

San Mateo County Employees' Retirement Association
Minutes of the Investment Committee

June 23, 2000 – Investment Committee Agenda

PUBLIC SESSION - The Committee will meet in Public Session at 2:30 p.m.

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes
- 4.0 Oral Communications from the Committee
- 5.0 Oral Communications from the Public
- 6.1 Approval of Amendments to *SamCERA's Investment Plan*.
- 6.2 Approval of Investment Consulting Contract with Gray & Company.
- 6.3 Approval of Investment Consulting Contract with Strategic Investment Solutions.
- 6.4 Approval of Extension of & Amendments to Bank of Ireland Asset Management Contract.
- 6.5 Acceptance of Report on Transition of Assets to new Asset Allocation & Manager Structure.
- 6.6 Acceptance of Report on the Prepayment of the County's Contribution for Fiscal Year 2000-2001.
- 7.0 Other Business
- 8.0 Adjournment

MINUTES OF SAMCERA's Investment Committee

- 1.0 Call to Order** Mr. Cottle called the Public Session of the Investment Committee to order at 2:34 p.m., June 23, 2000, in *SamCERA's* Board Room, Suite 280, 702 Marshall Street, Redwood City
- 2.0 Roll Call** Mr. Bryan, Ms. Colson (3.20) and Mr. Cottle. *Board Members in Attendance:* Mr. McMahon and Ms. Stuart. *Trustee Elect:* Sgt. Keith Hoffman. *Staff:* Mr. McCausland, and Mr. Clifton. *Consultant:* Mr. Anderson *Public:* Retiree one.
- 3.0 Approval of the Minutes**
Approval of the Minutes of May 22, 2000 Mr. Cottle forwarded wording changes to staff. **Motion** by Cottle, second by Bryan, to approve the Minutes of March 27, 2000 as amended. **The motion carried unanimously.**
- 4.0 Oral Communications from the Committee** None
- 5.0 Oral Communications from the Public** Mr. John Murphy speaking as the appointed representative of SCORPA, complimented the Committee and Board on their diligence and good work. He provided an article from the June 23, 2000 Wall Street Journal entitled *Managed Accounts Win More Fans*, which reports on the increase in separate account management for an individual's portfolio.
- 6.1 Approval of Amendments to *SamCERA's Investment Plan*.** Mr. Cottle and Ms. Colson feel more comfortable referring to the investment governance as a policy versus a plan.

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However there are more weighty issues and the name will be revisited at a future date. Under the Actuarial Liabilities Section Ms. Colson questioned the reason for referring to GASB 5. She notes that since the mid-nineties the requisite measure of funding is GASB 25. **Action: The Committee unanimously agrees to measure funding only by GASB 25.**

Mr. Cottle suggests that Section Three – Acceptable Risk incorporates the twenty standards of the Risk Standards Working Group. Mr. McCausland suggests that *SamCERA's* we reference the risk standards document in the appendix and reference that *SamCERA* embrace those standards. Ms. Colson notes adopting the standards implies that they will apply to our managers, through incorporation of the Investment Plan in all Management Contracts. **Action: Mr. McCausland will redraft the Risk Section and the Institutional Memory will be moved to an appendix. In reference to the Asset Allocation Mr. Cottle prepared a footnote referring to the Beebower studies for inclusion in the year 2000 history. The Committee unanimously agrees.**

Responding to a question to from Ms. Colson, Mr. Anderson stated that a 3% tracking error for a total portfolio is very reasonable. *SamCERA's* current mix looks more like the benchmark and should be less than the 3%. **Action: The Committee unanimously agrees to leave the tracking error at $\pm 3\%$ with the proviso that they try to become more proactive in using it.**

Section Four includes the latest Asset Liability Modeling Study. It is an integral part of the Plan, but a complex box of numbers. Mr. Cottle suggests it would be useful to include a couple of paragraphs providing the reader with an overview. **Action: Mr. McCausland will craft an introduction explaining the methodology and extolling the importance of the study.**

Section Five **by consensus does not require any alteration.**

The first three items in Section Six are the primary objectives. The next three are the secondary objective and a third objective for the Investment Managers will be included. **Action: The objectives will be classified as primary, secondary and manager objective.**

The effectiveness of the pie chart in Section Seven is questioned. **Action: A chart illustrating the asset allocation will be included under Section Eight – Asset Allocation**

The Committee opined that prior to Section Nine is a great place to break for this session. The rest of the document will be reviewed during the next meeting.

- 6.2 Approval of Investment Consulting Contract with Gray & Company.** Staff developed a standard Investment Consulting Agreement fashioned after the Investment Manager Agreement. The contract term is three years, which may be cancelled with thirty days notice. The scope of work includes those service specified in the Request for Information, which are Investment Policy Services, Investment Manager Services, Education Services, Special Services (Administrative Oversight) and Quarterly Reporting. The retainer fee is \$95,000 per year, which in addition to the above includes one manager search. The Consultant is duly registered with the Securities and Exchange Commission, deemed to be a Fiduciary and held to a high standard of care. Other covenants cover conflict of interest, confidentiality, disclosure, governing law, insurance and indemnification. The Committee suggested

Mr. Cottle requested an amendment to Section Two, Fees. He notes the provision

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allowing for increases tied to the San Francisco-Oakland-San Jose area consumer price index should be limited to once per annum. Mr. Cottle also suggested that the standard of care under Section Three, Fiduciary Status should be that of a prudent expert rather than a prudent person.

Motion by Bryan, second by Cottle, **carried unanimously** to recommend that the Board adopt the resolution as follows:

WHEREAS, Article XVI, §17 of the Constitution of the State of California vests the Board with "*plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system*"; and

WHEREAS, Government Code §31595 vests in the Board ". . . *exclusive control of the investment of the employees retirement fund.*"; and

WHEREAS, Government Code §31596.1 (d) authorizes the Board to retain investment consultants ". . . *in connection with administration of the Board's investment program* . . . "; and

WHEREAS, on April 25, 2000, the Board reviewed proposals and interviewed representatives from three firms proposing to perform investment consulting services for the Board, and the Board selected the firm of Gray and Company for a full retainer investment consulting relationship; and

WHEREAS, County Counsel has approved the new contract as to form and the Investment and Finance Manager has recommended approval of the contract. Therefore, be it

RESOLVED that the Board hereby approves a contract, which the Board may terminate on thirty days notice, with Gray and Company for a term of three years. Be it further

RESOLVED that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC §31596.1 in accordance with *SamCERA's* internal controls. Be it further

RESOLVED that the Board hereby authorizes the Chair, to execute the contract on behalf of the Board. Be it further

RESOLVED that the Board hereby designates the Chief Executive Officer as its designee to perform those functions so identified in the contract and hereby authorizes the Chief Executive Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract. Be it further

RESOLVED that the Board hereby reserves to itself sole authority to accept, modify, or reject the recommendations that the investment consultant may present from time to time pursuant to the provisions of the contract.

6.3 Approval of Investment Consulting Contract with Strategic Investment Solutions.

The Strategic Investment Solutions (SIS) Agreement follows the format developed for Investment Consultants. The relationship with SIS is for special projects. The Scope of work details the type of projects that may be requested. Each project will be priced separately either with a preset price or an hourly rate.

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Mr. Cottle requested the same amendments as those adopted for the Gray & Company Investment Consultant Agreement. Section Two, Fees will limit increases tied to the San Francisco-Oakland-San Jose area consumer price index to once per annum. Section Three will require a standard of care that a prudent expert acting in a like capacity and familiar with such matters would use.

Motion by Colson, second by Bryan, **carried unanimously** to recommend that the Board adopt the resolution as follows:

WHEREAS, Article XVI, §17 of the Constitution of the State of California vests the Board with "*plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system*"; and

WHEREAS, Government Code §31595 vests in the Board "*. . . exclusive control of the investment of the employees retirement fund.*"; and

WHEREAS, Government Code §31596.1 (d) authorizes the Board to retain investment consultants "*. . . in connection with administration of the Board's investment program . . .*"; and

WHEREAS, on April 25, 2000, the Board reviewed proposals and interviewed representatives from three firms proposing to perform investment consulting services for the Board, and the Board selected the firm of Strategic Investment Solutions, Inc. for a special projects investment consulting relationship; and

WHEREAS, County Counsel has approved the new contract as to form and the Investment and Finance Manager has recommended approval of the contract. Therefore, be it

RESOLVED that the Board hereby approves a contract, which the Board may terminate on thirty days notice, with Strategic Investment Solutions, Inc. for a term of three years. Be it further

RESOLVED that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC §31596.1 in accordance with *SamCERA's* internal controls. Be it further

RESOLVED that the Board hereby authorizes the Chair, to execute the contract on behalf of the Board. Be it further

RESOLVED that the Board hereby designates the Chief Executive Officer as its designee to perform those functions so identified in the contract and hereby authorizes the Chief Executive Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract. Be it further

RESOLVED that the Board hereby reserves to itself sole authority to accept, modify, or reject the recommendations that the investment consultant may present from time to time pursuant to the provisions of the contract.

- 6.4 Approval of Extension of & Amendments to Bank of Ireland Asset Management Contract.** The Committee reviewed the BIAM Agreement noting that it was the same as the existing Agreement with two amendments. The first adopts the MSCI All Country World Index ex-US (ACWI ex-US) as the benchmark to replace the MSCI World ex-US Index. The second change is to include additional levels of marginal pricing in the fee schedule on Exhibit C. Staff pointed out that because this is a commingled relationship BIAM has chosen the Custodian who is Chase Manhattan Bank. Exhibit D as incorporated into the Agreement is the BIAM Group Trust Agreement. It names Chase as the Custodian and defines the mandates of the Trust. Mr. Cottle points out that the Group

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Trust Agreement is what it is. Its broad scope is designed to capture most market events without the need to approach the numerous participants with continual amendments. After the recent reallocation of assets, Bank of Ireland Asset Management is responsible for the investment of ~14.4% or ~\$200 million of *SamCERA's* assets

Motion by Colson, second by Bryan, **carried unanimously** to recommend that the Board adopt the resolution as follows:

WHEREAS, Article XVI, §17 of the Constitution of the State of California vests the Board with "*plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system*"; and

WHEREAS, Government Code §31595 vests in the Board ". . . *exclusive control of the investment of the employees retirement fund.*"; and

WHEREAS, Government Code §31596.1 (d) authorizes the Board to retain investment managers ". . . *in connection with administration of the Board's investment program . . .*"; and

WHEREAS, on July 18, 1996, the Board reviewed the qualifications of, and interviewed representatives from, four firms proposing to perform active international equity investment management services for the Board, and the Board selected the Bank of Ireland Asset Management (U.S.) Limited; and

WHEREAS, Board Resolution 96-97-05 approved the initial contract between the San Mateo County Employees' Retirement Association and Bank of Ireland Asset Management; and

WHEREAS, County Counsel has approved the new contract as to form and the Investment and Finance Manager has recommended approval of the contract. Therefore, be it

RESOLVED that the Board hereby approves a contract, which the Board may terminated on thirty days notice, with Bank of Ireland Asset Management (U.S.), Limited for a term of three years. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Bank of Ireland Asset Management (U.S.) Limited to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the contract, the *Investment Plan* (as incorporated into the contract), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

RESOLVED that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC §31596.1 in accordance with *SamCERA's* internal controls. Be it further

RESOLVED that the Board hereby authorizes the Chair, to execute the contract on behalf of the Board. Be it further

RESOLVED that the Board hereby designates the Chief Executive Officer as its designee to perform those functions so identified in the contract and hereby authorizes the Chief Executive Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.

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6.5 Acceptance of Report on Transition of Assets to new Asset Allocation & Manager Structure. Mr. Clifton reviewed the preliminary reports from Deutsche Asset Management and Barclays Global Investors regarding the transition of assets to the recently adopted asset allocation and manager structure. Deutsche Asset Management transferred assets under their management from a separate international fixed income portfolio and a US fixed income mutual fund into a separately managed core US fixed income portfolio. SamCERA. The mutual fund assets of ~\$135 million were transferred in-kind on June 6th. The international assets of ~\$32 million were liquidated and the proceeds used to purchase US fixed income settling on May 31st and June 1st.

Barclays Global Investors' report dated June 15, 2000 contained only partial information regarding the transition of assets from the BGI WGBI, Boston Partners, Westport asset Management, Dresdner RCM, and Sprucegrove portfolios to the BGI US Debt, Russell 1000 and Russell 2000 Index Funds. The report shows US Equity internal and external crossing of only 7.58% and International equity crossing of 19.47% both below the estimates of 36% & 35% respectively. When this report was generated ~87% or ~\$366 million of the assets had been transferred. Some of the international equities have not settled; proceeds from the currency hedge have not been included and residual cash remains in all of the portfolios. Final reports will be presented at the July Committee Meeting. **By consensus the Committee accepts the report.**

6.6 Acceptance of Report on the Prepayment of the County's Contribution for Fiscal Year 2000-2001. Mr. Clifton provided a report detailing the Controllers intent to prepay the County's required retirement contribution again next fiscal year. He explained that Government Code §31453 mandates an actuarial valuation shall be made and the Retirement Board shall recommend to the Board of Supervisors such changes in the rates of contributions of member, and in county and district appropriations as necessary. Government Code §31581 states the Board of Supervisors shall, in the preparation and adoption of the county budget, include therein an appropriation determined pursuant to Section 31453. Finally, Government Code §31582 requires the County Auditor to certify at the end of each pay period of the total amount of compensation paid and to thereupon transfer from the appropriation to the Retirement Fund the percentage of the amount determined pursuant to Sections 31453. Government Code §31582 also allows for the Board of Supervisors to authorize the County Auditor to make an advance payment of all or part of the county's estimated annual contribution to the Retirement Fund.

The prepayment calculation was provided by William M. Mercer based on a total payroll of \$262,708,272. The payroll includes an average merit increase of 1.0% throughout the fiscal year and a 4.0% increase effective October 15 attributed to the Memorandum of Understanding (MOU). The prepayment amount discounted by the 8.25% assumption rate is \$38,835,544. It will be made at the end of the first pay period on July 14th. Mr. Clifton informed the Committee that the decision to prepay the contribution lies with the Board of Supervisors. They are scheduled to make the decision during their July 11, 2000 meeting. The treasurer asked Mr. McCausland to report to the Committee that he is not prepared to fund the County's prepayment on a timely bases so the Treasurer and Controller will be discussing the matter at their mutual convenience. **By consensus the Committee accepts the report.**

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- 7.0 Other Business** Mr. Clifton distributed materials provided by Deutsche Asset Management. The material describes the Deutsche Asset Management US Core Enhanced Fixed Income product and provides biographies of the Core and Enhanced Core team. The Committee previously requested these items. Also distributed were a table and chart depicting *SamCERA*'s returns from the beginning of the calendar year through June 21, 2000 and the Asset Allocation as of that date.
- 8.0 Adjournment** There being no further business Mr. Cottle adjourned the Committee at 4:35 p.m.