

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

May 26, 2009

Agenda Item 3.0

**April 28, 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 [Barrow, Hanley, Mewhinney & Strauss](#) (Time Estimate 9:15 a.m.)
    - 6.2 b [Cohen & Steers Capital Management](#) (Time Estimate 10:00 a.m.)
    - 6.2 c [Evergreen Investment Management](#) (Time Estimate 10:45 a.m.)
    - 6.2 d [Wellington Management Company](#) (Time Estimate 11:30 a.m.)
  - 6.3 [Approval of Custodial Services Agreement – State Street Bank & Trust](#)
  - 6.4 [Approval of Amendments to Pyramis Global Advisors' Management Agreement](#)
  - 6.5 [Acceptance of Certification of Compliance – Barclays Global Investors](#)
  - 6.6 [Acceptance of Certification of Compliance – INVESCO Realty Advisors](#)
7. Board & Management Support Services
  - 7.1 [Monthly Financial Report](#)
  - 7.2 [Quarterly Budget Report for Period Ended March 31, 2009](#)
  - 7.3 [Approval of Auditor's Engagement Letter for the June 30, 2009, Financial Audit](#)
  - 7.4 [Approval of SACRS Voting Delegate and Alternate](#)
  - 7.5 [Discussion of SACRS Nominations & Agenda Items](#)
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](#)

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

**April 28, 2009 – Board Minutes**

- 0904.1 **Call to Order:** Ms. Tashman, Chair, called the Public Session of the Board of Retirement to order at 9:02 a.m., April 28, 2009, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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- 0904.2     **Roll Call:** Mr. Bowler (arr. 9:04 a.m.), Mr. David, Ms. Jadallah, Ms. Kwan Lloyd, Mr. Murphy for Ms. Stuart (arr. 10:55 a.m.), Ms. Tashman and Ms. Salas for Mr. Wozniak. *Excused:* Mr. Buffington and Mr. Hooley. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Ms. Carlson, Mr. Brody and Mr. Thomas. *Retirees:* 1, *Public:* 0.
- 0904.3     **Approval of the Minutes:** **Motion** by David, second by Kwan Lloyd, carried unanimously to approve the minutes of the March 24, 2009, board meeting, as submitted.
- 0904.4.1   **Oral Communications From the Board:** Ms. Kwan Lloyd reported that she attended the CALAPRS' Principles of Pension Management course at the Stanford University Law School. She found the educational content course very beneficial. The other trustees that have attended the course in the past concurred with Ms. Kwan Lloyd's comments.
- 0904.4.2   **Oral Communications From the Public:** None.
- 0904.5     **Benefit & Actuarial Services**
- 0904.5.1   **Adoption of Consent Agenda:** **Motion** by Salas, second by Jadallah, carried unanimously to adopt the day's consent agenda, as submitted, as follows:

**Disability Retirements:**

The board finds that **Catherine Diyorio** is unable to perform her usual and customary duties as a Sheriff Sergeant, finds that her incapacity is permanent, and **GRANTS** her application for a service-connected disability retirement.

The board finds that **Gregory Kelly** is unable to perform his usual and customary duties as a Carpenter, finds that his incapacity is permanent, and **GRANTS** 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:**

Thompson, Tonya	March 17, 2009	Def'd from Medical Center
Bailey, Patricia	March 26, 2009	Def'd from Human Services
Bracksher, George	March 28, 2009	San Mateo Medical Center
Titone, Debra	March 28, 2009	Sheriff's Office
Courtney, John	March 29, 2009	Sheriff's Office
Feyling, John	March 29, 2009	Sheriff's Office
Escoffier, Barbara	March 31, 2009	Library
Carter, Donna	April 1, 2009	Superior Court
Hayes, David	April 1, 2009	Sheriff's Office
Stone, Randy	April 1, 2009	Information Services
Rios, Steve	April 1, 2009	Public Safety Commission
Velasquez, Silvia	April 1, 2009	Food Services
Thomson, Nathalie	April 18, 2009	Human Services Agency
Sanfelice, Catarina	April 30, 2009	San Mateo Medical Center

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**Continuance of Benefits:**

Gipson, Martin	Beneficiary of Gipson, Ruth
Guidi, Angelo	Beneficiary of Guidi, Marilynn
Knowlton, Beverley	Beneficiary of Knowlton, Robert
Lim, Helen	Beneficiary of Lim, Davy
Tatterson, Margaret	Beneficiary of Tatterson, Ronald
Vance, Walter	Beneficiary of Grace
Yallico, Nestor	Beneficiary of Yallico, Rosita

**Deferred Retirements:**

Hershman, Marc	G4 Non-vested	Reciprocity
Smith, Charlotte	G2-Vested	Reciprocity
Blum, William	G2-Vested	Reciprocity
Fonarev, Brenda	Plan 3 Non-vested	Reciprocity
Hook, David	G4-Vested	

**Refunds:**

Buencamino, Anna	G4 Non-vested
Daly, Richard	P4 Non-vested
Grabin, Andrew	G4 Non-vested
Magana, Lynette	G4 Non-vested
Silva, Dolores	G4 Non-vested
Sims, Felicia	G4 Non-vested
Taiby, Hussain	G4 Non-vested

**Rollovers:**

Cerritos, Jesus	G4 Vested
De Orellano, Erica	G4 Vested
Koin, Diana	G4 Non-vested
Mapote, Carmen	G4 Non-vested

0904.5.2     **Consideration of Items Removed from Consent Agenda:** None.

0904.6     **Investment Services**

0904.6.1     **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 4.53% Total Fund Return for March 2009 underperformed the Total Plan Policy Benchmark return of 6.11%. The underperformance is primarily due to the plan's underweight to equities, which had a good month. The fund's return for the trailing twelve months is -29.33%, which is -3,708 basis points below the Actuarial Discount Rate, 7.75%, and 86 basis points below *SamCERA's* Total Plan Policy Benchmark of -28.27%.

Mr. Clifton reported that the County does not plan to prepay the Employer Contributions on July 1<sup>st</sup>, as has been typical in previous fiscal years.

The Dow Jones Industrial Average Index rose 794 bps as investors reacted positively to the latest government proposal to repair bank balance sheets and increase the liquidity of legacy assets via the Public-Private Investment Program (PPIP). Rates across the fixed income yield curve fell sharply in response to the Federal Reserve's announcement to purchase \$300

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billion of longer term Treasury securities. March unemployment hit a 25-year high of 8.5%. However, other economic indicators appear to be signaling that the economy's rate of contraction has moderated. We are beginning to hear the whisper of optimism return to the market.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$525,880,412	8.53%	-39.56%	-5.78%
<i>International Equity</i>	<u>306,810,669</u>	5.17%	-45.84%	-0.23%
Total Equity	832,691,081	7.26%	-41.61%	-4.42%
Fixed Income	466,647,534	1.57%	-7.57%	1.19%
Real Estate Aggregate	157,670,492	0.00%	-5.83%	12.33%
Cash Equivalents	3,716,760	0.11%	-2.46%	2.47%
<b>TOTAL FUND</b>	<b>\$1,460,733,994</b>	<b>4.53%</b>	<b>-29.33%</b>	<b>-1.31%</b>
<i>Benchmark</i>		6.11%	-28.47%	-0.55%

\* Total Time-Weighted Rate of Return

- 0904.6.2 **Finalist Interviews – Large Cap Fundamental Value Mandate:** The board interviewed the following four finalists for *SamCERA's* large cap value mandate: (1) Barrow, Hanley, Mewhinney & Strauss, (2) Cohen & Steers Capital Management, (3) Evergreen Investment Management, and (4) Wellington Management Company.

Please see agenda item 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.

**Motion** by Salas, second by Bowler, carried unanimously to direct staff and consultant to conduct due diligence site visits to (1) Barrow, Hanley, Mewhinney & Strauss and (2) Cohen & Steers Capital Management to obtain more information for the board prior to making a final decision. The site visits will be conducted in May prior to the May board meeting. The board will receive a report on the two site visits from staff and consultant and will deliberate on the issue at the May meeting.

- 0904.6.2a **Barrow, Hanley, Mewhinney & Strauss:** Mr. Clifton introduced Timothy Culler, Portfolio Manager; and Hunter Wood, Client Development, of Barrow, Hanley, Mewhinney & Strauss. The firm provided a 30-minute presentation and answered trustee questions and concerns.
- 0904.6.2b **Cohen & Steers Capital Management:** Mr. Clifton introduced Ed Rieger, Senior Vice President; Jamelah Leddy, Senior Analyst, of Cohen & Steers. Mr. Clifton also introduced Rick Helm, Portfolio Manager of Cohen & Steers, who was present at the meeting via conference call. The firm provided a 30-minute presentation and answered trustee questions and concerns.
- 0904.6.2c **Evergreen Investment Management:** Mr. Clifton introduced Steven Borowski, Managing Partner; Sandy Incontro, Managing Director, of Metropolitan West Capital Management; and Daniel Anderson, Director, Public Fund Sector, of Evergreen Investments. The firm provided a 30-minute presentation and answered trustee questions and concerns.
- 0904.6.2d **Wellington Management Company:** Mr. Clifton introduced Karen Grimes, Portfolio

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Manager; and Jed Synnesvedt, Business Development, of Wellington Management Company. The firm provided a 30-minute presentation and answered trustee questions and concerns.

0904.6.3     **Approval of Custodial Services Agreement – State Street Bank & Trust:** Mr. Clifton presented a board resolution which will authorize the continuation of the custodial relationship between *SamCERA* and State Street Bank and Trust Company. He reported that staff is pleased with the service levels State Street has provided and believes the proposed fee structure is extremely competitive.

**Motion** by Jadallah, second by David, carried unanimously to approve **Resolution 08-09-11**, extending the Association's agreement with State Street bank and Trust Company, as follows:

**“WHEREAS**, Board Resolution 95-96-15 implements the provisions of Assembly Bill 1021 (Chapter 584, Statutes of 1995) which empowers the Board to delegate functions to *“the treasurer or other entity authorized by the board.”*; and

**“WHEREAS**, Government Code §31595.1 (a) & (b) states in pertinent part:

- (a) *“The Board may authorize the treasurer to control and safely keep some or all of the moneys of the retirement system . . .*
- (b) *The Board, in lieu of acting pursuant to subdivision (a), may delegate to another entity some or all of the powers prescribed in that subdivision.; and*

**“WHEREAS**, the Board, pursuant to Government Code §31595, has approved contracts for Investment Management Services which mandate the use of Global Custody Services; and

**“WHEREAS**, the Board issued a Request for Proposal for Global Custodian and determined that of the respondents State Street is the best qualified provider of Global Custody Services to pension plans; and

**“WHEREAS**, Board Resolution 98-99-17 authorized the Chair to execute a contract for custodial services on behalf of *SamCERA*, which was approved as to form by the Board and County Counsel; and

**“WHEREAS**, effective April of 2004, under Board Resolution 03-04-14 the Board & State Street amended the original custodial services agreement for an additional five year period ending May 1, 2009; and

**“WHEREAS**, the Board and State Street wish to once again extend the original agreement for an additional five year period ending May 1, 2014 and County Counsel approved the amendment as to form and the Chief Investment Officer recommended renewal of the contract as amended. Now, therefore, be it

**“RESOLVED**, that the Board hereby approves the Second Amendment to the contract between the Board and State Street for a term of five years, which may be extended in the sole discretion of the Board, cancelable by either party on forty-five days notice. Be it further

**“RESOLVED**, that the Board hereby delegates full discretionary authority to State Street to manage the custody of the assets of the Retirement Fund in accordance with the terms of the contract, the Investment Plan (as incorporated into the contract), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

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**“RESOLVED**, that the Board hereby approves the fees as specified in the amended contract and authorizes the disbursement of funds as provided for in GC§31596.1(b) in accordance with *SamCERA*'s internal controls as set forth in Resolution 94-95-02. Be it further

**“RESOLVED**, that the Board hereby authorizes the Chair to execute the Second Amendment to the contract on behalf of *SamCERA*. Be it further

**“RESOLVED**, that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the contract 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 contract.”

- 0904.6.4     **Approval of Amendments to Pyramis Global Advisors' Management Agreement:** Mr. Clifton presented the proposed amendments and notices regarding changes to the Pyramis Group Trust for Employee Benefit Plans.

The first notice detailed fee changes regarding a new administrative fee that will be charged in the Group Trust effective on or after July 1, 2009. These are administrative fees and not management fees. With *SamCERA*'s consent, no action is required on its part prior to the fee taking effect as further detailed in the notice. The second notice summarized changes made in an amendment and restatement of the Declaration of Trust for the Group Trust, and included a copy of the amended and restated Declaration of Trust. The amended and restated Declaration of Trust will become effective July 1, 2009. No action is required prior to these amendments taking affect. Finally, Pyramis intends to file the amended and restated Declaration of Trust with the IRS for an updated determination letter as to the ongoing tax exempt status of the Group Trust.

Ms. Jadallah inquired about the possibility of creating a separate account with Pyramis. Staff was instructed to discuss the matter with Pyramis and bring it back to the board at a future board meeting.

- 0904.6.5     **Acceptance of Certification of Compliance – Barclays Global Investors:** Mr. Clifton presented the Compliance Certification Statement from Barclays Global Investors. **Motion** by Salas, second by Bowler, carried unanimously to accept Barclays Global Investors' Certification of Compliance.

- 0904.6.6     **Acceptance of Certification of Compliance – INVESCO Realty Advisors:** Mr. Clifton presented the Compliance Certification Statement from INVESCO Realty Advisors. **Motion** by Jadallah, second by Stuart, carried unanimously to accept INVESCO Realty Advisors' Certification of Compliance.

0904.7     **Board & Management Support Services**

- 0904.7.1     **Monthly Financial Report:** Mr. Clifton presented the monthly financial report for the period ending March 31, 2009. *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of March 31, 2009, totaled \$1,458,945,524. The net assets held in trust for pension benefits increased by approximately \$57.1 million, month over month. The increase is primarily due to the increased value of the capital market assets. The year over year decrease of \$457.2

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million is primarily due to the devaluation of the capital market assets.

- 0904.7.2 **Quarterly Budget Report for Period Ended March 31, 2009:** Mr. Clifton presented the preliminary Third Quarter Budget Reports. He reported that with three-quarters of the fiscal year completed, administrative expenditures to date represent 64.5% of the appropriations. All major categories are under budget. As a reminder, in February the board authorized an Appropriations Transfer request (ATR), which amended the budget moving \$80,000 of Information Technology appropriations from Services and Supplies to Capital Assets.

***SamCERA's Administrative Budget***

	<b>ADOPTED BUDGET</b>	<b>YTD Preliminary</b>
Salaries & Benefits	\$2,487,200	\$1,811,795
Services & Supplies	\$1,732,400	\$ 895,065
Capital Assets	<u>\$ 80,000</u>	<u>\$ 65,500</u>
Total	\$4,299,600	\$2,771,360

All professional services expenditures are on target in accordance with the budget appropriations. As of March 31, 2009, the aggregate professional services fee was approximately 23.2 basis points.

- 0904.7.3 **Approval of Auditor's Engagement Letter for the June 30, 2009, Financial Audit:** Mr. Clifton presented the auditor's engagement letter from *SamCERA's* auditor, Brown Armstrong, for the June 30, 2009, financial audit. The audit will examine, on a test basis, evidence supporting the amounts and disclosures in *SamCERA's* financial statements. A Brown Armstrong audit team headed by Ms. Connie Perez, Audit Manager, will be in *SamCERA's* office to conduct interim work prior to the closing of *SamCERA's* books. The gross base audit fee, including expenses is not to exceed \$44,400.

- 0904.7.4 **Approval of SACRS Voting Delegate and Alternate:** *SamCERA* normally selects the highest ranking board officer who will attend the conference as the voting delegate. **Motion** by Bowler, second by David, carried unanimously to authorize David Wozniak, Vice Chair, as the Voting Delegate and Margaret Jadallah, Investment Committee Chair, as the Delegate Alternate to cast *SamCERA's* votes at the Spring 2009 SACRS Conference.

- 0904.7.5 **Discussion of SACRS Nominations & Agenda Items:** Mr. Bailey presented two items that will be voted on at the SACRS business meeting on the final morning of the conference, Friday, May 15<sup>th</sup> in San Francisco. Mr. Bailey requested that trustees provide comments as they see fit in order to provide guidance to the *SamCERA* voting delegate. No action was taken.

0904.8 **Management Reports**

- 0904.8.1 **Chief Executive Officer's Report:** Mr. Bailey discussed a public records request regarding retirees' pension amounts. Staff will do further research regarding the matter. Mr. Bailey then discussed the significant increase in County contribution rate for fiscal year 2010/2011.

Mr. Bailey then said that the trustee retreat originally scheduled for June will be postponed

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until the Fall, due to the expectation of new trustees in July. Mr. Bailey then told trustees to inform him if they would like to subscribe to the P&I Daily, an e-mail based service. He also reported that the *SamCERA* IT staff is currently researching a reading device called the Kindle, for future paperless board packets.

Mr. Bailey said that the cancellation of the June board meeting will be placed on the May board meeting agenda.

0904.8.2    **Assistant Executive Officer's Report:** Mr. Hood reported on the acquisition of two heart defibrillators in the *SamCERA* office in case of emergencies. One of the devices is located in the board room, and the other located near the Retirement Analysts' offices. Mr. Hood then distributed informational flyers regarding the upcoming *SamCERA* financial education seminars taught by Financial Knowledge Network. Interest in the seminars still remains strong. Mr. Hood then reported on the upcoming trustee election.

0904.8.3    **Chief Investment Officer's Report:** Mr. Clifton distributed a form of educational topics for the upcoming trustee retreat. He requested that trustees complete the form and return it to him as soon as possible. He then reported on the Association's position in the INVESCO Core Fund redemption queue. He indicated that Barclays is selling its iShares and is considering selling Barclays Global Investors. Mr. Clifton then reported on the liquidity of the Brandes portfolio.

0904.8.4    **County Counsel's Report:** Ms. Carlson reported on two disability appeal cases.

0904.8.5    **Report on Actions Taken in Closed Session:** None.

0904.9       **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Tashman adjourned the meeting at 3 p.m., in memory of the following deceased members:

ANDERSON, PEARL	MARCH 27, 2009
GIPSON, RUTH	MARCH 8, 2009
GUIDI, MARILYNN	MARCH 5, 2009
KNOWLTON, ROBERT	MARCH 3, 2009
LANTZ, ERNEST	MARCH 12, 2009
LIM, DAVY	MARCH 3, 2009
TATTERSON, RONALD	MARCH 27, 2009
TEETERS, ROBERT	MARCH 9, 2009
THORNDIKE, JEAN	MARCH 15, 2009
VANCE, GRACE	MARCH 16, 2009

EMILY TASHMAN, CHAIR