

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

October 27, 2009

Agenda Item 3.0

September 22, 2009 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 9 a.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](#)
 - 5.3 [Acceptance of June 30, 2009, Actuarial Valuation Report](#)
 - 5.4 [Stochastic Review of Actuarial Options](#)
 - 5.5 [Acceptance of 2010-2011 Fiscal Year Employer & Employee Contribution Rates](#)
 - 5.6 [Annual Review of *SamCERA's* Actuary – Milliman, Inc.](#)
6. Investment Services
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Approval of *SamCERA's* Fixed Income Structure](#)
 - 6.3 [Educational Presentation by Strategic Investment Solutions – Private Equity](#)
 - 6.4 [Approval of Request For Proposal \(RFP\) for Investment Consultant Services](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Acceptance of *SamCERA's* Comprehensive Annual Financial Report](#)
 - 7.3 [Approval of Request for Proposal for Audit Services](#)
 - 7.4 [Approval of *SamCERA's* Corporate Credit Card Usage Policy](#)
 - 7.5 [Discussion of Topics for Board/Staff Retreat](#)
 - 7.6 [Approval to Reschedule the November Meeting of the Board of Retirement](#)
 - 7.7 [Approval of SACRS Voting Delegate and Alternate](#)
8. Management Reports
 - 8.1 [Chief Executive Officer's Report](#)
 - 8.2 [Assistant Executive Officer's Report](#)
 - 8.3 [Chief Investment Officer'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](#)

September 22, 2009 – Board Minutes

- 0909.1 **Call to Order:** Ms. Jadallah, Chair, called the Public Session of the Board of Retirement to order at 1 p.m., September 22, 2009, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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Refunds:

Acevedo, Marisol	G4 Vested
Chavez-Vera, Sylvia	G4 Non-vested
Gomez, Martin	G4 Non-vested
Hall, James	G4 Non-vested
Mejica, Aurea	G4 Non-vested
Peeples, Amy	G2 Non-vested
Singh, Parmila	G4 Non-vested
Uribe, Felipe	G4 Non-vested

Rollovers:

Borja, Antida	G2 Non-vested
Orozco, Rock	G4 Non-vested
Sander, Renee	G4 Non-vested
Seth, Evelyn	G2 Non-vested
Xiong, Fei	G4 Non-vested

0909.5.2 **Consideration of Items Removed from Consent Agenda:** None.

0909.5.3 **Acceptance of June 30, 2009, Actuarial Valuation Report:** Nick Collier and Craig Glyde of Milliman, Inc. were present to discuss the June 30, 2009, actuarial valuation. (The Actuarial Valuation is available for review on *SamCERA's* website at www.SamCERA.org under Communications >> Reports) Mr. Glyde and Mr. Collier reviewed the actuarial valuation process and the valuation's components. Mr. Collier thoroughly discussed the various factors that led to an increase in the County Employer contribution rate. He also discussed the factors that lead to the decrease in the Association's funded ratio.

Motion by David, second by Hooley, carried unanimously to accept the June 30, 2009, Actuarial Report, as submitted.

0909.5.4 **Stochastic Review of Actuarial Options:** Mr. Collier reviewed three options to mitigate the increase in employer rates that will occur if no changes are made to *SamCERA's* current actuarial policies and methodology. The three options to address contribution rate volatility are: (1) lengthen the asset smoothing period, (2) eliminate the asset corridor, and (3) extend the UAAL amortization period. Mr. Collier reviewed the contribution rate projection for the next 30 years based on the June 30, 2009, actuarial valuation. He then discussed how the changes to each of the three options alter the projections under stochastic models. Throughout the presentation, Mr. Collier responded to trustee questions and concerns. Mr. Collier said that Milliman would be comfortable if *SamCERA* should decide to increase its UAAL amortization period from 15 to 20 years. He also said that Milliman would be comfortable if the association removed the asset corridor, only if the 5-year asset smoothing period remained the same. The focus of the presentation was for trustees to understand the situation and what options there are. Mr. Bailey said that no immediate decision was required that day.

Ms. Jadallah then allowed comments from the members of the public. Reyna Ferrales of the County Manager's Office thanked Mr. Bailey for keeping the County cognizant of the imminent increase in employer contribution rates throughout the past year. The county is currently facing a \$100 million structural deficit due to several factors, including rising retirement costs, decreases in property tax revenues, and state budget cuts. She said that the

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increase in employer contribution rates seems to be unavoidable and the county is trying to discuss changes to employee benefits to assist with the deficit. Ms. Ferrales requested that the board provide additional time for the county to ask Milliman questions regarding the valuation and employer retirement costs in the next month.

Steve Perry, representing AFSCME, also requested that the board delay their decision regarding actuarial options and employer and employee contribution rates in order for the unions to review the material in further detail.

Mr. Bailey offered to arrange a phone call with Mr. Collier, the unions and county.

0909.5.5 **Acceptance of 2010-2011 Fiscal Year Employer & Employee Contribution Rates:** Due to the economic downturn, Mr. Bailey said it would be appropriate for the board to examine its actuarial methods to determine if changes are prudent in order to keep the sponsors' contribution rate stable. Such action is supported by the California State Constitution, Article 16, §17(b). In response to the county and unions' request, staff recommended that the board take no action and defer the decision to a later meeting of the Board of Retirement.

Motion by Arnott, second by David, carried unanimously to delay the acceptance of 2010-2011 fiscal year employer & employee contribution rates for two months.

0909.5.6 **Annual Review of SamCERA's Actuary – Milliman, Inc.:** Mr. Collier and Mr. Glyde were present for Milliman's actuarial consultant annual review and provided a brief presentation of their firm. Staff commended Milliman on its responsiveness and quality of work and advice. The board expressed their gratitude to Milliman for their hard work and professionalism as the association's actuary. In response to a question by staff regarding Karen Steffen's plans for retirement, Mr. Collier said that it is possible that Ms. Steffen will transition into a part-time role at Milliman.

Investment Services

0909.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that SamCERA's 2.73% Total Fund Return for August 2009 slightly outperformed the Total Plan Policy Benchmark return of 2.66%. The outperformance is attributed to performance of all portfolios. SamCERA's three bond portfolios substantially outperformed the Barclays Capital Aggregate Index. The fund's return for the trailing twelve months is -13.13% which is 2,086 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 303 basis points below SamCERA's Total Plan Policy Benchmark of -10.10%.

He said that August was a transitional month for the performance report. It is the first month that the new large cap managers (AXA Rosenberg, D.E. Shaw, T. Rowe Price, BlackRock, and Barrow Hanley) appeared in the report. In addition, it is the first month that the small cap value manager, The Boston Company, appears as the replacement to Brandes.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
Domestic Equity	\$766,293,399	3.17%	-21.02%	-0.05%
International Equity	<u>375,191,013</u>	4.05%	-17.36%	7.09%
Total Equity	1,141,484,412	3.45%	-19.59%	1.81%

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Fixed Income	453,047,629	1.85%	5.63%	3.52%
Real Estate Aggregate	118,894,616	0.00%	-29.83%	5.67%
Cash Equivalents	21,263,480	0.04%	-2.93%	2.42%
TOTAL FUND	\$1,734,690,137	2.73%	-13.13%	2.71%
<i>Benchmark</i>		2.66%	-10.10%	4.05%

* Total Time-Weighted Rate of Return

0909.6.2 **Approval of SamCERA's Fixed Income Structure:** Mr. Bowler reported that Mr. Thomas and Mr. Maserik of SIS gave a presentation on SamCERA's current fixed income structure and a comprehensive overview of PPIP to the investment committee. The committee reviewed the pro's and the con's of the alternative options in great detail. The investment committee recommended that the board adopt a blend between Alternative A and B for the association's fixed income structure and direct staff and consultant to select one of the top two candidates discussed for PPIP and enter contract negotiations as soon as possible. Staff and consultant will provide a detailed report to the board at the next board meeting.

Motion by Bowler, second by David, carried unanimously to accept the investment committee's recommendation, introducing global, TIPS, credit opportunity and PPIP to SamCERA's current fixed income structure and delegating the selection of the PPIP manager to staff and consultant.

0909.6.3 **Educational Presentation by Strategic Investment Solutions – Private Equity:** Curt Smith and Faraz Shooshani of SIS were present to provide the board with an overview of private equity. Mr. Thomas said that private equity was an attractive option for SamCERA due to the association's liquidity and the current opportunistic market. Mr. Smith defined private equity and said that the primary reason to invest in private equity was for its return opportunity –an expected return enhancement of 200-500 bps return premium above public equity. Private equity also has modest diversification benefits. He also reviewed private equity manager historical returns. Mr. Shooshani then reviewed the various private equity subcategories, discussing each subcategory's overall timeline, strategy and returns generation. Mr. Smith also discussed the J-Curve effect and the methods of investing in private equity. In terms of additional workload on SamCERA staff, Mr. Thomas said it can range from minimal workload by delegating all work and review of private equity to SIS, to a considerable increase in workload if SamCERA staff decides to perform the work in parallel to SIS' analysis.

No action was taken. This agenda item was educational.

0909.6.4 **Approval of Request For Proposal (RFP) for Investment Consultant Services:** Mr. Clifton reported that the investment committee reviewed the RFP for investment consultant services. Ms. Jadallah reviewed the listing of pension investment consultants which have relationships with CALAPRS member systems and offered suggestions, narrowing down the list. Mr. Clifton reported that the committee recommended deferring the approval of the RFP an additional month for further review with counsel.

Without objection, Ms. Jadallah, accepted the investment committee's recommendation to defer the approval of the Request for Proposal for Investment Consultants Services for one more month.

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Board & Management Support Services

0909.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of August 31, 2009, totaled \$1,733,179,927. The net assets held in trust for pension benefits experienced another increase, month over month. Year over year net assets are still down \$339 million. The decrease is primarily due to the devaluation of the capital market assets.

0909.7.2 **Acceptance of *SamCERA's* Comprehensive Annual Financial Report:** Mr. Clifton presented the Comprehensive Annual Financial Report for the period ended 6/30/2009. For the twelfth consecutive year, the GFOA has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This reward is in recognition of *SamCERA's* CAFR for year ended June 30, 2008. That certificate is displayed on page 10 of this year's CAFR.

Motion by David, second by Arnott, carried unanimously to approve *SamCERA's* Comprehensive Annual Financial Report for the period ended June 30, 2009.

0909.7.3 **Approval of Request for Proposal for Audit Services:** Mr. Clifton presented the RFP for Audit Services. Ms. Carlson plans to make some changes to the RFP. Staff will review the responses to the RFP and recommend two finalists for the board to interview.

Motion by Bowler, second by Kwan Lloyd, carried unanimously, to approve the RFP's, as amended, to the five entities which currently provide audit services for members of the State Association of County Retirement Systems (SACRS) or California Association of Public Retirement Systems (CALAPRS).

0909.7.4 **Approval of *SamCERA's* Corporate Credit Card Usage Policy:** Ms. Wong presented the Corporate Credit Card Usage Policy and resolution. The board adopted Resolution 08-09-03 on August 28, 2008, to authorize *SamCERA* to enter into a credit card agreement with American Express Corporate Services. Staff and the independent auditor recommend the board adopt a comprehensive corporate credit card usage policy to provide parameters and guidance regarding corporate credit card usage.

Motion by Tashman, second by Bowler, carried unanimously to adopt **Resolution 09-10-04**, approving *SamCERA's* Corporate Credit Card Usage Policy, as follows:

“WHEREAS, Article XVI '17(a) of the Constitution of the State of California states in part that *the retirement board...shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system...; &*

“WHEREAS, Government Code §31580.2 vests authority in the Board of Retirement to *...annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund; &*

“WHEREAS, the Board, by motion unanimously adopted Resolution 08-09-03 on August 26, 2008, authorized the Chief Executive Officer to enter into a credit card agreement with American Express Corporate Services or its issuance agent for a credit line not to exceed \$50,000 and to provide said entity with specimen signatures for those who will receive

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credit cards; &

“**WHEREAS**, the Chief Executive Officer, the Assistant Executive Officer and the Chief Investment Officer are authorized to borrow on behalf of *SamCERA* such sums for such times and upon such terms as each deems advisable and to execute in the name of *SamCERA* notes, drafts or agreements for repayment of any sums so borrowed pursuant to the terms of said credit card agreement; &

“**WHEREAS**, staff and the independent auditor recommend the implementation of a comprehensive corporate credit card usage policy. Now, therefore, be it

“**RESOLVED**, that the Board adopts the Corporate Credit Card Usage Policy. Be it further

“**RESOLVED**, that the terms of this resolution shall continue in force until express written notice of its modification. Be it further

“**RESOLVED**, that the Board hereby names the Chief Executive Officer as its designee to perform those functions so identified in the corporate credit card usage policy to take all actions necessary to initiate, implement, approve and monitor the said policy.”

0909.7.5 **Discussion of Topics for Board/Staff Retreat:** Mr. Bailey presented a draft of potential discussion topics for the board’s annual retreat. The retreat is tentatively scheduled for January 2010. The subjects the board will discuss are investments, disabilities, audits, law, actuarial science and board-staff relations. Staff will ask the board’s consultants as well as experts in each field to speak at the retreat. Mr. Bailey requested that the trustees provide their input so staff can start making arrangements for the retreat.

0909.7.6 **Approval to Reschedule the November Meeting of the Board of Retirement:** Mr. Bailey said that the board members expressed acceptance of the suggestion that the November meeting be held on Thursday, November 19, rather than its currently scheduled date of Tuesday, November 24. Thanksgiving falls two days later on Thursday, November 26. Changing the date of the November meeting should not disrupt any *SamCERA* financial activities or member services.

Motion by David, second by Kwan Lloyd, carried unanimously to approve changing the date of the November meeting of the Board of Retirement from November 24 to November 19.

0909.7.7 **Approval of SACRS Voting Delegate and Alternate:** Mr. David and Mr. Spinello are the board members registered to attend the SACRS Fall 2009 Conference.

Motion by Bowler, second by Arnott, carried unanimously to authorize Mr. David, Vice Chair, as the Voting Delegate, and David Spinello, Trustee, as the Delegate Alternate, to cast *SamCERA*’s votes at the Fall 2009 SACRS Conference. In the event neither of these board members are available, Mr. Bailey is named the Second Alternate.

0909.8 **Management Reports**

0909.8.1 **Chief Executive Officer’s Report:** Mr. Bailey provided an update on the public records request for the names of *SamCERA* retired members with pensions over \$100,000. Staff notified the requesting party of the board’s decision not to comply with the request. Staff has not heard anything as of yet.

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Mr. Bailey also provided an update on the trustee recruitment for the positions to be vacated by Mr. Hooley and Ms. Tashman. The recruitment period ends on September 30th and interviews will take place in October. There are at least two applicants for the positions.

Mr. Bailey also said that active and retiree newsletters were sent out the previous week.

The cancellation of the December board meeting will be placed on next month's agenda. He reported that member statements have been mailed. However, there were some errors in the printing process. Approximately 800 individuals received incorrect data. They will receive corrected statements.

Mr. Bailey said that he will be attending a conference later in the week. The conference will discuss actuarial methods.

0909.8.2 **Assistant Executive Officer's Report:** Mr. Hood distributed a flyer for the upcoming *SamCERA* financial seminars taught by Financial Knowledge Network.

0909.8.3 **Chief Investment Officer's Report:** None.

0909.8.4 **County Counsel's Report:** None.

0909.9 **Report on Actions Taken in Closed Session:** None.

0909.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Jadallah adjourned the meeting at 5:03 p.m., in memory of the following deceased members:

Umehara, Aiko	June 24, 2009	Probation
Greenfield, M.L.	June 29, 2009	District Attorney's Office
Montgomery, Jacklyn	July 3, 2009	Beneficiary of Montgomery, Daniel
Hartnett, Robert	July 18, 2009	Sheriff's Office
Bogle, Dorothy	July 21, 2009	Beneficiary of Bogle, Arthur
Vrtis, Linda	July 27, 2009	QDRO of Vrtis, Dan
Collignon, Helen	July 30, 2009	Municipal Court
McFall, Georgene	August 1, 2009	Beneficiary of McFall, Jack
Bowen, Jack	August 4, 2009	Beneficiary of Bowen, Irene
Tatro, Janet	August 4, 2009	Beneficiary of Tatro, Robert
Kirkes, Inez	August 5, 2009	Community Hospital
Berdall, Josephine	August 6, 2009	County General Hospital
MacLeod, Hera	August 10, 2009	Beneficiary of MacLeod, William
Roque, Judy	August 12, 2009	Human Services Agency
Zemsky, Susan	August 13, 2009	Superior Court
Warsaw, Betty	August 16, 2009	County Recorder
Clausen, Theodore	August 23, 2009	Beneficiary of Clausen, Frances
Ruegner, Christel	August 23, 2009	Sheriff's Office
McManus, Phyllis	August 28, 2009	Sheriff's Office
Poynter, Robert	August 30, 2009	Sheriff's Office

MARGARET JADALLAH, CHAIR