

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

February 27, 2007

Agenda Item 3.0

**January 23, 2007– 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 [Approval of Actuarial Study of Draft Undistributed Earnings Policy](#)
  - 5.4 [Ethics Training](#)
6. Investment Services
  - 6.1 [Monthly Portfolio Performance Report](#)
  - 6.2 [Approval of Asset Liability Study – Description of Asset/Liability Integration](#)
  - 6.3 [Approval to Redeploy Assets within the Large Capitalization Equity Category](#)
7. Board & Management Support Services
  - 7.1 [Monthly Financial Report](#)
  - 7.2 [Quarterly Budget Report](#)
  - 7.3 [Approval of Leasing Agreement for SamCERA's Office Suites](#)
  - 7.4 [Approval of SACRS Voting Proxy](#)
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](#)

**January 23, 2007 – Board Minutes**

- 0701.1 **Call to Order:** Mr. Bryan, chair, called the Public Session of the Board of Retirement to order at 9:01 a.m., January 23, 2007, in SamCERA's Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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0701.2     **Roll Call:** Mr. Bryan, Ms. Arnott for Mr. Buffington, Mr. Hackleman, Mr. Hooley, Ms. Stuart (arr. 9:03 a.m.), Ms. Tashman (arr. 10:15 a.m.) and Mr. Wozniak. *Excused:* Ms. Colson. *Alternate Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Ms. LeBlanc and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Ms. Jadallah and Mr. Thomas. *Retirees:* 0, *Actives:* 2.

0701.3     **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the November 28, 2006, board meeting minutes: 0611.4.1 L2: “will be resigning ~~for~~ from his seat ~~at~~ on the Board of Retirement.”, 0611.6.3a L6: “their group is working with an optimizer in which...”, and 0611.10 L2: “Mr. Bryan adjourned the meeting at ~~5:54~~ 3:54 p.m., in memory...”

**Motion** by Arnott, second by Wozniak, carried unanimously to approve the minutes of the November 28, 2006, board meeting, as amended.

0701.4.1   **Oral Communications From the Board:** Mr. Hackleman commended Mr. Clifton and the rest of the staff for a successful and informative trustee investment retreat that he found beneficial for trustees. The retreat was held on Monday, January 22<sup>nd</sup>, at the Franklin Templeton offices.

0701.4.2   **Oral Communications From the Public:** None.

0701.5     **Benefit & Actuarial Services**

0701.5.1   **Adoption of Consent Calendar:** Dr. Fracchia stated the disability application of Patricia Bittle was based on two applications – one of which was pertaining to a physical disability and the other a mental disability. Unfortunately, the mental disability application was the only application submitted to the board for this month’s board meeting. He opined that the board may not be able to reach a fair decision without complete information from both applications. He added that it would be best to review the applications at the same time. Without objection, Mr. Bryan removed the disability application of Patricia Bittle from the day’s consent calendar to be taken under consideration at next month’s board meeting when both reports will be available for thorough review. Ms. Bittle was present at the meeting and requested that additional information be added to her application for consideration. Ms. Carlson recommended that Ms. Bittle submit the reports to staff as soon as possible for process and review. Mr. Bryan noted that the addition of new information may slightly delay her disability application process.

**Motion** by Wozniak, second by Stuart, carried unanimously to adopt the day’s Consent Calendar, as amended, as follows:

**Disability Retirements:**  
None.

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

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**Service Retirements:**

Allen, Judith	June 4, 2006	San Mateo County Courts
Ehernberger, Richard	December 5, 2006	Dept. of Child Support Services
Mahoney, Joanne	December 5, 2006 (from deferred)	District Attorney's Office
Wong, Stanton	December 21, 2006 (from deferred)	Dept. of Environmental Health
Mervin, Castain	December 29, 2006 (from deferred)	Parks Department
Bertania, Jacqueline	December 30, 2006 (from deferred)	Department of Public Health
Cullen, Neil	December 30, 2006	Department of Public Works
Glennon, Richard	December 30, 2006	Sheriff's Department
Knowlton, Judy	December 30, 2006	Human Services Agency
Villias, J. Lillian	January 3, 2007	Sheriff's Department
Graham, Lilia	January 6, 2007	San Mateo Medical Center
Robbins, Carole	January 6, 2007	Aging and Adult Services
Horsley, Donald	January 8, 2007	Sheriff's Department
Witzel, Lynda	January 10, 2007	Aging and Adult Services
Cook, Carol	January 13, 2007	Library
Bellow, Gregory	January 25, 2007	Mental Health
Massa, Silvana	January 27, 2007	Aging and Adult Services
Hawkins, Gayle	January 27, 2007	San Mateo Medical Center
Mora, Maria	January 27, 2007	San Mateo Medical Center
Borrelli, Priscilla	January 31, 2007	Aging and Adult Services
Soto, Virgilio	January 31, 2007	Assessor's Office

**Continuance of Benefits:**

Rogus, Claire	Beneficiary of Rogus, Joseph
Petersen, Patricia	Beneficiary of Petersen, William
Ryan, June	Beneficiary of Ryan, John

**Non-Member Continuance (DRO):**

None

**Deferred Retirements:**

Ahmed, Nabil M.	G4 vested
Botha-Harvey, Gillian	G4 vested
Houston, Kimberly	G4 vested
Mackey, Carol E.	G4 vested
Mar, May J.	G2 vested
Nunez, Pamela E.	Plan 3 vested
Travis, Wilda G.	G4 vested

**Extended Purchase:**

None.

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**Refunds for December 2006:**

Camasura, April	G4 non vested
Carter, Stella	G4 non vested
Guzman, Maria	G4 non vested
Korsunsky, Julia	G4 non vested
Light, Jessica	G4 non vested
Melgar, Adriana	G4 vested
Middendorf, Amy	G4 non vested
Pena, Lisa	G4 non vested
Ricafort, Ma Antoinette	G4 non vested
Rooney, Kevin	G4 non vested
Verduco, Gabriela	G4 non vested
Woods, Tamara	G4 non vested

**Rollovers for January 2007:**

Becker, Kristy	P4 non vested
Greene, Karen	G4 vested
La Croix-Agustin, Nicole	G4 non vested
Renteria, Yvette	G4 non vested
Sanders, Robyn	G4 vested

**Rollovers for December 2006:**

Aggarwal, Shital	G4 non vested
Aseoche, Danzen	G4 non vested
Atangan, Christopher	G4 non vested
Chan, Anna	G4 non vested
Di Donato, Dennis	G4 non vested
Glennon, Lori	QDRO
Goel, Anju	G4 non vested
Moreno, Ray	G4 non vested
Provenzano, Donna	G4 non vested
Salazar, Laura	G4 non vested
Thompson, Matthew	G4 non vested
Wolfe, Donna	G4 non vested
Wu, Yiwen	G4 non vested
Young, Mary	G4 vested

**Rollovers for January 2007:**

Tonga, Toni	G4 non vested
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0701.5.2      **Consideration of Items Removed from Consent Agenda:** None.

0701.5.3      **Approval of Actuarial Study of Draft Undistributed Earnings Policy:** Mr. Bailey gave a report on the discussions that took place during the Ad Hoc Committee on Undistributed Earnings meeting. The committee reviewed the draft undistributed earnings policy and its relationship to the Medicare Part B reimbursement program. The committee recommended that an actuarial study be performed in order to provide analysis of the impact adoption of the policy would have on *SamCERA*'s funding as well as the relationship between the amount of

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funding set aside by the policy and the cost of the Medicare Part B benefit. Milliman has estimated that the cost of the study would be \$10,000.

Mr. Bailey also reported that the committee discussed ways in which the Medicare Part B reimbursement program could be paid more consistently rather than only when certain conditions are reached. The committee decided that the actuarial study should also analyze limiting the reimbursement to one-half of the Medicare Part B premium, rather than full reimbursement, in order to compare the projected costs of the reduction versus the projected costs of the full reimbursement. Mr. Bailey noted that approval of the study did not equate to the approval of the draft policy but it would be valuable to conduct the study in order for the board to make a well-informed decision regarding the policy and the Medicare Part B reimbursement program -- which has been the number one issue from several retirees and the retiree organization, SCORPA.

Mr. Bailey attached charts illustrating (1) projected annual costs of Medicare Part B, (2) the costs' relationship to projected county contributions, and (3) the relationship between the actual total cost of the Medicare Part B reimbursement program and the total county contributions from 2000-2004.

Mr. Hackleman wanted to make certain that the Milliman study would take into account the newly adopted Medicare Part B rate changes which are now indexed according to income. He also suggested that the study incorporate analysis of limiting the Medicare Part B reimbursement for only the base premiums, which will better assist those retirees with lower incomes. Mr. Bryan also wanted to ensure that the study would analyze the undistributed earnings policy in a broad view and not limit undistributed earnings to provide ad hoc benefits for Medicare Part B reimbursement.

**Motion** by Stuart, second by Wozniak, carried unanimously to approve the actuarial study to analyze the impact of *SamCERA*'s current draft Undistributed Earnings policy.

Mr. Bryan then took up agenda item 6.1.

- 0701.5.4     **Ethics Training:** Ms. Carlson performed a two-hour training session for trustees regarding ethics and public service laws and principles. Some of the topics Ms. Carlson discussed were disqualification based on financial interest, contractual conflicts of interest, gifts, the Brown Act, Public Records Act, financial interest disclosure and trustee alternates attending closed session. The training allowed trustees to refresh their knowledge of laws that govern their service and encouraged them to think beyond legal restrictions by providing guidelines for doing so.

Mr. Bryan recommended that staff work with SACRS to draft a resolution concerning the permission to allow trustee alternates to attend closed session. He will also bring up the topic when he attends the SACRS business meeting in February.

Mr. Bryan then took the meeting into closed session. See agenda item 9.0.

0701.6     **Investment Services**

- 0701.6.1     **Monthly Portfolio Performance Report:** Mr. Clifton presented the monthly portfolio

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performance report for the period ending December 31, 2006. *SamCERA's* 0.98% Total Fund Return for December 2006 outperformed the Total Plan Policy Benchmark of 0.85%. The Fund's return for the trailing twelve months is a very respectable 14.78%, which is 691 basis points above the Actuarial Discount Rate of 7.75% and 82 basis points above *SamCERA's* Total Plan Policy Benchmark of 13.96%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	<i>\$1,001,738,544</i>	<i>1.18%</i>	<i>15.66%</i>	<i>8.00%</i>
<i>International Equity</i>	<i>341,180,661</i>	<i>3.46%</i>	<i>31.37%</i>	<i>14.01%</i>
Total Equity	1,342,919,205	1.75%	19.35%	9.39%
Fixed Income	551,676,898	-0.59%	4.98%	5.54%
Real Estate Aggregate	140,684,016	0.00%	15.41%	13.68%
Cash Equivalents	2,606,436	0.38%	4.21%	2.99%
<b>TOTAL FUND</b>	<b>\$2,037,886,555</b>	<b>0.98%</b>	<b>14.78%</b>	<b>8.89%</b>
<i>Benchmark</i>		<i>0.85%</i>	<i>13.96%</i>	<i>8.86%</i>

\* Total Time-Weighted Rate of Return

Mr. Clifton noted that a study regarding manager structure will commence in February and requested input from trustees concerning varying the allocation within asset classes. Mr. Thomas stated that SIS' analysis will provide various options for the board.

0701.6.2 **Approval of Asset Liability Study – Description of Asset/Liability Integration:** Mr. Thomas and Ms. Jadallah of Strategic Investment Solutions were present to discuss the conclusion of *SamCERA's* Asset Liability Study. Mr. Thomas provided a recap of the asset liability study for the board. He reminded the board that they had ultimately selected "Optimal Asset Mix 4" from the various optimized mixes presented by SIS. The selected mix adds 6% in the international asset class while decreasing U.S. equities and fixed income by 4% and 2%, respectively.

Ms. Jadallah then discussed the guiding principles for the manager structure study as well as potential areas that the board will review in the manager structure analysis. With direction from the board, SIS will model a 75/25 split between enhanced and indexed large cap U.S. equity. Mr. Hackleman also found no harm in modeling the addition of value and growth managers to the large cap asset class. He opined that reviewing alternative situations will assist the board in making more knowledgeable decisions during the study. In terms of small cap U.S. equity, SIS will model an alternative enhanced manager per trustees' concerns regarding *SamCERA's* current core small cap manager. Ms. Jadallah stated that SIS will model more active risk in the fixed income asset class as well as an increase in emerging markets exposure within international equity.

0701.6.3 **Approval to Redeploy Assets within the Large Capitalization Equity Category:** This item was deferred to the next month's board meeting to benefit from the analysis from Strategic Investment Solutions regarding manager structure.

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0701.7     **Board & Management Support Services**

0701.7.1     **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of December 31, 2006, totaled \$2,035,751,839. *SamCERA's* Net Assets increased approximately \$14 million in December due primarily to the appreciation of portfolio assets.

Mr. Clifton asked for suggestions from trustees regarding a way to commemorate *SamCERA's* achievement of \$2 billion in assets.

0701.7.2     **Quarterly Budget Report:** Mr. Clifton presented the preliminary Second Quarter Budget Reports. He reported that with 50% of the fiscal year completed, administrative expenditures to date represent 39.4% of the total appropriations. All major categories are under budget. He also noted that projected expenses for *SamCERA's* authorized office expansion and comprehensive IT plan have not been fully incorporated in the budget. Mr. Clifton said that staff will have a better estimate of these costs at next month's board meeting.

***SamCERA's* Administrative Budget**

	ADOPTED BUDGET	YTD ACTUAL
Salaries & Benefits	\$ 1,692,500	\$ 740,476
Services & Supplies	\$ 1,087,500	\$ 394,021
Fixed Assets	<u>\$ 100,000</u>	<u>\$ 0</u>
Total	\$ 2,880,000	\$1,134,497

All professional services expenditures are on target in accordance with the budget appropriations. As of December 31, 2006, the aggregate professional services fee is approximately 28.9 basis points.

**Motion** by Stuart, second by Hackleman, carried unanimously to approve the quarterly budget report for quarter ending December 31, 2006.

0701.7.3     **Approval of Leasing Agreement for *SamCERA's* Office Suites:** Mr. Bailey presented the first amendment to the leasing agreement for *SamCERA's* office suites. He stated the rate on the lease, even when including pass-through operating expenses, is below the current average market asking price. Since vacancies in the area have been steadily decreasing and asking rates rising, staff recommends approving the leasing agreement. Mr. Bailey also noted that Ms. Carlson has reviewed the agreement and Bill Grubbs of INVESCO Real Estate has also given staff input regarding the lease. **Motion** by Hackleman, second by Stuart, carried unanimously to give signature authority to the Chief Executive Officer to execute the first amendment to the lease between The Realty Associates Fund VII, L.P. and *SamCERA*.

0701.7.4     **Approval of SACRS Voting Proxy:** Mr. Bailey stated that delegates were not able to finish all their agenda items at the Fall SACRS Conference in San Diego, CA. SACRS has therefore scheduled a special business meeting on February 5<sup>th</sup>. Items that will be discussed include (1) approval of SACRS Articles of Corporation, (2) approval of SACRS 2005-2006 Financial Audit Report, and (3) approval of SACRS legislative proposals.

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As the highest ranking board officer, Mr. Bryan has agreed to attend the special SACRS meeting to represent *SamCERA*.

**Motion** by Stuart, second by Wozniak, carried unanimously to authorize Mr. Bryan as the voting delegate for the special SACRS business meeting scheduled for February 5<sup>th</sup>.

0701.8      **Management Reports**

0701.8.1      **Chief Executive Officer's Report:** Mr. Bailey presented the results of *SamCERA*'s most recent customer service survey which he was very pleased with. The online survey was issued in December and included the opportunity to be placed in a drawing to receive one of fifty *SamCERA* coffee mugs. The amount of respondents increased over 250% as compared to the previous survey (250 vs. 900). With the increased response rate, the sample size of the survey gives greater assurance that the survey results accurately represent the viewpoints of the *SamCERA* membership. Mr. Bailey reported that all scores were higher in this survey as compared to the last. Also, essay questions within the survey allow staff to know the reasons some members gave *SamCERA* lower ratings. In response to a question from Mr. Wozniak, Mr. Bailey discussed the progress of *SamCERA*'s staffing plan. Staff is in the process of hiring a Retirement Analyst as well as an IT Analyst. Other additional staff may be requested consistent with the staffing plan and based on need and the addition of office space.

Mr. Bailey reported that *SamCERA* has signed a contract with MAXIMUS, which commenced work on *SamCERA*'s Information Technology Plan the previous week. The project should be completed in four months.

Regarding ARC-time (Additional Retirement Credit) the Board of Supervisors has 120 days to make a decision on ARC-time pursuant to the most recently negotiated Memorandum Of Understanding. Mr. Bailey estimated that the Board of Supervisors has until the third week of March to make this decision. If passed, ARC-time will allow members to purchase up to five years of additional retirement service credit. The member must pay the full cost of the expected benefit to purchase this service credit.

Mr. Bailey also wanted to note that Scott Hood, Assistant Executive Officer, has been promoted from Lieutenant Colonel to Colonel in the U.S. Army Reserves. He has also been the subject of a recent article in the San Mateo Times in which he describes his experiences in Iraq a year ago.

Under the Pension Protection Act of 2006, safety retirees are now eligible for a \$3,000 exclusion from income for health insurance premiums deducted from their retirement allowance. Letters will be sent out to eligible members within the next few weeks. This legislation allows members who retired at or after normal retirement age to be eligible for the benefit. Therefore, the board must declare a normal retirement age for both safety and general members. Staff will bring back the topic at a future board meeting and make a recommendation regarding how the board can determine a normal retirement age.

The governor has formed a commission to study and develop a plan regarding the under-funded nature of pension and health care benefits. They are scheduled to make their formal report in 2008. Mr. Bailey will keep the board posted regarding the study.



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*SamCERA* staff will be holding its annual retreat on Thursday, February 8<sup>th</sup>, at an off-site facility. The *SamCERA* strategic plan will be the day's main focus. Mr. Bailey will report on the retreat at February's meeting.

0701.8.2     **Assistant Executive Officer's Report:** None.

0701.8.3     **Investment & Finance Manager's Report:** Mr. Clifton reported that Aberdeen Asset Management has outsourced its back-office operations to BNP Paribas. He reminded the board that Julius Baer was *SamCERA*'s first investment manager to have outsourced its back-office operations. The operations were outsourced to Northern Trust. The outsourcing does not have an effect on *SamCERA*. Mr. Clifton then reported that Strategic Investment Solutions has achieved a very high ranking by assets in the November 13, 2006, issue of *Pensions & Investments*. Lastly, INVESCAP has indicated that they have had changes in management. Mr. Clifton said that the changes have no effect on *SamCERA*. INVESCO is a subsidiary of INVESCAP.

0701.8.4     **County Counsel's Report:** None.

Mr. Bryan then took up agenda item 5.4.

0701.9       **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. Bryan had convened the board in closed session at 12:34 p.m. All trustees present at roll call were in attendance in closed session excluding 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.

Mr. Bryan adjourned the closed session at 12:43 p.m.

In open session, Mr. Hackleman commended Mr. Bailey, Mr. Hood, Mr. Clifton, Ms. Wong, Ms. Carlson and Mr. Blum for their excellent work in reaching a completely acceptable agreement pertaining to the anticipated litigation.

0701.10     **Adjournment in Memory of the following Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 12:44 p.m., in memory of the following deceased members:

FARRAS, ELLEN	SEPTEMBER 22, 2006	BENEFICIARY OF JIMMIE
FITZGERALD, JAMES	NOVEMBER 6, 2006	BOARD OF SUPERVISORS
BROWN, NORMAN	NOVEMBER 27, 2006	GENERAL SERVICES DEPARTMENT
WILLIAMS, RAMONA	DECEMBER 3, 2006	HOSPITAL
SANZ, JOSEPHINE	DECEMBER 5, 2006	CONTROLLER'S OFFICE
WALDRON, MARTHA	DECEMBER 9, 2006	CRYSTAL SPRINGS REHABILITATION
KOMISAREK, LEONARD	DECEMBER 10, 2006	DEPARTMENT OF PUBLIC WORKS
MARTIN, HARRIET	DECEMBER 16, 2006	PROBATION DEPARTMENT
CASTOLO, RODRIGO	DECEMBER 18, 2006	DEPARTMENT OF PUBLIC WORKS
PETERSEN, WILLIAM	DECEMBER 18, 2006	PROBATION DEPARTMENT
MARINO, BEATRICE	DECEMBER 20, 2006	ASSESSOR'S OFFICE

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GREAVES, PATRICIA  
ROGUS, JOSEPH  
GOLDEN, SHARON  
ZIEGLER, HAZEL  
BRUZZON, CAROL

DECEMBER 21, 2006  
DECEMBER 21, 2006  
DECEMBER 30, 2006  
JANUARY 4, 2007  
JANUARY 13, 2007

SOCIAL SERVICES  
SHERIFF'S DEPARTMENT  
DEPARTMENT OF PUBLIC HEALTH  
BENEFICIARY OF PEARL  
BENEFICIARY OF VICTOR

TOM E. BRYAN, CHAIR