a point of clarification on language because it's very, very important. There's a lot of talk about lowest cost plan or lowest price plan. That's not what the municipal code sis. The code says the lowest premium that's offered in this case it's fairly obviously that the lowest cost plan is not a high deductible plan, okay? Because you can always lower your premiums by increasing your deductible. It is clear this new plan with the higher deductible will cost retirees overall out of pocket more. But it is the lowest premium plan, and that's what the code says. That's all we get to look at. We don't get to look am the overall cost to -- ultimate cost to the retiree. I could call up any -- I could call up Blue Cross right now and say I want a really low premium and they'll say fine, you pay the first $5,000 out of pocket, I'll give you a low premium. I mean there's no question that this is a cost-control issue for the city because the city is picking up 100% at this stage of the retiree premium. The lowest premium. So I really

would urge everyone to stop using the phrase, "lowest cost" as far as our retirees. It may actually be lowest cost for active members but it's really not the lowest cost for our retirees. And there's nothing really for this board to do. The fact of the matter is, as Mr. Gurza says, this is a new lower premium plan being offered to all Federated active employees. End of story. It is the lowest premium plan, that's what the municipal code says that our retirees get some the amount of subsidy of that premium. The rest of it is just chatter.

>> Edward Overton: That's a very good point you make Mr. Leiderman particularly with reference to the $5,000 out of pocket deductible or out of pocket cost for a retiree health -- retirees. My issue is, where does this stop? Where does the city have to say the out of pocket has to be $10,000 and we have a plan that puts that in place. The retirees are left dangling with no protection. There's no negotiations. There's no give-and-take. It's whatever is agreed to between the city and the bargaining groups. So people who have paid their whole working careers for this benefit could end up with nothing.

>> Alex Gurza: Mr. Overton if I could, unfortunately that's the challenge. It wasn't fully paid. There wasn't anywhere near the contributions necessary to fund this benefit. That's primarily why we're in the situation we're in and pay because we weren't adequately funding the benefit. It is a tremendous chal. It is tree challenge for retirees for active employees and for the city. We're doing our best to valuation. I think Mr. Chair mentioned jeez what other things could we do to control the cost of health care? This is just one step. As you might have seen from our estimates of what it does, it doesn't solve the problem of retiree health care an our unfunded liability. If there are ideas that the board has or any of your consultants of how we can control the cost of health care, we are open to any ideas that anybody might have or your experts may have how we can control our cost to make it affordable for the current workforce that is currently funding this benefit.

>> Stuart Odell: Just a related question. Are you planning to auto-enroll your behavior of getting your participant base.

>> Alex Gurza: Yeah, we're not -- we hadn't thought about that but we're not going to do that, we're not planning to do that at this point is auto-enroll. It is going to be an open-enrollment choice.

>> Stuart Odell: Something we're thinking about.

>> It's not clear to me, that when a retiree hits 65 then do they immediately go into Medicare? I mean what's the obligation of the plan?

>> Alex Gurza: Yeah, thank you, that's an excellent point. That's another element here we were trying to get clarified. The cost of retiree health care which is part of the point of your question, are highest in the premedicare years and since, in the case of Federated, retire as early as 35 or 30 years of service or earlier, if those premedicare years when the plan is paying out the full premium. When you become Medicare eligible, Medicare becomes primary so the cost of the he premium goes significantly down. And so it has been the practice to require retire tees sign up for Medicare, when they become Medicare eligible. But in the past there has been no consequence if somebody doesn't. And so part of what we're doing here is saying that a retiree must enroll in Medicare when they become eligible. And after certain notice they will become ineligible for the retiree health care because we really want to make sure that we have sign outed to reduce the costs to the plan.

>> Do we have a policy in which if someone is disabled they are required to apply for Social Security disability?

>> Alex Gurza: We are not -- we don't have any employees -- well Moss of our workforce is not in Social Security. So I don't think they'd be eligible but I'd defer to anybody else who could answer more definitively.

>> Edward Overton: That's basically true, Police and Fire in particular, most -- about 95% of them if not more don't have social.

>> Matt Loesch: What do we teed to do staff wise to administer this? Is there anything -- standard open enrollment, happening at the normal time. Is there any additional education around we would need to plan for?

>> Donna Busse: Obviously there would be education around it makes it enough time to communicate to all the retirees?

>> Matt Loesch: No extra mailing that you have to do, it's standard stuff ? Sounds like there's no action that we need to take on this.

>> Harvey Leiderman: Well the only action Mr. Chairmanman would be to apply the terms to Cheiron as to whether it would effect or could affect contribution rates for fiscal 2013-14. Sounds like the ff date is going to come right in the middle, January of 2013 about.

>> Alex Gurza: The plan will be effective so it's established -- we've established it but the effective days of January 2013. So what we're hoping is when Cheiron does the, July of 13, it will hopefully moderate this dramatic

increase, that employees in the city are facing somewhat. So that's the part that we really would appreciate Cheiron work on to see imha it does to those rates.

>> Harvey Leiderman: That would be action today to refer the matter to Cheiron for pricing purposes.

>> Matt Loesch: When do you think you'll have the pricing it self if Kaiser, when does it normally come in?

>> Alex Gurza: Right now they wouldn't have the prices for any of the plans. I think they start out with the premiums, Donna I think I'll turn it over to you.

>> Donna Busse: Our health care rates are January oorps calendar year and our fiscal year. But they always do have to -- it will be part of the regular OPEB evaluation, not a special record that has to get done. What we're trying to do or what the city was trying to do is get the plan approved before June 30th so Cheiron can include it in their 2012 valuation. Pop OPEB valuation.

>> Alex Gurza: We'll provide them co-pay plan for example, what the premium would be now and then I'm assuming that they make assumptions of what the rates increase will be the next year. And we're in the rate renewal process now anyway so we'll provide them with anything that they would needen or at a what they would normally get.

>> Russell Crosby: From an administrative and actuarial process standpoint, this is standard. This is exactly what happens every year, Happy Hollow goes out negotiates the deal, comes in tells us and we plant it with Cheiron during the valuing motion. Okay, any other comments or questions?

>> Arn Andrews: I'll go ahead and make a motion. Motion is to direct staff to provide Cheiron with the information related to tier 2 so they can work on generating contribution rates and to direct staff to provide all the relevant pricing information for the new lowest-cost plan to the plan's actuaries so they can use that is as part of their valuations for the 13-14 contribution rates.

>> Second.

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

>> Alex Gurza: Thank you very much.

>> Matt Loesch: Item 3.2, discussion and action on the city ordinance --

>> Edward Overton: Excuse me, Mr. Chairman. Did that include tier 2 ? Plp spl motion we've moved it twice. Item 3.2, discussion and action on city council ordinance regarding Federated city employees health care

trust issues and A, discussion and action on request for legal opinion of tax council. We have item from City Attorney Richard Doyle and Mr. Leiderman did you have something to kick it off with?

>> Harvey Leiderman: So the background of this, Mr. Chairman, members of the board, is the city has passed an ordinance, that would have the effect of moving employee contributions into the section 115 trust. Which does not have the same dollar limitations of the 401H trust that is in the system. We raised questions and had discussion about this both here and at the Police and Fire board. In terms of tax advise as to first of all, whether or not employee contributions can go into the 115 trust and second of all if they can go in, can they go on in a pretax basis as they have been in the 401H trust. Third, who bears the risk if we get wrong. With that we've requested Ice Miller long history of this in terms of trying to get information, trying to get the IRS to approve the whole 115 trust and the 401 (h) trust operation of the city. The IRS apparently has clammed up and refuses to give any direction on that. I think it was in February if I remember correctly, it was before we came on board, Ice Miller came back to this board and the Police and Fire board, and said, we're getting nowhere with the IRS. They want us to withdraw our request for them to bless these trusts and the use of employee money into it. The trust said we have no choice we'll withdraw that . There are significant issues and I think in fairness to employees, as well as appropriate for this board, because you are the trustees of the 115 trust and the 401 (h) trust and I certainly would not like you to be exposed to possible liability for taking money that doesn't belong into the trust. So we've gone back in to Ice Miller asking their gone back with them and refined yet. Preliminarily, observations from Ice Miller are, as you can imagine, first of all they feel confident that employee money can go into a 115 trust. Less confident because the IRS refuses to give current direction on the issue is whether or not it can go on a pretax basis as opposed to after tax basis. Third is, as with the 401H account, the IRS does not allow withdrawals. If you are a terminating member you can't get your contributions back out of the 401 (h) account but through some act of faith or something apparently the IRS allows us to make those refunds out of the pension trust assets. So if an employee has contributed to the 401 (h) account for medical care and decides to withdraw when they terminate, they're getting refunds sibdz it DNA from the pension assets, and the IRS apparently has said that's all right. So too, apparently, would they be willing to say it's okay to do the same thing with the 115 trust. The other question which we posed to them which is who bears the risk if we gt in wrong? Of course the risks is borne by the employee, if they take a pretax deduction, that is then disallowed by the IRS as a pretax and then the city supposed to take from that gross income. So we're in kind of a never never land. Ice Miller advises that they are

aware of many plans like this athat have faced the same issues. That some are willing to take those risks, and some are not. As they describe, some are more conservative and do not go forward without absolute certainty from the ires. Others are willing to go with the reasonableness on the private letter rulings from other pension plans. That have been this way in the past. But it is troubling that we can't get direction from the IRS on something which affects this plan and every other plan that has OPEB for medical care across the United States. And apparently we're not going to get direction on that unless Congress acts. So those are -- I mean those are just preliminary fiepgdz from them as to where we go. It just seems that we don't have a full -- as I understand it Mr. Constant being on the council would know. That the council said we want some confidence, that we are not getting into hot water with the IRS as well. So they are waiting with us for more definitive information on the subject and they have not put it into effect yet, as I understand it.

>> Pete Constant: That's correct.

>> Harvey Leiderman: So right now, no employee contributions are going into the 115 trust as of now. As I understand it, the city council said we're not going to do it until we are comfortable with the advice of tax counsel. So that's where we are. I don't know, I know an issue was raised at the Police and Fire board discussion of this two weeks ago as to, well, are the MOU that the have been negotiated between the city and its employees, what do they require? Do they require certainty on these issues? And I'm simply not aware of that. Maybe Mr. constant is. But I simply don't know. There is a difference between what this board's pokes is and we are consider as far as the certainty and whether the MOUs were negotiated over this subject allow us to proceed with some uncertainty. I just don't know the answer to that. But if anyone does we should get that information. Either from the city or from the bargaining units. The Federated bargaining units in this instance.

>> Matt Loesch: I don't know if anybody is in the audience to address that particular opinion. Let's keep that, yorn if anyone here wants to address that particular issue.

>> Harvey Leiderman: The other thing Mr. Chairman, in that regard we received yesterday and I think staff did as well, essential and overall compliance, Ice Miller put down where they were in the process of doing all this work. I don't know if staff is able to determine from these time lines that we received yet, on all the 401 (h) account, the 115 trusts and all the IRS compliance work that Ice Miller is doing -- you have? Okay. I'm sorry, I thought they came from staff but I may be wrong. In any event --

>> Russell Crosby: I think they were developed by Ice Miller.

>> Harvey Leiderman: Ice Miller, okay. Sintsdz it, Ice Miller is counsel to the Police and Fire board and also to the city oops some of the things they've done appears to be done for the city, some appears to be done for the two retirement plans. I can't tell which is which and who's paying for what. And so I would ask staff if staff is able to determine and perhaps later advise us.

>> Donna Busse: I thought you were talking about -- you're right Harvey we did get that. I thought you were talking about where the Ayers is. I have no item.

>> Russell Crosby: We have gone back to their memos to parse that and set acknowledge that isn't us. We could agenda a discussion about the apportionment of who's paying what for tax advice on these various issues that have come up with the IRS.

>> Lara Druyan: One item I remember from the last time we convened was whether or not Ice Miller is still representing us as counsel. And if that has been renewed.

>> Harvey Leiderman: We're in the process of that renewal. We've sent staff revision of the renewal Ice Miller contract that was reupped in February or March by this board. That is going back to them, right now our current contract expeers often June 30th. I home we're don't have circulate be taken care of with them very shortly.

>> Matt Loesch: And some of the issues that Reed Smith has direct access, Steph through the city attorney's office? Hmentd correct.

>> Matt Loesch: Has that been resolved?

>> Harvey Leiderman: I believe it's been resolved. We have confirming communications with the city attorney's office that resolves that issue.

>> Arn Andrews: The other thing with this conversation last time, we still have capacity to provide adequate time to try and figure out and the get a little more clarity on the legal front, right?

>> Harvey Leiderman: Yes. Cheiron's analysis of the 41 (h) account for both Police and Fire indicate that there are at least another year or 18 months before why bump up grches the sealing that the contributions come in, into the 4 scrun H.

>> Edward Overton: Mr. Leiderman has the city council actually acted to rescind the that the 115 trust? I looked at agendas and I saw where it was adopted but I have not seen where they stopped it or they actually officially said no, queer not going to go forward on this? Does the.

>> Pete Constant: No, the council has not rescinded and I don't believe there is any intention to rescind.

>> Edward Overton: Effective June 24th, beginning June 24th, 2012, employee deposits will be deposited in the employee health care trust.

>> The council certainty as to the tax status but the city April contributions will continue to be contributed to the trust.

>> 115 is waiting on tax advice to both city council and to us. We set of a notification from Mr. Gurs, that city council had delayed the implementation on the employee side of the contributions.

>> Edward Overton: But is it in their records? If it was on their agenda, was --

>> Matt Loesch: I would assume it would be part of the motion that happened, right?

>> Yes. If you many ice trying to figure out which month. But it was discussed and acted on at a city council meeting and after that is when Alex sent the letter explaining it and that's when we also said that Cheiron said we had the capacity to continue with the employee contributionss about.

>> Matt Loesch: 58 well could that have been the meeting?

>> Pete Constant: Most likely that's the meeting .

>> So why do we have any confidence things will be different in 18 months? What's happening that's going to --

>> Harvey Leiderman: I'm not sure it's an issue of -- what happens in 18 months, as the actuary projects, is that we will have topped off the tank in the 401 H account and can no longer put any more money into it. The ceiling is cumulatively, you can't put more than 25% in what you're paying in normal cost contributions into the pension fund. Can't put more than 25% of that into the 401H account. So we will have fold up if tank.

>> I guess my question is why do we think there will be resolves of the issues over that period of time?

>> I don't think there will be million I think what this board is going to be presented with as well as the city council is going to be presented with is whether to take a leap of of fight. The transfer this money pretax employee money into this account, knowing that it's possible that the national tax collector will say, can't do it on a pretax behaves? Or do we not do it? You know it's a lesser of evils. Do we need to get this money put away and growing to make sure we maximize the ability to fund the benefits we've promised and take the risk that the I later may come back and disallow for us and 600 other public funds in the United States, or do we say, no, we need certainty and we're not going to take that risk?

>> Stuart Odell: When you say disallow, don't you determine it's really just a matter of paying the taxes at that point?

>> Harvey Leiderman: Taxes, penalties and interest.

>> Stuart Odell: Do you think the IRS is going to come in there and penalize them at this point for this? Seems to me the real Rick is yeah we're getting a benefit of pitting pretax dollars away chances are if the IRS came in first of all they probably wouldn't look back, I would think they would look forward and say going forward this is disallowed generally. That's how we see the IRS act on these things. But secondly, aren't the participants better off regardless in the fact that they're putting capital aside to meet these obligations? Seems to me you know, at the end of the day, that that's really what's in their best interest.

>> Harvey Leiderman: Well, someone will make a judgment and you'll have the benefit of your tax council to weigh those issues with you. That may be. In terms of going backwards in time, the IRS is limited to three years.

>> Matt Loesch: So any other comments or questions?

>> Pete Constant: Just wanted to let you know I got a text confirming it was May 8th council meeting and it was item 3.3. So that's where you would refer back to for the council, whether you want to listen to the video, read the transcripts, or in the minutes, wherever you feel best. And then just -- it's the continuing problem we see in a lot of areas with the IRS in particular failing to take action. So you'll -- we as an organization, and through our legislators and through our advocacy we continue to put as much pressure as we can. These are things that could be fixed with a swipe of a pen by anyone who is authorized to do the private letter ruling by the secretary of the treasury or quite frankly Congress or the president could just fix this problem. And it's one of a few problems that the IRS has been holding back agencies from dealing with their problems.

>> Matt Loesch: Okay we have a discussion action item the request for legal opinion. We have already asked for that legal opinion. There isn't anything additional we need to ask for at this time. Gives us leverage to do something additional. At this time we'll just note and file.

>> Harvey Leiderman: That's correct.

>> Matt Loesch: I call a recess for ten minutes. [Recess]

>> Matt Loesch: Gave you lot more time. Moving around a little bit, I'd like to take the closed session items and shift them, to the end. Of all the other stuff but I'm actually going to put 4.7 the education presentation at the very end and do the closed sessions right before that so we'll do all the other stuff that's on the agenda, go into closed session and then come back in here for the education session for the end of the day. So I'm just going to take 3.4, 3.5, shove them to the end and put 4.sen education.

>> Arn Andrews: Motion to approve.

>> Matt Loesch: All in favor, opposed, splendid. I'd like to reopen 4.2 very quickly. Councilmember Constant asked me to he wanted to address a topic so I'm going to open up fop 2 for a second.

>> Pete Constant: Thank you, Mr. Chair. Now that retirees are going to have a high deductible plan I think it would be picial to ask the city osh explore on our own. What are the options for a health savings account, an HSA tight account for the members so they have an opportunity to have some pretax dollars to fund these increased medical costs. And I don't know, I wasn't involved in any of the discussions at the council level because of my conflict, financial conflict of interest but I think it's important that would be an important question this board might want to ask on behalf of its members so I just want to throw that out there.

>> Matt Loesch: I assume the question gets kicked to Reed Smith to see whether it's something we can do. Whether, quick answer, the board cannot create a health savings account for its members or we have to implore to the city. Would you allow the -- so I mean where does the question get directed?

>> Arn Andrews: My understanding and people should verify this, is that you have to have a certain threshold, before you're loud to pair a healed savings account with a certain type of policy. I've heard that the currently policy under consideration does not meet the ishes threshold but that should be verified and validated.

>> Edward Overton: And I always thought you have to be working to have an HSA. You have to have a job, you can't do it after employment. So maybe Mr. Leiderman you can check on that as well.

>> Harvey Leiderman: Mr. Chairman seems to me this is rightfully an issue for the employer who is setting up the high deductible plan not an expenditure for this board to explore.

>> Matt Loesch: Okay.

>> Harvey Leiderman: Not that I wouldn't love to have the opportunity. But I mean it really is an -- HSAs are usually paired with a high deductible plan as part of the design of that policeman that the employer offers. So if we want to use the bully pulpit of this board to suggest that to the city council, we can -- maybe we shouldn't do it through Pete, because Mr. Constant can't be involved in this. But I mean we certainly could send a communication to the City Manager's office and suggest that as part of their high deductible plan that they consider an HSA and whether or not it can be given not only to current employees but also to retirees. I don't really see that as a role of this board, though.

>> Matt Loesch: The role could be to ask.

>> Stuart Odell: I would suggest we sort of ask them why did they consider this. I would be curious as to whether this was discussed and taken into consideration at least. Because certainly, you know, having my experience at Intel and understanding how we set up our plans, we would obviously pair these together and try to maximize the amount of -- that our participants can get put away towards these -- towards these health care benefits.

>> Matt Loesch: Sure, we could ask whether Mr. Overton's feelings is true these 55 to 65, the premedicare retirees could could quite likely be employed somewhere else, be stiled employed and put the check they're receiving towards the HSA or not. I think if we could just ask Reed Smith to send the query over to the City Manager's office or would you like it to come from me?

>> Harvey Leiderman: I think it could come from the department or the chair.

>> Matt Loesch: The department's fine from me.

>> Harvey Leiderman: They don't need to hear from another lawyer.

>> Matt Loesch: Good point.

>> Arn Andrews: Yes just a communication inquiring if an HSA is a possibility under the current plan, and if it's not a possibility, whether that is an importance demonstration that was made or whether just a biproduct.

>> Matt Loesch: And if they could get back to us in August just what their thought was. Do I have a motion on this request?

>> Item 4.2, then we're closing on that. 3.3, update on the payroll audit and pensionable earnings issues. We are moving that, everybody keep me on track. Item 4.1 investments, we have A through F here. Presentation of the March 31, 2012 quarterly performance report from Meketa investment group and I'll juts open up item B as well, the presentation of investment performance flash report, and remember this should read May 31, 2012. So you add in your original packet, the performance report and the flash report that was received today. And we have Mr. McCourt from Meketa.

>> Thank you, and Laurel wie Rick from my office is on the phone as well. if it pleases the board what I thought I would do, given that it's now mid June, the March 31 performance data is somewhat stale and there's been a lot of changes in the global markets. I'm going to focus my time on the may 31st performance update which at this point be aware is unaudited and estimated. But gefs you a sense of kind of direction of things. More recently. But if anybody does have specific questions of any of the material within the March 31 report, obviously, feel free to ask questions. The first page of the May 31st report just shows the returns of various capital market indices

across the world. Separated by asset class. In an eerie sort of 2010 and 2011, growing concern about the solvent sich various countries within Europe, caused global markets to decline quite significantly. This year it was primarily driven by concern about the lack of capitalization in the banking system in Spain and also, elections in Greece, which caused some to believe that Greece had a higher probability of potentially leaving the wrowr euro very soon. That volatility and concern led to losses in all currency markets you saw here for the month of may, U.S. equity markets down 6 to 7% pretty broadly. Outside the U.S. losses were more severe in both developed and emerging world countries, markets were down roughly 11 to 12%. And as is often the case, when stocks go way down, because of fear in the global economy, bonds do relatively well, see some modest gains across Moss credit worthy bond sectors. Commodities were also sharply down for the month of May on inflationary fears broadly. Calendar year-to-date, U.S. markets through May were still modestly positive. International equity markets were slightly negative and fixed income assets were modestly positive as well. On Page 2, you see the distribution of assets across various asset classes, and related to your now current asset allocation targets. At the end of May, the fund was valued at $1,723,,000,000. Estimated through yesterday, we project that the plan is has gained roughly 2% during the month of June, so far, so the market value today is a little higher than that, probably 1.75,1.76. The fund is 2-thirds invested in equity and Real Estate that's higher than the target allocation of 45%. 16% invested in fixed income assets. That's higher than the target allocation of 10%. 13% invested in real assets, which is lower than target of 20%. And zero percent invested in absolute return strategies which is lower than the target of 25%. Obviously, this board recently approved the new target allocation, so there will be a prolonged period of implementation before all of the asset classes reach their long term targets reflected here. Estimated performance is shown on page 3. I'm I'll note that these are estimates at this point. These are not audited data and at least one of the active managers does not have preliminary data yet. So these numbers are subject to change by a few 10ths of a percent one way or the other as final performance numbers come in. The total performance was down 6.3% for the month of May driven by similar declines in both equities and real assets, as I mentioned before in those markets. That brings the calendar year-to-date return to slightly negative up negative 1.2%, in your fiscal year to date up 6.sen% as I mentioned our estimate is that the modest rebound this month has added 2.3% to these returns you can assume as of last night your plan was down roughly four and a half to 5% for the fiscal year to date period. You'll note that after the month of May the estimate is that the fund lost 2% more than its policy benchmark did. That is entirely a function of the way the policy benchmark is structured and the implementation process that will necessarily cause your returns for some period of time to be significantly higher or lower than that policy benchmark than it otherwise would be. For example, your policy benchmark has a 25% allocation to hedge funds for which the hire the managers and get engaged in hedge funds those assets are otherwise invested in bonds and stocks which behave very differently than hedge funds at times. So the degree of tracking to the policy benchmark is likely to be more significant, both on the upside and the down side over the coming months. There does not appear to be any issue with any of the active managers. The execution of the existing policies across the board appears sound at this point. And it's worth noting as well with the transition that presently about 50% of your fund is indexed and another 15% is in private market strategies, which aren't priced on a month to month basis. So the relative volatility of your portfolio of policy as opposed to active management outperformance or underperformance. Any questions on performance? Through May or any items in the March report?

>> Stuart Odell: Just one question on the policy benchmark and whether you think it makes sense for us to start kind of tracking more of a an interim policy benchmark which you know really represents the passive beta version of our current asset allocation excluding areas of the portfolio that take significant time to build out. So the private markets, for example, to the extent we're using public equities as a proxy for that at some point, do we want at least an interim benchmark that uses the public equities instead of the private equity for that portion such that we can quickly ascertain whether or not our active managers are adding any value and not the bigger bet that's in the portfolio which is while we're not at our target allocation everything we do looks like it's due to the fact that we're not at our policy target?

>> That's precisely correct and we do have a separate custom benchmark we put together using actual allocations the May reports not all the active returns are in yet. Through March you'll see the returns relative to that benchmark are at or above expectation.

>> Stuart Odell: Normally we have it in there just because it's a monthly flash you weren't able to include it?

>> That's right.

>> And second factor is since we have zero allocation to hedge funds and we can't just do that instantly, but the benchmark has a 25% allocation to hedge funds it's very difficult to know whether you're adding value. The difference between benchmark and the actual isn't due to manager selection or whatever. It's due to the fact that

the asset allocation as implemented is quite different. Is there an easy way you could give us a real benchmark to compare to?

>> Farther of that is what I was referring to we do have a separate benchmark. But we'll work with staff to kind of refine that for you in the future so you get a kind crisp picture of what versus the implementation process.

>> Thank you.

>> Arn Andrews: Brad because on the surface looking at the calendar year-to-date numbers we're overweighted 25 basis points in global equity with a heavy weighting on the domestic side. And I see across the board those numbers are up. We have a slight overweighting on fixed income, calendar year-to-date those numbers are up. We're completely underweight in the real asset category. And yet, our calendar year-to-date return for total fund is down so something just seems incongruous there.

>> Carmen Racy-Choy: The column there infrastructure we're gaining exposure to infrastructure beta through a swap, as well as additional commodity beta through a swap. And those two exposures are not in the number. If you include that in the numbers, you quill be overallocated to fixed income, to equity, to real assets by the amount of 25%, which is the hedge fund allocation. And that's really the only main thing in where we don't have the appropriate exposure. So you really are overallocated to real assets, to fixed income and to equities. Rather than the 25% allocation to hedge funds.

>> Arn Andrews: Right and I understood on the fixed income and on the globalleth side. But just looking at this report it looks like we're underweighted real assets but you're saying this is not taking these swaps into account.

>> Carmen Racy-Choy: That's right, correct.

>> Arn Andrews: Why those are up calendar year-to-date are somehow being dmshed by those swaps , fairly dint, okay.

>> Carmen Racy-Choy: Yes.

>> Stuart Odell: So we probably should embed the swaps, am I right?

>> Arn Andrews: That would be my next request, yes.

>> Lara Druyan: So Steve, I have a question. It's not on the flash report but on the quarterly review on page 7. If I look at you know sort of year-to-date performance we're at .8 and the master fund public trust for funds greater than a billion is at 3%.

>> Matt Loesch: Page 16 --

>> Lara Druyan: Sorry, I'm looking at plan number.

>> We do our best to confuse.

>> Lara Druyan: It's not you, operator error. So while we're hitting our -- sort of exceeding the custom benchmark per Mr. Odell's point earlier, where we're really behind the median of where I would assume sort of similarly situated plan. Can you describe what that difference is for all of us?

>> Yes, two very kind of straightforward structural differences between your policies over the last year and the average policies of the average public plan. One is, significantly higher allocation to stocks outside the U.S. And significant higher allocation to commodities. And in the environment that we've been in, this has been a -- over the last 11, 12 months now an environment where the types of assets that have done well are U.S. dollar denominated stocks and bonds. So my guess is, there will be other years where youto those policy differences work in your favor but this particular year because of the environment they work against you relative to public funds.

>> We have a bet on world economy if the world goes well, we do well?

>> If the dollar declines you do revolt well compared to peers. if the global economy is volatile fear drives people into U.S. treasuries likely do somewhat worse than average.

>> Stuart Odell: Until we get the hedge fund program built out hopefully.

>> That's right.

>> Stuart Odell: Is it also our fixed income generally relatively to this peer group sliement below their fixed income?

>> It is.

>> Matt Loesch: Any other questions? Maybe this is the first time I've noticed this. It seems like in the quarterly report several of the performance managers, manager performance things are not included here. Like the private debt. Is that typical you're not reporting on that?

>> You'll get the May report.

>> Matt Loesch: The quarterly report. There's no performance reporting on white only and then I didn't Sy see any of the private equity reporting either.

>> Sorry, we do have a separate private markets report which we brought to the last investment committee meeting which we can provide to you as well, it just wasn't on the agenda today.

>> Matt Loesch: But isn't it typically included, isn't reporting typically included within the quarterly report?

>> The return are included in the aggregate but in order to look at the individual managers we break that out to give more detail in the private markets report.

>> Matt Loesch: Got I. I guess I was -- I'm not on the evaluate committee. This is my shot looking at the entirety, I'd like to I have it -- everything included in there, are the private debt things in that report as well?

>> Yes.

>> Matt Loesch: So they're not included here, okay.

>> They are included as a composite but not broken out as individual managers just like private equity or real estate.

>> Matt Loesch: Okay. I guess I would personally request that they're all included for one whole report for the whole fund. I don't know what everybody is thinking about. That seems -- ltd I think that would be helpful.

>> Matt Loesch: If we can embed those? Is there a reason why you don't embed them, trying to understand if there's --

>> No, there's not, we usually don't.

>> Matt Loesch: So I'll ask that the report gets forwarded to the full board, the private market ones but then moving forward when we get the June numbers if we could get all of them included in the same document. Questions from the board? Comments?

>> Edward Overton: On page 32 of 49, it appears -- it didn't appear. We underperformed the median in every category except ten years. Do we have any specifics as to how far underperform it is, what percentile we would actually fall in?

>> You can get pretty precise just by looking at the diamonds and where they fall on that. For the configuration quarter, our fund was up 6.7%. You are in the third quartile. It's roughly 65 or 70th percentile. For the fiscal year to date and the trailing 12 months, returns are roughly 90 to 95th percentile so you're in the bottom quartile for those periods. For the fifth year 75th to 80th% I'm. And of course acknowledge the recent underperformance drives the longer term more moderate underperformance there. For the five year period you're at your roughly 60th percentile.

>> Edward Overton: Is there anything specific that can be attributed to the poor performance across the -- is it one period moving on with this?

>> It is just attributed to significantly higher allocations than the average public fund in this yurves, related to foreign securities and commodities.

>> Edward Overton: Okay.

>> Matt Loesch: How much more allocated to the foreign equities are we than your typical client?

>> If you don't mind I could speak to the pier universe.

>> Let me kind of speak relative to our typical clients. One of the significant differences is, your public equities are structured relative to the global equity market. So you're neutral to the global markets on a capitalization basis. And roughly speaking, the global equity markets are in the neighborhood of one half U.S. and one half foreign. These days, slightly less U.S. And so you probably have, given that, about twice the weight in foreign stocks, than Meketa's average client. Though, that being said, I think most of our clients and we certainly see this in the peer universe numbers, are trending more in your direction. So so your weight is higher but a lot of others are moving in that direction .

>> Are you referring to the average allocation or current allocation or current allocation as implemented since we have 25% spread over other categories? We've got a lot of moving parts.

>> You do have a lot of moving parts. Your equity allocation now is somewhat high, that Hans equity markets have been at times a negative. Within your equity allocation, whether you're including the swaps or not, you have a higher proportion of foreign stocks than you have stocks in the average plan and that's really what's driving relative performance here. And it's really the last 12 months that explain the deviations over longer time periods as well, because the 12 month difference is three to four percentage points which has a meaningful impact on returns even if you turn it out over three or five years. So it's the cost of looking different. It's not wrong, it's not right. It's just you know a different philosophy. And as you stated before, if the global economy rebounds and growth accelerates, you could expect this allocation relative to others to make up that ground just as quickly. So I wouldn't be concerned about the relative performance over one-year period of the strategy. I believe the strategy was developed in the context of a sort of 20 to 30-year return expectation. Given the fact it's different than others, it's not surprising that in any given year your return will differ by this level of magnitude. Some years it will differ negatively like this year, some years it will differ positively.

>> Matt Loesch: That's the problem, we're on a timing bet if you call it a bet of timing this way, being about 2% below our peers at this time, I mean it's a bunch of money . 2% of that much money is $36 million.

>> Stuart Odell: We're going to have to live with that for a long time. I think you have to, if you're not comfortable looking different than your peers, then let's not do that. I mean, at the end of the day, we can look like our peers, and have perfect tracking to -- we can come in at the median of the peer group all the time and all we have to do is mirror what they're doing. But it will take a long time before we can, you know, show sort of our total performance and total risk relative to peers. You've got to look over long market cycles to get -- take something meaningful out of that. So I think if this is going to constantly be a topic of concern, of looking at short term performance relative to peers and say hey we're underperforming and why, then we ought to get this out here as a trustee discussion. Because fundamentally we're going to have our asset allocation structure.

>> Arn Andrews: And for me personally, I wouldn't characterize my -- my questions are more about concern than understanding the magnitude of moves and how the numbers are going to be driven you know, and just understanding where the volatility is and where the momentum is in the various parts. You know, because I heard you speak at one point and I thought you said that you know for the most part, your clients have about a 50% weighting in U.S. dmesks and in ours we're about 45%. When you talk about a differentiation between us and other clients, can you help me understand a little more that differentiation? Because I'm seeing that we have currently about 45% of our global equity in domestic equities. And so unless I didn't hear you correctly, it doesn't sound like we're that far off from our peers.

>> Yes, that's -- that's incorrect. I would say our average client has between two-thirds and three quarters of their global equities. Where you have 45%.

>> Matt Loesch: I thought glm most other plans are not. Most other plans have a bias towards U.S. stocks relative to the opportunity set.

>> Matt Loesch: So I guess if I could address Mr. Odell's comments. I think to say that uncomfortable? I think the global approach as presented over the past seems a very logical approach seems the way the markets themselves are going. Obviously the timing right now is not great. But how this gets reported out, the reason why I'm going to comment on it almost every time is because it's going to be addressed and reported out. The plan is performing poorly. Why is that? We need to have that discussion on the record. If it's presented that the plan is supposed to make 7.5% and when the report goes to womb ever making much less than that , then it's used as some kind of things aren't performing well it's going to hit the city hard, those conversations do come out of these presentations every time. And so we just need to have that continual reminder that the reason why our plan is

different that over a long period of time we might underperform at this but the hope is that we have much less risk overall. I mean that -- so unfortunately I think it does need to be reiterated because, if you're going to be different, the reasons why need to be -- people need to be reminded, is that fair?

>> Stuart Odell: Yes, no, absolutely. I have no problem using the peer group analysis to set a framework for the discussion of why our plan behaves the way it does. Because it does put that in perspective for our -- you know participants to understand, okay, why did CalPERS earn this and we earn this? Well, their structure is fundamentally different than ours for the following reasons. But where I start to get a little bit more nervous is when I hear blanket comments of why are we doing so poorly? And that doesn't necessarily -- isn't the case. It is why are we performing different than our peers? And/or worse? But I think that that's the more appropriate context particularly in the short run. You know, over the long run I think we all have to hit our long term return objectives, or we're trying to. And there I think you can start to ask those questions of, you know, are we underperforming what we're trying to hit. But in short run, I think it's more useful to put this in the context of, why do we look different than our peers? Why is our performance different and or worse? these are very short periods of time that we're talking about here and a one year performance will affect the five year numbers and drag down you know in this case we underperformed over the last 12 months. And so our five year number looks like we're a third quartile. Okay? That isn't representative of necessarily how the portfolio was positioned four years ago, three years ago, two years ago. It's really just a reflection of what happened in 12 months, in our positioning of the portfolio relative to our peers.

>> Matt Loesch: Because the thing I'm going to drag out of this is once we're actually in a position to start allocating the hedge fund part in relation to the piece that's the communication piece that's in the agenda, the South Carolina example, is just we need to explain because hedge funds have this thought about them, this cloud about them that there's this big risk, they're very risky. So we're going to have to communicate the risk of, what each one of these pieces going to do for us. This is the intention of what it's doing for the portfolio. So it seems like it's going to be this drudgery. I think it's going to be clear and put it on the record what is this piece as we fit it in and what we hope it to do for the portfolio and we watch its performance. Only other question I have coming out of that is Mr. Constant does report this to the city council at his monthly meetings. Because he has a report-out to the city council after these, that when you do report these things out and these numbers come out I think this could be part of the flavor. Because I want to educate people the whole, just as Mr. Odell said how we're looking

at this. This snapshot more longer term and how queer moving the portfolio so we're all kind of looking at it from the same perspective. I would appreciate that kind of thought as well.

>> And that whether or not this are a sense of complacency, in periods where we're overperforming, we shouldn't think of things going fantastically well. No, we need to damper that. One of the things I'm also wondering though, are we going to yet again be looking at changing our assumed rates of rush? Is that going to be a topic for conversation sometime in the next X number of months?

>> Matt Loesch: Well, we review our assumptions before three go to the actuary. Usually in November time frame. Before they complete the evaluations. Has not the only one just the major one that gets measured.

>> And the way I view the overallocation those markets are growing faster. If at some period those markets grow 5% cps basically will be 5% better. So that's the good side of it. The bad side of it the market goes up in a period or down in a period those markets move more. So we're going to look great in some periods where the global markets go up generally and longer term doesn't have to be that many years we should do much better but we have that bet and that volatility better than our portfolio and hopefully all the constituents understand that bet.

>> And I would describe it just kind of briefly as this strategy has a higher probability of achieving the longer rate of return that you require but also it's more likely to have negative returns over short periods of time.

>> Martin Dirks: Or higher it would be higher beta that we would use.

>> Edward Overton: We do get this information quarterly and I realize that certainly one quarter two quarter four quarters can have a major impact on performance even five years out. And the same is true with good performance. These numbers could look great. But I think my members, the people I represent, look at this around say what are you doing? And we need to be able to articulate what's happening in the performance otherwise they go off half cocked and that's why my concern is, okay, why put this in here? Why do I look at it? Why do I spend hours reading and analyzing this data if it doesn't mean anything? So I need to have good explanation as to why our performance across all these time periods is under median. So that was my issue.

>> Do you think your members understand the rationale for why we are investing the way we are? Isn't that also mart of the conversation with them?

>> Edward Overton: Yes, but they do not have even a smidgen of understanding of the global capital markets. They see results, they see numbers. And that's -- you know people like me and like Matt who comes to the retirees association, have to sift through this data and say here's why we're doing as poorly as we're doing or

we're doing what we're doing. And what's long -- you tell them long term, how long? Next year, next five years from now ten years from now? You know --

>> Matt Loesch: Does Meketa provide, you do have manager summary highlights, for any of your books here, do you guys have any more of a common language summary of what's going on? Is that -- do you do that for any clients?

>> Are you referring to just sort of attribution relative to peers or -- MLK.

>> Matt Loesch: As the -- that's the question the retirees are going to look at, more of a simplified portion of -- I'm talking one or two of these sheets that has aa summary of why these things are -- you have some very high level and very detailed stuff here. I'm trying to think of a way we could address that as we're doing this transition as things are being deployed.

>> Maybe what makes sense is for us to work with staff in the investment committee and putting something together that communicates that better. The attribution relative to peer universes is not ideally want it. But nonetheless it would I think within a reasonable degree of precision, we can provide the major reasons why the fund is either underperforming or overperforming. To the question before, obviously, one of the big misleading implication from a chart like this, is that the fund has been underperforming for five years. That's really not the case. The fund was outperforming for four of those years and then the policy and fund in year 5 underperformed. So some of those nuances that can be misinterpreted from a table like this, we can clarify. So --

>> Matt Loesch: I'm not -- to think of a way we could summarize this a bit simpler, they look at the numbers, the bottom line number we're underperforming by some amount, we're short by some dollar amount, what does that mean? What does this short term performance really mean? Are these guys asleep at the switch? What in the world?

>> We use a lot of lingo that's specific to our industry. The average person picking up this document would have a very difficult time saying what does this mean? To the extent we can make it readable and understandable, some summary for most of the constituents, most of stakeholders, I think would be very helpful. It doesn't have to be incredibly detailed but something they can take away and say I understand that.

>> Matt Loesch: This is a report to us and we need all the detail pickup. But to what extent can we extract some of it to make it sort of a-d.

>> Arn Andrews: I think to a certain extent you have kind of written the summary for us that we've asked for. Your comments say we are currently positioned with a global portfolio that is depend on growth outside of the United States? To the extent that happens, our portfolio is positioned well. What are the rationales we went to a global mandate in the first place is the concept of the new normal and the United States receiving subpar of 2% growth. And I think to a certain extent we've written this summary we're asking for just in our conversation now and maybe it's just at the very beginning of the document and we call it portfolio construct and expected performance. And it's just a summary paragraph for people that understand why our portfolio is positioned the way it is and what the expectation is for that positioning.

>> Martin Dirks: I can't imagine the average person wanting to read 89 pages of this document.

>> Stuart Odell: Do we proactively communicate to our constituents anything about our performance is there a newsletter that goes out to participants?

>> Edward Overton: There is a retirees newsletter and this data will be put in there by me and these people read this stuff and they want to know? What are you guys doing?

>> It's a fair question.

>> Stuart Odell: Do you put on a 401(k) newsletter or --

>> Arn Andrews: I think if that's the case, the type of summary paragraph we're talking about might be able to help you -- I mean if you are going to attach the entire document to the twieees are entitled just like any other stakeholder group to any other information accessible to them. But then it's going to be on us to make sure that somehow we help them understand what the data actually reflects and what it means. And so do you think a summary paragraph or two like we just talked about that just first talks about the initial construct and why and then talks about how that construct will form under certain conditions? I mean is that something that you think would be a good overview before they actually start looking at numbers?

>> Edward Overton: Yeah. The retirees are not going to read this report. They're not even going to see it.

>> Arn Andrews: Oh.

>> Edward Overton: They for the most part, I mean the leadership probably will. But when I look at this Kim have to be able to explain in detail why these numbers are the way they are. And you know, that's why I ask the question, you know? So if there's some reason why I can say, okay, we had a bad 2011 or we had a bad 2010 and those numbers are going to be in this performance data until those four quarters roll out of the measurement

cycle. Things like that, they can understand. Now they're not going to be very accepting of it, but they can understand it.

>> Arn Andrews: And I think, just from a communication standpoint, I would agree with Stuart, that we didn't have a bad, we had a different. And so I think that's where the concept of the construct of the portfolio will be very helpful in communication.

>> Stuart Odell: So I think we should proactively communicate the rationale for why we've adopted the asset allocation we have. And then use that as kind of the framework for explaining the performance as an outcome of that. Because that's really -- it's the philosophy that the board took around asset allocation. And articulating that to the participants. Because there's a fundamental view that's going on by the trustee here, that just let's take global equities for a minute. That a starting point is that equities are global. And that we, you know, if we knew nothing else, we would take a sort of a cap-weighted representation of the global equity market as a starting point for our investment philosophy. And everything beyond that is an active decision to do something different, based on either view of the world or practicalities around investing, et cetera. Historically the reason our peers quite frankly have an overweight to domestic equities is because the home country bias of investing is still there. And it's there if you go to Europe, they have an overweight to European equities. If you go to Japan they have anover weight in Japanese equities there isn't anything that supports that necessarily but would I say that's the framework to talk to the participant base around the structure of the asset allocation of the plan. So what was the philosophy around the equity allocation? Why did we choose the MSCI Aclee as a benchmark you know for a starting point there? So that's what I think you want to do so that your retirees and your participant base understand the philosophy that the board set in creating that benchmark and that will help to explain why, when they start looking at peer group, performance of our plan relative to peers, why things will look different.

>> Edward Overton: Okay, well enough. But this isn't just retirees.

>> Stuart Odell: No, I mean all our participants. I'm not just talking about retirees.

>> Edward Overton: -- administration.

>> Stuart Odell: Anybody who has a vested interest in the plan.

>> Arn Andrews: And I'm wondering if we could merge two conversations. Earlier was a strategic planning policy and in there one of the elements was vision and we discuss you know the concept of the plan's approach to stakeholder education, that's one element and then we also discuss asset liability management, and areas like

that. So I mean maybe part of our annual vision is a discussion of our portfolio construct vision. And maybe it's something that should emanate you know out of this strategic planning policy and then it's a document that we can provide to any stakeholder group whether it's retirees or anyone. It's clearly articulated as a board strategic planning concept and it's something that can be readily available and updated on an annual basis as part of the other item we did which is talking about the various and different reports that we are going to generate that are hopefully creating information and that information is disseminated in a way that the average user could understand. Maybe we use part of the strategic policy to help with the communication that an average reader could understand.

>> Matt Loesch: Coming out of this mr. Constant.

>> Pete Constant: Let me just say when I report out it's not as easy for me to articulate what Stuart just articulated on the vision and how you guys set up the asset allocation because I don't have the intimate knowledge of the investment committee's activities and all that. You know I get what I get while I'm here. And you know my colleagues get even a lot less. Because all they get are numbers. So I have to be able to get help in explaining why year trailing the benchmark in every single one of these. And that no matter which one you look at, including since inception, it's far below the assumed rate of return. And trying to -- and then I get the questions on the side or after the meeting or a week later, well, why are those return assumptions continue to be made at those levels when we're seeing this and those I I think are probably the same things that Ed has trouble because people get the information out of context and I know I don't have the information all the time to be able to provide it.

>> Martin Dirks: I think the stakeholders all have a right to have that information, have it in a way that's clearly understandable and we need to do that.

>> Matt Loesch: I suggest this. Why don't I ask if we can ask Meketa can do a first draft of what we've been talking about here and present that to the investment committee.

>> Lara Druyan: Yep.

>> Matt Loesch: And use this quarterly report as kind of the model or whatever, use this as the base for the numbers so obviously it's not real but it's just a first crack at it and they can see if this is something that gets this message out that maybe then we can incorporate. So every time we produce a quarterly report we produce one of these as well and ask that it be sent out to the constituents. Either electronically, mailing cost we could put on the Website mail it to the city council or the administration or that -- does that make sense?

>> Yes.

>> Arn Andrews: Then I would add as a board whenever we change our asset allocation policy we update that in narrative that explains the transition and why.

>> Matt Loesch: Okay. Note and file, the rest, no action on that. Okay that was A and B. 4.1, 4.1C. The approval of the First Amendment of the agreement between Federated city employees retirement system and Meketa group for the three year term not to exceed amount of $1,275,000. In your packet we have a memo from Mr. McCourt. Did you want to address anything first or just entertain questions?

>> Pretty straightforward. We requested a modest fee increase for the next contract for the next three years. Based partly on the cost of services provided to San José and partly on services that we've been conducting that were not part of the original scope of work in the contract. So the base numbers are current fees are $310,000 per year. The requested fee moving forward is $385,000 per year, guaranteed for the next three years.

>> Matt Loesch: Mr. Overton.

>> Edward Overton: First of all, two questions. One, does staff recommend this?

>> Yes.

>> Edward Overton: And the second question is, is the fee competitive versus what we could get from Meketa type other organizations.

>> Carmen Racy-Choy: Absolutely. Just for informational services, Police and Fire are paying almost double the cost that you are paying. In addition, Meketa picked up an additional component which is performance calculation. We -- and that explains most of the fee increase. We went and we bid out that specific component to state street. Because they have a service. The quote that we received for both the pension plan and the health plan was approximately 80,000. And this did not include the potential 18 hedge fund manager. Once they are in place that 80,000 would probably closer to 100,000. So we believe that the fee increase that Meketa is requesting is actually quite reasonable. And if we were to take the specific performance piece and send it to state street, the cost would exceed the amount requested by Meketa.

>> Matt Loesch: Any other questions or comments from the board?

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: Comments or questions? All those in favor? See you again for three years. D, approval of MacKay shields policy guideline request for passive overages. There is a memo in the packet. Anything you want to highlight? Pretty clear.

>> This is a technical item that I would say essentially a moot point, in the sense that the new policy that's been adopted will result in this portfolio cleating anyway. But MacKay did request the guideline change to reflect the way they are managing the portfolio.

>> Matt Loesch: Questions from the board.

>> Lara Druyan: This was discussed in investment committee.

>> Arn Andrews: I just want to understand a little bit more. When I just read this as an observer I see krangs going up I see degradation of credit going up. When you say it's going to be --

>> Russell Crosby: The portfolio was originally constructed as self-cleating. There were a collection of assets that were acquired at a moment in time and as those have run off and run out we've taken the cash out and used it for benefit payments and other things. But the quality of the portfolio that original acquisition the fast stuff is paid off, the high quality has paid off and you've still got other things that are still left there. And that's why the nature of the portfolio is change across time.

>> Arn Andrews: Right, so the residual is becoming a poorer credit quality.

>> Another way to think about it is the limitation in relation to the size of the MacKay portfolio are increasing. The size of the securities and the credit risk relative to size of your pension fund are not. So MacKay is not adding any position to risky security.

>> Arn Andrews: Each position that is left becomes a larger portion of the high and higher concentration, okay I just wanted to make sure I understood.

>> Carmen Racy-Choy: Additional comments as part of the transition the MacKay shield portfolio would have to be liquidated. Basically the transition should happen soon and so this issue is going to be dealt with.

>> Matt Loesch: Any other comments or questions? Entertain a motion.

>> Arn Andrews: Motion to approve.

>> Lara Druyan: Second.

>> Matt Loesch: All those in favor, opposed. E, the approval of White Oak's request to exceed the concentration limit of the portfolio in order to fully fund an investment. Mr. McCourt?

>> Again, this is a fairly technical white Oak is a private lending strategy that you employ. Your guidelines with them have a 10% concentration limit on any individual loan. They have one investment they're making that would represent 11.6% of your portfolio allocation. Though White Oak's plan is to syndicate that investment to other co-investors. After which, the limit, the position size would go to 8.2%. But for a point in time the allocation would be slightly higher than 10%. We don't see any concern with this, it abides the spirit of the agreement so we would recommend approval of the guideline.

>> Matt Loesch: Comments or questions from the board?

>> Lara Druyan: This was also discussed at the last investment committee.

>> Edward Overton: And you proofed of it? rd yes.

>> Matt Loesch: Comments or questions? All those in favor? F, the approval of the secretary to negotiate and execute an agreement with Russell investments for the upcoming portfolio transition. We have a memo from Mr. McCourt in the packet. Anything you want to highlight?

>> Only this is a competitive process B and Y Mellon, J.P. Morgan and Russell. The cost projections are highlighted in the memorandum. Largely because of Russell's existing knowledge of the fund which provides them a lot more information and detail about the specifics of the transition and Russell's experience in large transitions like this their expected fees are significantly lower than the other two. And Mick fa as a consequence recommended engaging russell for this transition.

>> Matt Loesch: Comments or questions from the board? We just talked about the investment meeting.

>> Lara Druyan: I'm sorry, this was discussed in the investment committee meeting. It was discussed in some length as to colts to Russell about their approach and we were very comfortable both with the fees as well as their capabilities.

>> Matt Loesch: I'll entertain a motion.

>> Arn Andrews: Move approval.

>> Lara Druyan: Second.

>> Matt Loesch: Combs? All those in favor, opposed, I think that's it.

>> Thank you.

>> Harvey Leiderman: Mr. Chairman, just a question, we talked about the investment committee earlier and what were material decisions and maybe less than material decisions. I wonder if it could be a sense of the board,

C and F as to whether the board should consider some or all of those material such that they should continue to come to the board or whether they could be items that would be within the purview of the investment committee to make decisions on and inform the board.

>> Matt Loesch: Permly the only one I would see is C, just because it's a contract, it's existing, committing the board for another three years, whereas other ones are nuances around policies that aren't really -- and with F, we reviewed the three transition managers anyways in our previous and we said we'll engage the three and Russell came off with the lowest bit. Maybe that one because yes, we're engaging for the first time in this aspect but my personal reaction is that C might be a little close to whether it would be something we'd want to consider at a board level but the other three --

>> Stuart Odell: I think C still needs to go to the board. I think D, E and F it's somewhat in this case, D, E and F to me seem relative straightforward. D and E more straight forward. F a whribility less out. I think what the board if we were to allow, if the committee wants to have some discretion to make some of these decisions without coming to the board we probably do need some threshold around sort of risk to the plan or cost to the plan or something in those two areas. Because that's really what the rest of the board is going to care about is, you know, is this exposing us to some risk that we didn't know about and they're making that decision unilaterally, andettes materially changing the structure of the plan, or is it impacting the cost of the plan. And direct expenses tar coming out. It seems to me those are the really important ones that you want to identify. So D and E kind of, if you actually calculated what's the risk to the plan of this, like if everything went wrong, and these guidelines -- you know we took it down a little bit, we're talking about what percentage of the portfolio, you're talking about a runoff of a portfolio. What could the risk actually be. And I think if you went through that analysis you'd ultimately find out that the potential risk to the plan is not material.

>> Arn Andrews: Right and I --

>> Stuart Odell: So I think that's how I would think about whether there are things that we don't need to take all the way back, in that framework. To it me, D and E stand out and possibly a --

>> Arn Andrews: I was going to say on D and E if there's a way to structure it similar to what you're describing, because just on the surface of it, I see we're waving an item on our investment policy, that immediately accuse me, why is because of the mechanics of a certain investment. but just in general I'm going to want to be apprised

of any waiver of our investment policy and maybe there's a way we can figure out how to differentiate, what's more material of a waiver as opposed to what's being done vurlt of --

>> Stuart Odell: Even to some extent where you need to make a decision on.

>> Matt Loesch: The implementation might be, you have a meeting a week or two before the board meeting. If some board member wanted to halt it for whatever reason, it's noted for the board so the timing of that implementation could be dch note and they'd have the discussion here. That way there's still the mechanism to put a halt to it if we wanted to but they could tell proceed as more of save some time here.

>> Arn Andrews: Would I agree on C. A procurement of $1 million over three year period the board should weigh in on an expenditure of that size.

>> That's a board decision.

>> lity it would be heave to have decisions made in investment committee, to do that have it expifl shown to the board and not be overlooked.

>> Matt Loesch: Probably Cortex and the investment committee, maybe it's 11:30, I'll ask tom to, I'm sure he's not watching this, so when Cortex looks at this thing they can come back with a policy that kind of shapes what's already happened. Anything else?

>> Harvey Leiderman: No, no, no, I thought it was useful to forbid that process.

>> Matt Loesch: Item 4.3, discussion and action item regarding San José retirement services audit plan for 2012. Ms. Niebla.

>> What you have in your packets is the (inaudible) and it is an overview of required communications that the daughter has to the board GASB application is and just an overall view of what their services are to, and the roles of management, the roles of the board, it's pretty standard information that comes every year. The piece that's usually of most importance is on page 5, if I'm correct. And it contains the audit schedule. And this is the time line for the audit that we're looking at. We currently have auditors on site. The fact that our office now -- sorry, I apologize that's why I wasn't here earlier this morning. I was kind of meeting with the auditors and provided information that they needed. All of the information I received or feedback from the auditors I received is everything is on a timely manner and they are on schedule to continue on. Take any questions you have on the audit work plan.

>> Matt Loesch: Tom.

>> Areas of yovment?

>> At the end of the audit engagement the auditors usually provide a management comment or areas of improvement. One of the areas is the lack of staffing of accounting oversight, as such the response going back to the auditors is that the retirement plans have approved and did approve the year before the additional staff and now the additional staff request will go to city council I believe at the end of this month, which all indications are that it will pass and we will have a permanent additional staff person. Again you know in was with the understanding that we would have one additional trust fund for each of the retirement plans but Police and Fire has since decided to add a fire plan and a police plan. I know that doesn't necessarily affect this board but it does give a resource constraint with this board because you are sharing with Police and Fire. You will see two trufnth on this side and Police and Fire three trust funds.

>> Lara Druyan: Obviously the auditor will have its own opinion but do you think adding one additional staff in accounting sounds like it's necessary but will it be sufficient with respect to the auditors? Do you have any idea?

>> Russell Crosby: I can address that, I think they'll have another finding this year.

>> Lara Druyan: Okay.

>> Michael Armstrong: So will Police and Fire be paying more money for the audit then?

>> For the audit engagement?

>> Michael Armstrong: There is additional staff required because of Police and Fire. Is that cost borne by their plan?

>> Russell Crosby: It's not just because of Police and Fire. You need substantially more accounting staff across the board for your business as well. There's still no backup for Veronica.

>> Matt Loesch: Mr. Leiderman.

>> Harvey Leiderman: Thank you, Mr. Chairman. approach to critical audit areas. And there are a couple of areas that I would like to just bring up, and possibly suggest that you pay particular attention this year for various reasons. One of those is the appropriate allocation of costs to the plans. For plan expenditures, as opposed to expenditures -- both as between the two plans and also between the city and the retirement plans. And the other is something that MGO is very familiar with that I've become familiar with. Unfortunately for another plan. And it rises out of the actuarial extract that comes out of the pension gold software. We've been through a very agonizing year in the Orange County retirement system, as a matter of fact public record where literally a quarter

of a billion dollar unfunded liability was created because information on premium pay was not going into the actuarial extract for nine years. And the actuary were essentially undercollecting contributions for that period of time because the premium pay was not going to the actuaries. This, as I said, led to a quarter of a billion dollar error and just about the worst time hit the plan sponsors with a massive new unfunded liability. I know MGO and heather Jones who is on the audit team is extremely up close and personal with this for the last year. And I think since I do believe this system uses pension gold, right?

>> Yes, it does.

>> Harvey Leiderman: So it's a flaw in the pension gold system that was never corrected by a work-around. And so I would ask that they pay particular attention to that issue here. So that we, if there is a problem we catch it, hopefully, before it gets perpetuated.

>> Russell Crosby: That was the whole substance of payroll audit that occurred last year, or agreed upon procedures.

>> Harvey Leiderman: Okay.

>> Russell Crosby: And the resulting thing you're seeing now was a correction of amounts that were contributed as a result of both the internal city audit and then the MGO audit.

>> Harvey Leiderman: Wonderful then did they get premium Fay ?

>> Russell Crosby: .of what's feeding through particularly with your Police and Fire the correction process that needs to go open.

>> Harvey Leiderman: And that's still ongoing?

>> Russell Crosby: That's what we discussed at the last meeting with police and fire that needs to be done again. That was done several years ago, we are just now, start that process again on behalf of both plans to make sure that what comes across from the city is correct. What's in our system is correct.

>> Harvey Leiderman: So I didn't see it in here, that's why I wanted to bring it up.

>> At a that's the whole separate transaction we had with M procedure?

>> Harvey Leiderman: Outside of that audit, yes. Thank you Mr. Chair.

>> Matt Loesch: Any other comments or questions for the board? Okay.

>> Arn Andrews: November, good luck.

>> Thank you, we're on track.

>> Matt Loesch: Okay, item 4.4, discuss and action on plan expense expenses for April 2012. do you have in your packets the memo from Russell on certification and cart in the back --

>> I'm sorry, Matt can I have the board accept the audit work plan?

>> Matt Loesch: Yes please.

>> Arn Andrews: Motion to accept the audit work plan.

>> Lara Druyan: Second.

>> Matt Loesch: All in favor, opposed, you did. Ron did you want to say anything about plan expenses or --

>> So in your packet what you have is my first attempt at adding in some additional information. So I've added in a percentage of budget expended to date. And what the budget amounts are as well at the bottom of the table. I'm not sure if this is what the board would like or did there are any suggestions or modifications, at the last meeting the board had directed me to add some additional information. This is my attempt to add that additional information.

>> Arn Andrews: I did find it useful, I liked the fact that things are broken down into category and you can also track where we are based on usable format.

>> Matt Loesch: Other comments or questions from the board? Racking our brains. Otherwise I'll entertain a motion to accept.

>> Arn Andrews: Motion to accept.

>> Matt Loesch: Sorry, approve, I apologize.

>> Arn Andrews: Motion to approve.

>> Lara Druyan: Second.

>> Matt Loesch: Any comments or questions? All those in favor? Opposed? Thank you. Okay. Discussion and action -- you asked me to do 4.3 through 4.5. Then it's not exactly to you, then we'll do 3.3 or whatever it is. Discussion and action of rue newly of the Cortex contract.

>> So what you have in your board packet is the original agreement with Cortex, it was for a one-year engagement. That term will end on June 30th, 2012. This is a request to discuss the no requested.

>> Matt Loesch: Is the $200,000 just the Federated impact or is that the A spread between the two?

>> It contains the request for 100,000, it's an additional 100,000.

>> Matt Loesch: That's what I wanted to hear. Comments or questions from the board?

>> Stuart Odell: Why is it twice, why is the cost double or did I miss something?

>> Russell Crosby: You're just adding, in the city they have this thing where there's a maximum amount can you spend on a vendor. So if you come back and you add another 100,000 to your agreement then you got to also add to your maximum amount that you can stand on it fm.

>> Matt Loesch: The agreement for the next year is 100,000, the agreement for the next year and a half is another 100,000.

>> Stuart Odell: That is our half of the cost and we're actually paying these guys --

>> This agreement is only through the Federated board and Cortex. The Police and Fire plan has a completely separate agreement. This memo covers only the plan for the Federated policy.

>> Stuart Odell: Aren't their what they're doing for us?

>> The templates I would say are very similar. However the two boards function slightly different and have had slight modifications as Tom pointed out when he was going through the policies for this board meeting. It's really a board preference I guess as far as where certain words or languages are modified.

>> Matt Loesch: They've also engaged Cortex on a few other things besides just the governance things. Does it matter, they could still build separate I'm sure.

>> Stuart Odell: If there's some opportunity to save some cost here is there something we can take advantage of or knot?

>> If 80 per is them just taking the same documents from police and fire and give that to us, right? That's what I saw. Police and Fire, those are if changes, we're putting that in here, that doesn't take much additional work per se. So I don't have a problem paying them to renew the contract. I just sort of asked the question whether there's some opportunity to maybe --

>> I don't believe that they're doing the same work and charing twice. I think they are allocating the work that is duplicate between the two plans that are very similar and the modifications that go above and beyond on a individual basis.

>> Russell Crosby: And attending each separate board meetings, and multiple committee meetings for each boards, government, investments, et cetera. Everything is done twice.

>> Arn Andrews: Is it a time and materials contract?

>> There were some additional fees around there are some travel costs that's include in it. But it typically is a time --

>> Arn Andrews: If it's a time basis it probably gets your efficiency. Anything they're utilizing from another is a lower time commitment on our side, okay.

>> Martin Dirks: Do they send an invoice with ours on periodic basis?

>> They do send hourly.

>> Stuart Odell: So if we don't need them and we don't use them we're not going to pay for these services?

>> Matt Loesch: It's not a retainer.

>> Stuart Odell: It's not like our generalist consultant.

>> There's not a retainer.

>> Matt Loesch: Okay I'll entertain a motion.

>> Martin Dirks: Motion to approve.

>> Lara Druyan: Second.

>> Matt Loesch: All those in favor, opposed, none. Item 3.3, so skipping back in the agenda. Yet 3.3 is an update on the payroll audit and pensional earnings issues, receive and file. I'll discuss them all, discussion and action on city's correction process, B discussion and action regarding interest payments on correction amounts, C, discussion and action regarding assignment to audit committee. 3.A and B are in a packet and we'll discuss the final one. Veronica.

>> City administration regarding state correction that has not come to this board because it does not impact Federated members however the higher class pay adjustment that was identified in the internal City Auditor's audits, does affect this board and the communication has come to this board that there were pensionable earnings erroneously transmitted and paid, contributions paid on those pensionable earnings to the retirement plan for the last I believe ten years. So this is a correction that the city is proposing for the active members that they're still employed by the city and they have identified.

>> Matt Loesch: So the contributions that the employees, the additional contributions that the employees paid to the pension have been returned to them, from the pension. Right?

>> Not from the pension. They've been returned from the city and then the city offset the amount against the contributions that were coming over on the June 1st I believe payday.

>> Matt Loesch: Any questions? Comments from the board?

>> Arn Andrews: I away just going to say one of these actions audit that they were corrections that needed to be made on several fronts.

>> Yes. There were two. There was one that was an internal audit of pension annal earnings and there was a second by the board which is an agreed upon procedures and even had their own individual findings.

>> Arn Andrews: Does retirement staff work with the city staff to come to a concurrence that whatever methodology is being utilized is appropriate?

>> We do have regular meetings with city administration when there are corrections that are coming forward. Obviously there is a lot of coordination needs to happen for the data and the information that's coming forward. As this is a influence process for retirement services there are many questions that we have in regards to legal, can we offset, how much can we offset, what is the correction process? And I have put out those questions to Reed Smith for some guidance as far as what areas can you know, whars the restrictions, what are we working with here? The first phase is really just determining the correct amount and then from there, you know there's the approach of the actives vs. the retirees and returning contributions who's returning contributions at what interest rate if there is interest. So there's very -- many details that are tied to these corrections which have not been determined and we are in that process now.

>> Matt Loesch: Have pensioners had their pensions reduced because they have received -- just a --

>> We've not adjusted any retiree files at this time. This is just the active side, there is an interest something we need to --

>> Matt Loesch: Somebody was getting higher class pay, making contributions based on that and their pension was based on that higher class pay dashes.

>> And jaiment to Fay --

>> Matt Loesch: At some point they will get adjustment to their pay.

>> Russell Crosby: But we need lots of guidance from Harvey on this one.

>> Arn Andrews: I guess the guidance that stems out of your communication is to Veronica's point we've identified a dollar amount now we have to identify how that dollar amount gets accounted for, whether it's a function of the ark or whether it's the function of radio judge which I think is contemplated in this

communication. And so just determining what the appropriate way is to figure out how to do what appears to be an agreed upon dollar amount.

>> Harvey Leiderman: If I may Mr. Chairman, let's distinguish between employee adjustments and employer adjustments. In the letter that is in the packet, it's been labeled 3.3B, it should be 3.3A. This is my letter of June 8th to the City Attorney. If we can correct that. The adjustment, so what's prompted this right now is the city proposed to make adjustments to both the employee contributions, and to its employer contribution around now. So the employee contribution adjustments, that's fine. They overpaid, it was determined that they paid for something that they're not going to get, and so they're due a correction, and that's been done as I understand it. On the employer side, the employer, over time, may have paid a little more into the system than it otherwise owed but this happens on a regular basis anyway and how we handle that, there are changes in payroll, there are changes in demographics, there are changes in hires and fires. And so the actuary sets the contribution rate at the beginning of the year and then we perform during the year. And at the end of the year they do another valuation and they say do we have as much payroll, do the contributions come in and so we make adjustments in that. The City's proposal is to take the overpayment if you will that the city as employer made over the last nine years or something like that and take an immediate credit for all that against their actuarially required contribution for this coming fiscal year starting July 1. That's why I raise the issue. My recommendation is we just send this over to the actuaries to tell us how should this impact? Is this one of the adjustments that they take into account of employer contribution during the year and it will be played out as any other gain or last to the system. Keeping in mind that the system is not fully funded. I mean if we were at 100% funded and the employer overpaid that would be one thing. But since there is an unfunded liability in the system we simply have collected in the last nine years a little bit more money than we thought we were going to have to collect. Turns out. And so it's really up to Cheiron I think as our actuary to make a recommendation to this board. And so when this came up two weeks ago at the Police and Fire board my suggestion and their direction was please write a letter, let the City Attorney know on behalf of the city that you know, we question taking the immediate credit, dollar for dollar, against your contribution. Plus it also raises issues if you don't pay your actuarially required contribution you get in all kinds of trouble with all kinds of people including bond rating agencies. So rather than go down that rat hole maybe we ought to step back take a breather, let's look at it from the actuary's standpoint. I don't think we need another -- I don't think we need this board to authorize the letter because I dealt with the HCL in that same letter. But I think

my recommendation to the board would be, to simply move to refer this to Cheiron to include in their actuarial valuation or if they want -- if they believe that it's something that ought to be treated distinctly, and as a dollar-for-dollar credit against the contribution, let them come in and make that recommendation to us.

>> Arn Andrews: I'd make a motion to direct that this item be brought to the attention of Cheiron to get their insights into what the appropriate methodology would be to address the crediting issue for HCO.

>> Lara Druyan: Second.

>> Matt Loesch: Discussion, anything you want to add to the discussion before we move on to that part?

>> Martin Dirks: One question, if Cheiron says it's appropriate to get that immediate credit, is there still liability? I suppose it's not a black and white question.

>> Harvey Leiderman: I'm not sure I understand.

>> Martin Dirks: If Cheiron says it's appropriate that they get this credit in this coming period is there still a liability? Is it a pretty clear question that's been decided or is it something that can be contested? Lld led.

>> Harvey Leiderman: Your policies with regard to settling contribution rates, gains and losses over different periods of time for the actuarial report that's the sort of thick. I'm not sure I quite understand -- there's always liability if somebody doesn't like a decision that you make. But --

>> Martin Dirks: Okay.

>> Harvey Leiderman: I think the board, before the board agrees to a credit or something out of the ordinary course, I mean in the ordinary course this would just be a little more money came in than we thought was coming in for this year and we'll plug it in as a gain and the unfunded liability would go down. That's the ordinary course under the current policy. If it's going to be treated differently, let Cheiron tell us whether that meets actuarial standards of practice. Because ultimately, if the actuary advises that the city must pay its actuarially required contribution or footnote its financial statements, I think the city would probably want to know that before it takes a credit than after it takes the credit.

>> Martin Dirks: Thank you.

>> Matt Loesch: Mr. Overton.

>> Edward Overton: There is item 3.3C, discussion and action regarding assignment to audit committee. What would the audit committee do since we already decided to accepted this to the actuary. Second, I got the assignment sheet, there is no audit committee on it.

>> Matt Loesch: When we get to that we'll discuss it. my assumption when we actually vote on C would be that it gets -- they're the ones recipient of the response from Cheiron, because we want to do start pooling the things that the audit committee will be doing and this would be part of its, that they receive it and present review and provide comment to the board an review what we auto to respond to. That would be my assumption.

>> Arn Andrews: There's two components. There's the validationons items.

>> Matt Loesch: And the further work going on with the pensioners and so forth, that venue seems like the right venue for this topic. So when we get there we'll see who the lucky recipients are, maybe. Okay?

>> Russell Crosby: Need to vote on this.

>> Matt Loesch: We will. So we have a motion on the floor and a second. Any other comments or questions on that? Ors? Opposed, none. So on item B discussion and action regarding the interest payments on the correction amounts.

>> Harvey Leiderman: Mr. Chairman, that is for informational purposes as you can see from our letter, on the Police and Fire, generally speaking, the IRS requires that when corrections are being made, and I would also say state law requires that when corrections are being made to a member who has overpaid contributions, that they're entitled to interest. We can talk about you know applicable interest rates. But it didn't seem in our rube of this matter that the city was paying more than just the principal that started to be paid nine years ago. And that interest payments were not included. I understand from conversations with the city attorney's office, they're aware of this issue, and that they're having -- there is some ongoing discussions with the unions over interest on that as well. But ethought it important to put a marker down that from the plan administration point of view that when the plan makes -- when there are corrections that affect plan's funding that the members are entitled to interest on the principal amounts they overpaid as well. And that was the purpose of that letter. I don't think there is really any further action that we need to take now. They're aware of the issue. And presumably they're going to address it.

>> Matt Loesch: Questions or comments from the board? Again I would assume the response from that would come back to the -- my mind would come back through the audit committee all these items be kind of wrapped up in there, okay. So no action on that, we'll note and file. Discussion and action regarding the assignment to the audit committee. I think we've -- seems like it's been clear. Any responses on this thing and further audit stuff and your work with the audit, the financial audit then would be worked through the audit committee and we can have

them work on their charter once they get who the lucky recipients are. So do we need to action that? Do we need to actually vote on that or can we just state it?

>> Harvey Leiderman: I think the chair could direct it.

>> Matt Loesch: Okay, so said. I'll direct that the responses from both the city attorney's office on the correcting the possible interest amounts and all the correction process through Cheiron be sent not audit committee to be dealt with. Okay? FII 4.6.

>> May I comment? Staff has received an e-mail correspondence from the city attorney's office advising they well not at this point not offset as stated in their original attachment A the city contribution on the next prefunding date which is July 2nd. They are eager to resolve the issue but at this point have advised in writing they will not take the offset.

>> Edward Overton: I didn't get that.

>> You weren't copied on? I'll send it over to you. I'm sorry I didn't attach the packet because I just received it .

>> Matt Loesch: Item 4.6. Discussion and action to authorize the secretary to negotiate and execute the First Amendment to the agreement with L.R. Wechsler for consultant services to A, extend the term of the agreement for phase I-IV through December 31, 2012 at no additional cost and B, add phase V, pension administration system implementation oversight services for an amount not to exceed $1,150,000 for a term ending December 31, 2016. This cost is split 50/50 between the Police and Fire retirement plan and the Federated city employees retirement system. We have agreement 1 and 2, maybe we could have what that phase V says. This is the consultant that helps us pick the next system.

>> Donna Busse: When we originally did the RFP, we asked for RFPs to include all five phases. The 1 through 4 wasto going to get us through the RFP selection process, everything leading up to descrbting the RFP and then the actual selection process. So we are about almost done with phase 3 which is actually the issuance of the RFP. We expected that to be out by June, what I think now it's going to go to July. So that's why we need the extension on parts 1 through 4. And it's not due to L.H. Wechsler not meeting guidelines feedback on all the phases every step of the way along the way we also added a layer that we're having Harvey's office review the RFP before we put it out in the street. So we have added some steps in there, and so that's why A is just to extend the time parts 1 through 4 with no additional cost. It's all part of their contract. We just need to have more time because that was going to expire in August. Then phase 5 we originally said we would come back to the

board to recommend phase 5. Once we decided L.R. Wechsler was the one we wanted to implementation of the new pension administration system and that's why the cost is so high. It's about a three-year process to implement the new pension administration system.

>> Matt Loesch: Okay, questions from the board.

>> Arn Andrews: Just one questions. Implementations are always difficult een when we're at full capacity from a staffing standpoint. The back filling of staffing for this do we view that as being a problem or is it embedded in the budget?

>> Donna Busse: It's going to come mid year. We don't expect implementation to happen until January or February. So we're going to come back mid year with the staffing request.

>> Arn Andrews: Okay.

>> Matt Loesch: Other questions or comments from the board?

>> Stuart Odell: For item B I mean, most of the members of this board were not involved when phased 1 through 4 when this group was selected. I quite frankly don't even know what the scope of work is. So I'm not in a position to be comfortable approving another $1.1 million at this point in time. So I think there has to be a more thorough review for me. Just -- you're hiring a consultant to help you implement a system. Yeah, I just don't -- don't have much information here to make an informed decision about it.

>> Donna Busse: We try to outline varies summary of 1 phase 5 would include.

>> Stuart Odell: I never even seen a demo of the system I don't even know what it says today or how it works.

>> Donna Busse: We haven't selected a system, this is just a consultant.

>> Stuart Odell: You you're replacing that? What this was about. Again this is the first time this board most of these board members have heard this topic. So you're asking us to spend a million 1 for a new system or for a consultant to help you on a new system. When we haven't even had any discussion about this with this board. As far as I'm aware.

>> Matt Loesch: We haven't discussed it since January 2011. The agreement initially was started whether?

>> Donna Busse: You approved it in 2010 and it didn't actually get signed until about six months later.

>> Matt Loesch: If we could table that portion until August so the staff can come back with the original RFP how we got to this person, this firm, and then have that presented as well.

>> Russell Crosby: And an updated presentation on why, why do you need to do this, what's behind this whole process.

>> Donna Busse: We'll go further back on why we even wanted to do an RFP in the first place.

>> Matt Loesch: That was part of your presentation back then. Resurrect the presence you gave when this firm was selected, you can resurrect that presentation and any information on that RFP how we got to this person was part of that presentation as well. So if we could just amend the agreement for the term for the existing phases just for time, no additional cost, and table part B till August and then it stills doesn't put you off schedule.

>> Russell Crosby: Correct.

>> Stuart Odell: Is there an opportunity for you to just sit down, maybe with me if I'm just the only one that wants to see this but to understand, to actually see your administration system and how it works, just maybe have you do an actual demo for me, we can come by your office and sit down for a Lil while.

>> Matt Loesch: Is this something that can happen here or --

>> Stuart Odell: I can get a lot more out of it if I can see you do it.

>> Donna Busse: I don't know how much more can do at the board level. We can do some web-level services for everyone to access their own accounts. But as far as what we use it for you would have to come into our office.

>> Stuart Odell: Maybe sometime in the next two months I can take an hour, two hours of my time and you can give me a demo.

>> Russell Crosby: Donna, you can give them --

>> Donna Busse: Just background, we put the system in in 1998, and it's pretty old.

>> Russell Crosby: It is one of the standards for public pension plans. Harvey will tell you, a lot of his clients use pension gold.

>> Stuart Odell: I'm not familiar with the that. On our side we don't administer these things internally. These are all outsourced functions that happen. So I think that's why it's kind of important for me to sort of see what you're doing.

>> Michael Armstrong: I guess the one question I would have if you spend a million five to get an RFP to help with the implementation what is the system itself likely going to cost?

>> Edward Overton: Five times that.

>> Donna Busse: More than that and it will range from a new system or even a new platform with the existing vendor. Even with that it is like a brand-new implementation even if we're just going to upgrade with our current vendor.

>> Russell Crosby: It's not far off, it's three to five times what you're going to spend.

>> Michael Armstrong: I heard some discussion about operational risk and exposure.

>> Russell Crosby: This is addressing operational risk and obsolescence of the new system. The current system is not Internet accessible. The want in the next version.

>> Donna Busse: They could do some just not as user friendly as you would want us to be.

>> Michael Armstrong: We're effectively looking at a $10 million investment for the plan.

>> Stuart Odell: Plus ongoing maintenance.

>> Matt Loesch: Because the existing system is not being maintained anymore. They're not literally phased out going to version whatever the next one.

>> You have 14-year-old progress --

>> Edward Overton: Like your old phone Mike.

>> Matt Loesch: He's got new phones.

>> House phone with wire.

>> I outsource that, I don't have my own phone system.

>> Matt Loesch: Mr. Leiderman, do you have a comment?

>> Harvey Leiderman: If we tabled this until August, Russell, I think the Police and Fire approved this and since it's split with them --

>> Russell Crosby: It's not a problem. At this stage it's not a problem. A we have what we need immediately and B, link up the two systems and move them forward together.

>> If they want to fund it all --

>> Russell Crosby: I don't think that was the idea at all.

>> Matt Loesch: I'll make a motion to extend the term of the agreement with R.L. Wechsler, at no additional cost to the plan do I have a second?

>> Second.

>> Matt Loesch: Comments or questions? All those in favor, opposed. 4.7 is moved to the end. 4.8. Okay. This is where Russell and I do not coordinate very well, I'll admit. A committee thick was prepared by Russell and them and I prepared my own as chair. So I'll just hand those out. Probably very similar, just in a different format. So it's just names and lists. Do you want to get all the way around? So this is, as member of the board chair charter policy whatever, whichever one it was, chair recommends members of the committee. The one thing you'll notice that's not on here that I would like Mr. Leiderman to address is there are no alternates listed on any of these committees anymore. On advice of counsel that's probably not -- I'll let him speak to that. He recommended that we no longer have alternates on committees. So I'll let him address that and then we'll talk about the individuals.

>> Harvey Leiderman: Just a little discussion a little bit. I think a fair reading of the Brown Act says if you have an alternate that puts you over the majority you run into problems with a serial meeting. Because in this case you could have three regular members of the board discussing something at a meeting and then one of them leaves and it comes up on the next agenda and the alternate comes in. Now you've got four members of the board having met serially on the same issue to the board. That presents a problem. If you want to have two members on a committee, and then alternate, can you do that. But that seems less workable. So my recommendation, to play it safe here, is to just you know, if you are going to have three members of the board on a committee, don't have an alternate.

>> Matt Loesch: So that's why there's no alternates listed on there.

>> Michael Armstrong: Question, as a practical matter, I was at the investment committee last week. I think Police and Fire had a problem because they at any time have a quorum. And they didn't know that they were not going to have a quorum until people didn't show up. So as a practical matter is that going to cause a --

>> Harvey Leiderman: That will cause a problem, a communication problem more than anything else.

>> Matt Loesch: That's why we'll push the responsibility to make sure committee chairs are holding meetings when people can attend and to the extent that -- and put the members of those committees, if you are not going to be able to be there, communicate that to the committee they need to move the meeting or cancel the meeting so you can -- especially folks who have to travel down. It is a big burden.

>> Harvey Leiderman: So we will be imposing very large fines on people --

>> Matt Loesch: Couple of laps or 40 pushups. I didn't change much, I just removed the alternates that were on the investment committee. The audit committee did not have members on it before because it was created

through the charter, some of our discussions before. We didn't seat any members of it. But now that that committee is starting to get some assignments, I thought it prudent and I'm just trying to balance out assignments, not claiming that I'm balancing out the work. And the two ad hoc, the ad hoc governance committee if you remember we retained that one, we attempted to close it down and then we thought better of ourselves to leave it open until the governance review is done, get rid of the ad hoc create a permanent one or whatever. That has not changed and that's lingering on and not doing in. The personnel committee is who was seated at the last ad hoc personnel committee's last month meeting, we talked about that and this is the construct of the members that were put on that. As far as a difference between what Mr. Crosby put forward, I don't think it's much dint except for the ad hoc disability committee has been disbanded quite a while ago. Ad hoc governance, personnel is the same I misspelled something, sorry I'm an engineer. Ad hoc committee on salaries, noted there, one thing, disability hearing committee, maybe that could change as a result maybe leave it as is through measure B might be changed how those things are done. Any comments or questions as -- let's use mine, as the document to go off of other than the facts I can't spell personnel. Big words dare me.

>> Michael Armstrong: Would there be a regular schedule of meetings?

>> Matt Loesch: Since you're the chair if this is accepted --

>> Your call.

>> Matt Loesch: My humble recommendation would be that the chairs of these committees would make sure between now and maybe end of August have a meeting to at least rube the charter of the committee, make sure -- and then set your course as you see fit and then take on the assignments that were assigned to that committee today. Or as things that were assigned to the investment committee -- that would be my hope as chairman of this board.

>> Arn Andrews: I think it would be helpful to have an informative meeting first. We had a meeting today four types of reports that would come to the board several of those would be ones that the audit committee would probably want to interface with and discuss. And I think once we start to see how a calendar will play out, that will probably drive whether it's a standing meeting or an as-needed meeting.

>> Matt Loesch: We'll let the committee figure that out. And you could v schedule it on the meeting of after the board meeting while you're all here to digest this, but I'll leave it at that. So any other comments about the

construct? I mean I didn't try to rock the boat. Just trying to make it clear have a Doc that was there with the list. I'll entertain a motion on this, then.

>> Edward Overton: Move approval.

>> Arn Andrews: Second.

>> Matt Loesch: Other comments or questions? All those in favor? Opposed, splendid. We have to do -- I was going to plow through these first, that's okay, don't be sorry. Item 5.1, policy committee, there was no meeting so there is no update. Item 5.2, we have in our packet minutes for April, May and an update from the chair if she chooses to provide one.

>> Lara Druyan: In the last couple of months we've had Alborne come in and present their capabilities on private markets, as you know we've hired them on the hedge fund side. They have a private markets consulting group and of the group Marty and Stuart can jump in on this, I've participated in a number of meetings with ex-scunts with expertise in private markets. I think Alborne was the most impressive that I've seen or heard from to date in terms of the level of analysis that they provide. I think they're partly because, as you can imagine evaluating absolute return managers they take a very thorough approach to what they're doing, where some of the stuff we've seen is perhaps a little more qualitative than I think I would at least be comfortable with we have taken care of some of the things you've seen today, previously trade wins MacQi shields evaluated the Russell overlay and we've had a couple of other partial outsourcing solutions providers present, one we saw in the meeting June 13th, you haven't seen the minutes yet, we saw Russell and gem out of Durham, impressive and of course we also went through at one of our meetings the Cortex investment committee governance and guidelines that you've already seen. We made changes in that meeting which you've already seen presented to the board. And the other thing we've asked staff to present at our subsequent meetings are some interim reports about the hedge fund diligence. Because as you have seen some trips have been made. We have not yet been updated as of managers on those trips, sort of staff views on how that's going and so we have asked for that in our next committee meeting. Do you have other questions?

>> Matt Loesch: Your next meeting is --

>> Lara Druyan: We're not I don't think we're meeting in July but I'll double check. It might be in August.

>> Matt Loesch: The ad hoc governance committee, there was no update. We've been seeing the work of that. The ad hoc personnel committee. The day after our board meeting, that Friday, it was a joint meeting

between the Police and Fire personnel committee and our personnel committee, met with the City Manager and Mr. Gurza, kind of talked through the staffing issues. And the fulfilling them therein and so some of the discussion that came back was with the personnel committees plural took upon themselves to review and come up with a CIO job description and a document to help seek to fill that. And that document is -- a draft of that is prepared. We've requested that the city come up with the CEO, the director's replacement policy document, so kind of to split the work there. We are scheduled to meet with them this coming Monday, to kind of swap Docs and talk about what that process looks like and also the seeking of the IO positions, all the investment officer positions that are vacant and the employment of the consultant to help seek and create that pool. My understanding is after our meeting that we just had so the personnel committee met with the city the day after our last board meeting and that we just met as a group this coming -- this past Monday, reviewed some of these docks and then are going to be presenting some of them to the City Manager and Mr. Gurza on Monday. We talked about the -- what's going on with the investment officer search that they have engaged one of the consultants to start creating the pool. So then we'll get an update Monday as to what the status of that is to see when we would expect to have that pool created, and we'll be going through a process of selecting who is going to be filling those positions did I miss anything?

>> Lara Druyan: Nope, pretty good summary.

>> Matt Loesch: 6.1, education, 6.1 to 6.3 note and file. Sacrs and CalPERS down in L.A. Rave review how Marty did in the Sacramento one. Written up in the papers, superstar.

>> Michael Armstrong: What was discussed at that CalPERS meeting?

>> Martin Dirks: We had four speakers, key stone private debt firm talk about that niche of the market. And I try to get them primarily educational. So the focus was there, but of course they're presenting their business as well. We had a private equity person that funds individual investments one on one. So it can be tailored to the needs of the particular fund or desires of the particular you know, plan. We had someone talk about risk, a few risk approaches. And fourth person -- there was a fourth person, escapes right now.

>> Matt Loesch: For the agenda.

>> Martin Dirks: No one else volunteered so I volunteered to put the agenda together for the Burbank coming up in October. If anybody has any suggestions for speaker.

>> Matt Loesch: Great, future agenda items? Public or retiree comments? Okay. I'm not going to adjourn, don't get too excited. Because we're going to hold over several of the items and then we're going to be in closed session and I faked you out because we have this health care trust that we need to deal with, few quick items. I recommend we open that up take those few items, and then adjourn for the closed session. I'll open up the federal city employees health care trust, so named, no orders of the day, item 1.one, we have in our packets the minutes from last meeting. I'll entertain a motion.

>> Lara Druyan: Move to approve the minutes.

>> Arn Andrews: Second.

>> Matt Loesch: All those in favor, opposed, as well. Item 1.2, discussion and action on the city council action regarding the health care request for legal opinion of tax counsel very similar, same topic but it's a different trust so we need to have if somewhat same discussion same action from the pension trust we can carry over to this as far as action items. So do I actually need to -- Mr. Leiderman do we actually need to have formal motions on these or does my statement of carrying them over be acceptable?

>> Harvey Leiderman: That's acceptable.

>> Matt Loesch: Any other comments or questions? Future agenda item? Public retiree comments? Federated city employee health care trust is adjourned. Told you I'd be efficient. So what we'll all do is, I'm going to read into the items of the closed session, descriptions, and then, we'll take a recess, eat something and reconvene closed session. Closed session, conference with legal counsel, litigation pursuant to government code section 45956.9 (a). Paul Mulholand, James unland and Mary Follenweider, plaintiffs versus Russell Crosby, Mike Moehle, City of San José and does 1 through 10, defendants, the board of directors of the San José Police and Fire retirement board and the board of directors of the San José Federated city employees retirement system, necessary parties in interest. Santa Clara County Superior Court No. 1-12-CV-219748. Closed session, conference with Item 3..pps legal counsel, significant exposure to litigation, pursuant to government code section 54956.9(b)(1). City of San José, Plaitiff, vs. San José Police Officers' Association, et al; defendants, united states district court, northern district of california (San José Division) No. C12-02904. mr. Leiderman, do I need to reference the supplemental case?

>> Harvey Leiderman: Yes. Do you have it there?

>> Matt Loesch: I do. I'll see if I can get as close as possible to the description. So this is John Mucar O&M James Atkins am and petitioners, versus the City of San José, Debra Figone in her official capacity as City Manager of City of San José, and does 1 through 15 1975 Federated city employees retirement plan necessary parties in interest. Filed in superior court of the State of California, case number 112 CV 226574. That was not in your packet received recently. My understanding there's another that's been received recently as well that I don't have present with me.

>> Harvey Leiderman: I haven't seen that Mr. Chairman but on this one we should waive sunshine since it came up after the posting of the agenda.

>> Matt Loesch: Okay, I'll entertain a motion.

>> Arn Andrews: Move to waive sunshine for the item just read into the record for closed session.

>> Second.

>> Matt Loesch: All those in favor? Opposed, none, we're in recess, 15 minutes sufficient so reconvene at 2012:40, in the other chambers. Thank you. [Recess] [Conclude 12:57 p.m.]