

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

May 22, 2007

Agenda Item 3.0

**April 24, 2007– 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](#)
  - 5.3 [Approval of Normal Retirement Age Recommendation](#)
6. Investment Services
  - 6.1 [Monthly Portfolio Performance Report](#)
  - 6.2 [Introduction & Approval of Manager Structure for Fixed Income Modeling](#)
  - 6.3 [Acceptance of Implementation Report covering the Domestic Large Cap and International Equity Structures](#)
7. Board & Management Support Services
  - 7.1 [Monthly Financial Report](#)
  - 7.2 [Quarterly Budget Report for Period Ended March 31, 2007](#)
  - 7.3 [Status Report on \*SamCERA\*'s Sources, Uses & Budget for Fiscal year 2007/2008](#)
  - 7.4 [Approval of Auditor's Engagement Letter for June 30, 2007, Financial Audit](#)
  - 7.5 [Acceptance of Report on Prepayment of the County's Contribution for FY 2007/2008](#)
  - 7.6 [Acceptance of Report Regarding the Acquisition of Fiduciary Insurance Policy](#)
  - 7.7 [Acceptance of Report on Additional Retirement Credit Implementation Plan](#)
  - 7.8 [Approval of SACRS Voting Delegate and Alternates; and board direction on SACRS Initiatives](#)
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](#)
9. [Report on Actions Taken in Closed Session](#)
  10. [Adjournment](#)

**April 24, 2007 – Board Minutes**

- 0704.1 **Call to Order:** Mr. Bryan, chair, called the Public Session of the Board of Retirement to order at 1 p.m., April 24, 2007, in *SamCERA*'s Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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

- 0704.2.1 **Roll Call:** Mr. Bryan, Ms. Arnott for Mr. Buffington, Ms. Colson, Ms. Salas for Mr. Hackleman, Mr. Hooley, Mr. Lee, Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood and Ms. Smith. *Consultants:* Ms. Carlson, Ms. Jadallah and Mr. Thomas. *Retirees:* 1, *Actives:* 1.
- 0704.3 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the board meeting minutes: 0703.2.1 L3: “*Excused:* ~~Mr. Buffington~~ and Ms. Stuart.”
- Motion** by Salas, second by Arnott, carried unanimously to approve the minutes from the March 27, 2007, board meeting as amended.
- 0704.4.1 **Oral Communications From the Board:** Ms. Stuart announced that she will run for re-election for her current seat on the Board of Retirement. Her current term is set to expire on June 30, 2007. She noted that she has been on the retirement board since 1990.
- 0704.4.2 **Oral Communications From the Public:** Ted Kai, retiree, announced his candidacy for the Eighth Seat on the Board of Retirement. He also encouraged other retirees to attend retirement board meetings. He invited trustees to attend SCORPA’s upcoming luncheon at Red Morton park in Redwood City.
- 0704.5 **Benefit & Actuarial Services**
- 0704.5.1 **Adoption of Consent Agenda:** **Motion** by Salas, second by Wozniak, carried unanimously to approve the day’s consent agenda, as submitted, 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*:
- Service Retirements:**
- |                       |                 |                               |
|-----------------------|-----------------|-------------------------------|
| Amhreïn, June         | March 24, 2007  | San Mateo Medical Center      |
| Aquila, John          | March 27, 2007  | Sheriff’s Department          |
| Haas, Anita           | March 31, 2007  | Elections Office              |
| Narayan, Alfred       | March 31, 2007  | Assessor & Recorder’s Office  |
|                       | April 1, 2007   | Human Services Agency         |
| Demestihãs, William   | (from deferred) |                               |
| Gomez-Baisden, Gladys | April 1, 2007   | Department of Public Health   |
|                       | April 1, 2007   | San Mateo County Courts       |
| Ingegno, Maria        | (from deferred) |                               |
|                       | April 30, 2007  | Dept. of Environmental Health |
| Sanchez, Patrick      | (from deferred) |                               |
- Rescinded Service Retirements:**
- |                  |                       |
|------------------|-----------------------|
| Shores, Charlene | Human Services Agency |
| Slegers, Gregory | Sheriff’s Department  |

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

**Continuance of Benefits:**

None

**Deferred Retirements**

Busalacchi, Jesse	G4 vested
Dair, Erline	G2 vested
Herrick, Kara	G4 vested
Hughes, Suzanne	G2 vested
Orozco, Griselda	G4 vested

**Refunds**

Applin, Elaine	G4 non-vested	
Cruz, Juan	G4 vested	
Jones, Kim	G4 non-vested	
Lozano-Parra, Alicia	G4 non-vested	
Peavey, Brian	QDRO	
Quesiert, Dorothy	G4 non-vested	
Stauffer, Deanna	G4 non-vested	
White, Cynthia	G4 non-vested	
Masoli, Trisha	G4 Active Death	Beneficiary of Jonathan

**Rollovers**

Brown Von Scheven, Emily	G4 non-vested
Simmons, Alice	G4 non-vested
Valiente, Gloria	G4 non-vested

0704.5.2     **Consideration of Items Removed from Consent Agenda:** None.

0704.5.3     **Approval of Normal Retirement Age Recommendation:** Mr. Bailey presented information the board considered in establishing “normal retirement ages” (NRAs) for *SamCERA*’s general and safety plans in order to allow eligible retirees to take advantage of a new income tax exclusion. He stated that establishing NRAs is a difficult and complex matter and that the IRS has not given much guidance on the issue. He introduced various methods that could be used to establish NRA. Staff recommends using the average ages which are “reasonably representative of a typical retirement age” for general and safety members. Statistical data of *SamCERA* retirements pre- 1/1/03 indicates that the average retirement ages are 53 for safety members and 60 for general members. This data includes those who have retired on disability retirements.

The NRAs will be established in the Regulations of the Board of Retirement. Ms. Carlson noted that the resolution acknowledges that if a higher authority sets NRAs different from *SamCERA*’s, those different ages will take precedence.

In response to questions as to why staff did not recommend a method which uses the ages at which members’ benefits top out, Mr. Bailey said that age 50 for safety members would be too low given the statistical data presented and may not be defensible against the IRS. Ms. Carlson noted that had staff excluded safety members who had retired on disability retirements, the average retirement age for safety members would have increased from 53 to 56. However, staff opined that their methodology establishes a reasonable NRA for safety members. In

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

response to a concern from Mr. Hooley, Mr. Bailey stated that the resolution would allow the board to review the established Normal Retirement Ages given a recommendation from staff and the actuary.

**Motion** by Hooley, second by Tashman, carried with seven ayes and two no's to adopt **Resolution 06-07-12**, establishing Normal Retirement Ages for both general and safety plans, as follows:

“**WHEREAS**, *SamCERA* is an Internal Revenue Code (Code) § 401(a) tax-qualified retirement system that deducts health insurance premium amounts for *SamCERA* retirees who have elected to enroll in health insurance plans administered by San Mateo County; and

“**WHEREAS**, in 2006 the Congress approved and the President signed the Pension Protection Act, allowing “public safety officers” to exclude from income up to \$3,000 per year of health insurance premiums deducted by *SamCERA* from retirement benefits on behalf of each eligible retiree (and his or her spouse and tax dependents) and paid to insurance carriers; and

“**WHEREAS**, to be eligible under the rules of the Pension Protection Act an eligible retiree must have retired at or after normal retirement age or on disability (whether or not service connected); and

“**WHEREAS**, *SamCERA* should establish normal retirement ages in order to allow otherwise eligible members to exclude up to \$3,000 per year of their health insurance premiums from income for federal and California taxes; and

“**WHEREAS**, the Internal Revenue Service has said that “normal retirement age” cannot be earlier than the age that is “reasonably representative of a typical retirement age for the covered workforce”; and

“**WHEREAS**, *SamCERA* members who retire as safety members do so at an average age of 53; and

“**WHEREAS**, *SamCERA* members who retire as general members retire at an average age of 60; and

“**WHEREAS**, Government Code §31525 provides that this Board, with the approval of the Board of Supervisors, may establish regulations that govern the operation of *SamCERA* that are not inconsistent with the California Employees' Retirement Law of 1937; and

“**WHEREAS**, other government entities such as (but not limited to) the Legislature, Congress, and Internal Revenue Service may establish rules regarding normal retirement ages which take precedence over actions by the Retirement Board and the Board of Supervisors of San Mateo County; now therefore be it

“**RESOLVED** that section 4.12 of Article IV, Membership Duties and Rights, is hereby amended and shall read as follows:

“**4.12 Normal Retirement Ages:** The normal retirement age for general members shall be the later of age 60 or the age at which the member is entitled to receive benefits under the County Employees Retirement Law of 1937 contained in Government Code sections 31450 et seq. The normal retirement age for safety members shall be the later of age 53 or the age at which the member is entitled to receive benefits under the County Employees Retirement Law of 1937 contained in Government Code sections 31450 et seq. These normal retirement ages shall be in effect until such time as action taken by the Legislature, Congress, Internal Revenue Service or other government

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

agencies whose actions take precedence as a matter of law over the actions of *SamCERA* establish or require establishment of normal retirement ages that differ from those established in this regulation.

**“IT IS FURTHER RESOLVED** that, the Chief Executive Officer is hereby authorized under Government Code §31525 to transmit these amended regulations to the Board of Supervisors and to take all actions necessary to provide for their implementation upon approval by the Board of Supervisors.”

0704.6      **Investment Services**

0704.6.1      **Monthly Portfolio Performance Report:** Mr. Clifton presented the monthly portfolio performance report for the period ending March 31, 2007. *SamCERA*'s 1.13% Total Fund Return for March 2007 outperformed the Total Plan Policy Benchmark return of 0.95%. The Fund's return for the trailing twelve months is 11.76%, which is 401 basis points above the Actuarial Discount Rate, 7.75%, and 71 basis points above *SamCERA*'s Total Plan Policy Benchmark of 11.05%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$99,509,0227	0.59%	10.00%	7.87%
<i>International Equity</i>	354,876,300	3.38%	23.71%	14.99%
Total Equity	\$1,349,966,527	1.31%	13.31%	9.52%
Fixed Income	560,621,760	-0.02%	7.18%	5.86%
Real Estate Aggregate	150,985,934	4.07%	17.63%	16.62%
Cash Equivalents	2,866,281	0.39%	4.52%	3.13%
<b>TOTAL FUND</b>	<b>\$2,064,440,503</b>	<b>1.13%</b>	<b>11.76%</b>	<b>9.27%</b>
<i>Benchmark</i>		0.95%	11.05%	9.04%

\* Total Time-Weighted Rate of Return

0704.6.2      **Introduction & Approval of Manager Structure for Fixed Income Modeling:** Mr. Clifton reported that Ms. Jadallah presented the manager structure modeling for *SamCERA*'s fixed income at the Investment Committee meeting. Ms. Jadallah thoroughly reviewed the following structures, with one alternative, to the fixed income structure:

Current portfolio:    33.3% Core, 33.3% Enhanced Index, 33.3% Core-Plus

Alternative 1:        33.3% Core-Plus, 33.3% Core-Plus, 33.3% Core-Plus

Ms. Jadallah and Mr. Thomas felt no compelling reason to change *SamCERA*'s current structure and opined that the three managers have complementary styles: Aberdeen Asset Management (Core), Pyramis Global Advisors (Enhanced) and Western Asset Management (Core-Plus). Agreeing with SIS' assessment, the committee recommends that the board maintain *SamCERA*'s current fixed income manager structure. Mr. Thomas also stated that, given the evolution of the bond market, the board should review *SamCERA*'s fixed income investment guidelines with its current fixed income managers to ensure they have the discretion they need in their mandates.

**Motion** by Colson, second by Stuart, carried unanimously to approve the Investment Committee's recommendation and keep the current fixed income portfolio: 33.3% Core, 33.3%

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

Enhanced Index, 33.3% Core-Plus, as *SamCERA*'s fixed income structure.

- 0704.6.3     **Acceptance of Implementation Report covering the Domestic Large Cap and International Equity Structures:** Mr. Clifton reported that he authorized BGI to perform the transition of assets to implement *SamCERA*'s new manager structure adopted by the board on January 23, 2007.

In compliance with the new changes, Mr. Clifton reported that ~\$280 million will be taken from BGI's Russell 1000 Index Fund in April. \$200 million of the assets will be transferred to BGI's Russell 1000 Alpha Tilts Fund, \$40 million to Julius Baer Investment Management and \$40 million to Mondrian Investment Partners. The Russell 1000 Index Fund will be underweight in May and June in anticipation of an approximate \$100 million from the County in July for its 2007/2008 pre-paid contributions. The prepayment will be allocated to the Russell 1000 Index Fund as well as *SamCERA*'s fixed income managers in accordance with *SamCERA*'s adopted target asset allocation.

0704.7     **Board & Management Support Services**

- 0704.7.1     **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of March 31, 2007, totaled \$2,062,749,132. *SamCERA*'s Net Assets increased \$19 million in March. He noted that the retiree payroll will increase from \$7.9 million to over \$8 million in April due to the implementation of this year's cost of living adjustment (COLA).

- 0704.7.2     **Quarterly Budget Report for Period Ended March 31, 2007:** Mr. Clifton presented the preliminary Third Quarter Budget Reports. He reported that with 75% of the fiscal year completed, administrative expenditures to date represent 61.9% of the total appropriations. He provided a detailed review of the expenses in the various administrative categories for the board. All major categories are expected to be within budget by the end of the fiscal year.

***SamCERA*'s Administrative Budget**

	ADOPTED BUDGET	YTD ACTUAL
Salaries & Benefits	\$1,692,500	\$1,197,909
Services & Supplies	\$1,087,500	\$ 585,546
Capital Assets	<u>\$ 100,000</u>	<u>\$ 0</u>
Total	\$2,880,000	\$1,783,455

As of March 31, 2007, the aggregate professional services fee on an annualized basis is approximately 31.9 basis points. Mr. Clifton stated that *SamCERA*'s assets have grown faster than anticipated; therefore the realized fees are higher than originally budgeted.

- 0704.7.3     **Status Report on *SamCERA*'s Sources, Uses & Budget for Fiscal year 2007/2008:** Mr. Clifton stated that this year's budget process is slightly behind schedule since staff is currently waiting on MAXIMUS' final IT study report. The preliminary budget for fiscal year 2007/2008 is 20% higher than last year's budget. This is due to an increase in staff size, the addition of two trustee alternates, the acquisition of additional office space expected this fall,

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

and increased fees for county services. Mr. Clifton also stated that the acquisition of new accounting software, investment software and a wireless county connection project are included in the budget.

- 0704.7.4     **Approval of Auditor's Engagement Letter for June 30, 2007, Financial Audit:** Mr. Clifton presented the auditor's engagement letter from *SamCERA's* auditor, Brown Armstrong, for the June 30, 2007, financial audit. The audit will examine, on a test basis, evidence supporting the amounts and disclosures in *SamCERA's* financial statements. A Brown Armstrong audit team headed by Ms. Connie Perez, Audit Manager, will be in *SamCERA's* office to conduct interim work prior to the closing of *SamCERA's* books. The gross base audit fee, including expenses is "not to exceed" \$40,320.

**Motion** by Colson, second by Wozniak, carried unanimously to authorize the Board Chair, Mr. Bryan, to execute the Audit Engagement Letter for the June 30, 2007, Financial Statement Audit.

- 0704.7.5     **Acceptance of Report on Prepayment of the County's Contribution for FY 2007/2008:** Mr. Clifton reported that the County plans to prepay its fiscal year 2007/2008 contribution, which is estimated to be \$97,533,743, on July 6<sup>th</sup>. Without objection, Mr. Bryan accepted the report.

- 0704.7.6     **Acceptance of Report Regarding the Acquisition of Fiduciary Insurance Policy:** Mr. Clifton stated that this is the second year in a row in which there has been no increase to the cost of fiduciary insurance. The negotiated cost of \$75,000 acquires a policy of \$10,000,000 fiduciary coverage and \$10,000,000 defense coverage each with a \$50,000 deductible. The effective date is May 27, 2007, and is set to expire on May 27, 2008. He informed trustees that they have the ability to purchase a waiver of recourse premium for \$25.

- 0704.7.7     **Acceptance of Report on Additional Retirement Credit Implementation Plan:** Mr. Bailey reported that the Board of Supervisors adopted the resolution to give eligible members the ability to purchase up to five years of additional retirement credit (ARC-time). He noted that this would be a full-cost purchase and that Tier 3 members will not be able to purchase ARC-time. Staff intends to implement ARC-time purchases on July 1<sup>st</sup>. In response to a question from Mr. Bryan, Mr. Bailey stated that members will have the ability to have a maximum of ten years to purchase ARC-time via payroll deductions. Without objection, Mr. Bryan accepted the report.

- 0704.7.8     **Approval of SACRS Voting Delegate and Alternates; and board direction on SACRS Initiatives:** Mr. Bailey presented the board with a proposed list of *SamCERA's* voting delegate and alternates for the SACRS Spring 2007 Conference to be held in Santa Clara from May 8 – 11, 2007. He also provided the board with information regarding the one item to be voted on at the SACRS business meeting: the adoption of SACRS bylaw amendments.

**Motion** by Salas, second by Wozniak, carried unanimously to approve Tom Bryan as *SamCERA's* SACRS Voting Delegate, Alma Salas as the First Alternate and David Bailey as the Second Alternate to cast *SamCERA's* votes at the Spring 2007 SACRS Conference.

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

0704.8      **Management Reports**

0704.8.1      **Chief Executive Officer's Report:** Mr. Bailey stated that Milliman, *SamCERA's* actuary, will attend the May board meeting to commence the process for this year's actuarial valuation as well as give a presentation on undistributed earnings. He noted that there are 13 outstanding disability applications due to the lack of responsiveness from medical doctors associated with the various disabilities. He said that the board does have subpoena power which staff may request the board to use in the future.

0704.8.2      **Assistant Executive Officer's Report:** Mr. Hood stated that the terms for the third, eighth and eighth alternate seats on the Board of Retirement are set to expire on June 30, 2007, and that an election will take place for these seats on June 11, 2007.

0704.8.3      **Investment & Finance Manager's Report:** Mr. Clifton reported that Barclays Bank, of which BGI is a subsidiary, reported that it intends to purchase ABN AMRO. Mr. Clifton also said that staff is currently in the process of researching various analytical investment software programs to allow staff to better monitor its managers. Staff is currently researching software offered by Evestment Alliance, Zephyr, Informa and PerTrac.

0704.8.4      **County Counsel's Report:** Ms. Carlson is organizing the attorney breakout session at the SACRS Spring 2007 Conference. The session will discuss various tax, contract and liability issues.

0704.9      **Report on Actions Taken in Closed Session:** None.

0704.10      **Adjournment in Memory of the following Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 2:11 p.m., in memory of the following deceased members:

VAN DEVENTER, VIRGINIA	FEBRUARY 4, 2007	ASSESSOR'S OFFICE
CHAN, JANET	FEBRUARY 28, 2007	SAN MATEO MEDICAL CENTER
GIANFRANCESCO, LEE	MARCH 3, 2007	SAN MATEO MEDICAL CENTER
STACEY, MYRTLE	MARCH 4, 2007	BENEFICIARY OF RAYMOND SR.
JOHNSON, WILBUR	MARCH 14, 2007	DISTRICT ATTORNEY'S OFFICE
SERPA, IDA	MARCH 19, 2007	BENEFICIARY OF JOHN SERPA
SCHMALTZ, ROSELLA	MARCH 21, 2007	HUMAN SERVICES AGENCY
WICKHAM, BARBARA	MARCH 22, 2007	BENEFICIARY OF JACK WICKHAM
YOUNG, CHARLES	MARCH 25, 2007	BENEFICIARY OF WANDA YOUNG
CHACE, ANN	MARCH 27, 2007	SAN MATEO MEDICAL CENTER
VAN JEPMOND, HOWARD	APRIL 13, 2007	BENEFICIARY OF LUANN VAN JEPMOND

TOM E. BRYAN, CHAIR