



COUNCIL AGENDA: 1-20-09

ITEM: 3.4

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Lee Price, MMC
City Clerk

SUBJECT: RETIREMENT BOARD
APPOINTMENTS

DATE: 1-9-09

RECOMMENDATION

Interview nominees and consider appointment of one retiree member to the Board of Administration of the Federated City Employees Retirement System (FCERS) to a term expiring November 30, 2012; and consider appointment of one retiree member to the Board of Administration of the Police and Fire Department Retirement Plan to a term expiring November 30, 2012.

BACKGROUND

San Jose Municipal Code Sections 2.08.1210 require that one of the seven members of each of the City's retirement board be a retired member of that plan. On February 3, 2000, the City Council adopted procedures for the nomination of a retiree for the Police and Fire Retirement Board. On May 1, 2001, the City Council approved the selection procedures to select a retiree representative for the Federated City Employees Retirement System. The terms of the two previous retiree representatives expired on November 30, 2008. On September 30, 2008, the City Council ratified a minor process variation in the scheduling of the 2008 process.

The purpose of the retiree election process is to nominate candidates to the City Council to be considered for appointment to the Retirement Boards. Under SJMC, section 2.08.1245, the purpose of the interviews is "to ensure that the candidates are viable in that they will be able to attend meetings of the board and fulfill the time commitment of member of the board". However, the appointment of all individuals to serve on City boards and commissions is within the discretion of the City Council. The City Council is not required to appoint the candidate who receives the highest number of votes or to follow the recommendation of the interview panel.

As prescribed in the procedures, the Office of the City Clerk conducted the retiree election process as follows:

- August 15, 2008: Retirees notified of impending vacancies on each Board and the dates of the nomination and election periods
- August 27 through September 16, 2008: Open Nomination Period
- October 3 through November 4, 2008: Election Period
- November 4, 2008: Ballots counted and results certified by the City Clerk
- November 6, 2008: Candidate interviews conducted

For the Police and Fire Board, the election results were:

Candidates	Votes Received
David Bacigalupi	509
Brian Arvin	185
Miscellaneous Votes	10

For the Federated City Employees Retirement System, the election results were:

Candidates	Votes Received
Ed Overton	784
Miscellaneous Votes	51

The following nominees will interviewed by the City Council on Tuesday, January 20, 2009:

Police and Fire Board

David Bacigalupi

Brian Arvin

Federated City Employees Retirement Board

Ed Overton

The candidate statements and questionnaire are attached

ANALYSIS

After the interviews, the Council will select one (1) retirement member to the Board of Administration of the Federated City Employees Retirement System; and appoint one (1) retirement member to the Board of Administration of the Police and Fire Department Retirement Plan. A successful nominee must receive, at minimum, six (6) votes, or the highest number of

HONORABLE MAYOR AND CITY COUNCIL

Subject: Retirement Board Appointments

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votes over six, of the Council to be appointed to serve on the Board of Administration of the Federated City Employees Retirement System and the Board of Administration of the Police and Fire Retirement Plan. If an appointment is not made, the Council may direct the City Clerk to conduct a new process to recommend the appointment of a retired member as necessary.

COORDINATION

This item was coordinated with the City Attorney.

A handwritten signature in cursive script, appearing to read "Lee Price".

LEE PRICE, MMC
CITY CLERK

Attachments:

- 1) Supplemental Questionnaires
- 2) Candidate Statements

INSTRUCTIONS TO VOTERS

1. After marking your ballot cards, insert them and seal them in the return envelope provided. **Do not remove or deface the label on your return envelope; your ballot cannot be counted if the label information is missing.** Mail, route, or deliver your envelope to the **Office of the City Clerk, City Hall, 200 E. Santa Clara Street, San Jose, CA 95113, Wing, Room W-243.** Ballots must be received by the City Clerk **NO LATER THAN 2:00 p.m., TUESDAY, NOVEMBER 4, 2008.**
2. If you mark your ballot incorrectly, you may return it to the Office of the City Clerk and obtain another ballot. If you have any questions about the voting procedure, call the City Clerk's Office at (408) 535-1252.
3. The City Clerk assumes no responsibility for the accuracy or nature of the contents of the Candidate Statements. The purpose of the election is to **nominate** candidates to boards and/or commissions; the City Council makes the appointments and is not obligated to appoint the candidate receiving the highest number of votes in this election.

CANDIDATES' STATEMENTS

BOARD OF ADMINISTRATION FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

ED OVERTON –

I am seeking your support for the Retiree seat on the Board of Administration for the Federated City Employees Retirement System. I am uniquely qualified for this position, having managed the retirement program for more than 30 years. During my tenor I directed the growth of the funds investment portfolio from approximately \$32 million to \$1.9 billion. Through my recommendation the Board hired its first pension consultant. Under my direction the consultant assisted the Board in broadening its investment strategy and increasing the number of investment managers, which resulted in greatly improved investment results. I also directed the acquisition and installation of our state of the art pension administration system. With this new system, the Retirement Department became the sole agent for employee and retiree service and compensation records. I understand the current issues facing the retirement fund, such as what to do to keep a strong health benefit. I have many other accomplishments as Director of Retirement Services, and I seeking to continue contributing to the welfare of our city employees and retirees.

Ed Overton

(OVER)

CANDIDATES' STATEMENTS
BOARD OF ADMINISTRATION POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

BRIAN ARVIN -

Why your vote matters?

- Your Retirement Fund lost almost \$139 million of your money last year!
- Performance nose-dived to the 66th percentile!
- Your HEALTH CARE is under attack!

Who's Brian Arvin?

- Retired in 1995; back, ankle, neck & shoulder injuries.
- I'm 49, married with four children, ages 8 to 17.

Why is Brian Arvin qualified as your Advocate?

- I'm a registered Investment Advisor Representative.
- I hold multiple securities and investment licenses.
- Masters in Business Management.
- Training specialties: Low-cost & high-performance transparent retirement platforms; Extensive training in the 2006 Pension Protection Act.

Why vote for Brian?

- Asset Protection: It's easy to take credit for asset growth during rising markets-protecting your assets during down markets is KEY for you & your loved ones future!
- Health Care Benefits: Are constitutionally guaranteed! I will fight to protect them!
- Strong Voice: Demonstrated history of standing up for your rights!

TOP 3 reasons to vote for my opponent:

- Endorse business-as-usual, but somehow expect different results.
- Continue the status quo: exorbitant travel & entertainment expenses paid out of your fund dollars!
- Bacigalupi has a voting history of NOT supporting disabled police officers.

IT'S YOUR MONEY & I WON'T FORGET THAT!

God Bless

DAVID BACIGALUPI – Retired/Prior Trustee

I am running for election to the Police and Fire Retirement Board as the Retiree Representative. I retired July 12, 2008 after 32+ years; and I am a member of the SJPOA, PBA, and the Association of Retired Police Officers and Firefighters.

I have a BA from SJSU; a "Money Management Fundamentals" Certificate from the Wharton School of Business, University of Pennsylvania; and a "Pension Funds Investment" Certificate from the University of California at Berkeley.

I served as Trustee to the Police and Fire Retirement Fund for eight years, unanimously elected as Chair of the Board during the last six of those years. I also served on or chaired the Investment and Real Estate Subcommittees for those eight years. I served on the SJ Deferred Compensation Committee for 2 years.

My goals are to be an active Trustee, to keep our investments productive and prudent, to keep the benefits secure and the costs controlled. I will promote communication between the Board and the Retirees Association, the SJPOA and Local 230. I vow to work to protect the Retirees' benefits from being the scapegoat of tough economic times and be an active voice in sharing enhanced benefits.

Thank you, David Bacigalupi



RETIREMENT BOARD APPLICATION

Please check the appropriate box:

Police and Fire

Federated

Submit to:

City Clerk's Office

200 E. Santa Clara Street, Wing Room 243

San Jose, CA 95113-1905

(408) 535-1275

CityClerk@sanjoseca.gov

Attention: Dennis Hawkins

PLEASE COMPLETE PAGES 1-4

Date January 2, 2009

Name BACIGALUPI DAVID A.
Last First Middle

Present Address: _____
Number Street City State Zip

How long at current address 2+ years _____

Telephone _____ E-Mail _____

EMPLOYMENT

Current Employer RETIRED Address _____

Telephone _____ Years Employed _____

General Background

1. How did you learn of a vacancy on this Board?

- Internet
- Newspaper
- Personal contact from Councilmember
- Personal contact from City staff member
- Word of mouth
- Other (please specify) personal knowledge

2. Have you attended any Retirement Board meetings in the last 6 months? Yes If so, what was the reason for your attendance? To observe the Board functioning during meetings and try to prepare myself for appointment to the Board.

3. Have you attended any San Jose City Council meetings in the last 6 months? No If so, what was the reason for your attendance?
4. What are your goals and objectives for serving on the Retirement Board? To be an active guardian of the Retirement Fund, and to fulfill the duties and responsibilities of a fiduciary to the plan's stakeholders.
5. Have you read the City Auditor's Retirement Board Travel Audit? Yes
6. Do you support the recommendations of the City Auditor? Yes
7. Do you have any additional recommendations for changes in the Travel Policy? Yes I would consider proposing the establishment of a committee of both Board Chairs, the Director of Retirement Services, a City Manager's representative from the Finance Department and a representative of the City Auditor's Office to review the Travel Policy and recommend changes as deemed appropriate.
8. Have you ever failed to file a Statement of Economic Interest (Form 700) when you were required to do so? No
9. Are you aware that gifts over \$50 in value, including food and entertainment, must be reported on the Form 700? Yes
10. Are you familiar with the City's prohibition of the receipt of most gifts over \$50 in value? (Municipal Code 12.08.010) Yes
11. Have you ever traveled at City expense? Yes
12. Please confirm that you have reviewed and agree to comply with the City of San Jose Ordinance (San Jose Municipal Code Chapter 12.08), City of San Jose Ethics Policy (City Policy Manual 1.2.1), City of San Jose Gift Policy (City Policy Manual 1.2.2), and City Council Conflict of Interest Policy (Council Policy No. 0-34).
 Yes I have read and agree to comply.
 No I have not read and/or do not agree to comply.

Familiarity with Board

1. What is your understanding of the responsibilities of Retirement Board members? The Board is responsible for managing, investing and administering the trust fund of the City's retirement plan. The Board is the fiduciary of the Plan's assets, as guided by Federal, State and Municipal laws. Each Board member assumes that responsibility upon appointment, and must work with the other Board members, Retirement Department Staff and City staff to deliver benefits and safeguard the trust while minimizing risk and costs.

2. What is your understanding of the roles of the Retirement Board in relation to Retirement Services staff? The Board is responsible for setting policies and procedures for the Director and his/her staff to manage the daily operation of the Retirement Plan.
3. What is your understanding of the relationship between the Retirement Board and City Council? The Council grants benefits and delegates to the Board the responsibility to administer the City's Retirement Plan. The Board may also provide input to the Council on any proposed changes to the Plan.
4. What do you consider to be the three most important issues currently facing the Retirement Board? 1) The current economic situation and its impact on the Fund, including reviewing the current asset allocation. 2) The rising cost of medical benefits. 3) Resolving issues raised by the Travel Audit.
5. What do you perceive as the short and long term goals of the Retirement Board? The long term goals of the Retirement Board should be to safeguard the retirement trust fund; to maximize returns within codified restrictions and tolerable risk assumptions; to minimize costs and expenses; and to administer the benefits of the Plan in a professional, expeditious and respectful manner. The short term goals should be to re-evaluate the plan's investments in light of the current economic crisis; to rectify any lapses in Board policies that allow for or give the impression of impropriety; and the orientation and training of new Board members.
6. Have you discussed the role of a Retirement Board member with a current or former Retirement Board member or with Retirement Services staff? Yes
7. What specifically can you add or bring to the Retirement Board? I bring the intelligence, experience and dedication to manage and administer the Retirement Trust Fund; to maintain its actuarial soundness, to fulfill its benefit obligations while reaping the highest possible investment gains within tolerable risk limits, and to minimize member and taxpayer contributions. I am a representative of one of the many stakeholder groups, the retired police officers and firefighters. My 32+ years as a Police Officer/Sergeant and my 8 years of previously representing active police officers gives me the ability to address their concerns about the decision making process of the Board. I bring a unique perspective to the communication between the Board and the Police and Fire Retirees.
8. Do you believe that the retirement funds that are invested by the retirement boards are public funds? No Why or why not? Retirement Funds are a trust designed for the sole purpose of paying the retirement and associated benefits to San Jose Police and Fire Retirees and their qualified beneficiaries, as provided by the Municipal Code.
9. It is commonplace for fund managers and service providers to host large events at industry conferences and events. Do you feel that attendance at these "widely attended" events requires compliance with the City's gift policy and FPPC Form 700 reporting? As I understand the City's gift policy and the FPPC Form 700 requirements, if the events are part of the conference for all participants, then they may not violate the policy or FPPC

requirements, but if only offered to certain persons attending, then they would most likely violate the City's gift policy and/or the FPPC requirements.

Experience/Expertise

1. How do you ensure that you are maintaining an in-depth and up-to-date knowledge of institutional investing and the capital market environment? By reading and listening to pertinent related articles and broadcasts, attending available training, comparing with similar retirement fund board members, and talking with knowledgeable people in the financial world.
2. Given the current status of the capital markets, where do you see opportunities to increase return and reduce risk in the pension portfolios? What is your experience with risk budgeting? In line with the Fund's Investment guidelines, I would pose this question to the various expert consultants and investment managers that the Board hires to provide such opportunities. I believe that one of the reasons for investment diversification is to manage risk, which is defined in the plan's Investment Policy.
3. Please describe your views on the role of asset allocation and provide detail on your recommended asset classes and proportions for pension funds like those serving the employees of the City of San Jose. Asset allocation is the opportunity to increase returns and lower risk for the long term investment of the retirement funds. Asset allocation may be one of the most important duties of the Board. I think that the Police and Fire Retirement Fund has identified a very successful asset allocation for its long term goals, knowing that the Board should continuously review other options if opportunity arises with an acceptable level of risk.
4. Should pension plans like those in San Jose invest in alternative investments such as private equity, commodities, infrastructure or separate account real estate? Yes If so, how? If not, why? The Board should review all forms of investments that it is permitted to consider, with guidance from its hired professionals to increase returns with acceptable risk. When investing in any new asset class, the appropriate investment policies should be written before any investment is made.
5. How would you evaluate an investment manager? I would evaluate an investment manager according to the Fund's Investment Guidelines. When would you terminate an investment manager? Normally, when the manager's performance fails to meet their goals within an acceptable time period, unless some catastrophic event necessitates immediate termination. How should due manager diligence be conducted? With an existing manager, it could be by having the company representatives appear at a Board or Investment Committee meeting, or an onsite visit of the company. To hire a new manager, a list of potential investment managers is generated with the assistance of the Plan's consultant. After a review of each of the companies, a final list of potential companies is narrowed to approximately 3 to 5 managers. Then a subcommittee of Board members

and Staff do on-sight visits of the final candidates, after which a selection is either made, or if necessary, the process is repeated.

6. What should be included in a pension plan's statement of investment policies? Please address the roles of trustees, staff, consultants, investment managers and custodians in asset allocation, portfolio structure, manager selection and due diligence, rebalancing, reporting and analysis. I believe that the Fund's Investment Guidelines includes all of the aforementioned items, and that the Board reviews the guidelines on a regular basis.
7. List any abilities, skills, licenses, certificates, specialized training, work-related experience or interests you have which are applicable to this Board or Commission: I served as a Trustee on the Police and Fire Retirement Board for eight years (1994-2001), the last six years as unanimously elected Board Chair. I attended numerous training opportunities related to Retirement Fund management, investments, benefits, and administration, including from U.C Berkeley and the Wharton School of Business at the University of Pennsylvania. Prior to that, I served two years as Trustee on the City's Deferred Compensation Committee. During my nearly 33 years as a Police Officer (24 as a Police Sergeant), I was also elected to Director and Chief Financial Officer of the San Jose Police Officers' Association.

Background Checks and References

1. Please provide four personal references (not relatives). Please include name, address, and telephone number.
 - 1) Carm Grande,
 - 2) Gaylon & Stefani Burgett,
 - 3) Brian Bennert,
 - 4) Tom & Marsha Nedney,
2. Have you ever been convicted of a crime (except for minor traffic offenses that resulted only in a fine)? Yes No If yes, please explain in complete detail. State the nature and approximate date of the conviction, the sentence imposed, whether the sentence has been completed, and any other information you consider to be relevant.
3. Have you ever been the subject of investigation of financial improprieties? No.



RETIREMENT BOARD APPLICATION

Please check the appropriate box:

- Police and Fire
- Federated

Submit to:

City Clerk's Office
 200 E. Santa Clara Street, Wing Room 243
 San Jose, CA 95113-1905
 (408) 535-1275
 CityClerk@sanjoseca.gov
 Attention: Dennis Hawkins

PLEASE COMPLETE PAGES 1-4						Date 1-5-09
Name:	Arvin	Brian	J.			
	Last	First	Middle			
Present Address:	Number	Street	City	CA	State	Zip
How long at current address:	10 + years					
Telephone:				E-Mail:		
EMPLOYMENT						
Current Employer:	Self			Address:		
Telephone:				Years Employed:	2	

General Background

- How did you learn of a vacancy on this Board?
 - Internet
 - Newspaper
 - Personal contact from Councilmember
 - Personal contact from City staff member
 - Word of mouth
 - Other (please specify) Memo from City Clerk

- Have you attended any Retirement Board meetings in the last 6 months? If so, what was the reason for your attendance?
 Yes. Oct 2008. I was encouraged to attend to meet several board members.

3. Have you attended any San Jose City Council meetings in the last 6 months? If so, what was the reason for your attendance?

No.

4. What are your goals and objectives for serving on the Retirement Board?

To provide fair and reasoned input into the policies that govern investment objectives and performance of the Retirement Fund as well as to insure a fair & impartial Retirement Process consistent with the rules, regulations and policies that are applicable.

5. Have you read the City Auditor's Retirement Board Travel Audit?

Yes.

6. Do you support the recommendations of the City Auditor?

Yes.

7. Do you have any additional recommendations for changes in the Travel Policy?

Not at this time.

8. Have you ever failed to file a Statement of Economic Interest (Form 700) when you were required to do so?

No.

9. Are you aware that gifts over \$50 in value, including food and entertainment, must be reported on the Form 700?

Yes.

10. Are you familiar with the City's prohibition of the receipt of most gifts over \$50 in value? (Municipal Code 12.08.010)

Yes.

11. Have you ever traveled at City expense?

Not to my recollection.

12. Please confirm that you have reviewed and agree to comply with the City of San Jose Ordinance (San Jose Municipal Code Chapter 12.08), City of San Jose Ethics Policy (City Policy Manual 1.2.1), City of San Jose Gift Policy (City Policy Manual 1.2.2), and City Council Conflict of Interest Policy (Council Policy No. 0-34).

Yes I have read and agree to comply.

No I have not read and/or do not agree to comply.

Familiarity with Board

1. What is your understanding of the responsibilities of Retirement Board members?
They have several key functions:
 - A. To provide guidance, input, direction & discernment regarding the policies that govern the investment strategies as well as to serve as a fiduciary and steward of the retirement fund assets.
 - B. To apply fair and impartial oversight/ voting to the disability retirement process.
 - C. To provide timely non-confidential communication to stakeholders.

2. What is your understanding of the roles of the Retirement Board in relation to Retirement Services staff?
The Retirement Board and Retirement Services staff have a working relationship but not an employer/ employee relationship.
The relationship and interactions should be approached with the goal of fostering respect, efficiencies and effective as well as timely communication.
The Retirement Board is tasked in part with insuring that policies are consistent and compliant with laws and regulatory statutes as well as insuring that investment policy and objectives are appropriate for the plan as well as reflective of changing investment opportunities. The Retirement Board may make requests for information that is consistent with the scope of their responsibilities from the Retirement staff thru appropriate channels.

3. What is your understanding of the relationship between the Retirement Board and City Council?
The Retirement Board is an independent body that is responsible to the stakeholders which includes as a primary stakeholder, the City Council.
Within that context, the Board members have a fiduciary responsibility to both retired police and fire retirees, active police and fire employees, future police and fire employees as well as the City Manager, City Council & taxpayers.

4. What do you consider to be the three most important issues currently facing the Retirement Board?
 1. Adopting investment policies that are timely implemented & regularly reviewed that fully integrate both offensive and defensive financial market strategies to avoid the substantial losses that typically occur during down (bear) markets like we are witnessing currently.
 2. Insure that disability retirement standards are fair and unbiased so that they will stand solidly under scrutiny by outside entities.
 3. Insure that the highest standards of integrity and fiscal prudence are maintained by board members.

5. What do you perceive as the short and long term goals of the Retirement Board?
Short term goals: Provide policy support, insight, perspective and options to the Director of Retirement with regards to investment strategies, replacement of fund managers, fund updates, risk assessment guidelines and performance objectives to grow fund assets. I believe we should find ways to support an environment of cohesive and productive work where ALL the stakeholders are considered in decisions.
Long Term Goals: Incorporate all of the 'short term goals', but may also include: increased enhanced benefits for retirees; reduced contribution rates from the city.
6. Have you discussed the role of a Retirement Board member with a current or former Retirement Board member or with Retirement Services staff?
Yes.
7. What specifically can you add or bring to the Retirement Board?
✓ Investment knowledge in the area of Money Management.
✓ Familiarity with the Disability Retirement Process.
✓ Business experience: Creating systems that work & are duplicatable
✓ Business experience: I believe in having an open mind to new ideas and doing what works, not letting ego stand in the way of moving forward.
✓ Business experience: Embrace insightful and differing opinions. This is often the path to greater efficiencies and improved performance.
✓ Business experience: I bring a big-picture perspective to the integral nature of the retirement board and it's fiduciary responsibility to the stakeholders.
8. Do you believe that the retirement funds that are invested by the retirement boards are public funds? Why or why not?
The short answer is 'yes'. However, I believe the question is more meaningful if we talk about the **'stakeholders'**.
Clearly, there are many stakeholders which must be considered: The police and fire retirees and their spouses/ partners; current active police and firefighters; future police and firefighters; the city manager, the city council and certainly the taxpayers ALL have a legitimate financial interest in the welfare of the police and fire retirement fund.
For instance, this current economic climate is illustrative with regards to the fiscal challenges the city of San Jose and almost every other city is facing. When the fund loses the massive amount of money it recently has, the City remains solely responsible to pay for budget items (contribution rates) that may take away from other needed services in the city. Services that suffer may include: safety issues relating to street maintenance, expansion projects to attract new businesses, school upgrades, senior citizen program enhancements... to name just a few.
9. It is commonplace for fund managers and service providers to host large events at industry conferences and events. Do you feel that attendance at these "widely attended" events requires compliance with the City's gift policy and FPPC Form 700 reporting?
Yes.

Experience/Expertise

1. How do you ensure that you are maintaining an in-depth and up-to-date knowledge of institutional investing and the capital market environment?
My licensing requires regular education, training, seminars & licensing compliance.

2. Given the current status of the capital markets, where do you see opportunities to increase return and reduce risk in the pension portfolios? What is your experience with risk budgeting?
This is a complicated question. It requires a standardized definition of 'increased return' and 'reduced risk' which must be addressed in policy guidelines. Generally, the two concepts are diametrically opposed. Typicall, in order to increase return, you must be willing to take on more risk. The concept of 'Risk' is an in-depth discussion all unto itself. It will depend on policy statements.
Risk budgeting is simply a fancy and ambiguous term that is an attempt to mitigate increased risk with increased performance in balance with the overall Fund Objective as well as balancing other fund asset classes.

3. Please describe your views on the role of asset allocation and provide detail on your recommended asset classes and proportions for pension funds like those serving the employees of the City of San Jose.
Clearly, diversification among various asset classes is an important component for a portfolio that requires moderate to minimal risk consistent with a defined benefit plan that is paying out monthly retirement checks.
I find it inappropriate to make specific recommendations regarding the asset class proportion without having significantly greater opportunity for Q & A with the Fund Managers regarding current investment objectives, disciplines and risk assessment within current asset classes.

4. Should pension plans like those in San Jose invest in alternative investments such as private equity, commodities, infrastructure or separate account real estate? If so, how? If not, why?
Whether this is a partial or complete list, the answer is always a measure of the amount of risk (beta) that is acceptable in balance with the performance which in turn should factor in the percentage of that particular investment holding relative to other holdings that may incur less risk, but also may underperform the overall Retirement Fund objective.

5. How would you evaluate an investment manager? When would you terminate an investment manager? How should due manager diligence be conducted?
In part, we should evaluate their performance in balance with the overall risk class, economic climate and comparative performance of other investment managers in the same or similar asset classes. Termination of an investment manager should be considered when their performance is below a certain percentile (such as below the 80th percentile) over a specified period... two quarters might be appropriate for some, where other guidelines may be appropriate in other situations/ disciplines and asset classes. This requires some flexibility based on underling fundamentals.

The real key here is to identify investment firms/ managers that have clear disciplines that utilize both an offensive and defensive strategy and delivers on that strategy.

Fund Manager due diligence should be performed by staff trained to properly evaluate the manager: Considerations such as time horizons, disciplines, overall economic market, comparative indexes, percentile rankings, change in management etc...

6. What should be included in a pension plan's statement of investment policies? Please address the roles of trustees, staff, consultants, investment managers and custodians in asset allocation, portfolio structure, manager selection and due diligence, rebalancing, reporting and analysis.

Without writing a manual that will put everyone to sleep, in simple terms, each of these areas should be reviewed at proper intervals to insure that the goals of the fund are in alignment with the various entities and their related responsibilities.

Trustees: Insure that the Director and Fund Managers are investing in a manner that is consistent with changing global markets as well as new investment opportunities that may improve returns while moderating risk.

Staff: Support the effort and goals of the fund as well as provide appropriate services to the members of the fund.

Consultants: Pension Consultant Firms should be carefully scrutinized as their recommendations will likely result in the key and predominant investments for the fund. Questions to be answered may include: What are their disciplines?, what is their track record?; what is their plan for capital preservation in a down market?

Investment Managers: Same questions as above with a greater focus on their expertise within their asset class.

Custodians in asset allocation: Due diligence should definitely be performed here to insure solvency & integrity.

Portfolio structure: Clearly diversified among various asset classes with a regular weighting (rebalancing) to asset classes that are out-performing in the current/ future economy.

Due diligence: There should be written guidelines (a well constructed Q & A) to insure that key questions are asked and answered in a meaningful way that can be utilized by the decision makers. Areas of key concern would be: Their plan for 'capital preservation' in down (declining) and/or recessionary markets.

Rebalancing: Rebalancing is simply a concept that takes into account current market conditions and re-weights or rebalances the assets in the portfolio to be consistent with the stated acceptable risk of the fund in balance with the asset classes that are currently performing.

Reporting: I believe that monthly reporting is appropriate in a Global Market. There are many Global and Domestic factors that affect market volatility. Today's fund managers and fiduciaries are tasked with greater responsibility, accountability, transparency and must have a global perspective.

Analysis: I'm not sure what you are asking here that we have not already covered.

7. List any abilities, skills, licenses, certificates, specialized training, work-related experience or interests you have which are applicable to this Board or Commission:
- ✓ I have multiple securities licenses: Series 6, 63 and 65
 - ✓ I have Life, Health and Annuity licenses as well.
 - ✓ I teach Wealth Building and Wealth Preservation to Businesses and their employees.

Background Checks and References

1. Please provide four personal references (not relatives). Please include name, address, and telephone number.

1. **Greg Call:**

2. **Rick Trimble:**

3. **Jay Forbes:**

4. **Aaron Ackerman:**

2. Have you ever been convicted of a crime (except for minor traffic offenses that resulted only in a fine)? Yes No If yes, please explain in complete detail. State the nature and approximate date of the conviction, the sentence imposed, whether the sentence has been completed, and any other information you consider to be relevant.
None.

3. Have you ever been the subject of investigation of financial improprieties?
No.



RETIREMENT BOARD APPLICATION

Please check the appropriate box:

- Police and Fire
- Federated

Submit to:
City Clerk's Office
200 E. Santa Clara Street, Wing Room 243
San Jose, CA 95113-1905
(408) 535-1275
CityClerk@sanjoseca.gov
Attention: Dennis Hawkins

PLEASE COMPLETE PAGES 1-4

Date 12/18/2008

Name Overton Edward Franklin
Last First Middle

Present Address: _____
Number Street City Ca State Zip

How long at current address 41 years

Telephone _____ E-Mail _____

EMPLOYMENT

Current Employer retired Address N/A

Telephone _____ Years Employed _____

General Background

1. How did you learn of a vacancy on this Board?

- Internet
- Newspaper
- Personal contact from Councilmember
- Personal contact from City staff member
- Word of mouth
- Other (please specify)

2. Have you attended any Retirement Board meetings in the last 6 months? If so, what was the reason for your attendance? **No, I have not attended a Board meeting in the last 6 months.**

3. Have you attended any San Jose City Council meetings in the last 6 months? If so, what was the reason for your attendance? **No.**

4. What are your goals and objectives for serving on the Retirement Board?

My goals and objectives for serving on the board are to:

-continue to assure the fiscal integrity of the Federated plan

-assure that the interest of the City, the employees and the retirees are protected.

-to maintain a strong administrative structure

-to assure that the funds are invested in accordance with adopted policy

-to assure that a strong spirit of member services is maintained

5. Have you read the City Auditor's Retirement Board Travel Audit?

Yes. I have read it.

6. Do you support the recommendations of the City Auditor?

Yes, I support the recommendations.

7. Do you have any additional recommendations for changes in the Travel Policy?

I do not have additional recommendations at this time. I think the Auditors work is very thorough. I do suggest that the travel policy be reinforced at the Board's annual retreat.

8. Have you ever failed to file a Statement of Economic Interest (Form 700) when you were required to do so?

I have never failed to file a Form 700 when required to do so.

9. Are you aware that gifts over \$50 in value, including food and entertainment, must be reported on the Form 700?

Yes, I am aware that a gift over \$50 in value must be reported on Form 700.

10. Are you familiar with the City's prohibition of the receipt of most gifts over \$50 in value? (Municipal Code 12.08.010)

Yes I am.

11. Have you ever traveled at City expense?

Yes I have.

12. Please confirm that you have reviewed and agree to comply with the City of San Jose Ordinance (San Jose Municipal Code Chapter 12.08), City of San Jose Ethics Policy (City Policy Manual 1.2.1), City of San Jose Gift Policy (City Policy Manual 1.2.2), and City Council Conflict of Interest Policy (Council Policy No. 0-34).

- Yes I have read and agree to comply.
 No I have not read and/or do not agree to comply.

Familiarity with Board

1. What is your understanding of the responsibilities of Retirement Board members?

To perform all duties and responsibilities necessary to carry out its fiduciary duty for the proper management and control of the Federated Retirement System including:

- assuring contributions are made by members and the City
- accurate records of service by members are maintained
- assuring that all receipts and disbursement are appropriate and recorded
- assuring that all individuals who receive benefits are eligible

In addition, the Board establishes investment and other policies necessary for the professional management of the retirement plan. The Board is responsible for entering into all contractual arrangements for investment related services, medical service and advice, actuarial service, auditing and other contracts as necessary. The Board shall also seek to maintain an actuarially sound retirement system by causing periodic actuarial studies of the plan and setting appropriate assumptions and contributing rates. The Board causes an annual audit and a comprehensive annual financial report to be completed. And, the Board determines who is eligible to receive benefits from the retirement plan. Performs other necessary studies and analysis.

2. What is your understanding of the roles of the Retirement Board in relation to Retirement Services staff?

The primary relationship with the staff should be with the Director. The Board should not attempt to manage or direct staff below the Director level. In a case where the Director is not available, it would be appropriate to contact a Deputy.

3. What is your understanding of the relationship between the Retirement Board and City Council?

The Board may make recommendation to the City Council concerning plan improvement or provide such other information concerning plan operations as is requested by Council.

4. What do you consider to be the three most important issues currently facing the Retirement Board?

1. **Completing the work that has begun on achieving complete operational transparency;**
2. **Funding the retirees health plan, and**
3. **Reviewing the investment policy to be sure it remains viable in this economical environment.**

5. What do you perceive as the short and long term goals of the Retirement Board?

In the short term focus on the items listed in question 4. In the long term we should take a look at the health plan design for opportunities to incentivize wellness; take a look at health plan options for retirees living outside the Kaiser service area; review all policies, both investment and operating; work on improving plan funded status; improve Board and staff training and, encourage continued education.

6. Have you discussed the role of a Retirement Board member with a current or former Retirement Board member or with Retirement Services staff?

No, I have not. I am very familiar with the role of a Board member.

7. What specifically can you add or bring to the Retirement Board?

I have over 30 years of experience in pension plan development, design, and management and investment practices. I know that a Board members role is to act as a fiduciary in the management of the plan solely in the interest of plan participants. I have knowledge and experience in accounting and auditing; and, the value and role of the actuarial process. I have review proposals and made appointments of vendors in every discipline in the retirement industry. And, I have evaluated their performance.

8. Do you believe that the retirement funds that are invested by the retirement boards are public funds? Why or why not?

Retirements Funds are Trust Funds. The assets of the Trust are to be held for the exclusive purposes of providing benefits to participants and beneficiaries and defraying the reasonable expenses of administering the system.

9. It is commonplace for fund managers and service providers to host large events at industry conferences and events. Do you feel that attendance at these "widely attended" events requires compliance with the City's gift policy and FPPC Form 700 reporting?

Yes, the same rules should apply. Gifts should not be accepted.

Experience/Expertise

1. How do you ensure that you are maintaining an in-depth and up-to-date knowledge of institutional investing and the capital market environment?

I plan to read various trade publications such as, the Wall Street Journal, Barons and Pensions and Investments and others. In addition I plan to attend 1 or 2 industry conferences as well as reviewing information provided by plan consultants.

2. Given the current status of the capital markets, where do you see opportunities to increase return and reduce risk in the pension portfolios? What is your experience with risk budgeting?

I do not believe that the plan should chase the markets. I favor a strategic policy of asset diversification with tactical strategies employed that have been properly studied and analyzed. Risk budgeting is tool that can be used along with other tools to control and optimize return given a certain level and distribution of portfolio risk.

3. Please describe your views on the role of asset allocation and provide detail on your recommended asset classes and proportions for pension funds like those serving the employees of the City of San Jose.

Asset allocation has the largest impact on risk and return of any action that the Board can take. I believe that a plan such as the Federated Retirement plan should have a broadly diversified plan with exposure to most major asset classes. The specific allocation to different asset classes should be determined only after a comprehensive Asset Liability Model has been developed. Important aspect of the study should are risk tolerance, funded status, and what liability one will be funding for and when payments are due.

4. Should pension plans like those in San Jose invest in alternative investments such as private equity, commodities, infrastructure or separate account real estate? If so, how? If not, why?

Pension funds such as the Federated Plan should have exposure to all major capital markets. The specific exposure should be determined after an asset liability model is completed. Given the size of the Federated Plan, comingled funds is probably the best approach. Using a fund strategy gets the Plan skilled professional management and the greatest diversity.

5. How would you evaluate an investment manager? When would you terminate an investment manager? How should due manager diligence be conducted?

Investment managers should be evaluated against criteria that were used to hire them. Active managers are expected to add value over their passive benchmarks given the amount of risk that they take. They are also expected to outperform the median manager in their peer group. Managers are expected to achieve these goals over trailing periods, for example one, three or five years. Managers should be terminated if there are significant changes to philosophy, process or personnel. A manager may also be terminated for repeated failure to meet performance targets.

Each manager is hired to fill a certain discipline in the portfolio. Due diligence should thoroughly analyze the philosophy, process and personnel of the manager along with their track record. The manager's strategy should fill the needs of the plan, be completely understandable and repeatable. We should also develop an understanding of when the managers are expected to outperform and when they are not.

6. What should be included in a pension plan's statement of investment policies? Please address the roles of trustees, staff, consultants, investment managers and custodians in asset allocation, portfolio structure, manager selection and due diligence, rebalancing, reporting and analysis.

The Pension Plan's Statement of Investment Policies should provide the framework for the environment which will be affected by the Policy. Including but not limited to (1) the purpose for the Policy, (2) Statement of Objectives, (3) Duties and Responsibilities of all Principals, (4) Asset Allocation Policy, (5) Investment Manager Selection Process, (6) Manager and Securities Guidelines, Control Procedures and, (7) Exceptions. Successful implementation of the Investment Policy depends on each of the principals to the policy carrying out their assigned duties and responsibilities. The trustees adopt the policy and assign responsibility for its implementation to various committees, staff, consultants, investment managers and its custodian bank. The Trustees as assigned committee members reviews; the overall fiscal status of the retirement plans; investment performance of its managers, consultant and custodian bank; the actual asset mix versus the policy mix; general compliance with policy statement; transfer of assets and all rebalancing; makes recommendations for changes to the investment policy statement adopts asset allocation plan; performs vendor searches and authorizes contracts; provides direction to the Director of Retirement Services; recommends acquisition and disposition of real property, and recommends hiring or firing of real estate fund managers.

The staff is charged with day-to-day responsibility for: managing and monitoring cash flow requirements; implementing rebalancing directives; ensuring compliance with all applicable regulations and policies and procedures; reviewing the strategic asset allocation; reviewing and monitoring investment managers for compliance with investment guidelines; preparing investment reports; monitoring timeliness and accuracy of custodian reports; identifying issues to be brought to the Boards

attention and making recommendations on such matters and other matters as directed by the Board.

The System's consultant should: assist in the preparation of quarterly monitoring and performance reports including whether the managers are in compliance with mandates and investment guidelines and report results on a quarterly basis; advise on the investment policy; produce studies as requested; present educational material for and new developments for the Board; define universe of asset managers used for comparison with system managers; assist the Director with Asset Liability studies, manager structure studies and, the manager search and selection process.

The Custodian duties include: settling all transactions; collecting income; safekeeping and accounting for assets; providing audited accounting reports; providing other services to insure the integrity of the systems assets.

The Investment Managers responsibility include: investing and reinvesting the System's assets in accordance with the IPS and guidelines set forth and as contractually agreed; Informing the Board in writing regarding all significant matters and changes pertaining to the System's assets under its management; Utilizing the care, skill, prudence and due diligence under the circumstances then prevailing that experience investment professionals acting in a like capacity and fully familiar with such matters would use.. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS.

The role of Asset Allocation is to establish a portfolio with the greatest expected investment return and the most positive impact on asset values and funded status without exceeding a prudent level of risk. Target ranges are typically established within broad asset classes as well as secondary allocations within a particular asset class. When asset class or secondary target reaches a certain threshold, the IPS should provide for a rebalancing directive. The asset allocation and portfolio structure will guide manager selection. The Board establishes manager search criteria based on the qualifications of the firm and the discipline needed. Firms are a bank insurance company investment management company, or investment adviser as defined by the Registered Investment Advisors Act of 1940. In addition, the Boards investment contracts need to comply with the applicable sections of the San Jose Municipal Code. It should be acknowledged that good managers sometime experiences poor performance. Managers should be subjected to periodic due diligence so that the Board maintains confidence in the firms and prevents excessive manager turnover.

7. List any abilities, skills, licenses, certificates, specialized training, work-related experience or interests you have which are applicable to this Board or Commission:

I have 34 years of experience managing pension plans. I have guided the development of investment policies, conducted consultant searches, investment manager searches, custodian banks searches, evaluated real estate property, installed an administrative system and contracted actuaries. These and other plan activities qualify me to serve on the Board.

Background Checks and References

1. Please provide four personal references (not relatives). Please include name, address, and telephone number.

Brian Bennert
Ligia Gonzalez
David Armstrong
Mike Reinig

2. Have you ever been convicted of a crime (except for minor traffic offenses that resulted only in a fine)? Yes No If yes, please explain in complete detail. State the nature and approximate date of the conviction, the sentence imposed, whether the sentence has been completed, and any other information you consider to be relevant.
3. Have you ever been the subject of investigation of financial improprieties?
No.