

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

May 27, 2008

Agenda Item 3.0

April 21, 2008 – 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 [Election of Board Officers](#)
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](#)
6. Investment Services *(The Investment Committee will meet at 10 A. M., also at Franklin Templeton.)*
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Report on the Transition of Assets to Jennison Associates Small Cap Equity Portfolio](#)
 - 6.3 [Educational Presentation – 130/30 Investment Strategies](#)
 - 6.4 [Review of SamCERA's Large Cap Manager Structure](#)
 - 6.5 [Discussion of Strategic Plan Asset Management Projects](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Quarterly Budget Report for Period Ended March 31, 2008](#)
 - 7.3 [Approval of Auditor's Engagement Letter for the June 30, 2008, Financial Audit](#)
 - 7.4 [Introduction of SamCERA's Sources, Uses & Budget for Fiscal Year 2008/2009](#)
 - 7.5 [Approval to Cancel the June 2008 Board Meeting](#)
 - 7.6 [Approval to Retain Medical Records Service](#)
 - 7.7 [Discussion and Board Direction on SACRS Initiatives and Nominations](#)
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 21, 2008 – Board Minutes

- 0804.1 **Call to Order:** Mr. Hooley, Secretary, called the Public Session of the Board of Retirement to order at 1:05 p.m., April 21, 2008, in Franklin Templeton Investments, Building 920, Room A, One Franklin Parkway, San Mateo, California.

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- 0804.2.1 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Hooley, Ms. Jadallah, Mr. Murphy for Ms. Stuart, Ms. Salas, Ms. Tashman (arr. 1:10 p.m.) and Mr. Wozniak. *Excused:* Mr. Lee. *Other Board Members in Attendance:* None. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood and Ms. Smith. *Consultants:* Ms. Carlson, Mr. Meier and Mr. Thomas. *Retirees:* 0, *Actives:* 0.

Mr. Hooley then took up agenda item 3.

- 0804.2.2 **Election of Board Officers:** Mr. Bailey stated, due to the vacancy created in the office of Board Chair when Mr. Bryan retired in March, the Regulations of the Board of Retirement require an election to be held at today's meeting to fill this position.

Ms. Arnott, Chair of the Ad Hoc Nominating Committee for Board Officers, reported that the committee wished to nominate Ms. Tashman, Chair and Mr. Wozniak, Vice Chair.

Ms. Tashman then opened up the floor for any additional nominations. Hearing none, **motion** by Mr. Murphy, second by Ms. Salas, carried unanimously to approve the slate of candidates in nomination as recommended by the Ad Hoc Nominating Committee for Board Officers.

Ms. Tashman then took up agenda item 7.1.

- 0804.3 **Approval of the Minutes:** Ms. Arnott made the following changes to the March 25, 2008, board meeting minutes: 0803.5.1 Under Service Retirements: "Dekker, Davidson, Beverly", remove duplication of the following recent retirees: "Bryan, Tom", "Morris, Marie", "Nottestad, Shannon", "Caravaca, Donna" and "Levin, David". Under Refunds: "Stoddard, John (Estate of)" Under Rollovers: "Madamba-Orbeta, Evelyn"; 0803.6.3: "~~Mr. Ms.~~ Arnott requested..."; 08037.1 L4: "...due to market ~~depreciated~~ depreciation of assets."; 08037.2 L6: "Ms. Carlson will clarify..."; 0803.7.6 L5: "...between 60 and 120 days of the seats ~~begin~~ being vacated."; 0803.7.7 L2: "...vacate the position at the end of the March meeting..." and L3: "...to fill the board chair position ~~as~~ at its April 22, 2008, meeting".

Motion by Wozniak, second by Arnott, carried unanimously to approve the minutes of the March 25, 2008, board meeting, as amended.

- 0804.4.1 **Oral Communications From the Board:** Mr. Murphy reported that he attended the California Retired County Employees Association (CRCEA) conference earlier in the month. Nineteen of twenty 1937 Act counties were represented at the event. The conference discussed relevant topics such as state and county legislation and retiree medical benefits.

- 0804.4.2 **Oral Communications From the Public:** None.

0804.5 **Benefit & Actuarial Services**

- 0804.5.1 **Adoption of Consent Agenda:** Mr. Hooley removed the application of Nellie Sharp (Ms. Arnott) from the day's consent agenda.

Motion by Murphy, second by Wozniak, carried unanimously to adopt the day's consent agenda, as amended, as follows:

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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:

Cribari, Dolores	March 18, 2008	Deferred from Health
Slegers, Gregory	March 22, 2008	Sheriff's Office
Rolle, Maria Rosa	March 28, 2008	Human Services Agency
Bettencourt, Sandra	March 29, 2008	Superior Court
Fitzgibbon, Linda	March 29, 2008	Superior Court
O'Dell, Irene	March 29, 2008	Aging and Adult Services
Payawal, Louis	March 29, 2008	Hospital
Ramirez, Nicholas	March 29, 2008	Parks Department
Carlton, Jeffrey	April 1, 2008	Assessor's Office
Ferren, Susan	April 1, 2008	Human Services Agency
Hackleman, Paul	April 1, 2008	Human Resources
Levin, David	April 1, 2008	Mental Health
Newton, Linda	April 1, 2008	Library

Continuance of Benefits:

Bergstrom, Gayle	Ben of Bergstrom, Robert
Ding, Mae	Beneficiary of Ding, Howard
Heintze, Carl	Ben of Heintze, Marguerite
Korhonen, Willis	Ben of Korhonen, Lois
Perica, George	Beneficiary of Phelps, Patricia
Roberge, Warren	Ben of Postello Roberge, Dorothy

Deferred Retirements:

Uribe, Thelma	G2/3 Vested	
Miramon, Ana	G4 Vested	
Goins, Jeffrey	G4 Vested	
Wilson, Elizabeth	P4 Vested	
Kelly, Christina	G4	Reciprocity

Refunds:

Banks, Ronald	P4 Non-vested
Castaneda, Rogelio	G4 Vested
Lopez, Aaron	P4 Vested
Matyssik, Ioulia	G4 Non-vested
Moore, Agustin	G4 Non-vested
Pereda, Marisol	G2 Vested
Richards, Edwin	G4 Non-vested
Tech, Gerardo	G2 Vested
Waran, Magnesh	G4 Non-vested

Rollovers:

Collins, Josephine	G4 Non-vested
Phillips, Jennifer	G4 Non-vested
Yuk, Winnie	G4 Non-vested

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Mr. Hooley then took up agenda item 6.1.

0804.5.2 **Consideration of Items Removed from Consent Agenda:** This item was taken into closed session. Please see agenda item 9.0 Report on Actions Taken in Closed Session.

0804.6 **Investment Services**

0804.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -0.87% Total Fund Return for March 2008 underperformed the Total Plan Policy Benchmark return of -0.57%. The fund's return for the trailing twelve months is -3.38%, which is 1,113 basis points below the Actuarial Discount Rate, 7.75%, and 346 basis points below *SamCERA's* Total Plan Policy Benchmark of 0.08%. The realized return continues to lose ground to both the policy return and the actuarial assumption rate for the trailing twelve-month period.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$829,813,881	-0.41%	-10.82%	11.69%
<i>International Equity</i>	<u>436,215,473</u>	-1.58%	1.30%	22.43%
Total Equity	\$1,266,029,354	-0.81%	-7.16%	14.40%
Fixed Income	593,208,956	-1.24%	2.15%	4.00%
Real Estate Aggregate	164,558,417	0.00%	9.30%	15.56%
Cash Equivalents	8,844,020	0.25%	4.27%	3.46%
TOTAL FUND	\$2,032,640,747	-0.87%	-3.38%	11.34%
<i>Benchmark</i>		-0.57%	0.08%	12.16%

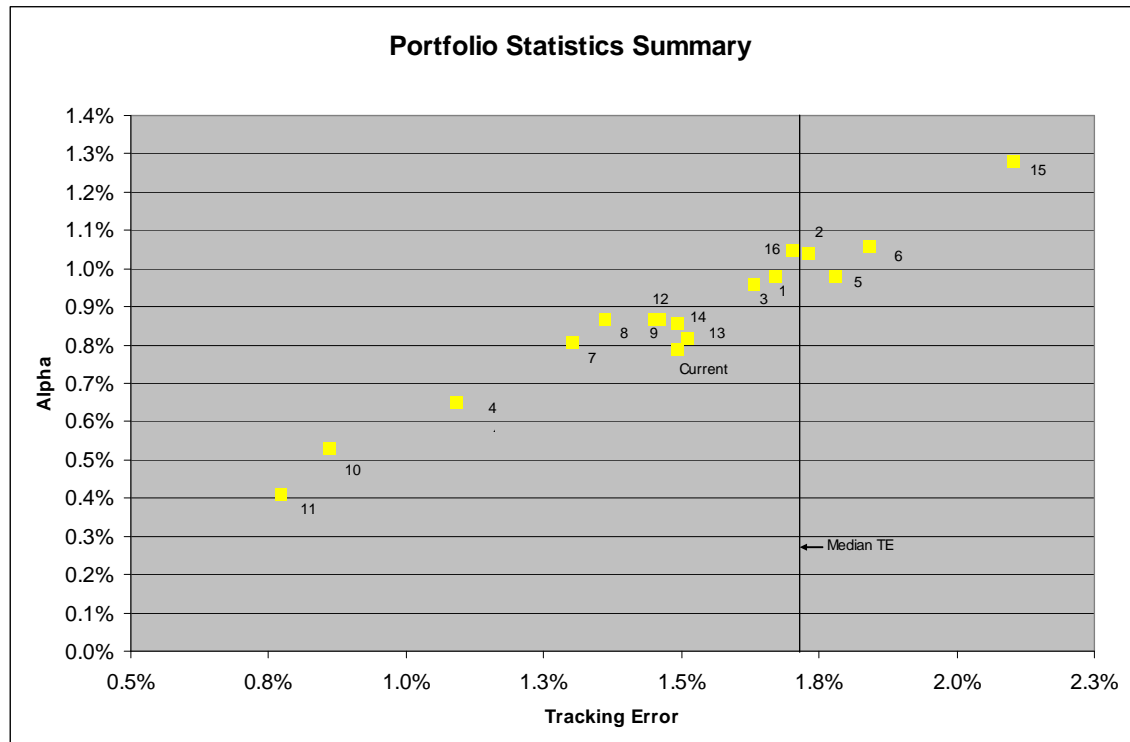
* Total Time-Weighted Rate of Return

0804.6.2 **Report on the Transition of Assets to Jennison Associates Small Cap Equity Portfolio:** Mr. Clifton provided a post transition report from State Street Global Markets, which gave an analysis of the transition from the State Street Global Advisors' Russell 2000 Index to the Jennison Small Cap Core Portfolio. The total cost of the transition was 65.62 basis points. Mr. Clifton commended SSGM for an excellent performance during the two transitions it executed for *SamCERA*. The total cost of both transitions (1) Goldman Sachs to State Street Global Advisors and (2) State Street Global Advisors to Jennison Associates, was approximately \$650,000.

0804.6.3 **Educational Presentation – 130/30 Investment Strategies:** Mr. Clifton reported that Mr. Thomas and Mr. Meier of SIS conducted an educational presentation on the 130/30 strategy during the Investment Committee meeting held earlier in the day. The committee asked several questions regarding the fee structure, risks, and benefits of loosening the long-only constraints. Mr. Thomas said that SIS has performed manager searches for 130/30 managers for some of its clients. Mr. Clifton said that the presentation was provided to educate trustees on 130/30 so they may make informed decisions in its possible implementation of 130/30 in *SamCERA's* large cap structure.

0804.6.4 **Review of *SamCERA's* Large Cap Manager Structure:** Mr. Clifton reported that the committee reviewed sixteen large cap alternatives that appear in the following risk/reward space:

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Mr. Clifton said that the committee discussed passive vs. active managers, quant vs. traditional managers, risk and reward trade-offs, and manager fee structures. After extensive discussion, the committee directed SIS to return to the May Investment Committee meeting with more information focusing on the following large cap alternatives and possibly more scenarios that appear in the similar risk/reward space:

- I) 25% BGI Alpha Tilts, 35% BGI R1000 Index, 20% LC Growth, 20% LC Value
- II) 20% BGI Alpha Tilts, 35% BGI R1000 Index, 20% LC Growth, 20% LC Value, 5% 130/30
- III) 20% BGI Alpha Tilts, 40% BGI R1000 Index, 20% LC Growth, 20% LC Value
- V) 50% BGI Alpha Tilts, 50% BGI R1000 Index
- VI) 45% BGI R1000 Index, 25% LC Growth, 25% LC Value, 5% 130/30
- XVI) 30% BGI Alpha Tilts, 30% BGI R1000 Index, 15% LC Growth, 15% LC Value, 10% 130/30

0804.6.5 **Discussion of Strategic Plan Asset Management Projects:** Mr. Bailey presented various projects related to the Plan's assets incorporated in *SamCERA's* Strategic Plan.

Mr. Hooley then handed the gavel to Ms. Tashman. Ms. Tashman then took up agenda item 2.2.

0804.7 **Board & Management Support Services**

0804.7.1 **Monthly Financial Report:** Mr. Clifton presented the preliminary monthly financial report for the period ending March 31, 2008. He reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of March 31, 2008, totaled \$2,037,282,376. The net assets held in trust for

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pension benefits decreased by approximately \$17.7 million, month over month, due to market depreciation of assets.

- 0804.7.2 **Quarterly Budget Report for Period Ended March 31, 2008:** Mr. Clifton presented the quarterly budget report for the period ended March 31, 2008. He reported that with 75% of the fiscal year completed, *SamCERA* has expended 62.4% of the appropriations year-to-date. All major categories are currently under budget. Mr. Clifton said that staff will need to bring a budget amendment in May to move assets and/or increase the budget due to the MAXIMUS IT study and *SamCERA* office expansion costs.

SamCERA's Administrative Budget

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$2,064,200	\$1,340,084
Services & Supplies	\$1,280,200	\$ 810,095
Capital Assets	<u>\$ 100,000</u>	<u>\$ 0</u>
Total	\$3,444,400	\$2,150,179

The preliminary aggregate professional services fee as of March 31, 2008, is approximately 39.2 basis points. Investment management fees are driven by contractual agreements and based on total assets under management. Fees for actuarial services, investment consulting services and global custodian services are based on services detailed in the contractual agreements.

- 0804.7.3 **Approval of Auditor's Engagement Letter for the June 30, 2008, Financial Audit:** Mr. Clifton presented the audit engagement letter from Brown Armstrong. **Motion** by Arnott, second by Jadallah, carried unanimously to authorize the board chair to execute the Audit Engagement Letter with Brown Armstrong for the June 30, 2008, financial statement audit.
- 0804.7.4 **Introduction of *SamCERA's* Sources, Uses & Budget for Fiscal Year 2008/2009:** Mr. Clifton presented a draft resolution which introduces *SamCERA's* 2008/2009 Administrative Budget. He reviewed the major budget items for the upcoming fiscal year. Mr. Clifton especially indicated the increased costs in technology for *SamCERA*. The staff will be upgrading its computer equipment, accounting software and server equipment. Staff also intends to conduct a website overhaul and penetration testing of its web member services. Other costs include the document management and imaging project and conflict free financial educational seminars for *SamCERA* members.
- 0804.7.5 **Approval to Cancel the June 2008 Board Meeting:** Mr. Bailey said that the June 24, 2008, board meeting agenda would be light and asked the board whether or not it would be appropriate to cancel the meeting scheduled for that day. The board has cancelled the June meeting during previous years. **Motion** by Hooley, second by Wozniak, carried unanimously to cancel the June 24, 2008, meeting of the Board of Retirement.

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- 0804.7.6 **Approval to Retain Medical Records Service:** Mr. Bailey discussed the staff's frustration with the frequent delays physicians take to provide requested medical records for the processing of disability applications. He said that *SamCERA* may be able to reduce the time to receive records through use of a medical records collection and/or subpoena service.

Mr. Bailey provided a disability processing timing analysis for the board which illustrated frequent delays caused by the slow responses to medical record requests. He also mentioned that staff surveyed other 1937 Act pension systems in California to learn about their experiences with medical records services. All systems that use some type of service do so using different methods and procedures. However, the survey indicates that the use of such a service does appear to be effective.

Motion by Wozniak, second by Salas, carried unanimously to authorize the CEO to approve a contract with a medical records service and that the CEO return to the board in approximately six months to report on the use and effectiveness of the service.

- 0804.7.7 **Discussion and Board Direction on SACRS Initiatives and Nominations:** Mr. Bailey discussed the various initiatives for consideration of the SACRS membership at the Spring 2008 conference business meeting. Mr. Bailey also presented the slates of officers under consideration. The board reviewed the initiatives and nominations and provided guidance to the board's voting delegate.

0804.8 **Management Reports**

- 0804.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that Reyna Ferrales has stated that the County was anticipating placing its money in order to prefund its OPEB obligations with CalPERS.

Mr. Bailey then reported that there was a delay in *SamCERA*'s salary/reclassification study being conducted by the County Human Resources Department.

Finally, Mr. Bailey said that he would like to schedule board photos for Fiscal Year 2008/2009 for use on the *SamCERA*'s website and CAFR.

- 0804.8.2 **Assistant Executive Officer's Report:** Mr. Hood said that staff will be bringing three disability cases to the board for dismissal. In all cases, the member has not responded to staff's correspondence and the board may dismiss each case per regulations. Mr. Hood then provided an update on the Board Election as well as the office expansion project.
- 0804.8.3 **Investment & Finance Manager's Report:** Mr. Clifton said that staff will organize a fixed income educational panel in May. He reported that the Investment Committee has reviewed the draft agenda.
- 0804.8.4 **County Counsel's Report:** Ms. Carlson reported on the Appellate court's decision in the matter of Block v OCERS, where OCERS had appealed the lower court's decision that a reciprocal member shouldn't have part of his benefit offset under the reciprocity terms of the Government Code.

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- 0804.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Ms. Tashman convened the board in closed session at 2:11 p.m., with all trustees present for roll call in attendance.

Ms. Carlson reported that the board unanimously finds that **Nellie Sharp** is unable to perform her usual and customary duties as a Lead Deputy Court Clerk and **GRANTS** her application for a service-connected disability retirement.

Ms. Tashman adjourned the closed session at 2:28 p.m.

- 0804.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Tashman adjourned the meeting at 2:28 p.m., in memory of the following deceased members:

Waters, Fred	February 24, 2008	Planning Department
DeLeon, Carolina	February 28, 2008	Chope Community Hospital
Johnston, Paul	March 4, 2008	Building and Grounds Maintenance
Heintze, Marguerite	March 8, 2008	Health & Welfare
Phelps, Patricia	March 11, 2008	Mental Health
Bergstrom, Robert	March 14, 2008	Coroner's Office
Butler, Eleanor	March 14, 2008	Chope Community Hospital
Moerman, Gerald	March 14, 2008	Sheriff's Office
Ding, Howard	March 19, 2008	General Services
Hegdahl, Alfred	March 24, 2008	Beneficiary of Hegdahl, Lois
Vandor, Vivian	March 26, 2008	Health Care Services
Erickson, Martha	March 27, 2008	Crystal Springs Rehab Center
Dixon, Phyllis	March 28, 2008	Beneficiary of Dixon, Alfred
Korhonen, Lois	March 28, 2008	Public Health
Hooper, Elmae	March 31, 2008	Superior Court

EMILY TASHMAN, CHAIR