December 13, 2007 Agenda Item 3.0

November 27, 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 <u>Oral Communications From the Public</u>
- 5. Benefit & Actuarial Services
 - 5.1 Adoption of Consent Agenda
 - 5.2 Consideration of Items Removed from Consent Agenda
 - 5.3 Report on Review of *SamCERA* Medical Consultant
 - 5.4 Report on meeting of the Ad Hoc Committee on Undistributed Earnings
- 6. Investment Services
 - 6.1 <u>Monthly Portfolio Performance Report</u>
 - 6.2 Quarterly Investment Performance Analysis for Period Ended September 30, 2007
 - 6.3 <u>Approval of Amendment to Western Asset Management's Investment Management</u>

 <u>Agreement</u>
 - 6.4 <u>Acceptance of Certification of Compliance Pyramis Management Trust Company</u>
 - 6.5 <u>Acceptance of Certification of Compliance Aberdeen Asset Management</u>
 - 6.6 Acceptance of Certification of Compliance Western Asset Management
 - 6.7 Approval of Amendments to SamCERA's Investment Plan Parts Three and Four
 - 6.8 Review of Amendments to Appendix A-F and the Glossary of SamCERA's Investment Policy
 - 6.9 Consideration & Approval to Terminate Goldman Sachs Asset Management's Investment Management Agreement
 - 6.10 Approval to Delegate to the Investment & Finance Manager the Authority to Obtain Transition Management Services, with the Service Agreement to be Executed by the Board Chair
 - 6.11 Approval to Delegate to the Investment & Finance Manager the Authority to Obtain a Interim Russell 2000 Index Provider, with the Investment Management Agreement to be Executed by the Board Chair
- 7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 <u>Approval of SamCERA's Comprehensive Annual Financial Report for the Period Ended</u> June 30, 2007
 - 7.3 <u>Approval to Reschedule the December Meeting of the Board of Retirement to December</u> 13th at 11 a.m.
 - 7.4 Appointment of CEO Review Committee
 - 7.5 Approval of Resolution Regarding Participation of Safety Alternate
- 8. Management Reports
 - 8.1 <u>Chief Executive Officer's Report</u>
 - 8.2 Assistant Executive Officer's Report
 - 8.3 <u>Investment & Finance Manager's Report</u>
 - 8.4 <u>County Counsel's Report</u>

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

November 27, 2007 - Board Minutes

- O711.1 **Call to Order:** Mr. Bryan, Chair, called the Public Session of the Board of Retirement to order at 1:00 p.m., November 27, 2007, in *SamCERA*'s Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- O711.2 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bryan, Mr. Hackleman, Mr. Hooley, Ms. Jadallah, Mr. Lee, Ms. Stuart, Ms. Tashman (arr. 1:20 p.m.) and Mr. Wozniak. *Other Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Ms. Carlson and Mr. Thomas. *Retirees:* 0, *Actives:* 2.

0711.3 **Approval of the Minutes:**

Motion by Tashman, second by Hackleman, carried unanimously to approve the minutes of the October 23, 2007, Audit Committee meeting, as submitted.

Mr. Hackleman submitted the following correction to the minutes: Under 0710.9 ¶2: Mr. Hackleman recused himself from the consideration of the disability application of Sarita Ledet.

Ms. Arnott submitted the following corrections to the minutes: 0710.2.1 L4: "...Mr. Swope, Swopes and Mr. Thomas."; 0710.5.1 ¶2 L4: "...where Ms. Arnott is Deputy Treasurer-Tax Collector. Ms. Arnott stated that she felt no reason to abstain from the consideration of Ms. Thompson's disability application as she does not personally know the applicant."

Motion by Arnott, second by Stuart, carried unanimously to approve the minutes of the October 23, 2007, board meeting, as amended.

Mr. Bailey requested that the board approve amendments to the meeting agenda, adding the following agenda items per the recommendation of the Investment Committee:

- 6.9 Consideration & Approval to Terminate Goldman Sachs Asset Management's Investment Management Agreement.
- 6.10 Approval to Delegate to the Investment & Finance Manager the Authority to Obtain Transition Management Services, with the Service Agreement to be Executed by the Board Chair.
- 6.11 Approval to Delegate to the Investment & Finance Manager the Authority to Obtain a Interim Russell 2000 Index Provider, with the Investment Management Agreement to be Executed by the Board Chair.

Mr. Bailey stated that these agenda items came to attention after the posting of the regular agenda, they were of an immediate and urgent nature, and any delay in their consideration could be detrimental to the *SamCERA* fund.

Motion by Arnott, second by Wozniak, carried unanimously to approve the amendments to the meeting agenda, adding agenda items 6.9, 6.10 and 6.11.

Oral Communications From the Board: Ms. Arnott reported that she attended the SACRS conference earlier in the month. She found the topic of trustee self-evaluation to be interesting. She also attended the fiscal officers meeting with the County Manager's Office, where the question of changes from a 1937 Act County to PERS was posed for the purpose of cost savings.

Mr. Hackleman introduced Peter Bassett to the board. Mr. Bassett will fill Mr. Hackleman's position as the County's Benefits Manager upon Mr. Hackleman's retirement next year.

0711.4.2 **Oral Communications From the Public:** None.

0711.5 **Benefit & Actuarial Services**

0711.5.1 **Adoption of Consent Agenda: Motion** by Arnott, second by Wozniak, carried unanimously to adopt the consent agenda, 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:*

Service Retirements:

bei vice item cinema.		
Delane, Teresa	October 31, 2007 (from deferred)	Public Health Department
Burns, Patricia	November 6, 2007 (from deferred)	Human Resources Department
Draper, Kathleen	November 9, 2007 (from deferred)	Probation Department
Lowe, Kathleen	November 9, 2007	Sheriff's Department
Shores, Charlene	November 11, 2007	Human Services Agency
Been, Diane	November 17, 2007	Aging and Adult Services
Porter, Christopher	November 24, 2007	Department of Public Works
Small, Josie	November 24, 2007	San Mateo Courts
Black, Patricia	November 27, 2007	Human Resources Department
Bartz, Renate	November 30, 2007	San Mateo Courts
Carreno, Rosa	November 30, 2007	Department of Public Health
Hronis, Mary	November 30, 2007	San Mateo Courts
Patterson, Thomas	November 30, 2007	San Mateo Courts
Reed, Emily	November 30, 2007	Human Services Agency

Continuance of Benefits:

Howell, James	Beneficiary of Lora Howell
Fellner, Eileen	Beneficiary of Irving Fellner
Gaylord, Leolla	Beneficiary of Theodore Gaylord

Burton, Patricia
Yee, Robert
Pisano, Judith
Beneficiary of Barnard Burton
Beneficiary of Vivian Yee
Beneficiary of Samuel Pisano

QDRO Benefits:

Escheverria, Maria October 19, 2007 Ex-spouse of Bravo, Carlos

Deferred Retirements:

Chrisman, Vanessa G4 vested

Devitt, Gregory G4 vested Reciprocity
Hiestand, Susan G4 vested Reciprocity
Rauch, Veronica G4 Reciprocity

Sykes-Miessi, Joan G2 vested

Dhatim, Salik N. G4 Reciprocity
Henderson, Otis G4 vested Reciprocity
Dondershine, Harvey G4 vested

Laden, Daniel G2 vested

Refunds:

Ali, Marie G4 non vested
Alqueza, Mylene G4 non vested
Dela cruz, Vivian G4 vested
Ghilarducci, Brian G4 non vested
Hottinger, Sheila G4 vested

Mangubat, Scion G4 non vested

Mitchem, Shirley G2

(non-member, ex-spouse of Charles Heitz)

Malone, Timothy & G4 non vested Barbara (Death Benefit of

Timothy Malone)

Morales, Adam G4 vested

Rich, Kora G4 non vested Schulz, Christopher G4 non vested Tapia, Claudine G4 non vested

Rollovers:

Lewis, Donald G1 vested

(from deferred)

Pachtman, Suzanne G4 non vested Whitworth, Freddie G4 non vested

- 0711.5.2 **Consideration of Items Removed from Consent Agenda:** None.
- O711.5.3 **Report on Review of** *SamCERA* **Medical Consultant:** Ms. Arnott reported that the Ad Hoc Medical Consultant Review Committee met on November 2nd. She reported that the committee directed staff to create a list of expectations for the association's medical consultant and also research the possibility of a backup advisor. Mr. Bailey reported that staff has surveyed other 1937 Act counties regarding any medical consultant guidelines that they may have. Staff will incorporate subjects raised during the ad hoc committee into *SamCERA*'s guidelines.
- 0711.5.4 **Report on meeting of the Ad Hoc Committee on Undistributed Earnings:** Mr. Bailey provided a brief overview of the ad hoc committee meeting that took place on November 27th, at 8 a.m. The committee reviewed the draft policy and recommended a simplification of the policy language and details. In response to a question from Mr. Hackleman regarding the recent income-based indexing with Medicare Part-B, Mr. Bailey said that the committee recommended that *SamCERA* reimburse the minimum amount. Reimbursing the minimum amount was deemed the most equitable. Ms. Tashman requested a redline version of the policy as well as a draft worksheet to the board with pertinent calculations such as that of excess earnings.

0711.6 Investment Services

Monthly Portfolio Performance Report: Mr. Clifton reported that *SamCERA's* 2.04% Total Fund Return for October 2007 underperformed the Total Plan Policy Benchmark return of 2.32%. The fund's return for the trailing twelve months is 11.79%, which is 404 basis points above the Actuarial Discount Rate, 7.75%, but 321 basis points below *SamCERA*'s Total Plan Policy Benchmark of 15.00%. The spread between the actual return and the policy benchmark return continues to widen.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
Domestic Equity	\$1,005,577,536	1.80%	9.21%	14.72%
International Equity	<u>498,621,812</u>	5.02%	29.43%	22.76%
Total Equity	\$1,504,199,348	2.85%	14.66%	16.79%
Fixed Income	591,690,702	0.62%	4.24%	4.64%
Real Estate Aggregate	161,281,147	0.00%	15.06%	16.92%
Cash Equivalents	7,086,624	0.38%	4.54%	3.26%
TOTAL FUND	\$2,264,257,821	2.04%	11.79%	13.16%
Renchmark		2.32%	15 00%	13 95%

^{*} Total Time-Weighted Rate of Return

O711.6.2 Quarterly Investment Performance Analysis for Period Ended September 30, 2007: Mr. Thomas from Strategic Investment Solutions was present to review the quarterly investment performance report for the period ended September 30, 2007. The composite fund returned 0.4% in the third quarter of 2007 and ranked 96th among other public funds greater than \$100 million (median of 2.2%). The fund also trailed its policy index (2.5%) during this time period. Longer term, the three and five-year returns of 12.5% (65th percentile) and 13.6% (52nd percentile), respectively, were near median among large public plans (12.8% and 13.7%).

Mr. Thomas indicated that a site visit to BGI's offices is scheduled. Following the visit, the Investment Committee would like to review the Russell 1000 Alpha Tilts portfolio, a low-risk enhanced index.

Mr. Clifton reported that the committee expressed concern with *SamCERA*'s fixed income managers and the impact on the bond portfolios with the continuing housing decline. Staff will provide the board with education regarding the risks in fixed income in February.

The committee also discussed the acceleration of the process to terminate Goldman Sachs Asset Management due to its consistent underperformance since inception and the committee's lack of confidence in GSAM's small cap core quantitative model. This item will be further discussed in agenda item 6.9.

Approval of Amendment to Western Asset Management's Investment Management Agreement: Mr. Clifton reported that the Investment Committee reviewed the proposed amendments to the Investment Management Agreement between SamCERA and Western Asset Management Company. The board authorized the execution of WAMCO's second three-year Investment Management Agreement at the September board meeting. Following its execution, WAMCO expressed a desire to change the IMA to specifically identify affiliates, replacing Part 2, Section 2c (vii) of the agreement.

Motion by Arnott, second by Jadallah, carried unanimously to approve the amendment to Western Asset Management's Investment Management Agreement.

O711.6.4 Acceptance of Certification of Compliance – Pyramis Management Trust Company:
Mr. Clifton presented Pyramis Management Trust Company's semi-annual Compliance
Certification Statement and highlighted details from the CCS.

Without objection, Mr. Bryan accepted the Certification of Compliance Statement submitted by Pyramis Management Trust Company.

O711.6.5 Acceptance of Certification of Compliance – Aberdeen Asset Management: Mr. Clifton presented Aberdeen Asset Management's semi-annual Compliance Certification Statement. He highlighted the fact that Aberdeen's fixed income strategies are temporarily closed to new business based upon recent success in winning new business and, more importantly, the momentum behind the growth of the new business pipeline.

Without objection, Mr. Bryan accepted the Certification of Compliance Statement submitted by Aberdeen Asset Management.

O711.6.6 Acceptance of Certification of Compliance – Western Asset Management: Mr. Clifton presented Western Asset Management's semi-annual Compliance Certification Statement. He provided highlights of the CCS.

Without objection, Mr. Bryan accepted the Certification of Compliance Statement submitted by Western Asset Management.

O711.6.7 **Approval of Amendments to** *SamCERA's Investment Plan* **Parts Three and Four:** Mr. Clifton presented the amendments to Parts Three and Four of *SamCERA*'s Investment

Policy. Ms. Arnott submitted an editorial correction of the document.

Motion by Jadallah, second by Hackleman, carried unanimously to approve the amendments to *SamCERA*'s Investment Policy Parts Three and Four.

- 0711.6.8 **Review of Amendments to Appendix A-F and the Glossary of** *SamCERA's Investment Policy:* Mr. Clifton reviewed the amendments to Appendix A-F and the Glossary of *SamCERA*'s Investment Policy. The board will have its final review of the Appendix A-F and the Glossary of *SamCERA*'s Investment Policy at the January meeting.
- O711.6.9 Consideration & Approval to Terminate Goldman Sachs Asset Management's Investment Management Agreement: Ms. Tashman stated that the Investment Committee has been reviewing Goldman Sachs Asset Management for the last year. She said that GSAM's quant funds have been greatly underperforming and that large redemptions are expected at the end of the year. The committee recommends that the board accelerate the liquidation of the GSAM portfolio to be ahead of the redemption surge. She reported that the Investment Committee recommended that the monies be transferred to an interim Russell 2000 Index fund. The transition cost was estimated to be 20 basis points.

Mr. Clifton reported that, according to GSAM, they do not have a Russell 2000 product nor transition management services.

Mr. Hooley requested assurance that the board would not take a short-term reactionary approach to underperformance. Mr. Thomas noted that SIS along with the Investment Committee are no longer comfortable with GSAM's quantitative process and have not been satisfied with GSAM's explanations to the portfolio's underperformance. Other Goldman Sachs clients are also in the process of terminating their contracts with them. Ms. Tashman also said the committee has been reviewing the firm for a significant amount of time. Her initial concern was that GSAM had been hired as a core manager; however the portfolio began to exhibit a value tilt which would not work well in *SamCERA*'s small cap manger structure.

Mr. Clifton stated that the transition manager will determine the transition of the assets but that the GSAM account had been frozen immediately following the Investment Committee.

Motion by Tashman, second by Jadallah, carried unanimously to approve the termination of Goldman Sachs Asset Management's Investment Management Agreement.

O711.6.10 Approval to Delegate to the Investment & Finance Manager the Authority to Obtain Transition Management Services, with the Service Agreement to be Executed by the Board Chair: Mr. Clifton said that he had asked Goldman Sachs for recommendations on transition management services. SIS also provided a list of commonly used transition managers. Staff will use the information to research an appropriate manager for transition management services.

Motion by Jadallah, second by Arnott, carried unanimously to delegate the authority to obtain transition management services to the Investment & Finance Manager. The transition management service agreement will be executed by the Board Chair.

0711.6.11 Approval to Delegate to the Investment & Finance Manager the Authority to Obtain

an Interim Russell 2000 Index Provider, with the Investment Management Agreement to be Executed by the Board Chair: Mr. Clifton said that staff will research available Russell 2000 Index providers and analyze fees. He opined that various Russell 2000 Index managers will not vary much in fees or quality of management.

Motion by Arnott, second by Tashman, carried unanimously to delegate the authority to obtain an interim Russell 2000 Index provider to the Investment & Finance Manager. The Russell 2000 Investment Management Agreement will be executed by the Board Chair.

- 0711.7 Board & Management Support Services
- Monthly Financial Report: Mr. Clifton presented the preliminary monthly financial report for the period ending October 31, 2007. *SamCERA's* Net Assets Held in Trust for Pension Benefits totaled \$2,264,616,444 as of October 31, 2007. The net assets increased by approximately \$42.5 million, month over month, due to market appreciation of assets.
- O711.7.2 **Approval of** *SamCERA's* **Comprehensive Annual Financial Report for the Period Ended June 30, 2007:** Mr. Clifton reviewed several minor amendments to *SamCERA's* Comprehensive Annual Financial Report for the period ended June 30, 2007. Staff recommended approval of the amended CAFR.

Motion by Arnott, second by Stuart, carried unanimously to approve *SamCERA*'s Comprehensive Annual Financial Report for the period ended June 30, 2007.

Approval to Reschedule the December Meeting of the Board of Retirement to December 13th at 11 a.m.: Mr. Bailey reminded the board that, during the October board meeting, they had directed staff to schedule a board meeting during the second full week of December in order to continue progress toward the selection of a new small cap core manager to replace Goldman Sachs Asset Management. The Investment Committee will consider selection of the small cap core semi-finalists in the morning of December 13th.

Motion by Jadallah, second by Stuart, carried unanimously to reschedule the December meeting of the Board of Retirement to December 13th at 11 a.m.

- O711.7.4 **Appointment of CEO Review Committee: Without objection**, Mr. Bryan **appointed** Ms. Arnott, Chair, Mr. Lee and Mr. Wozniak to the CEO Review Committee.
- O711.7.5 **Approval of Resolution Regarding Participation of Safety Alternate:** Mr. Bailey reported that Governor Schwarzenegger signed AB 1124 which amends Government Code §31520.1 to allow the Safety Alternate to attend closed sessions. This legislation will take effect on January 1, 2008. The alternate can also participate in other ways unless limited by action of the board. The board had limited the Retiree Alternate's participation as allowed by the 1937 Act last year. Staff recommended that the board limit the rights of the Safety Alternate in the same way it limited those of the Retiree Alternate.

Motion by Arnott, second by Stuart, carried unanimously to approve Resolution 07-08-10, limiting the participation rights of the Safety Alternate, as follows:

"WHEREAS, The California Legislature and the Governor have approved amendments to

Section 31520.1 of the Government Code regarding the elected trustee alternate for the Second, Third and Seventh members, hereafter known as the Safety Alternate Member, and

- "WHEREAS, such amendments shall take effect January 1, 2008, and
- "WHEREAS, such amendments regarding the Safety Alternate Member state that:
 - (c) Unless prohibited by a resolution or regulation of the board, the alternate member shall be entitled to both of the following:
 - (1) The alternate member shall have the same rights, privileges, responsibilities, and access to closed sessions as the second, third, seventh, and eighth member.
 - (2) The alternate member may hold positions on committees of the board independent of the second, third, seventh, or eighth member and may participate in the deliberations of the board or its committees whether or not the second, third, seventh, or eighth member is present, and
- **"WHEREAS**, a Safety Alternate Member has been duly elected by the safety membership of the association, and
- "WHEREAS, the Board has determined that the Safety Alternate Member should have the same rights and privileges and access to closed sessions as the Second, Third, Seventh, and Eighth members and the alternate for the Eighth Member, be it now, therefore.
- **"RESOLVED** that the Safety Alternate Member shall be entitled to the same rights, privileges, responsibilities, and access to closed sessions as the Second, Third, Seventh and Eighth members and the alternate for the Eighth Member, and be it further
- **"RESOLVED** that the Safety Alternate Member may not hold positions on committees of the board independent of the Second, Third, Seventh and Eighth member and may not participate in the deliberations of the board or its committees if the Second, Third, Seventh, or Eighth member is present."

0711.8 **Management Reports**

O711.8.1 **Chief Executive Officer's Report:** Mr. Bailey presented the SACRS Economic Impact Report which included specific summary findings for *SamCERA*. He highlighted that the study found that seventy-five percent of retirement disbursements derive from investment returns. The study also concluded that for every dollar paid in retirement, the California economy realizes an additional \$0.53 in economic impacts and that State and Local government receives approximately \$0.39 in new tax and fee revenues.

Mr. Bailey then reported that the county Human Resources department has provided *SamCERA* a schedule regarding the salary and compensation survey. A reclassification study will occur in late December.

Regarding information technology, Mr. Bailey reported that staff is working to establish a wireless connection to the county by placing a satellite dish on the roof of *SamCERA*'s office building. The project had been previously incorporated in the budget but was delayed due to office space concerns.

Mr. Bailey reported that *SamCERA*'s customer service survey to active and retired members will be distributed in early December.

He also discussed the issue regarding the possible investment of the county's OPEB liability fund. The county is considering investing its OPEB fund with *SamCERA* or CalPERS.

Lastly, Mr. Bailey reported that staff and County Counsel will discuss with the appropriate deputy sheriff's sergeants with concerns regarding time worked over eighty hours during a pay period and its inclusion in retirement calculations.

O711.8.2 **Assistant Executive Officer's Report:** Mr. Hood reported that *SamCERA* conducted its first retirement planning seminar in nearly four years on November 19th. It was conducted along with the county's benefits department.

Mr. Hood also reported that letters will be sent out to safety retired members regarding an income tax exclusion they would be eligible for per the terms of the Pension Protection Act of 2006.

Mr. Hood is currently working with a space planner regarding the expansion of *SamCERA*'s offices and floor plans are almost complete. Mr. Bailey noted that the board will be required to meet at an alternate location during construction as the current board room will be demolished to make room for offices. The actual construction should take 10-12 weeks and will start approximately in February.

- 1711.8.3 Investment & Finance Manager's Report: Mr. Clifton reported on larger clients terminating their Investment Management Agreements with Goldman Sachs Asset Management. He also reported that Aberdeen Asset Management's fixed income strategies have temporarily closed to new business based upon recent success in winning new business and, more importantly, the momentum behind the growth of the new business pipeline. Mr. Clifton then said that Brandes has recently opened its small cap growth fund to new business. Mr. Clifton attended the INVESCO Client Conference and Advisory Committee and found that the conference provided him with a great opportunity to conduct due diligence with senior and lower level employees of the firm.
- 0711.8.4 **County Counsel's Report:** None.
- 0711.9 **Report on Actions Taken in Closed Session:** None.
- O711.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 2:35 p.m., in memory of the following deceased members:

RUMNEY, FRANKLIN	AUGUST 6, 2007	PUBLIC HEALTH DEPARTMENT
BURTON, BERNARD	AUGUST 31, 2007	PLANNING COMMISSION DEPARTMENT
PEERY, FREIDA	SEPTEMBER 25, 2007	SAN MATEO MEDICAL CENTER
ARNASON, FERN	OCTOBER 4, 2007	MENTAL HEALTH DEPARTMENT
CLEMONS, CORA	OCTOBER 4, 2007	MENTAL HEALTH DEPARTMENT
IKE, TAI	OCTOBER 26, 2007	LIBRARY
DOIDGE, WESLEY	OCTOBER 15, 2007	PROBATION DEPARTMENT
BOHNET, MURIEL	NOVEMBER 7, 2007	DEPARTMENT OF CIVIL DEFENSE

TOM BRYAN, CHAIR