

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

November 25, 2008

Agenda Item 3.0

October 28, 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](#)
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 to Amend and Extend the Actuarial Services Agreement with Milliman, Inc.](#)
 - 5.4 [Report on Review of SamCERA Medical Consultant](#)
6. Investment Services
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Discussion Regarding Events in the Credit/Financial Markets from Inception to Bailout](#)
(Presentation at the Board)
 - 6.3 [Reaffirmation of SamCERA's Rebalancing Policy](#)
 - 6.4 [Annual Investment Manager Review – Barclays Global Investors](#)
(Interviewed by the Investment Committee at 9 a.m.)
 - 6.5 [Educational Presentation – Overview of Real Estate Investing – Presented by INVESCO](#)
 - 6.6 [Annual Investment Manager Review – INVESCO Realty Advisors](#)
(Interviewed by the Board)
 - 6.7 [Approval of Finalist List for a Large Cap Domestic Equity Enhanced Index Manager Search](#)
 - 6.8 [Approval of Semi-Finalist List for a Large Cap Domestic Equity Growth Manager Search](#)
 - 6.9 [Approval of the Criteria and Schedule for SamCERA's Large Cap Domestic Equity Value Manager Search](#)
 - 6.10 [Approval of the Criteria and Schedule for SamCERA's Small Cap Domestic Equity Value Manager Search](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Quarterly Budget Report](#)
 - 7.3 [Approval of an Agreement for Educational Services with Financial Knowledge Network](#)
 - 7.4 [Discussion of Legislation Signed into Law](#)
 - 7.5 [Discussion of SACRS Initiatives and Resolutions](#)
 - 7.6 [Approval to Cancel the December Meeting of the Board of Retirement](#)
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](#)

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October 28, 2008 – Board Minutes

0810.1 **Call to Order:** Ms. Tashman, Chair, called the Public Session of the Board of Retirement to order at 1 p.m., October 28, 2008, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

0810.2.1 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bowler, Mr. David, Mr. Hooley Ms. Jadallah, Ms. Kwan Lloyd, Mr. Murphy for Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Other Board Members in Attendance:* Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood, Ms. LeBlanc and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, and Mr. Thomas. *Retirees:* 0, *Actives:* 2.

0810.3 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the September 23, 2008 board meeting minutes: 0809.5.1 under Service Retirements L7: "~~Eteznadi~~ Etezadi, Susan". 0809.6.3 L5: "Mr. Thomas said that the large cape equity growth search..."

Motion by Wozniak, second by Arnott, carried unanimously to approve the September 23, 2008 board meeting minutes, as amended.

0810.4.1 **Oral Communications From the Board:** None.

0810.4.2 **Oral Communications From the Public:** None.

0810.5 **Benefit & Actuarial Services**

0810.5.1 **Adoption of Consent Agenda:** **Motion** by David, second by Jadallah, carried unanimously to adopt the day's Consent Agenda, as submitted, as follows:

Disability Retirements:

The board finds that **Paul Diddens** is unable to perform his usual and customary duties as a Stationary Engineer II, finds that his incapacity is permanent, and **GRANTS** his application for a service-connected disability retirement.

The board finds that **Andre Johnson** is unable to perform his usual and customary duties as a Road Maintenance Worker I, finds that his incapacity is permanent, and **GRANTS** his application for a service-connected disability retirement.

Termination of Disability Application:

Susan Socha, Social Worker III, with a disability: Post Traumatic Stress Disorder

Ms. Socha accepted a service retirement on June 14, 2007, and submitted an application for a service-connected disability on October 22, 2007. Ms. Socha's disability application was received incomplete, staff returned disability application to member requesting to fill out in its entirety. One year after filing for disability retirement, Ms. Socha has failed to respond to staff's correspondence and has failed to cooperate with the disability filing procedures.

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

Service Retirements:

Sami, Dan	September 10, 2008	Def'd from Assessor
Smith, Viola	September 17, 2008	Def'd from Public Health
Deresinski, Maryanne	September 20, 2008	Mental Health
Lucas, Kerin	September 22, 2008	Def'd from Probation
Coudray, Peter	September 27, 2008	Dept. of Public Works
Bilides, David	September 29, 2008	Def'd from Mental Health
Peek, Dorothy	October 1, 2008	Def'd from Sheriff's Office
Brewer, Shay	October 3, 2008	Human Services Agency
Adler, George	October 4, 2008	Sheriff's Office
Eustaquio, Carlos	October 4, 2008	Agricultural Comm/Sealer
Kadekian, Narine	October 6, 2008	QDRO of Scott, Dennison
Olson, Ron	October 14, 2008	San Mateo Medical Center
Ferreira, Oscar	October 25, 2008	Human Services Agency
Groff, Lynn	October 29, 2008	Def'd from Probation
Boocock, Susan	October 31, 2008	Superior Court
Nelson, Thor	October 31, 2008	Sheriff's Office
Rakotomalala, Deborah	October 31, 2008	San Mateo Medical Center
Santos, Brenda	October 31, 2008	Dept. of Public Works

Continuance of Benefits:

Coveney, Marianne	Beneficiary of Contant, Lucille
Thompson, Kathleen	Beneficiary of Thompson, Craig

Deferred Retirements:

Boyd, Susy	G4 Vested	Reciprocity
Johnston, Anna	G4	Reciprocity
Hernandez, Margaret	3 Vested	Reciprocity
Carbonel, Marisol	G2 Vested	
Barrera, Rosalinda	G4 Vested	

Refunds:

Hathaway, Erika	G4 Non-vested
Hunter, Mark	G4 Non-vested
Limqueco, Laudimir	G4 Non-vested
Martin, Clyde	G4 Non-vested
Silver, Anne	G4 Non-vested
Vialau, Niniva	G4 Non-vested

Rollovers:

Simmons, Andrea	Beneficiary of Simmons, Elaine
Simmons, Erica	Beneficiary of Simmons, Elaine
Tzuang, Dan	G4 Non-vested

0810.5.2 **Consideration of Items Removed from Consent Agenda:** None.

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- 0810.5.3 **Approval to Amend and Extend the Actuarial Services Agreement with Milliman, Inc.:** Mr. Bailey stated that *SamCERA*'s contract for actuarial services with Milliman, Inc. will end December 31, 2008. After discussing with staff and trustees, Mr. Bailey recommends that the board extend Milliman's contract for an additional three years. The new contract will contain increased rates.

Mr. Bailey then discussed the four main services that Milliman provides and discussed those increased rates. Milliman's hourly rates also increased. Milliman stated that the hourly rates reflect salary increases common over the last few years within their profession as well as increases in operational overhead. Overall, the requested increases equate to approximately a 9% increase from 2008 to 2009 and about 3.3% in each year thereafter, the predicted rate of inflation. Staff found the rate increases reasonable.

Without objection, the board adopted **Resolution 08-09-05**, to amend and extend the Actuarial Services Agreement with Milliman, Inc., as follows:

RESOLVED BY THE BY THE BOARD THAT:

WHEREAS, in January 2006, the Board authorized an Agreement with Milliman Inc. to provide actuarial services for the period from January 1, 2006 through December 31, 2008; and

WHEREAS the parties wish to amend the existing Agreement to extend the term of the Agreement by three years through December 31, 2011, and to amend the fees allowable for the services to be rendered after December 31, 2008;

WHEREAS this has been presented to this Board for its consideration and acceptance, an Amendment to the Agreement between *SamCERA* and Milliman Inc. and the Board has approved it as to form and content and desires to enter into it.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Chair of the Board of Retirement be and is hereby authorized and directed to execute said Amendment to the Agreement for and on behalf of the San Mateo County Employees' Retirement Association.

- 0810.5.4 **Report on Review of *SamCERA* Medical Consultant:** Ms. Arnott, Chair of the Ad Hoc Committee to Review the *SamCERA* Medical Consultant, reported on their meeting with Dr. Charles Fracchia, M.D. She stated that the Committee found that Dr. Fracchia performed to the standards dictated by *SamCERA* and recommended that Dr. Fracchia be commended and congratulated for his performance as *SamCERA*'s Medical Advisor over the past year. It was recommended that Dr. Fracchia provide more educational updates on medical conditions that exist. He also serves as an advisor for the Counties of Marin and Merced and the Social Security Administration. Mr. Bailey said that staff will arrange a time for Dr. Fracchia to conduct an educational presentation for the board at its annual retreat in the Spring.

Without objection, Ms. Tashman accepted the report and thanked Ms. Arnott for her services as Chair of the Ad Hoc Committee to Review *SamCERA*'s Medical Consultant.

Ms. Tashman then took up agenda item 6.2.

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0810.6 **Investment Services**

- 0810.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -8.03% Total Fund Return for September 2008 underperformed the Total Plan Policy Benchmark return of -7.75%. The fund's return for the trailing twelve months is -16.53%, which is 2,428 basis points below the Actuarial Discount Rate, 7.75%, and 149 basis points below *SamCERA's* Total Plan Policy Benchmark of -15.04%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$795,460,070	-10.31%	-22.43%	5.01%
<i>International Equity</i>	337,949,238	-14.26%	-28.82%	11.13%
Total Equity	1,133,409,308	-11.52%	-24.45%	6.43%
Fixed Income	566,635,226	-3.16%	-3.64%	2.53%
Real Estate Aggregate	171,049,910	0.73%	6.18%	15.49%
Cash Equivalents	31,963,904	-4.55%	-1.41%	2.49%
TOTAL FUND	\$1,903,058,348	-8.03%	-16.53%	6.01%
<i>Benchmark</i>		-7.75%	-15.04%	6.75%

* Total Time-Weighted Rate of Return

Ms. Tashman then took up agenda item 6.3.

- 0810.6.2 **Discussion Regarding Events in the Credit/Financial Markets from Inception to Bailout:** Mr. Thomas introduced Michael Beasley, CEO and founder of Strategic Investment Solutions. In light of the recent unprecedented movements in the capital markets Mr. Beasley was present to provide the board with an overview of current market events. Mr. Beasley discussed matters beyond what was written in the media and discussed the challenges the board will face in the current market in terms of being fiduciaries. Mr. Beasley opined that the best defense in the current environment is process. He also answered trustee questions.

Ms. Tashman thanked Mr. Beasley for his informative presentation and then took up agenda item 6.5.

- 0810.6.3 **Reaffirmation of *SamCERA's* Rebalancing Policy:** Mr. Clifton reported that the Investment Committee reaffirmed *SamCERA's* rebalancing policy. The committee also discussed three of *SamCERA's* portfolios that are outside of their rebalancing ranges as a result of recent market activity. The committee discussed INVESCO's twelve to eighteen month redemption queue and recommended that *SamCERA* place its name in the queue for rebalancing purposes. Ms. Tashman brought up her concern regarding the lag in property valuations. Mr. Thomas agreed that the current value of the portfolio is overvalued but *SamCERA* cannot do much regarding the valuation lag. The committee also recommended that *SamCERA* should rebalance its over-allocation to fixed income to international equities. The Association is currently under-allocated to BGI's Russell 1000 Alpha Tilts. Mr. Clifton reported that the committee wished to discuss the matter further with BGI during their investment manager annual review under agenda item 6.4. In response to a question from Mr. Hooley, Mr. Thomas opined that *SamCERA* has performed well by following its strict rebalancing policy and should maintain this disciplined approach.

Motion by Murphy, second by David, carried unanimously to reaffirm *SamCERA's* rebalancing policy and to accept the Investment Committee's recommendations.

- 0810.6.4 **Annual Investment Manager Review – Barclays Global Investors:** Ms. Jadallah reported that

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Trey Heiskell, Client Relationship Officer/Principal, and Rhonda Vitanye, Investment Strategist/Managing Director, of Barclays Global Investors were present for their firm's annual review. The Russell 1000 Index has been performing poorly but as expected. The Alpha Tilts portfolio has been severely underperforming. Ms. Jadallah said on a positive note that BGI has been producing new research and insights into the Alpha Tilts strategy that are not being implemented elsewhere. However, the biggest negative is the portfolio's current lack of liquidity mainly due to the securities lending pool. She then discussed the problems related to buying and selling units in and out of the securities lending collateral investment pool. BGI did not reveal the market value of the cash collateral pool. Mr. Thomas said that this is a significant issue since *SamCERA* is in the process of diversifying its large cap domestic equity asset class. Mr. Thomas had requested BGI to submit a response in writing with *SamCERA*'s options in terms of liquidity. Ms. Jadallah also reported that BGI is opening a fund of non-lending assets but clients would be charged at a higher rate and the assets must be new monies. In a response to a question from Ms. Tashman, Mr. Thomas said that State Street's securities lending program also faces some challenges but so far has performed well and cleanly. Staff will request an update with State Street's securities lending program. Mr. Clifton opined that the interview with BGI lacked some of the transparency that the firm had previously maintained in the past.

Ms. Tashman then took up agenda item 6.7.

0810.6.5 **Educational Presentation – Overview of Real Estate Investing – Presented by INVESCO:** Max Swango, Global Partner INVESCO Real Estate, and Bill Grubbs, Portfolio Manager INVESCO Core Real Estate, were present to provide a presentation and discussion on the opportunities and challenges in the real estate asset class. *SamCERA*'s Investment Committee opined that it would be constructive to have a real estate update since the Association currently lacks diversity by product and/or manager type in its real estate allocation. Mr. Swango provided a brief overview of the real estate asset class, historical NCREIF returns and the various real estate investment styles and where they fall in the risk/return spectrum. He indicated that most of *SamCERA*'s peers have moved along the spectrum by adding diversification. A chart of historical real estate portfolio allocations illustrated this trend. Mr. Grubbs reviewed the U.S. fundamental outlook in the various real estate property sectors and the fundamentals in key markets internationally. Mr. Swango and Mr. Grubbs have lower return expectations for real estate but maintain that real estate remains an attractive asset class. Investors have increased allocations to real estate, but unfortunately, falling stock market values have reduced the amount of available capital for real estate. They also opined that the reduced liquidity has created challenges and opportunities.

0810.6.6 **Annual Investment Manager Review – INVESCO Realty Advisors Annual Investment Manager Review – INVESCO Realty Advisors:** Mr. Swango and Mr. Grubbs were present for INVESCO Realty Advisors' annual review. Mr. Grubbs discussed how *SamCERA*'s real estate portfolio is currently positioned, the reasons behind its positions, the portfolio's performance as well as its future expectations. In response to a question from the board regarding liquidity, Mr. Swango said that the core fund has quarterly liquidity but that the liquidity is not guaranteed since the portfolio is managed first and foremost for performance, stability, and preservation of capital. Mr. Grubbs indicated that there are currently \$230 million in the redemption queue made up of ten investors (all partial redemptions). Half of these investors want to reallocate to other asset classes for rebalancing purposes while the other half want to move into other real estate strategies for diversification purposes. The wait in the queue is approximately six to eighteen months. Mr. Grubbs said that the portfolio's priorities are to increase the cash reserve from one percent to two or three percent and to reserve cash for debt maturing in 2009. Mr. Grubbs then discussed the portfolio's performance attribution between real estate property types and their respective geographic locations.

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Ms. Tashman thanked Mr. Swango and Mr. Grubbs and took up agenda item 6.1.

- 0810.6.7 **Approval of Finalist List for a Large Cap Domestic Equity Enhanced Index Manager Search:** Ms. Jadallah reported that the Investment Committee listened to a detailed description of each of the eleven finalists from SIS. The committee selected five finalists that will be interviewed at the November board meeting: (1) AXA Rosenberg Investment Management, (2) D.E. Shaw, (3) Enhanced Investment Technologies, (4) QMA (Quantitative Management) and (5) T. Rowe Price.

Motion by Wozniak, second by Hooley, carried unanimously to accept the recommendation of the Investment Committee and approve the five finalists for the large cap domestic equity enhanced index manager search.

- 0810.6.8 **Approval of Semi-Finalist List for a Large Cap Domestic Equity Growth Manager Search:** Ms. Jadallah reported that the Investment Committee reviewed the semi-finalist list for the large cap domestic equity growth manager search and did not find a reason to eliminate any of the eleven semi-finalists. SIS will submit RFP's to those on the semi-finalist list.

Motion by Wozniak, second by Hooley, carried unanimously to accept the recommendation of the Investment Committee and approve the semi-finalist list for the large cap domestic equity growth manager search.

- 0810.6.9 **Approval of the Criteria and Schedule for *SamCERA's* Large Cap Domestic Equity Value Manager Search:** Ms. Jadallah reported that the Investment Committee reviewed the criteria and schedule for the large cap domestic equity value manager search.

Motion by David, second by Wozniak, carried unanimously to accept the recommendation of the Investment Committee and approve the criteria and schedule for *SamCERA's* large cap domestic equity value manager search.

- 0810.6.10 **Approval of the Criteria and Schedule for *SamCERA's* Small Cap Domestic Equity Value Manager Search:** Ms. Jadallah reported that the Investment Committee reviewed the criteria and schedule for the small cap domestic equity value manager search. The committee added the criteria to allow SIS to add back any compelling small cap managers that fail the initial screen.

Motion by Jadallah, second by Wozniak, carried unanimously to accept the recommendation of the Investment Committee and approve the criteria and schedule for *SamCERA's* small cap domestic equity value manager search.

0810.7 **Board & Management Support Services**

- 0810.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of September 30, 2008, totaled \$1,899,790,829. The month of October has also not been kind to pension assets. Through October 21st, *SamCERA's* assets declined approximately an additional \$200 million to \$1,693.6 million. The net assets held in trust for pension benefits decreased by approximately \$172.9 million, month over month. The decrease is a result of the precipitous drop in the value of the capital market assets.

- 0810.7.2 **Quarterly Budget Report:** Mr. Clifton presented the quarterly budget report for the period ended

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September 30, 2008. He reported that with 25% of the fiscal year completed, *SamCERA* has expended 23.13% of the appropriations. All major categories are under budget.

***SamCERA's* Administrative Budget**

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$2,487,200	\$610,200
Services & Supplies	\$1,812,400	\$384,200
Capital Assets	<u>\$ 0</u>	<u>\$ 0</u>
Total	\$4,299,600	\$ 994,400

The preliminary aggregate professional services fees as of September 30, 2008, are approximately 31.2 basis points. The assets have not grown as anticipated; therefore, the realized investment management fees are lower than originally budgeted. Mr. Thomas said that *SamCERA* has a low cost program but should revisit the fee structure for due diligence.

- 0810.7.3 **Approval of an Agreement for Educational Services with Financial Knowledge Network:** This agenda item was deferred to the November board meeting.
- 0810.7.4 **Discussion of Legislation Signed into Law:** Mr. Bailey briefly reviewed three bills affecting public retirement systems that were recently signed into law by Governor Arnold Schwarzenegger. All three of the bills were based on recommendations from the Governor's Public Employee Post-Employment Benefits Commission. This agenda item was an informational report only.
- 0810.7.5 **Discussion of SACRS Initiatives and Resolutions:** Mr. Bailey reviewed the four 2009 legislative proposals recommended by the SACRS Legislative Committee that will be discussed at the SACRS Fall Conference Business Meeting on November 14th. David Wozniak is *SamCERA's* voting delegate. Natalie Kwan Lloyd is first alternate and Al David is second alternate.
- 0810.7.6 **Approval to Cancel the December Meeting of the Board of Retirement:** Mr. Bailey recommends that this agenda item be deferred to the November board meeting. Due to the volatility in the market, the board may decide to hold its December meeting. The board agreed with Mr. Bailey's recommendation and will wait until the November board meeting in order to make a more informed decision regarding the December meeting.
- 0810.8 **Management Reports**
- 0810.8.1 **Chief Executive Officer's Report:** In a response from Mr. Wozniak, Mr. Bailey said that the subpoena services that *SamCERA* has hired have been quite effective. Mr. Hood added that the cost of the services has been less than expected. Mr. Bailey reported that *SamCERA* has issued its annual customer service survey and has received 600 responses so far. Staff will be holding a two-day staff retreat to discuss *SamCERA's* 2009 strategic plan. The first day will occur in November and the second will occur in early December. At the recent County Employees' Benefit Fair, *SamCERA* distributed informational flyers regarding employees' secured retirement benefits with *SamCERA* which is protected by their employer. Mr. Bailey reported that he has been nominated to the CALAPRS Board of Directors and has accepted the nomination.

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- 0810.8.2 **Assistant Executive Officer's Report:** Mr. Hood provided an expense report update on the office expansion. He reported that the project was completed under budget and that the \$25,000 contingency fund was not touched. He also reported the current rental rate that *SamCERA* pays is well below current rates in Redwood Shores. Mr. Hood also noted that INVESCO stated that Redwood Shores was a good area to invest and that the Core fund just recently purchased an office building in Foster City.
- 0810.8.3 **Investment & Finance Manager's Report:** Mr. Clifton stated *SamCERA* has a good stable of investment managers that have been very responsive in providing good information to *SamCERA* regarding how they each are assessing and dealing with the current extraordinary market environment. *SamCERA*'s managers have had little or no exposure to problematic companies with some exposure to Lehman Brothers in Aberdeen Asset Management.
- 0810.8.4 **County Counsel's Report:** None.
- 0810.9 **Report on Actions Taken in Closed Session:** None.
- 0810.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Tashman adjourned the meeting at 4:23 p.m., in memory of the following deceased members:

Grainger, June	August 19, 2008	Social Service Dept.
Thompson, Craig	August 29, 2008	Parks and Recreation
Watson, James	August 30, 2008	General Services
Gleason, Catherine	September 2, 2008	Library
Contant, Lucille	September 20, 2008	Social Service Dept.
Byers, Dessie	September 13, 2008	Beneficiary of Byers, Wesley
Zitrin, Gertrude	September 13, 2008	District Attorney's Office
Schabot, Margaret	September 25, 2008	Public Health Dept

EMILY TASHMAN, CHAIR