

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

September 25, 2007

Agenda Item 3.0

August 28, 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](#)
 - 2.2 [Swearing In of Board Member\(s\)](#)
 - 2.3 [Announcement of Committees and Appointments](#)
 - 2.4 [Appointment of Ad Hoc Committee to Review SamCERA's Medical Consultant](#)
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 [Report and Possible Action on Surviving Spouse Benefits](#)
 - 5.4 [Acceptance of Milliman Cost for Undistributed Earnings Project](#)
6. Investment Services
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Annual Review, Revision & Reaffirmation of the Investment Committee Charter](#)
 - 6.3 [Quarterly Investment Performance Analysis for period ended June 30, 2007](#)
 - 6.4 Annual Review of SamCERA's Small Cap Domestic Equity Asset Class and Investment Managers
 - 6.4 a [Annual Investment Manager Review – Brandes Investment Partners](#)
(Interviewed by the Investment Committee on August 28th)
 - 6.4 b [Annual Investment Manager Review – Chartwell Investment Managers](#)
(Interviewed by the Investment Committee on August 28th)
 - 6.4 c [Annual Investment Manager Review – Goldman Sachs Asset Management](#)
(Interviewed by the Board of Retirement on August 28th)
 - 6.5 [Approval of Topics for Annual Investment Manager Review – Barclays Global Investors](#)
 - 6.6 [Approval of Topics for Annual Investment Manager Review – INVESCO Realty Advisors](#)
 - 6.7 [Review of SamCERA's Investment Plan](#)
 - 6.8 [Annual Investment Consultant Review – Strategic Investment Solutions](#)
(Interviewed by the Investment Committee on August 28th)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Report on Audit Field Work for the June 30, 2007, Financial Audit](#)
 - 7.3 [Acceptance of Report on MAXIMUS' Strategic Information Technology Plan](#)
 - 7.4 [Approval of SamCERA Employee Organizational Classifications and Compensation](#)
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](#)

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9. [Report on Actions Taken in Closed Session](#)
10. [Adjournment](#)

August 28, 2007 – Board Minutes

- 0708.1 **Call to Order:** Mr. Bryan, Chair, called the Public Session of the Board of Retirement to order at 1:04 p.m., August 28, 2007, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- 0708.2.1 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bryan, Mr. Hooley, Ms. Jadallah, Mr. Lee, Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Excused:* Mr. Hackleman. *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Ali, Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood, Ms. LeBlanc and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Mr. Meier and Mr. Thomas. *Retirees:* 1, *Actives:* 2.
- 0708.2.2 **Swearing In of New Board Member(s):** Mr. Bryan and Ms. Jadallah swore before Chief Deputy Counsel Brenda Carlson to serve as faithful fiduciaries for all members, retirees and beneficiaries; to serve as prudent administrators 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*.
- 0708.2.3 **Announcement of Committees and Appointments:** Mr. Bryan **appointed** Ms. Tashman, Chair, Ms. Arnott, Ms. Jadallah and himself to the Investment Committee per *Regulation 2.5.1*. Mr. Bryan **appointed** Mr. Lee, Chair, Mr. Wozniak and Mr. Hackleman to the Audit Committee per *Regulation 2.5.1*. Mr. Bryan **appointed** Mr. Wozniak, Chair, Ms. Stuart and Mr. Hooley to the ad hoc Undistributed Earnings Committee per *Regulation 2.5.1*.
- 0708.2.4 **Appointment of Ad Hoc Committee to Review *SamCERA's* Medical Consultant:** Mr. Bailey said that *SamCERA* has added annual reviews of its legal advisor and more recently its auditing firm to the list of consultants that receive an annual review. There has not been an annual review for *SamCERA's* medical consultant. Staff recommended that the board appoint an ad hoc committee to conduct the review and for that committee to report back to the board at its October 23rd meeting.
- Mr. Bryan **appointed** Ms. Arnott, Chair, Mr. Lee and Mr. Wozniak to the ad hoc Medical Consultant Review Committee.
- 0708.3 **Approval of the Minutes:** Ms. Arnott submitted the following correction to the minutes: 0707.6.2b L2: "...the Investment Committee interviewed Mondrian Investment ~~Managers~~ Managers."
- Motion** by Stuart, second by Arnott, carried unanimously to approve the minutes of the July 24, 2007, board meeting, as amended.

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- 0708.4.1 **Oral Communications From the Board:** Ms. Arnott reported that on August 14th, she along with Mr. Buffington met with four members of the Grand Jury who merely wanted an overview of county and *SamCERA*'s investments. She provided asset allocation and investment performance information to them. The Grand Jury had some concern over *SamCERA*'s exposure to sub-prime mortgages. She provided the appropriate information to them regarding the Fund's exposure to sub-prime and assured them that *SamCERA*'s exposure to sub-prime is minimal.

Ms. Stuart said that Mr. Bailey was a guest speaker at SCORPA's most recent meeting. She invited staff and trustees to attend SCORPA's luncheon on Wednesday, September 26th, at Red Morton Park in Redwood City.

On behalf of the trustees, Mr. Bryan welcomed Ms. Jadallah to the board.

- 0708.4.2 **Oral Communications From the Public:** None.

0708.5 **Benefit & Actuarial Services**

- 0708.5.1 **Adoption of Consent Agenda: Motion** by Wozniak , second by Tashman, carried unanimously to approve the day's consent agenda, as submitted, as follows:

Disability Retirements:

The board finds that **Andresina Robinson** is disabled from performing her usual and customary duties as a Correctional Officer, 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:

Cutchin, Patricia	March 26, 2007	
	May 31, 2007	
Willis, Wayne	(from deferred)	San Mateo Medical Center
Fung, Ivy	August 10, 2007	San Mateo Medical Center
Abraham, Rena	August 11, 2007	Human Services Agency
	August 14, 2007	
Schultz, Teresa	(from deferred)	Sheriff's Department
	August 22, 2007	
Cabaniss, Leonard	(from deferred)	Sheriff's Department
Ebbel, Kathryn	August 31, 2007	Department of Public Health
Wydo, Marian	August 31, 2007	Sheriff's Department

Non-Member QDRO Benefits:

Gillanders, Carol	July 2, 2007	QDRO of Gary Warren
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Continuance of Benefits:

Brison, Vivian	Beneficiary of Donald
Kidd, Joan	Beneficiary of Ronald

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Pahulu, Lua

Beneficiary of Mel

Deferred Retirements:

Argao, Maria C.	G4 vested	
Danese, Karen	G4 vested	
Deforest, David	G2 vested	
Flores, Rhonda	QDRO	
Gutierrez, Rosa	G2 vested	
Hernandez, Rosemarie	QDRO	
Jackson, Jeffrey B.	G4 vested	
Levintov, Irene L.	G4 vested	
Lynch-Delane, Theresa	Plan 2 vested	
Vidrio, Elena	Plan3 vested	
Wiggers, Joris A.	G4 vested	
Carman, Robert J.	S4 vested	Reciprocity
Freitas, Sheralynn I.	G2/P2 vested	Reciprocity
Hersch, Monica	G4 vested	Reciprocity
Lucett, Matthew	G4 vested	Reciprocity
Lynch, Katharine	G2 non vested	Reciprocity
Nabity, Scott	G4 vested	Reciprocity
Rich, Debra	G4 not-vested	Reciprocity
Price, Barbara A.	G4 non-vested	Reciprocity
Vazquez, Arcel	G4 non-vested	Reciprocity
Duenas, Sarah M.	G4 vested	Reciprocity
Amador, Carla J.	G4 vested	Reciprocity
Vega, Tonia	G2 vested	Reciprocity

Refunds:

Bollinger, Todd	G2 vested	
Jurisich, Jeffrey	G1 retired	Beneficiary of Imogene Johnson
Lokan, Marie	G4 non-vested	
Miranda, Carmen	G4 vested	
Stark, Michele	G4 non-vested	
Taito-Taamai, Emi	G4 non-vested	
Vasquez, Martha	G4 non-vested	

Rollovers:

Jurisich, Jerry	G1 retired	Beneficiary of Imogene Johnson
Yu, Angela	G4 non-vested	

0708.5.2 **Consideration of Items Removed from Consent Agenda:** None.

0708.5.3 **Report and Possible Action on Surviving Spouse Benefits:** Mr. Bailey reminded the board that Mrs. Silverstein, a spouse of a *SamCERA* retiree, spoke in front of the board at

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the previous board meeting. She married her spouse after his date of retirement and would not be entitled to a continuance of his benefit option upon his death because she would not qualify as a "surviving spouse" under Government Code Section 31760.1.

Staff found two optional sections that exist within the 1937 Act which would provide a continuance to the spouse of a retired member even if the marriage occurred post retirement. Should the board adopt either or both sections, the number of continuance benefits paid will increase and thereby affect the contribution rate for the county. Milliman would study the exact cost for a fee of no more than \$8,000.

In response to a question by Mr. Wozniak, Ms. Carlson stated that *SamCERA* could draft legislation to provide more stringent parameters to the current optional government code sections.

In order to better understand the cost/benefit analysis of the possible action on surviving spouse benefits. Mr. Bailey recommended that the board defer this topic until the completion of the June 30, 2007, actuarial valuation and after the completion of the process of reviewing the Undistributed Earnings Policy.

Motion by Stuart, second by Jadallah, carried unanimously to accept the recommendation by staff to table this matter.

- 0708.5.4 **Acceptance of Milliman Cost for Undistributed Earnings Project:** Mr. Bailey reported that Milliman has submitted a not-to-exceed cost of \$7,500 for additional work requested by the Ad Hoc Committee on Undistributed Earnings. Mr. Bailey provided a brief review of the impetus of the policy as it relates to the Medicare Part B reimbursement program. Milliman will study various changes to *SamCERA*'s current draft undistributed earnings policy and its resulting funding impacts.

Motion by Lee, second by Stuart, carried unanimously to accept Milliman's not-to-exceed cost of \$7,500 for the undistributed earnings project.

0708.6 **Investment Services**

- 0708.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton presented the monthly portfolio performance report for the period ending July 31, 2007. *SamCERA*'s -2.33% Total Fund Return for July 2007 underperformed the Total Plan Policy Benchmark return of -1.59%. The Fund's return for the trailing twelve months is 13.30%, which is 555 basis points above the Actuarial Discount Rate, 7.75%, but 167 basis points below *SamCERA*'s Total Plan Policy Benchmark of 14.97%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	<i>\$965,478,101</i>	<i>-4.90%</i>	<i>12.63%</i>	<i>12.86%</i>
<i>International Equity</i>	<i>459,630,536</i>	<i>-1.34%</i>	<i>27.97%</i>	<i>19.31%</i>
Total Equity	1,425,108,637	-3.77%	16.71%	14.50%
Fixed Income	579,920,900	0.57%	5.44%	4.74%
Real Estate Aggregate	156,610,221	0.00%	14.36%	16.77%
Cash Equivalents	7,488,029	0.39%	4.42%	3.17%

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TOTAL FUND	\$2,169,127,787	-2.33%	13.30%	11.85%
<i>Benchmark</i>		<i>-1.59%</i>	<i>14.97%</i>	<i>12.22%</i>

* Total Time-Weighted Rate of Return

- 0708.6.2 **Annual Review, Revision & Reaffirmation of the Investment Committee Charter:** Mr. Clifton reported that the Investment Committee reviewed Resolution 99-00-09, the Investment Committee Charter, in detail. No amendments to the charter were recommended by the committee. Mr. Clifton stated that the committee's review of the small cap structure was scheduled for January but has been accelerated to commence at next month's committee meeting.
- 0708.6.3 **Quarterly Investment Performance Analysis for period ended June 30, 2007:** Mr. Clifton reported that Mr. Thomas performed a thorough review of *SamCERA*'s quarterly investment performance report. Mr. Thomas provided a brief recap of his presentation to the Investment Committee. He then stated that, given the magnitude, consistency and duration of Goldman Sachs' underperformance the past two and a half years, he reported that SIS had been asked to accelerate the process of reviewing the small cap structure. He will come back in September with recommendations as to how the committee can move forward with the reassessment.
- 0708.6.4 **Annual Review of *SamCERA*'s Small Cap Domestic Equity Asset Class and Investment Managers**
- 0708.6.4a **Annual Investment Manager Review – Brandes Investment Partners:** Mr. Clifton reported that Michael Israel, Portfolio Manager, was present at the Investment Committee for Brandes' annual review. Mr. Clifton said that Brandes has also been performing poorly since inception. The portfolio has been overweight to the auto components industry which has hurt them over the past couple of years. Despite Brandes' underperformance and volatility, Mr. Clifton stated that the committee is not extremely concerned with the firm's ability to handle its mandate given where *SamCERA* has placed them in its portfolio and what was expected from them at inception.
- 0708.6.4b **Annual Investment Manager Review – Chartwell Investment Managers:** Mr. Clifton reported that Dave Reidinger, Principal, Portfolio Manager/Senior Analyst, and William J. Dougherty, Vice President, Client Services & Marketing, were present at the Investment Committee for the annual review of Chartwell Investment Partners. Chartwell has been performing well since inception and the committee is pleased with the firm's performance.
- 0708.6.4c **Annual Investment Manager Review – Goldman Sachs Asset Management:** Mr. Clifton stated that the committee has major concerns over GSAM's underperformance and lack of transparency nearly since inception. Michael Ray, Vice President Client Services, Melissa Brown, Managing Director Global Quantitative Equity, and Michael Keough, Vice President Relationship Services, were present at the board meeting for Goldman Sachs' annual review.

Ms. Brown provided a detailed portfolio review for the board. She briefly reviewed GSAM's investment process and the recent market environment. She stated that approximately in August 2006, the environment started to change in that companies that had been considered as high-quality Standard & Poors rated, started to far underperform relative to those companies S&P rated as low-quality. Similarly, companies with positive earnings

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have far underperformed those with negative earnings and higher-expected growth companies have outperformed those with low-expected growth. All these factors go against long-term trends and are not expected to hold over the long-run. She opined that the market environment has been likely influenced by the existence of private equity buyers especially in the domestic small cap market which has made it difficult for Goldman Sachs' process to add value.

Ms. Brown also reviewed a few enhancements to the quantitative model. GSAM's research is focused on examining its underperformance. In response to a question from Mr. Thomas, Ms. Brown stated that the model's factors have worked much better in the past few weeks.

Following GSAM's review, Ms. Tashman requested that SIS provide comparative performance results of other quantitative managers. These statistics will be provided along with SIS' accelerated timeline for a small cap manager structure review.

0708.6.5 **Approval of Topics for Annual Investment Manager Review – Barclays Global Investors:** Mr. Clifton reported that the Investment Committee reviewed the topics for BGI's annual review. He noted that Ms. Jadallah requested that BGI provide a detailed discussion on its alpha tilts model relative to its recent shortfall in performance and its utilization in other BGI products, including that of hedge funds. The committee recommended that the board approve the list of topics, as amended.

0708.6.6 **Approval of Topics for Annual Investment Manager Review – INVESCO Realty Advisors:** Mr. Clifton reported that the Investment Committee reviewed the list of topics for INVESCO's annual review. The committee made no changes to the questionnaire and recommended that the board approve the topics.

0708.6.7 **Review of SamCERA's Investment Plan:** Mr. Clifton reported that the Investment Committee thoroughly reviewed the amendments to Parts One and Two of SamCERA's Investment Plan. No major changes were made to the plan other than updated information followings SamCERA's recent asset/liability allocation study and manager structure review.

0708.6.8 **Annual Investment Consultant Review – Strategic Investment Solutions:** Mr. Clifton reported that the Investment Committee reviewed SIS and discussed the strengths and weaknesses of SamCERA's investment consultant. Overall, the committee was very pleased with the work Mr. Thomas and Ms. Jadallah had done over the past year. Mr. Thomas said that he enjoys SIS' relationship with SamCERA and is looking forward to working with the board in the future.

0708.7 **Board & Management Support Services**

0708.7.1 **Monthly Financial Report:** Mr. Clifton reported that SamCERA's Net Assets Held in Trust for Pension Benefits as of July 31, 2007, totaled \$2,168,678,972.

0708.7.2 **Report on Audit Field Work for the June 30, 2007, Financial Audit:** Mr. Clifton reported that Brown Armstrong conducted two weeks of field work at SamCERA's offices. He discussed the auditors' findings with the board. The findings related to wire transfers, travel expenses, and an erroneous investment management fee calculation.

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- 0708.7.3 **Acceptance of Report on MAXIMUS' Strategic Information Technology Plan:** Sharon Taulman of MAXIMUS presented the final report on *SamCERA*'s strategic information technology plan and provided recommendations to the board. She provided a brief overview of the project's goals and approach. Ms. Taulman then presented the implementation recommendations that resulted from the study. MAXIMUS recommends that *SamCERA* select and implement new/upgraded key application software: (1) Pension Administration System, (2) Accounting System, and (3) Imaging/EDMS/Workflow System. They also recommend that *SamCERA* implement enhancements to external and internal interfaces to existing/new systems and to implement technology infrastructure upgrades and additional features to strengthen redundancy, security and technical support capabilities. Ms. Taulman reviewed a five-year timeline for the implementation of the IT strategic plan and the implementation's estimated costs.

Without objection, Mr. Bryan accepted the report.

- 0708.7.4 **Approval of *SamCERA* Employee Organizational Classifications and Compensation:** Mr. Bailey reviewed staff's request for *SamCERA* position reclassifications and salary adjustments. The goal in recommending these changes is to maintain a stable and effective workforce to serve *SamCERA*'s active and retired members. Mr. Bailey recommended two steps: (1) Reclass certain positions to be *SamCERA*-specific and appropriate based on current job duties and (2) adjust salary ranges consistent with recent survey data for comparable pension positions in the Bay Area.

He presented the data collected in support of staff's recommendations. City and County of San Francisco, Contra Costa County and Alameda County were surveyed during the study which is consistent with the County's human resource department's methodology.

After extensive discussion, **motion** by Hooley, second by Wozniak, the board voted seven yays to one no, to approve the recommendations of *SamCERA*'s employee organizational classifications and compensation.

0708.8 **Management Reports**

- 0708.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported on the *SamCERA* drafted legislation, AB1124, that would permit the safety alternate to attend closed sessions. He then reported that he intends to discuss the new IRS rules on NRA with tax attorney Bob Blum. Mr. Bailey then gave a brief overview of the summary of findings of the Economic Impact Report on California and Counties as performed by SACRS.

- 0708.8.2 **Assistant Executive Officer's Report:** Mr. Hood provided a statistical report on Additional Retirement Credit (ARC) service purchases.

- 0708.8.3 **Investment & Finance Manager's Report:** Mr. Clifton reported that SIS has hired Deborah Gallegos as Director of Manager Research to fill the vacancy created when Ms. Jadallah left the firm a couple of months ago. Ms. Gallegos may or may not serve as consultant to *SamCERA*. Ms. Gallegos comes to SIS with more than 17 years of experience in public fund administration, investment management, and plan sponsor consulting. Mr. Clifton then stated that *SamCERA* and State Street have begun implementation of securities lending. He then reported that *SamCERA*'s quantitative managers, BGI and Goldman

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Sachs, have sent letters explaining its recent underperformance. Mr. Clifton also reported that INVESCO Realty Advisors sent him a letter regarding the recent sub-prime mortgage crisis. INVESCO indicates that their exposure to sub-prime is minimal and is mostly affected in the multi-family/apartments sector.

0708.8.4 **County Counsel's Report:** Ms. Carlson said she will continue to track AB1124 and reviewed the bill with the board.

0708.9 **Report on Actions Taken in Closed Session:** None.

0708.10 **Adjournment in Memory of the following Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 4:21 p.m., in memory of the following deceased members:

KOMISAREK, MILDRED	JANUARY 6, 2007	BENE. OF LEONARD KOMISAREK
BATES, ETHEL	MARCH 11, 2006	BENEFICIARY OF EARL BATES
JANIKOWSKI, MARK	MAY 21, 2007	DEPT. OF PUBLIC WORKS
BONGARD, OLGA	JUNE 8, 2007	PROBATION DEPT
JOHNSON, ALICE	JULY 1, 2007	MENTAL HEALTH
HOLMAN, LUCILLE	JULY 3, 2007	MENTAL HEALTH
PAHULU, MEL	JULY 8, 2007	CONTROLLER'S OFFICE
KIDD, RONALD	JULY 11, 2007	HOSPITAL
BRIDGES, ELSIE	JULY 17, 2007	BENEFICIARY OF CLAUDE BRIDGES
BRISON, DONALD	JULY 17, 2007	CORONER'S OFFICE
BENDER, PATRIA	JULY 22, 2007	PARKS AND RECREATION
LANG, LEONARD	JULY 26, 2007	CORONER'S OFFICE

TOM BRYAN, CHAIR