

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

September 26, 2006

Agenda Item 3.0

August 22, 2006 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 1 p.m.

1. [Call to Order](#)
2. Roll Call
 - 2.1 [Roll Call](#)
 - 2.2 [Swearing in of Trustees](#)
3. [Approval of the Minutes](#)
4. Oral Communications
 - 4.1 [Oral Communications From the Board](#)
 - 4.2 [Oral Communications From the Public](#)
5. Benefit & Actuarial Services
 - 5.1 [Adoption of Consent Agenda](#)
 - 5.2 [Consideration of Items Removed from Consent Agenda](#)
 - 5.3 [Approval of Topics for the Actuarial Consultant Review – Milliman Inc.](#)
6. Investment Services (The Investment Committee will meet on August 22 at 9 a.m.)
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Quarterly Investment Performance Analysis for Period Ended June 30, 2006](#)
 - 6.3 Annual Review of *Sam CERA*'s Small Cap Equity Asset Class and Investment Managers
 - 6.3 a [Annual Investment Manager Review – Brandes Investment Partners](#)
(Interviewed By The Board)
 - 6.3 b [Annual Investment Manager Review – Chartwell Investment Partners](#)
(Interviewed By The Investment Committee)
 - 6.3 c [Annual Investment Manager Review – Goldman Sachs Asset Management](#)
(To Be Interviewed With BGI As An Enhanced Index Manager In November 2006)
 - 6.4 [Annual Review of Sam CERA's Real Estate Asset Class and Investment Manager – INVESCO Realty Advisors](#) *(Interviewed By The Investment Committee)*
 - 6.5 [Approval of Amendments to Sam CERA's Investment Management Agreement](#)
 - 6.6 [Approval of Documentation for the Implementation of Security Lending](#)
 - 6.7 [Educational Presentation by Strategic Investment Solutions – Private Equity](#)
(The presentation will be at the Board)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Approval of Topics for the Annual Review of Sam CERA's Attorney – County Counsel](#)
8. Management Reports
 - 8.1 [Chief Executive Officer's Report](#)
 - 8.2 [Assistant Executive Officer's Report](#)
 - 8.3 [Investment & Finance Manager's Report](#)
 - 8.4 [County Counsel's Report](#)

CLOSED SESSION – The board will meet in closed session prior to adjournment

- C1 Consideration of items, if any, removed from the Consent Agenda
- C2 Conference with Legal Counsel - Anticipated Litigation
Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9
One Matter
9. Report on Actions Taken in Closed Session
10. Adjournment

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

August 22, 2006 – Board Minutes

0608.1 **Call to Order:** Mr. Bryan, chair, called the Public Session of the Board of Retirement to order at 1:00 p.m., August 22, 2006, in *SamCERA's Board Room*, Suite 125, 100 Marine Parkway, Redwood Shores.

Mr. Bryan then took up agenda item 2.2.

0608.2.1 **Roll Call:** Mr. Bryan, Ms. Arnott for Mr. Buffington, Mr. Hackleman, Mr. Hooley, Mr. Lewis, Ms. Stuart, Ms. Tashman (arr. 1:28 p.m.) and Mr. Wozniak. *Excused:* Ms. Colson. *Alternate Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Ms. LeBlanc. *Consultants:* Mr. Blum, Ms. Carlson, Dr. Fracchia, Mr. Hempler, Ms. Jadallah and Mr. Thomas. *Retirees:* 0, *Actives:* 0.

Mr. Bryan then took up agenda item 3.

0608.2.2 **Swearing in of New Trustee:** Mr. Wozniak swore to serve as a faithful fiduciary for all members, retirees and beneficiaries; to serve as a prudent administrator of the County's Retirement System; and to support, defend and bear true faith and allegiance to the Constitutions of the United States of America and the State of California in accordance with *Regulation 2.3.1*.

Mr. Bryan then took up agenda item 2.1.

0608.3 **Approval of the Minutes: Motion** by Hackleman, second by Hooley, carried unanimously, to approve the minutes of the July 25, 2006, board minutes, as submitted.

0608.4.1 **Oral Communications From the Board:** None.

0608.4.2 **Oral Communications From the Public:** None.

0608.5 **Benefit & Actuarial Services**

0608.5.1 **Adoption of Consent Calendar: Motion** by Stuart, second by Lewis, carried unanimously to adopt the consent calendar, as submitted, as follows:

Disability Retirements:

The Board finds that **Ana Salinas** is disabled from performing her usual and customary duties as a School Bus Driver and **GRANTS** her application for a *Service-connected* disability.

The Board finds that **Denise Norack** is disabled from performing her usual and customary duties as a Psychiatric Social Worker II and **GRANTS** her application for a *Service-connected* disability.

Routine Actions taken by staff pursuant to the board's *Delegation of Authority* and the *Regulations of the Board of Retirement*:

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

Service Retirements:

Petersen, Gary	November 4, 2005 (Plan 3)	
Underwood, Paul	January 28, 2006 (from deferred)	Library
Assar, Maria	February 11, 2006 (from deferred)	San Mateo Medical Center
Salvago, Consuelo	July 1, 2006 (from deferred)	D istrict A ttorney's 0 ffice
Burke, Rose	August 1, 2006 (from deferred)	Department of Public Health
Howard-Hill, Juanita	August 5, 2006	San Mateo Medical Center
Wendler, Paul	August 5, 2006	D istrict A ttorney's 0 ffice
Gomez, Rebecca	August 19, 2006	Human Services Agency
Hartley, Linda	August 26, 2006	Human Services Agency
Germain Pattison, Cynthia	August 26, 2006	Department of Mental Health
Myers, Brenda Jo	August 26, 2006	Human Services Agency
Thon, Carolyn	August 26, 2006	San Mateo Medical Center
Elliot, Mary	August 31, 2006	Dept. of Child Support Services
Townsley, Jorie	August 31, 2006	Dept. of Child Support Services
William, Cody	August 31, 2006	D istrict A ttorney's 0 ffice

Continuance of Benefits:

Lawhern, Densel		Beneficiary of Toni
Rhees, Edna		Beneficiary of Ervin

Deferred Retirements:

Alexander, Dyan	G3 vested	
Chang, Paul	G2 vested	
Dunn, Felton	G2/3 vested	
Farahmand, Gelareh	P4 vested	
Grove, Lisa	G2 vested	
Hurtado, Oscar	G3 vested	
Jhin, Paul T.	G4 non-vested	Reciprocity
Marquez, Regina, L.	G4 vested	
Mccooy, Lori A.	G2/3 vested	

Extended Purchase:

None.

Refunds For August 2006:

None.

Rollovers for August 2006:

None.

0608.5.2 **Consideration of Items Removed from Consent Agenda:** None.

0608.5.3 **Approval of Topics for the Actuarial Consultant Review – Milliman Inc.:** Mr. Clifton

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

presented the list of suggested questions that will be submitted to Milliman prior to their annual actuarial consultant review. He asked trustees to complete the actuarial evaluation form and return it to him as soon as possible. Milliman's review will be held following their presentation of *SamCERA's* actuarial valuation for the period ending June 30, 2006, at next month's board meeting.

Motion by Hackleman, second by Hooley, carried unanimously to approve the topics for the actuarial consultant review of Milliman, Inc.

0608.6 **Investment Services**

0608.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton presented the monthly portfolio performance report for the period ending July 31, 2006. *SamCERA's* 0.16% Total Fund Return for the month outperformed the Total Plan Policy Benchmark return of -0.13%. The Fund's 10.13% return for the trailing twelve months is 238 basis points above the Actuarial Discount Rate of 7.75% and 64 basis points above *SamCERA's* Total Plan Policy Benchmark of 9.49%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$899,996,196	-0.48%	5.56%	4.92%
<i>International Equity</i>	294,749,474	2.14%	25.67%	9.80%
Total Equity	1,194,745,670	0.16%	10.13%	6.04%
Fixed Income	520,962,058	1.41%	2.04%	5.28%
Real Estate Aggregate	137,547,767	0.00%	24.08%	14.02%
Cash Equivalents	32,769,319	0.35%	3.81%	2.90%
TOTAL FUND	\$1,886,024,813	0.49%	8.41%	6.82%
<i>Benchmark</i>		0.31%	7.72%	6.60%

* Total Time-Weighted Rate of Return

0608.6.2 **Quarterly Investment Performance Analysis for Period Ended June 30, 2006:** Mr. Clifton reported that **Margaret Jadallah** and **Patrick Thomas** of Strategic Investment Solutions provided an in-depth presentation on *SamCERA's* quarterly investment performance for the period June 30, 2006, at the Investment Committee in which SIS reviewed each of *SamCERA's* investment managers in detail. Mr. Thomas then performed a brief re-cap of the presentation for the board. The second quarter was a tough quarter in the capital markets with zero or near zero returns for the main asset classes. Although the portfolio did not perform well on an absolute basis, the portfolio did do very well on a relative basis, outperforming the policy index by 50 basis points and performing well relative to its public fund peers. He stated that the main contributor to the return was the Association's active managers who, as a group, performed very well. As a result of several good quarters, *SamCERA's* return for the trailing 12 months has improved and for all trailing periods since inception of the revised investment plan, *SamCERA* exceeds policy index and ranks in the top half in the comparable public fund universe. Mr. Thomas stated that he was quite pleased with the progress of the portfolio.

0608.6.3 **Annual Review of *SamCERA's* Small Cap Equity Asset Class and Investment Managers:** Mr. Clifton briefly reviewed *SamCERA's* small cap management structure. *SamCERA's* current management structure consists of a small cap growth (Chartwell Investment Partners), small cap value (Brandes Investment Partners) and small cap core manager (Goldman Sachs Asset Management). *SamCERA's* small cap core manager maintains an enhanced product.

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

Mr. Clifton then compared the assets under management for each manager as well as each firm's management fees.

Mr. Bryan then took up agenda item 6.3b.

0608.6.3a **Annual Investment Manager Review – Brandes Investment Partners:** Mr. Clifton reminded the board that *SamCERA* had hired Brandes Investment Partners for the small cap value mandate in November 2004. There is approximately \$45 million in the Brandes portfolio which currently maintains a total of \$620 million in the product. Mr. Clifton said that Brandes does not utilize soft dollars, maintains a tight commission recapture policy, effectively monitors trading costs, and has a robust compliance department. Brandes currently has hard closed its product, not allowing new money from new or existing clients unless clients have withdrawn funds. Mr. Bryan noted that Brandes has illustrated very volatile returns although it has performed better during the last quarter. Mr. Thomas said that although Brandes' performance is indeed a disappointment, it is not a cause for alarm given Brandes' high tracking error. He opined that the returns have fallen within reasonable expectations and expects improvement to continue going forward.

Michael Israel, Portfolio Manager, was present at the board meeting for Brandes' annual review. Mr. Israel reviewed Brandes' organizational structure, investment philosophy and implementation process for the board. He then discussed the portfolio's performance and current sector allocation while answering specific questions from trustees.

Mr. Israel stated that Brandes utilizes a Graham & Dodd value style investment philosophy. He said that Brandes implements this philosophy through detailed company research, a team decision process, disciplined portfolio construction and a consistent sell discipline. He reminded the board that Brandes is a contrarian investor that attempts to implement long-term decisions that could possibly be unpopular in the short-term. Once analysts establish a proper intrinsic value for a specific stock, they then determine an appropriate margin of safety. He opined that, as contrarian investors, the tendency to buy or hold things that the market does not like is the only consistent way to continue to purchase stocks at two-thirds of intrinsic value.

In response to a question from Ms. Jadallah, Mr. Israel stated that underperforming stocks are not necessarily reviewed more often than usual and that Brandes is careful not to use price as a determination of something wrong with a company's intrinsic value. However, should a company claim bankruptcy, it is instantly reviewed by the committee.

Mr. Israel then reviewed the portfolio performance since inception. He firmly believes that their investment process will work in long-run and recognizes the underperformance relative to the Russell 2000 in the short to intermediate term which the portfolio has currently been experiencing. With the firmly committed 20+% weighting to the auto-component sector which is currently extremely cheap, he asserts that the portfolio is positioned very well to outperform going forward.

In terms of rebalancing, Ms. Jadallah asked Mr. Israel if Brandes would be amenable to allow *SamCERA* to rebalance on a percentage versus absolute dollar basis. Brandes is targeted as 2.5% of *SamCERA*'s portfolio. Mr. Israel stated that it will depend on the difference in dollar amounts.

Mr. Bryan then took up agenda item 6.7.

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

- 0608.6.3b **Annual Investment Manager Review – Chartwell Investment Partners:** Mr. Clifton reported that **David Reidinger**, Portfolio Manager/Senior Analyst, and **Michael McCloskey**, Managing Partner, were present at the Investment Committee for Chartwell's annual review. He performed a brief re-cap of what was discussed during the investment committee. Mr. Clifton stated that *SamCERA* hired Chartwell for the small cap growth mandate in November 2004. They have outperformed the Russell 2000 Growth by 230 basis points since inception but underperformed the Russell 2000 by 5 basis points. Chartwell currently has \$1.3 billion in the entire product with \$43.1 million of that from *SamCERA*. The product is essentially closed at \$1.3 billion plus additional commitments. From the review held earlier in the day, the committee is under the impression that Ed Antonian, the veteran small cap growth investor, has a large amount of decision-making power in the product. Ms. Jadallah stated that Mr. Antonian has been a very successful investor and had done a very good job for SIS' clients. Mr. Thomas also added that Chartwell has extended ownership to more employees. He stated that Chartwell is a good fit as *SamCERA*'s small cap growth manager.
- 0608.6.3c **Annual Investment Manager Review – Goldman Sachs Asset Management:** Mr. Clifton stated that the board had previously determined that Goldman Sachs be interviewed in November with BGI as an enhanced index manager. He will ask the board to review the list of topics for the review at next month's board meeting. The Investment Committee has discussed a few concerns over the past few months, specifically regarding the dispersion between the composite and *SamCERA*'s portfolio returns as well as the stock-specific residual factor. Mr. Lewis asked staff to request that GSAM bring the slides that they had previously presented to the board regarding that residual factor for their annual review.
- 0608.6.4 **Annual Review of *SamCERA*'s Real Estate Asset Class and Investment Manager – INVESCO Realty Advisors:** Mr. Clifton reported that **Max Swango**, Global Partner INVESCO Real Estate, and **Bill Grubs**, Portfolio Manager INVESCO Core Real Estate – USA, were present at the Investment Committee for INVESCO's annual review. Mr. Swango and Mr. Grubs had updated the committee on the status of the core product. *SamCERA* had joined the core product at its inception as one of the five founding investors. The product has had significant growth since then. SIS expressed concern regarding INVESCO's process in managing that growth. Mr. Swango stated that, although there are several commitments in queue, INVESCO is not in a rush to get those clients in. They are managing those clients to keep their anticipation in tact. Ms. Jadallah reported that INVESCO had told the committee that they do not expect these extremely high returns going forward but more of single digit returns. INVESCO has also hired an assistant portfolio manager to assist Mr. Grubs.
- 0608.6.5 **Approval of Amendments to *SamCERA*'s Investment Management Agreement:** Mr. Clifton reported that he had requested at the Investment Committee that this agenda item be deferred to next month's board meeting when an updated draft version will be available for the board's approval, absent negotiations with an actual investment manager.
- 0608.6.6 **Approval of Documentation for the Implementation of Security Lending:** Mr. Clifton reported that he also requested that the committee defer the approval of the documentation for the implementation of security lending to next month's board meeting.
- Mr. Bryan then took up agenda item 6.3a.
- 0608.6.7 **Educational Presentation by Strategic Investment Solutions – Private Equity:** Mr.

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

Thomas introduced **Steve Hempler**, Vice President – Private Equity, from Strategic Investment Solutions. Mr. Hempler gave an in-depth one hour educational overview of private equity, introducing its main issues, and discussing the pros and cons of private equity. With the asset-liability study coming up, Mr. Thomas wished to receive direction from the board on its level of interest in private equity.

Mr. Hempler defined private equity and discussed private equity investment sub-classes, methods for investing in private equity, current investors in private equity as well as primary reasons to invest in private equity. He stated that private equity is a long term commitment with a three to more than twelve-year horizon. Thirty percent of investors in private equity are pension funds, a fact that has drawn some media attention. Mr. Thomas said that the implementation of a private equity program is more difficult with retirement systems with less than \$1 billion of assets. However systems with over \$1 billion, such as *SamCERA*, will have the ability to create a full program in an efficient way. The main concern of these retirement systems will be their willingness to take on the additional risk as well as administrative burden. Mr. Thomas added that 1937 Act counties have been slow in investing in private equity. However, retirement systems have been moving pretty aggressively in the past three years including those in California. Mr. Hempler stated that a good private equity program properly allocates risk to benefit from diversification between venture capital and buyouts. In response to a question from Ms. Tashman, Mr. Hempler stated that SIS has good access to buyouts and debt. However, it is much more difficult to access the top 10-15 names in venture capital.

In response to a question from Mr. Hooley, Mr. Thomas stated that private equity is the highest risk asset class. He added, however, that adding private equity does not have to necessarily increase the risk of *SamCERA*'s entire portfolio. The board may reduce the risk in public equity to maintain an equivalent overall risk with a more diversified portfolio. Mr. Hooley requested that more information regarding other retirement systems' involvement in private equity be brought to the Investment Committee for review. Mr. Hackleman said he would like to delve further into the educational spectrum before making an informed decision regarding private equity. Mr. Hempler briefly discussed SIS' track record with its 15 private equity clients over the past 13 years. SIS is not an advocate of private equity but does believe that it is beneficial for pension plans with the right attributes. Ms. Jadallah listed the disadvantages of private equity as being the long time horizon, investment fees and administrative burden.

0608.7 **Board & Management Support Services**

0608.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of June 30, 2006, totaled \$1,884,276,888. *SamCERA*'s Statement of Changes in Fiduciary Net Assets reflects the \$95,027,707 contribution prepayment by the County of San Mateo less an accrual of approximately \$1.5 million which applies to last fiscal year.

0608.7.2 **Approval of Topics for the Annual Review of *SamCERA*'s Attorney – County Counsel:** Mr. Clifton presented the list of topics for county counsel's annual review. He requested that trustees complete the annual attorney performance evaluation form and return it to him within the next couple of weeks. **Motion** by Lewis, second by Hooley, carried unanimously to approve the topics for the Annual Review of County Counsel.

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

0608.8 **Management Reports**

0608.8.1 **Chief Executive Officer's Report:** Mr. Bailey discussed a couple of items of federal legislation. He reported that Congress signed the Pension Protection Act of 2006. The legislation will permit the use of 457 funds for the purchase of service upgrades. It will also allow safety members to deduct a maximum of \$3,000 for medical costs on a pre-tax basis from their retirement benefit payment. Ms. Carlson will verify whether or not this new rule includes probation members. Mr. Bailey also discussed, under California legislation, AB1568 regarding mandatory ethics training for the board of retirement and qualifications of board members. Ms. Carlson will further discuss the matter with other counsel at the SACRS Fall 2006 Conference. The bill will be effective January 1, 2007.

SamCERA had issued two separate Request for Proposals for a comprehensive IT study as well as for a website redesign. Staff received seven RFP responses for the IT study and five responses for the website redesign. Staff will further review the information and return to the board with an update at a future board meeting.

Mr. Bailey discussed two significant staff changes. He reported that Anne Palu, Retirement Benefits Manager, resigned for personal reasons. Suzanne Lamica, Retirement Analyst–Disabilities and Divorces, resigned to accept a higher paying position at Alameda County Employees' Retirement Association (ACERA). He said that the departures have come at a difficult time since the office is already understaffed. Janell LeBlanc, Retirement Analyst–Retiree Services, and Celedonia Amacker, Retirement Analyst–Active Member Services, are dividing Ms. Lamica's duties temporarily. Staff is currently recruiting to replace the two lost staff. Ms. Lamica's departure serves as concrete evidence that *SamCERA* is in competition with comparable Bay Area retirement systems for staffing. Mr. Bailey opined that *SamCERA* has the potential of losing additional staff and that it would only be appropriate to conduct a salary survey once the unions have finalized negotiations in the fall to help prevent such departures from occurring.

0608.8.2 **Assistant Executive Officer's Report:** Mr. Hood is on a two-week military assignment in Korea.

0608.8.3 **Investment & Finance Manager's Report:** Mr. Clifton reported that staff had interviewed for the Retirement Investment Analyst I position. Of the five candidates interviewed, Lilibeth Dames was the successful candidate. Ms. Dames has a Bachelor's degree in Economics from the University of California, Berkeley.

0608.8.4 **County Counsel's Report:** Ms. Carlson noted that SACRS is offering a two-hour ethics training course at the Fall 2006 Conference in San Diego. The County Counsel office will be holding ethics training for the Board of Supervisors and various boards of commission later this Fall. She recommended that the board allow the County Counsel office to conduct an ethics training course for the full board at the January retreat. The training will be tailored to discuss retirement issues. **Without objection**, the board accepted Mr. Carlson's recommendation to hold ethics training in January.

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

0608.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. Bryan had convened the Board in Closed Session at 3:44 p.m. The board conferred with Counsel on Anticipated Litigation – Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9. There being no further business, Mr. Bryan adjourned the Closed Session at 4:40 p.m.

0608.10 **Adjournment in Memory of the following Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 4:40 p.m., in memory of the following deceased members:

FULLER, ALTON	MARCH 30, 2006	BENEFICIARY OF NANCY
MIDDAUGH, ALFREDA	MAY 6, 2006	BENEFICIARY OF AUBREY
PAGE, ELLEN	MAY 21, 2006	DISTRICT ATTORNEY'S OFFICE
WOLFE, SURRY	JULY 1, 2006	GENERAL SERVICES ADMINISTRATION
DANIELS, EMILY	JULY 6, 2006	SUPT. OF SCHOOLS
LAWHERN, TONI	JULY 6, 2006	SAN MATEO MEDICAL CENTER
EDELSTEIN, JOSEPH	JULY 13, 2006	BENEFICIARY OF LENORE
RHEES, IRVIN	JULY 16, 2006	GENERAL SERVICES ADMINISTRATION
MUROV, HARRY	JULY 20, 2006	BENEFICIARY OF DOROTHY
GANLEY, BERNIECE	JULY 22, 2006	JURY COMMISSIONER
MULTON, RALPH	JULY 23, 2006	BENEFICIARY OF FERNE
WHIPP, EDITH	JULY 24, 2006	DEPARTMENT OF VOCATIONAL SERVICES
FARRAS, JIMMIE	JULY 31, 2006	PARKS DEPARTMENT
KOVALENKO, VLADIMIR	AUGUST 1, 2006	ENVIRONMENTAL HEALTH

TOM E. BRYAN, CHAIR