

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

April 28, 2009

Agenda Item 3.0

March 24, 2009 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 9 a.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](#)
6. Investment Services
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Finalist Interviews – Small Cap Fundamental Value Mandate](#)
 - 6.2 a [Denver Investment Advisors – Small Cap Value](#) (Time Estimate 9:15 a.m.)
 - 6.2 b [Mesirow Financial Investment Management, Inc. – Small Cap Value Equity](#) (Time Estimate 10:00 a.m.)
 - 6.2 c [Netols Asset Management, Inc – Small Cap Value](#) (Time Estimate 10:45 a.m.)
 - 6.2 d [The Boston Company – U.S. Small Cap Value Equity](#) (Time Estimate 11:30 a.m.)
 - 6.3 [Approval of Transition Management Strategy for Implementation of New Mandates](#)
 - 6.4 [Approval of Topics for Manager Review – Aberdeen Asset Management](#)
 - 6.5 [Approval of Topics for Manager Review – Pyramis Global Advisors](#)
 - 6.6 [Approval of Topics for Manager Review – Western Asset Management](#)
 - 6.7 [Approval to Issue Request For Proposals \(RFP\) for Investment Consultant Services](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Approval of SamCERA's 2009 Strategic Plan](#)
 - 7.3 [Approval of SamCERA's Travel Policy](#)
 - 7.4 [Acceptance of Report on Prepayment of the County's Contribution for FY 2009/2010](#)
 - 7.5 [SACRS Nominating Committee Report – Nomination of Alternative Candidates](#)
 - 7.6 [Annual Review of SamCERA's Chief Executive Officer](#)
8. Management Reports
 - 8.1 [Chief Executive Officer's Report](#)
 - 8.2 [Assistant Executive Officer's Report](#)
 - 8.3 [Chief Investment Officer'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](#)
- C2 [Public Employee Performance Evaluation in accordance with Government Code section 54957](#)
[Title: Chief Executive Officer](#)
9. [Report on Actions Taken in Closed Session](#)
10. [Adjournment](#)

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

March 24, 2009 – Board Minutes

0903.1 **Call to Order:** Ms. Tashman, Chair, called the Public Session of the Board of Retirement to order at 9:03 a.m., March 24, 2009, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

0903.2 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bowler, Mr. David, Ms. Jadallah, Ms. Kwan Lloyd, Mr. Murphy for Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Excused:* Mr. Hooley
Other Board Members in Attendance: Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia and Mr. Thomas. *Retirees:* 0, *Public:* 2.

0903.3 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the minutes: 0902.6.3(a), (b), (c) and (d) L3: ~~“The firm provided a 40 minute overview of their proposal and then responded to 20 minutes of questions.”~~

Motion by Jadallah, second by David, carried unanimously to approve the minutes from the February 24, 2009, board meeting, as amended.

0903.4.1 **Oral Communications From the Board:** Ms. Kwan Lloyd reported that she attended one of *SamCERA's* financial seminars. She found the session very educational and thought that the instructor was very knowledgeable. Mr. David agreed with Ms. Kwan Lloyd. Mr. Bailey said that reviews from the seminars have been very good. In response to a question from Ms. Salas, Mr. Hood said that Financial Knowledge Network will be holding twenty-seven classes for *SamCERA* this year. The sessions have been very well received and Mr. Bailey said that *SamCERA* will continue to effectively market the free financial educational seminars in an effort to maintain interest.

Mr. David then reported that he recently attended the CALAPRS General Assembly and found its sessions on risk management and the current financial markets very informative.

0903.4.2 **Oral Communications From the Public:** Mr. Murphy, on behalf of SCORPA, reported that SCORPA had voted unanimously to agree with the Retirement Board's decision made at the February meeting to share retirement data with Milliman for the purpose of a retirement cost study.

Ms. Tashman then took up agenda item 6.2.

0903.5 **Benefit & Actuarial Services**

0903.5.1 **Adoption of Consent Agenda:** Ms. Tashman removed the disability application of Victoria Weise (Jadallah), from the day's consent agenda to be taken under consideration under agenda item 5.2.

Motion by Wozniak, second by Murphy, carried unanimously to approve the disability application of Jane Hasenbeck. Mr. David abstained from the vote.

Motion by Murphy, second by Bowler, carried unanimously to adopt the rest of the day's consent agenda.

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

Disability Retirements:

The board finds that **Frances Modica** is unable to perform her usual and customary duties as a Marriage and Family Therapist, finds that her incapacity is permanent and **GRANTS** her application for a non-service connected disability retirement.

The board finds that **Jane Hasenbeck** is unable to perform her usual and customary duties as a Human Resources Technician, finds that her incapacity is permanent and **GRANTS** her application for a service-connected disability retirement.

The disability application of **Thomas Marriscolo** was deferred from the January 2009 meeting. The applicant supplied credible information to support his claim that lifting heavy objects was a usual and customary duty of his position. The board agreed with staff's recommendation to **GRANT** his application for a service-connected disability retirement.

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

Service Retirements:

Calleja, Anne	January 27, 2009	Def'd from Plan 3
Leonard, Beatriz	February 14, 2009	Human Services Agency
Sullivan, Barbara	March 1, 2009	Def'd from Food Services
Hashiguchi, Keith	March 1, 2009	Environmental Health
Hurtado, Oscar	March 2, 2009	Def'd from Human Services
Adarlo, Carlos	March 12, 2009	San Mateo Medical Center
Willett, Philip	March 12, 2009	Sheriff's Office
Daevu, Darlene	March 15, 2009	Aging & Adult Services
Olden, Jacqueline	March 21, 2009	Library
Walsh, Brian	March 22, 2009	Sheriff's Office
Scott, Dennison	March 25, 2009	Sheriff's Office
Miluso, Joseph	March 27, 2009	Environmental Health
Chiochios, Linda	March 28, 2009	Library
Cordes, Judy	March 28, 2009	Public Works
Guttenbeil, Kathleen	March 28, 2009	Human Services Agency
Singh, Vijay	March 28, 2009	Controller
Thomas, Eddie	March 28, 2009	District Attorney
Triolo, John	March 28, 2009	Sheriff's Office
Farmer, Joseph	March 29, 2009	Sheriff's Office
Ball, Darryl	March 30, 2009	Sheriff's Office
McInnis, Colin	March 30, 2009	Def'd from Aging & Adult
Alaimo, Robert	March 31, 2009	Public Works
Arellano, Martha	March 31, 2009	San Mateo Medical Center
Buckwalter, Brad	March 31, 2009	Sheriff's Office
Cardenas, Cecilia	March 31, 2009	San Mateo Medical Center
Fan, Frank	March 31, 2009	Aging & Adult Services
Ferraris, Gail	March 31, 2009	Ag Commission Sealer
Colbourne, Karen	March 31, 2009	Behavioral Health
Devan, Karen	March 31, 2009	County Manager's
Lafayette, James	March 31, 2009	Public Works

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

Lee, Brian	March 31, 2009	Public Works
Martone, Walter	March 31, 2009	Public Works
McKinley, Mary	March 31, 2009	Def'd from District Attorney
Swearingen, Barbara	March 31, 2009	Behavioral Health
Wetteland, Donald	March 31, 2009	Public Works

Continuance of Benefits:

Jackson, Barbara Beneficiary of Jackson, Frederick

Deferred Retirements:

None

Refunds:

Huss, Maximillian	G4 Non-vested
King, Terri	G4 Non-vested
Manchia, Angelo	G4 Non-vested
Meidav, Tamar	G4 Non-vested
Paulino, Relizabeth	G4 Non-vested
Walker, Latasha	G4 Non-vested

Rollovers:

Annoni, Scott	G4 Non-vested
Garcia, Josefina	G4 Non-vested
Lord, Patricia	G4 Non-vested
Miller, James	G4 Non-vested
Quezada, Jasmina	G4 Vested
Sarmiento, Annette	G4 Non-vested
Saylor, Sara	G4 Non-vested

- 0903.5.2 **Consideration of Items Removed from Consent Agenda:** Ms. Carlson reported that Ms. Tashman convened the board in closed session, with all trustees present for roll call in attendance.

Ms. Carlson reported that the board unanimously finds that **Victoria Weise** is able to perform her usual and customary duties as an Office Assistant II, finds that her incapacity is not permanent, and **DENIES** her application for a service-connected disability retirement.

Ms. Tashman adjourned the closed session.

0903.6 **Investment Services**

- 0903.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -6.38% Total Fund Return for February 2009 outperformed the Total Plan Policy Benchmark return of -6.97%. The fund's return for the trailing twelve months is -32.90%, which is -4,067 basis points below the Actuarial Discount Rate, 7.75%, and 1 basis point above *SamCERA's* Total Plan Policy Benchmark of -32.91%.

President Obama's \$800 billion stimulus package passed along party lines, but did little to calm investor fears. US GDP (Gross Domestic Product) shrank at a revised 6.2% in the 4th

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

quarter of 2008, the most since 1982. Employers cut another 651,000 jobs during the month, taking the unemployment rate up to 8.1%, the worst since 1983. This remains the S&P 500's worst start to a year for any that is tracked (back to 1900), with the benchmark down by over 50% from its October 2007 peak. Some economists believe the steps taken by the government to support financial institutions and the steep yield curve have gone a long way to resolving the credit crisis.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	<i>\$484,570,110</i>	<i>-10.64%</i>	<i>-44.53%</i>	<i>-7.47%</i>
<i>International Equity</i>	<i>291,731,615</i>	<i>-9.54%</i>	<i>-49.31%</i>	<i>-1.50%</i>
Total Equity	776,301,725	-10.24%	-46.01%	-5.95%
Fixed Income	459,422,118	-1.49%	-10.11%	1.04%
Real Estate Aggregate	157,670,492	0.00%	-4.50%	12.85%
Cash Equivalents	9,838,296	0.15%	-2.31%	2.49%
TOTAL FUND	\$1,403,232,630	-6.38%	-32.90%	-2.26%
<i>Benchmark</i>		<i>-6.97%</i>	<i>-32.91%</i>	<i>-1.72%</i>

* Total Time-Weighted Rate of Return

- 0903.6.2 **Finalist Interviews – Small Cap Fundamental Value Mandate:** The board interviewed the following four finalists for *SamCERA*'s small cap value mandate: (1) Denver Investment Advisors, (2) Mesirow Financial Investment Management, (3) Netols Asset Management, and (4) The Boston Company.

Please see agenda items 6.2a, 6.2b, 6.2c and 6.2d for a summary of each interview.

Following the four finalist interviews, the board discussed the pros and cons of each of the four finalists and reviewed their risk/return profiles.

After extensive discussion, **motion** by Wozniak, second by Murphy, carried with five ayes and three no's, to select The Boston Company as *SamCERA*'s small cap fundamental growth manager, contingent on fee negotiation and due diligence.

- 0903.6.2a **Denver Investment Advisors – Small Cap Value:** Mr. Clifton introduced Dean Graves, Client Portfolio Manager, Partner; Kris Herrick, Director of Value Research, Partner; and Lisa Ramirez, Research Analyst, Vice President, of Denver Investment Advisors.
- 0903.6.2b **Mesirow Financial Investment Management, Inc. – Small Cap Value Equity:** Mr. Clifton introduced Jeff Schvimer, Managing Director; and Jill Rasinki, Managing Director, of Mesirow Financial Investment Management.
- 0903.6.2c **Netols Asset Management, Inc – Small Cap Value:** Mr. Clifton introduced Jeffrey Netols, President; and William Forsyth, Director of Business Development, of Netols Asset Management.
- 0903.6.2d **The Boston Company – U.S. Small Cap Value Equity:** Mr. Clifton introduced Edward Walter, Portfolio Manager; and Ryan Fitzpatrick, New Business Development, of The Boston Company.
- 0903.6.3 **Approval of Transition Management Strategy for Implementation of New Mandates:** In

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

the upcoming transition of *SamCERA*'s small cap value portfolio, Mr. Clifton recommended the board utilize a different avenue for transition management which staff feels is more suited to perform in the small cap environment. Mr. Clifton presented a draft letter of authorization services, directing BNY Global Transition Management to restructure *SamCERA*'s investment in a small cap value mandate by the newly selected small cap value manager, The Boston Company.

Motion by David, second by Wozniak, carried unanimously to adopt Resolution 08-09-10, approving the contract between *SamCERA* and BNY Global Transition Management, as follows:

“WHEREAS, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

“WHEREAS, Government Code §31595 vests in the Board *" . . . exclusive control of the investment of the employees retirement fund."* and

“WHEREAS, Government Code §31596.1 (d) authorizes the Board to retain investment managers *" . . . in connection with administration of the Board's investment program . . . "*; and

“WHEREAS, the Board adopted a manager structure for *SamCERA*'s assets which includes a 2.25% mandate to a small cap fundamental value manager; and

“WHEREAS, the Board wishes to transition the assets from the current small cap value manager and award the 2.25% allocation to a new investment manager. Therefore, be it

“RESOLVED that the Board hereby approves executing a Letter of Authorization (LOA) with BNY Global Transition Management (“GTM”), a division of BNY ConvergeX Execution Solutions LLC that directs GTM to restructure an investment portfolio of domestic small cap securities and cash from an investment in the legacy small cap portfolio into a target portfolio managed by an investment manager to be named later, on or around April 30, 2009, and subsequent funding dates as necessary. Be it further

“RESOLVED that the Board hereby authorizes the Chief Investment Officer to approve the costs as specified in an analysis of transition that will be provided by GTM prior to the transition. Be it further

“RESOLVED that the Board hereby authorizes the Chief Investment Officer to execute the Letter of Authorization, as approved by the board's counsel, on behalf of the Board. Be it further

“RESOLVED that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the Letter of Authorization and hereby authorizes the Chief Investment Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the Letter of Authorization.”

0903.6.4 **Approval of Topics for Manager Review – Aberdeen Asset Management:** Mr. Clifton

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

presented the topics for Aberdeen Asset Management's annual investment manager review scheduled for May. Ms. Jadallah and Mr. Thomas recommended additions to the list of topics.

Motion by Bowler, second by David, carried unanimously to approve the list of suggested questions for Aberdeen Asset Management, as amended.

- 0903.6.5 **Approval of Topics for Manager Review – Pyramis Global Advisors:** Mr. Clifton presented the topics for Pyramis Global Advisors' annual investment manager review scheduled for May. Ms. Jadallah and Mr. Thomas recommended additions to the list of topics.

Motion by Bowler, second by David, carried unanimously to approve the list of suggested questions for Pyramis Global Advisors, as amended.

- 0903.6.6 **Approval of Topics for Manager Review – Western Asset Management:** Mr. Clifton presented the topics for Western Asset Management's annual investment manager review scheduled for May. Ms. Jadallah and Mr. Thomas recommended additions to the list of topics.

Motion by Bowler, second by David, carried unanimously to approve the list of suggested questions for Western Asset Management, as amended.

- 0903.6.7 **Approval to Issue Request For Proposals (RFP) for Investment Consultant Services:** Mr. Clifton stated that the last time the Association issued a request for proposal (RFP) for pension investment consulting services was in the Spring of 2000. As related to all its professional providers, *SamCERA* periodically goes to the market to explore current services which are available and how those services are priced. Mr. Clifton presented a proposed schedule for the search. Ms. Jadallah suggested that the search be postponed until the new large cap structure has been in place and prior to the next asset allocation study.

Motion by Bower, second by David, carried unanimously to defer the distribution of the public pension fund investment consultant RFP until after *SamCERA*'s large cap structure has been implemented.

0903.7 **Board & Management Support Services**

- 0903.7.1 **Monthly Financial Report:** Mr. Clifton presented the monthly financial report for the period ending February 28, 2009. *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of February 28, 2009, totaled \$1,401,883,512. The net assets held in trust for pension benefits decreased by approximately \$102.4 million, month over month. The decrease is primarily due to the decreased value of the capital market assets.

- 0903.7.2 **Approval of *SamCERA*'s 2009 Strategic Plan:** Mr. Bailey presented *SamCERA*'s Strategic Plan for the 2009 calendar year. He said that there are three major goals that the plan intends to achieve: (1) Operations, (2) Asset Management and (3) Customer Services. Mr. Bailey briefly mentioned various strategies and projects within these broad objectives that staff intends to implement.

Motion by David, second by Kwan Lloyd, carried unanimously to approve *SamCERA*'s Strategic Plan.

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

- 0903.7.3 **Approval of *SamCERA*'s Travel Policy:** Mr. Bailey presented *SamCERA*'s Travel Policy. At the January 27, 2009, meeting the board asked that further research be done to determine whether it is necessary for *SamCERA* to have its own policy or whether it could operate under the policy of the County of San Mateo. The two policies do not have substantive differences between the standards of travel and reimbursement; however, there are clear differences in the governing authorities, funding sources, and purposes of travel. Staff concluded that it is best to continue to have a separate policy from the County.

Motion by Murphy, second by Jadallah, carried unanimously to approve *SamCERA*'s Travel Policy.

- 0903.7.4 **Acceptance of Report on Prepayment of the County's Contribution for FY 2009/2010:** Mr. Clifton reported that the County's contribution for fiscal year 2009/2010 is \$107,395,773. The calculated amount of the advance prepayment is due on July 3, 2009.

Without objection, Ms. Tashman accepted the report.

- 0903.7.5 **SACRS Nominating Committee Report – Nomination of Alternative Candidates:** Mr. Bailey presented the candidates the SACRS Nominating Committee will recommend to serve on the Board of Directors for the 2009/2010 term. He asked if the board had nominations for alternative candidates. No alternative candidates were named. No action was taken. The report was informational.

Ms. Tashman then took up agenda item 8.1.

- 0903.7.6 **Annual Review of *SamCERA*'s Chief Executive Officer:** This agenda item was taken under closed session. Please see agenda item 9.

0903.8 **Management Reports**

- 0903.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported on the current IRS audit. The IRS examiner returned to *SamCERA*'s offices on March 4th. Mr. Bailey said that there does not appear to be significant issues that have arisen from the audit. Mr. Bailey complimented Mabel Wong, *SamCERA*'s Finance Officer, for her hard work during the audit. The IRS examiner is scheduled to return to the office the week following the March board meeting. Bob Blum, tax advisor, has spent a significant amount of time on this project and has proved to be an invaluable resource.

Mr. Bailey said that *SamCERA* will be distributing its first newsletter for active members in e-mail format later in the day. He mentioned the many advantages to the new format including its environmental friendliness, hyperlinks to various resources, no space limitation and cost savings.

Mr. Bailey then presented various potential topics for the board retreat scheduled for June. He requested input from trustees.

Mr. Bailey received an informational memo from David Boesch, County Manager, regarding preliminary budget solution proposals for FY 2009/2010. The report currently recommends eliminating up to 40 county positions.

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

- 0903.8.2 **Assistant Executive Officer's Report:** Mr. Hood reported on a project involving an "alive and well" check in order to prevent identity fraud. *SamCERA* sent 167 letters to each retiree 90 years and older. All but 3 letters have been returned. Staff will continue the process with retirees between 85 and 90 years of age. This procedure will be performed on a regular basis by staff.

Mr. Hood then reported on the upcoming trustee election to be held on June 8th.

- 0903.8.3 **Chief Investment Officer's Report:** Mr. Clifton said that staff along with SIS, will be conducting various due diligence site visits in the upcoming months, mostly consisting of *SamCERA's* newly hired investment managers. He then reported on various organizational changes at Aberdeen Asset Management and Pyramis Global Advisors. Mr. Clifton then reported that Ms. Wong has sent the actuarial schedule to the Association's actuary, Milliman, Inc. and will send the audit schedule to the Association's auditor, Brown Armstrong, shortly.

- 0903.8.4 **County Counsel's Report:** Ms. Carlson reported on the Orange County decision. A judge dismissed the lawsuit. She then provided an overview of a case in Marin County. The case was regarding overtime and it was determined that overtime is not compensation earnable.

Ms. Tashman then took up agenda item 7.6.

- 0903.9 **Report on Actions Taken in Closed Session:** Ms. Tashman reported that she convened the board in closed session, with all trustees present for roll call in attendance. The board met in closed session for Public Employee Performance Evaluation in accordance with Government Code section 54957 Title: Chief Executive Officer.

No action was taken.

Ms. Tashman adjourned the closed session.

- 0903.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Tashman adjourned the meeting at 2:40 p.m., in memory of the following deceased members:

Wheeler, Ronald	January 23, 2009	Beneficiary of Wheeler, Cecilia
Yallico, Rosita	February 1, 2009	Hospital
Erbeck, Edward	February 4, 2009	Vocational Services
Brash-Kamin, Roberta	February 7, 2009	Mental Health Services
Burke, Patricia	February 8, 2009	Social Services
White, Mary Lou	February 10, 2009	Beneficiary of White, Horace
Hall, Lucy	February 13, 2009	Chope Community Hospital
Leckie, Mary Ann	February 17, 2009	Superior Court
Jackson, Frederick	February 21, 2009	Social Services
Vergara, Narcisa	February 21, 2009	Hospital
Pinkham, Annie	February 26, 2009	Beneficiary of Pinkham, Frank
Snively, Kay	February 28, 2009	Building & Grounds

EMILY TASHMAN, CHAIR