

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

January 23, 2007

Agenda Item 3.0

November 28, 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](#)
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](#)
6. Investment Services (The Investment Committee will meet at 10 a.m.)
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Quarterly Investment Performance Analysis for Period Ended September 30, 2006](#)
 - 6.3 [Annual Review of SamCERA's Indexed Equities, including enhanced Indexes](#)
 - 6.3 a [Annual Investment Manager Review – Goldman Sachs Asset Management](#)
(Time Certain 1:05 p.m.) *(Interviewed By The Board)*
 - 6.3 b [Annual Investment Manager Review – Barclays Global Investors](#)
(Interviewed By The Investment Committee)
 - 6.4 [Asset Liability Study – Description of Asset/Liability Integration](#)
 - 6.5 [Approval of Investment Management Agreement with Barclays Global Investors](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Approval of Agreement with Information Technology Plan Provider](#)
 - 7.3 [Approval of Leasing Agreement for SamCERA's Office Suites](#)
 - 7.4 [Appointment of CEO Review Committee](#)
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](#)

November 28, 2006 – Board Minutes

- 0611.1 **Call to Order:** Mr. Bryan, chair, called the Public Session of the Board of Retirement to order at 1:02 p.m., November 28, 2006, in SamCERA's Board Room, Suite 125, 100 Marine Parkway, Redwood Shores.

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- 0611.2.1 **Roll Call:** Mr. Bryan, Ms. Arnott for Mr. Buffington, Ms. Colson, Mr. Hackleman, Mr. Hooley, Mr. Lewis (dep 2:19 p.m.), Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Other Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames, Ms. LeBlanc and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Mr. Gesell, Ms. Jadallah and Mr. Thomas. *Retirees:* 2, *Actives:* 0.
- 0611.3 **Approval of the Minutes: Motion** by Stuart, second by Hackleman, carried unanimously to adopt the October 24, 2006, board meeting minutes as submitted.
- 0611.4.1 **Oral Communications From the Board:** Mr. Bailey presented a Certificate of Appreciation to Mr. Lewis, trustee, who will be resigning from his seat on the Board of Retirement. Mr. Lewis thanked staff and trustees and opined that the *SamCERA* retirement fund is in good hands. Ms. Arnott reported that she attended the SACRS Fall Conference in San Diego. She opined that the program was much improved. The conference had interesting speakers on the topic of baby boomers, tax/medical reimbursement and had more disability sessions. Ms. Salas also attended the SACRS conference and concurred with Ms. Arnott's sentiments regarding the quality of the program. She also requested that counsel review the trustee alternate policy regarding the ability to attend closed sessions. Ms. Salas had polled other counties at SACRS and discovered that, of those she polled, board alternates were allowed to attend closed sessions.
- 0611.4.2 **Oral Communications From the Public:** Ted Kai, retiree, invited trustees to attend SCORPA meetings and events in the future to get to know a larger portion of *SamCERA's* retiree community. Mr. Bailey stated that members of staff and he frequently attend SCORPA events and will be attending its upcoming holiday luncheon.
- 0611.5 **Benefit & Actuarial Services**
- 0611.5.1 **Adoption of Consent Calendar:** Mr. Hood introduced **Gladys Smith**, formerly of the Controller's office, as *SamCERA's* new Retirement Benefits Manager.
- Motion** by Stuart, second by Wozniak, carried unanimously to adopt the Consent Calendar, as submitted, as follows:
- Disability Retirements:**
- The board finds that **Mark Osborne** is disabled from performing his usual and customary duties as a Courtroom Clerk, and **GRANTS** his application for a *Non Service-Connected* disability.
- The board finds that **Judith Visconti** is disabled from performing her usual and customary duties as a Legal Secretary, and **GRANTS** her application for a *Non Service-Connected* disability.
- The board finds that **Marilyn Davis** is disabled from performing her usual and customary duties as an Administrative Assistant II, and **GRANTS** her application for a *Service-Connected* disability.

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The board finds that **Carmen Reddick** is disabled from performing her usual and customary duties as a Social Worker III, 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*:

Service Retirements:

Ortman, David	June 18, 2006	Sheriff's Office
Johnstone, Priscilla	June 30, 2006	Human Services Agency
Quintana, Janell	July 22, 2006	Probation Department
Bingen-Johnson, Linda	August 18, 2006	Sheriff's Office
Philips, Leola	August 30, 2006	Courts
Babcock, Patricia	August 31, 2006	San Mateo Medical Center
Seiki, Donald	August 31, 2006	Information Services Division Department
Waggener, Marguerite	August 26, 2006	San Mateo County Courts
Costas, Rosa	September 23, 2006	San Mateo Medical Center
Delgado, Nelly	September 30, 2006	District Attorney's Office
DeMartis, Joan	November 11, 2006	Assessor's Office
Pribyl, Steve	November 11, 2006	San Mateo County Courts
Derge, Edward	November 30, 2006	Assessor's Office
Lincoln, Christine	November 30, 2006 (From Deferred)	Probation Department
Wilson, Susan	November 30, 2006 (From Deferred)	Dept. of Environmental Mgmt.

Continuance of Benefits:

Braff, Jeffrey	Beneficiary of Mark Osborne
Restani, Isabella	Beneficiary of Gerald
Smith, Josephine	Beneficiary of Vladimir Kovalenko
Haas-Wajdowicz, Julie	Beneficiary of Patricia
Davis, Amy	Beneficiary of Patricia

Non-Member Continuance (DRO):

Sowerbrower, Diane	June 6, 2005	Ex-spouse of James
Bunyan, John	December 1, 2005	Ex-Spouse of Kay
Kaplan, Barbara	October 19, 2006	Ex-spouse of Portor

Deferred Retirements:

Arndt, Amy	G2/P2 vested	Reciprocity
Canton, Phan	G2 vested	Reciprocity
De Lucchi, Rita A.	G4 non-vested	Reciprocity
Kwok, Karen	G4 non-vested	Reciprocity
Lamica, Suzanne	G4 vested	Reciprocity
Beltrano, Kathleen M.	G4 vested	
Martin, Lenda L.	G2/3 vested	

Extended Purchase:

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None

Refunds for November 2006:

Gamis, Evangeline	G4 non vested
Gonsalves, Dianna	S4 (From Deferred)
Kahn, Alex	G4 vested
Pena, Lisa	G4 non vested
Rivard, Thomas	G1 (From Deferred)
Scarpitti, Shawna	G4 non vested
Weiss, Shari	G4 (From Deferred)

Rollovers for November 2006:

Fanning, Collette	G4 non vested
Mullen, Christin	G4 non vested
Quezada, Rebeca	G4 non vested
Rivard, Thomas	G1 (From Deferred)
Shirley, Christine	G4 non vested
Ue, Sandra	G4 non vested

Mr. Bryan then took up agenda item 6.3a.

0611.5.2 **Consideration of Items Removed from Consent Agenda:** None.

0611.6 **Investment Services**

0611.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton presented the monthly portfolio performance report for the period ending October 31, 2006. *SamCERA's* 2.72% Total Fund Return for October 2006 slightly underperformed the Total Plan Policy Benchmark return of 2.74%. The Fund's return for the trailing twelve months is a respectable 15.93%, which is 801 basis points above the Actuarial Discount Rate, 7.75%, and 70 basis points above *SamCERA's* Total Plan Policy Benchmark of 15.23%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$985,404,368	3.74%	17.07%	9.38%
<i>International Equity</i>	<u>317,502,393</u>	4.36%	31.12%	13.63%
Total Equity	1,302,906,760	3.89%	20.38%	10.37%
Fixed Income	547,970,504	0.73%	5.80%	5.01%
Real Estate Aggregate	140,684,016	0.00%	18.50%	14.05%
Cash Equivalents	-1,196,145	0.37%	3.98%	2.93%
TOTAL FUND	\$1,990,365,135	2.72%	15.93%	9.30%
<i>Benchmark</i>		2.74%	15.23%	9.36%

* Total Time-Weighted Rate of Return

0611.6.2 **Quarterly Investment Performance Analysis for Period Ended September 30, 2006:** Mr. Clifton reported that Ms. Jadallah and Mr. Thomas extensively reviewed the quarterly performance report in detail at the Investment Committee. The composite fund returned 4.00% in the third quarter of 2006 and ranked 34th amongst its peers and matched its policy

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benchmark during this time period. Longer term, the three and five-year returns of 12.5% and 9.2% were above median amongst peers. Mr. Thomas then reviewed the appendix of the SIS report to the full board.

Mr. Bryan then took up agenda item 6.3b.

0611.6.3 **Annual Review of *SamCERA*'s Indexed Equities, including enhanced Indexes**

0611.6.3a **Annual Investment Manager Review – Goldman Sachs Asset Management:** **Melissa Brown**, Managing Director Global Quantitative Equity and **Michael Ray**, Vice President Client Service, were present at the board meeting for Goldman Sachs Asset Management's annual review. Ms. Brown indicated that no major changes have occurred to the investment team during the past year. She noted some important new additions to the team in Wesley Chan and Mehmet Bayraktar. She mentioned that their group is working with an optimizer in which Reha Tutuncu, PhD, has participated in development.

Ms. Brown then performed a portfolio review. She discussed the portfolio performance during the first three quarters of the year. She said that during the first quarter, overweight stocks had done poorly and that many stocks also did poorly on days when earnings were reported. The portfolio performed better in the second quarter although did poorly, as did several other portfolios, on the day of the Russell rebalancing. The portfolio was 93 basis points ahead of the benchmark at the end of the second quarter. As for the third quarter, Ms. Brown indicated that the analytical factors have not been working well for the portfolio since August. Ms. Brown then reviewed the attribution of return in the constraint/residual category to explain why that category has been so significantly negative. She divided the category into earnings surprises, M/A, Russell rebalance, news flows, asymmetry/non-linearity and unexplained. She then discussed various projects GSAM is currently working on that will improve performance across all of its strategies.

Mr. Bryan and Ms. Tashman expressed their concern regarding the amount of resources diverted to attempting to fix the portfolio factors. Mr. Thomas stated that he has some concerns regarding the \$9 billion capacity, however, was comfortable although disappointed with GSAM's performance. He said that it has been a difficult year for quantitative managers.

Mr. Bryan then took up agenda item 6.1.

0611.6.3b **Annual Investment Manager Review – Barclays Global Investors:** Mr. Hackleman reported that **Trey Heiskell**, Client Relationship Officer, Principal, and **Lynn Roy**, Investment Strategist, Principal, were present at the investment committee for their annual review. The Investment Committee recommended increasing the allocation to BGI's Russell 1000 Alpha Tilts from its Russell 1000 Index portfolio. The Investment Committee also discussed the opportunities in the long/short strategy with BGI and recommended that more research be performed regarding this space and integrated in the January retreat. BGI noted that, often with these strategies, there are capacity constraints.

0611.6.4 **Asset Liability Study – Description of Asset/Liability Integration:** **Marc Gesell**, **Margaret Jadallah** and **Patrick Thomas** of Strategic Investment Solutions were present to discuss the Asset/Liability Integration. Over the past couple months, the board had reviewed a range of optimized portfolios along an efficient frontier with expected annual returns between 7.75% and 8.24 %. Following extensive discussion, the board unanimously selected Mix 4, with a

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total return of 8.13% and total risk of 11.24% as the asset allocation that will allow *SamCERA* to achieve its long term goals. This mix increases the portfolio's allocation in international equity from 15% to 21% with a decreased allocation to domestic equity.

0611.6.5 **Approval of Investment Management Agreement with Barclays Global Investors:** Mr. Clifton presented the draft Investment Management and Custody Agreement with Barclays Global Investors, N.A.. The three-year agreement was renewed for the fourth time on November 25, 2003, and was again being presented to the board for approval. **Motion** by Bryan, second by Tashman, carried unanimously to adopt **Resolution 06-07-08** to approve the Investment Management Agreement with Barclays Global Investors (BGI), 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, Board Resolution 03-04-05 approved the previous contract between the Board and BGI for a term of three-years, effective November 30, 2003; and

“WHEREAS, the provisions of *SamCERA's Investment Plan*, BGI's Collective Investment Fund Guidelines and Investment Management Fees, including any amendment(s) thereto are incorporated into the agreement as Exhibit A, Exhibit B and Exhibit C respectively; and

“WHEREAS, County Counsel has approved the 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 Barclays Global Investors for a term of three years. Be it further

“RESOLVED that the Board hereby delegates full discretionary authority to Barclays Global Investors to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the contract, the *Investment Plan*, 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 Investment & Finance Manager as its designee to perform those functions so identified in the contract and hereby authorizes the Investment & Finance Manager 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

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to the contract.”

0611.7 **Board & Management Support Services**

0611.7.1 **Monthly Financial Report:** Mr. Clifton presented the preliminary monthly financial report for the period ended October 31, 2006. *SamCERA*'s Net Assets Held in Trust as of the end of the period, totaled \$1,987,770,753. An increase of approximately \$47 million in Net Assets during the month of October was primarily due to a net appreciation in fair value of investments.

0611.7.2 **Approval of Agreement with Information Technology Plan Provider:** Mr. Bailey reported on *SamCERA*'s search for an Information Technology Plan Provider. *SamCERA* Staff, assisted by representatives from the Treasurer's IT staff, county ISD, and the city of San Jose interviewed five teams who had submitted responses to the *SamCERA* RFP. The interview panel unanimously selected MAXIMUS as the top candidate firm. References were checked on the four members MAXIMUS proposed for *SamCERA*'s project and the responses were all positive. Mr. Hackleman recommended that the estimated budget be increased from staff's initial recommended not to exceed price from \$127,106 to \$150,000 for more flexibility during the contract negotiation phase. **Motion** by Hackleman, second by Arnott, carried unanimously to authorize the Chief Executive Officer, working with County Counsel, to negotiate and sign a contract with MAXIMUS to provide an information technology plan as detailed in the "Request for Proposals for an Information Technology Plan" issued by *SamCERA* in June 2006, price not to exceed \$150,000.

0611.7.3 **Approval of Leasing Agreement for *SamCERA*'s Office Suites:** Mr. Hood gave a status report regarding the leasing agreement for *SamCERA*'s office space. He noted that asking rates have been increasing every quarter for the last seven quarters. Staff has put forth a proposal to the landlord to amend the current lease to add the space at Suite 100 at the market rate until the expiration of *SamCERA*'s current lease (December 2007). The lease would then be extended for a period of seven years and include the space at suite 100 at a rate of \$2.35 per square foot for the entire space. Staff expects to bring an amended lease for the board's approval at the January board meeting.

0611.7.4 **Appointment of CEO Review Committee:** Without objection, Mr. Bryan **appointed** Ms. Arnott, Chair; Ms. Colson, Mr. Hooley and Mr. Hackleman to the CEO Review Committee.

0611.8 **Management Reports**

0611.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that Mr. Clifton and Ms. Dames participated and won first prize in an asset allocation competition facilitated by R.V. Kuhn at the most recent SACRS conference in San Diego. Mr. Bailey then stated that *SamCERA* is planning on conducting another customer service survey within the next month. He said that the CALAPRS General Assembly is scheduled from March 11th – 17th in Monterey and the CALAPRS Pension Management Course at Stanford Law School is scheduled for March 27th – 30th. Mr. Bailey also reported that there will be no board meeting in the month of December. Lastly, he said that the Undistributed Earnings Ad Hoc committee would meet immediately following the day's board meeting. The ad hoc committee consists of Mr. Wozniak, Chair, Ms. Colson and Ms. Stuart.

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0611.8.2 **Assistant Executive Officer's Report:** Mr. Hood stated that **Gladys Smith**, formerly with the Controller's Office, has been hired as *SamCERA*'s new Retirement Benefits Manager. He then said that the job posting for the Retirement Analyst position has been posted on the County human resources website and will close on December 31st. *SamCERA* will post the job bulletin for the IT Analyst position as soon as possible.

0611.8.3 **Investment & Finance Manager's Report:** Mr. Clifton reported that Ms. Dames, Ms. Jadallah and he performed a due diligence site visit to the Brandes office in San Diego immediately following the SACRS conference. Ms. Jadallah provided a detailed memo regarding the visit. Mr. Clifton also distributed a study conducted by R.V. Kuhn and presented at the SACRS conference. The study compares various aspects of all 1937 Act County retirement systems. Mr. Clifton attended three separate client conference sponsored by (1) Barclays Global Investors, (2) Brandes Investment Partners and (3) INVESCO. He opined that the conferences were highly informative and had great speakers. He recommended that trustees consider attending client conferences in the future. Mr. Clifton then provided a brief overview of the January trustee retreat. The retreat is scheduled for January 22nd and 23rd, 2007. The first day will primarily consist of educational presentations from investment managers. It will also contain an interactive mock investment committee competition. The second day of the retreat will be a regular board meeting in addition to a two-hour ethics training session with Ms. Carlson.

0611.8.4 **County Counsel's Report:** Ms. Carlson attended the Attorneys Round Table at SACRS. They discussed domestic partners and various topics that were not of great pertinence to *SamCERA*. Ms. Carlson is in charge of the agenda for the Spring SACRS conference. She also discussed the issue of allowing investment managers to pay for travel arrangements for staff and trustees to attend client conferences. During the January Retreat, Ms. Carlson will discuss topics such as the gift policy, Form 700, Brown Act and public disclosure.

0611.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. Bryan had convened the board in closed session at 3:45 p.m. All trustees present at roll call were in attendance in closed session excluding Mr. Lewis, Ms. Salas, Ms. Stuart and Mr. Murphy.

The board discussed anticipated litigation pursuant to subdivision (b) of Government Code Section 54956.9. No actions were taken.

There being no further business, Mr. Bryan adjourned the closed session at 3:54 p.m.

0611.10 **Adjournment in Memory of the following Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 3:54 p.m., in memory of the following deceased members:

STRASH, VICTORIA	JUNE 21, 2006	PARKS & RECREATION
RESTANI, GERALD	SEPTEMBER 5, 2006	SHERIFF'S DEPARTMENT
HAAS, PATRICIA	SEPTEMBER 23, 2006	HUMAN SERVICES AGENCY
REED, VEVA	OCTOBER 2, 2006	SUPERIOR COURT
OSBORNE, MARK	OCTOBER 14, 2006	SAN MATEO COUNTY COURTS
RYDBERG, PATRICIA	OCTOBER 17, 2006	HOSPITAL
BRANCH, MARIAN	OCTOBER 30, 2006	DEPARTMENT OF SOCIAL SERVICES

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BIANCHI, FERN
NAKANISHI, FLORENCE
RENNER, WILLIAM
READ, MAE

OCTOBER 31, 2006
OCTOBER 31, 2006
NOVEMBER 9, 2006
NOVEMBER 13, 2006

PROBATION DEPARTMENT
MENTAL HEALTH DEPARTMENT
DEPARTMENT OF HEALTH SERVICES
DEPARTMENT OF SOCIAL SERVICES

TOM E. BRYAN, CHAIR