

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

July 28, 2009

Agenda Item 3.0

May 26, 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](#)
 - 5.3 [Consideration and Adoption of Assumptions for June 30, 2009, Actuarial Valuation](#)
 - 5.4 [Update on Retirement Cost Study – White Paper](#)
6. Investment Services
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Quarterly Investment Performance Analysis for Period Ended March 31, 2009](#)
 - 6.3 a [Annual Investment Manager Review – Aberdeen Asset Management](#)
(Presentation at the Board)
 - 6.3 b [Annual Investment Manager Review – Pyramis Global Advisors](#)
(Interviewed by the Investment Committee at 9:30 a.m.)
 - 6.3 c [Annual Investment Manager Review – Western Asset Management](#)
(Interviewed by the Investment Committee at 10:15 a.m.)
 - 6.4 [Approval of Investment Management Agreement – Aberdeen Asset Management](#)
 - 6.5 [Approval of Account Structure with Pyramis Global Advisors](#)
 - 6.6 [Approval of Manager Selection & Investment Management Agreement for a Large Cap Fundamental Value Mandate](#)
 - 6.7 [Approval of Investment Management Agreement – AXA Rosenberg](#)
 - 6.8 [Approval of Investment Management Agreement – D.E. Shaw](#)
 - 6.9 [Approval of Investment Management Agreement – T. Rowe Price](#)
 - 6.10 [Approval of Investment Management Agreement – BlackRock](#)
 - 6.11 [Approval of Investment Management Agreement – The Boston Company](#)
 - 6.12 [Approval of Topics for Investment Consultant Review – Strategic Investment Solutions](#)
 - 6.13 [Approval of Topics for Manager Review – Artio Global Investors](#)
 - 6.14 [Approval of Topics for Manager Review – Mondrian Investment Partners](#)
 - 6.15 [Educational Presentation – Future Overlay Programs](#)
 - 6.16 [Due Diligence Reports – AXA Rosenberg, T. Rowe Price, D.E. Shaw, & Aberdeen Asset Management](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Approval of SamCERA's Sources, Uses & Budget for Fiscal Year 2009/2010](#)
 - 7.3 [Approval of Topics for the Annual Review of Legal Counsel - County Counsel](#)
 - 7.4 [Report on Trustee Election to Fill Second and Seventh Seats on the Board of Retirement](#)
 - 7.5 [Approval to Cancel the June Meeting of the Board of Retirement](#)
 - 7.6 [Appointment of Ad Hoc Nominating Committee for Board Officers](#)
8. Management Reports
 - 8.1 [Chief Executive Officer's Report](#)
 - 8.2 [Assistant Executive Officer's Report](#)

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- 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 [Conference with Legal Counsel – Anticipated Litigation – significant exposure to litigation pursuant to subdivision \(b\) of Government Code Section 54956.9 – one matter.](#)
- 9. [Report on Actions Taken in Closed Session](#)
 - 10. [Adjournment](#)

May 26, 2009 – Board Minutes

- 0905.1 **Call to Order:** Ms. Tashman, Chair, called the Public Session of the Board of Retirement to order at 1:00 p.m., May 26, 2009, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- 0905.2.1 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bowler, Mr. David, Mr. Hooley, Ms. Jadallah, Ms. Salas for Ms. Kwan Lloyd, Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood and Ms. Smith. *Consultants:* Ms. Carlson, Mr. Collier, Dr. Fracchia, and Mr. Thomas. *Retirees:* 0, *Public:* 0.
- 0905.3 **Approval of the Minutes: Motion** by Stuart, second by David, carried unanimously to approve the minutes of the April 28, 2009, board meeting, as submitted.
- 0905.4.1 **Oral Communications From the Board:** Ms. Jadallah and Mr. David reported that they had attended the SACRS Spring 2009 Conference which focused on the current market environment. Ms. Arnott and Mr. Wozniak reported that they had recently attended the IFEBP Investments Institute. Ms. Arnott opined that the IFEBP had very good speakers and is an organization that sponsors very beneficial educational events.
- 0905.4.2 **Oral Communications From the Public:** Mr. Murphy provided a report on the California Retired County Employees' Association (CRCEA) Spring 2009 Conference as prepared by Charles Faltz, SCORPA delegate to CRCEA. The major topics included at the conference included a report on (1) an Orange County lawsuit seeking to prevent the lowering of benefits to already-retired County employees, (2) AB 1136 which is a bill that would allow a County retiree some latitude in providing a retirement benefit for a new spouse, and (3) an Orange County Board of Supervisors proposed bill to give boards the authority to suspend Cost of Living Adjustments if the retirement system is not 80% funded.
- 0905.5 **Benefit & Actuarial Services**
- 0905.5.1 **Adoption of Consent Agenda:** Ms. Tashman removed the disability application of Michelle Rozario-Shrum (David) to be taken into consideration under agenda item 5.2. **Motion** by David, second by Bowler, carried unanimously to approve the disability application of Ami Wiltz. Mr. Wozniak abstained from the vote.

Motion by David, second by Bowler, carried unanimously to approve the rest of the day's consent agenda, as amended.

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Disability Retirements:

The board found that Ami Wiltz is unable to perform her usual and customary duties as a Deputy Sheriff, found that her incapacity is permanent and GRANTED her application for a Service-Connected Disability Retirement.

The board granted staff's request for Non-Service Connected Disability Retirement (*per 5.2 Death of member prior to completion of application process*) for the purpose of establishing a continuance to Luis Martinez, spouse of deceased member, Jeannet Hernandez.

The board was also advised that the Honorable Judge Marie S. Weiner affirmed the decision of the board to deny disability retirement benefits to Nancy Smith Feldstein.

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

Service Retirements:

Dayson, William	April 27, 2009	Def'd from District Attorney
Turpin, Carol	May 20, 2009	Def'd from Sheriff's office
Pletz, Barbara	May 25, 2009	Public Family Health
Munds, Frederick	May 29, 2009	Parks Department
Castillo-Nosek, Delilah	May 30, 2009	Superior Court
Turpin, Carol	May 20, 2009	Def'd from Sheriff's Office
Pletz, Barbara	May 25, 2009	Public and Family Health
Munds, Frederick	May 29, 2009	Parks Department
Castillo-Nosek, Delilah	May 30, 2009	Superior Court

Continuance of Benefits:

None

Deferred Retirements:

Carrillo, Socorro	G4 Vested	Reciprocity
Chilton, Joshua	S4 Vested	Reciprocity

Refunds:

Aquino, Federico	G4 Vested
Botti, Nick	G4 Non-vested
Halley, Alexis	G4 Non-vested
Hogan, Bronwyn	G4 Non-vested
Kamal, Fateh	G4 Non-vested
Parra, Elizabeth	G4 Vested
Taylor, John	G4 Non-vested
Vega, Fanny	G4 Non-vested

Rollovers:

Arriaga, Gilbert	S4 Non-vested
Albucher, Ronald	G4 Non-vested
Brown, Yvonne	G4 Non-vested
Green, Ross	G4 Non-vested

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Martinez, Kathryn	G4 Non-vested
Ortiz, Catherine	G4 Non-vested
Poole, Gary	G2 Vested
Saba, Joseph	G4 Non-vested
Seguine, Mary	QDRO of Seguine,
Standley, Colleen	G4 Non-vested
Vincenzini, Dennis	G4 Non-vested

0905.5.2 **Consideration of Items Removed from Consent Agenda:** The board considered the disability application of Michelle Rozario Shrum in closed session. Please see agenda item 9.0.

0905.5.3 **Consideration and Adoption of Assumptions for June 30, 2009, Actuarial Valuation:** Nick Collier of Milliman, Inc., reviewed the demographic and economic assumptions that Milliman recommends to use for the June 30, 2009, actuarial valuation. He recommended that the same assumptions from the June 30, 2008, valuation be used for the current year's.

Mr. Collier then discussed one of the actuarial methods to be used in the valuation called the asset corridor. The asset corridor limit is applied on the actuarial valuation of assets (AVA), such that the AVA stays within 20% of the market value of assets. Due to the magnitude of the expected asset loss for this current fiscal year, the 20% asset corridor limit will cause a high degree of volatility in the County contribution rate. Mr. Collier then discussed reasons to remove and reasons to retain the current corridor. He also examined other possible changes to the current actuarial methods to limit the volatility of the County contribution rate, including increasing the amount of time for actuarial smoothing from 5 to 10 years, as well as increasing the UAAL amortization period from 15 years to 20 year. In response to a question from the board, Mr. Collier said that Milliman did not find it prudent to remove the asset corridor as well as increase the smoothing period, but would be comfortable with changing one of those actuarial methods.

The presentation on changing actuarial methods was only informational. Any decision to adopt these methods would take place after the completion of the valuation process.

Motion by Wozniak, second by Jadallah, carried unanimously to adopt the assumptions recommended by Milliman, Inc. for the June 30, 2009, actuarial valuation.

0905.5.4 **Update on Retirement Cost Study – White Paper:** Peter Bassett, County Benefits Manager, was present to provide an update on the progress and timetable for the study of retirement costs being written by Milliman, Inc., for the County of San Mateo. He reported that the draft white paper is currently being reviewed by County officials and will be distributed to *SamCERA* and others within the upcoming weeks. The second phase of the retirement cost study involves the analysis of the options conducted by Milliman. Mr. Bassett said the second phase will hopefully be completed by July and if so will be present at the July board meeting to provide the board with more information.

0905.6 **Investment Services**

0905.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA*'s 7.05% Total Fund Return for April 2009 underperformed the Total Plan Policy Benchmark return of 8.15%.

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The underperformance was primarily due to the plan's underweight to equities, which had a good month. The fund's return for the trailing twelve months is -27.23%, which is 3,498 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 168 basis points below SamCERA's Total Plan Policy Benchmark of -25.55%.

On April 29, the Federal Open Market Committee (FOMC) voted unanimously to keep the target federal funds rate at between 0.00% and 0.25%. Describing recent economic conditions, the FOMC said that "the pace of contraction appears to be somewhat slower" and that "household spending has shown signs of stabilizing...". However, it also noted that job losses, wealth losses, and tight credit are constraining consumer spending and that businesses are paring both their capital spending and inventories. The strength exhibited in the high-yield, CMBS, emerging market and investment-grade corporate sectors was reflective of a reduction in the fear premium that had been embedded in markets since the fall rather than the onset of a new bull market.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	<i>\$573,888,843</i>	<i>11.09%</i>	<i>-35.94%</i>	<i>-3.28%</i>
<i>International Equity</i>	<i>339,282,673</i>	<i>10.58%</i>	<i>-42.40%</i>	<i>2.13%</i>
Total Equity	913,171,516	10.91%	-38.04%	-1.97%
Fixed Income	478,009,242	2.43%	-5.45%	2.17%
Real Estate Aggregate	141,217,141	0.00%	-15.10%	9.97%
Cash Equivalents	7,017,548	0.13%	-2.57%	2.46%
TOTAL FUND	\$1,539,415,447	7.05%	-27.23%	0.28%
<i>Benchmark</i>		<i>8.15%</i>	<i>-25.55%</i>	<i>1.44%</i>

* Total Time-Weighted Rate of Return

0905.6.2 **Quarterly Investment Performance Analysis for Period Ended March 31, 2009:** Mr. Clifton reported that Mr. Thomas of Strategic Investment Solutions thoroughly discussed SamCERA's quarterly investment performance report for the quarter ended March 31, 2009, with the Investment Committee.

The composite fund returned -8.4% in the first quarter of 2009 and ranked 91st among other public funds greater than \$100 million (median of -6.1%). The fund trailed its policy index (-7.7%) during this time period. Longer term, the three- and five-year returns of -8.9% (92nd percentile) and -1.5% (88th percentile), respectively, were below median among large public plans (-6.6% and -0.1%).

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	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
<i>Composite Fund</i>	-8.35%	91	-30.08%	88	-8.91%	92
<i>Policy Index</i>	-7.71%	89	-28.76%	73	-7.39%	70
BGI Russell 1000 Alpha Tilts	-11.35%	70	-38.37%	66	-14.88%	80
BGI Russell 1000 Index Fund	-10.44%	45	-38.21%	64	-13.18%	55
<i>Large Cap Composite</i>	-11.15%	68	-38.23%	64	-14.46%	76
<i>Russell 1000 Index</i>	-10.45%	46	-38.27%	65	-13.24%	57
Brandes Investment Partners	-21.14%	99	-66.86%	100	-34.95%	100
Chartwell Investment Partners	-8.76%	30	-42.84%	90	-17.54%	69
Jennison Associates	-10.28%	43	-36.67%	48	N/A	N/A
<i>Small Cap Composite</i>	-11.52%	50	-45.60%	97	-22.51%	96
<i>Russell 2000 Index</i>	-14.95%	72	-37.50%	54	-16.80%	63
<i>U.S. Equity Composite</i>	-11.21%	66	-39.56%	72	-15.99%	77
Artio Global Investment	-15.82%	87	-49.06%	85	-13.97%	67
Mondrian Investment Partners	-14.10%	64	-42.54%	32	-10.30%	24
<i>International Equity Composite</i>	-14.96%	77	-45.84%	54	-12.12%	41
<i>MSCI ACWI-ex US Index Free</i>	-10.62%	26	-46.18%	57	-12.75%	50
<i>Total Equity Composite</i>	-12.62%	N/A	-41.61%	N/A	-14.99%	N/A
Aberdeen Asset Management	0.25%	66	-13.72%	97	-1.89%	97
Pyramis Global Advisors	2.01%	12	-2.07%	72	2.56%	81
Western Asset Management	0.26%	66	-6.74%	87	0.50%	89
<i>U.S. Fixed Income Composite</i>	0.86%	42	-7.57%	74	0.40%	78
<i>BC Aggregate Index</i>	0.12%	66	3.13%	29	5.78%	33
INVESCO Core Fund	-9.85%	41	-15.10%	35	3.40%	36
<i>Real Estate Composite</i>	-9.85%	41	-15.10%	35	3.40%	36
<i>NCREIF Index</i>	-7.33%	37	-14.68%	34	4.16%	33
<i>Cash Composite</i>	0.41%	14	-2.46%	95	2.06%	96
<i>91 Day T-Bill Index</i>	0.05%	84	1.21%	79	3.63%	68

0905.6.3a **Annual Investment Manager Review – Aberdeen Asset Management:** Christopher Gagnier, Senior Portfolio Manager, and Boris Karol, Portfolio Manager, of Aberdeen Asset Management, were present for Aberdeen Asset Management’s annual review.

Mr. Karol provided a brief organizational review. Paul Griffiths, formerly of Credit Suisse, will join Aberdeen as Global Head of Fixed Income on July 1st.

Mr. Gagnier performed a brief overview of the fixed income team. He then discussed the portfolio’s performance as well as performance attribution. The portfolio underperformed the BC Aggregate Index by 366 basis points.

Following Aberdeen’s annual review, Mr. Bowler recommended that the board review its fixed income structure with the consultant at a future board meeting. The board will analyze the fixed income portfolio and discuss possible restructuring.

0905.6.3b **Annual Investment Manager Review – Pyramis Global Advisors:** Mr. Clifton reported that Chris Pariseault, Fixed Income Investment Director, was present at the Investment Committee for Pyramis Global Advisors’ annual review. Mr. Pariseault noted that Chris

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Sullivan, formerly of Goldman Sachs Asset Management, will become Pyramis' Head of Fixed Income on June 1st.

Mr. Clifton also reported that Mr. Pariseault performed an overview of the portfolio's performance and discussed the additive and hindering aspects of the portfolio's return. He then discussed the current commingled account structure with Pyramis Global Advisors and the three notices sent to the board concerning the Pyramis Global Trust for Employee Benefits Plan.

0905.6.3c **Annual Investment Manager Review – Western Asset Management:** Mr. Clifton reported that Joseph Carieri, Client Service Executive, and Don Plotsky, Head of Product Development, were present at the Investment Committee for Western Asset Management's annual review. Mr. Clifton reported that Mr. Plotsky performed an overview of the portfolio's investment performance and then discussed the attribution analysis, stating that issue and sector selection were the main detractors from returns. He then reviewed the portfolio's sector and credit quality allocation and provided mortgage-backed sector and non-agency mortgage sub-sector analysis.

0905.6.4 **Approval of Investment Management Agreement – Aberdeen Asset Management:** Mr. Clifton presented the Investment Manager Agreement between *SamCERA* and Aberdeen Asset Management, Inc. He reported that the Investment Committee reviewed the agreement and had recommended to approve the IMA.

Motion by Wozniak, second by Bowler, to authorize the chair to execute the Investment Management Agreement with Aberdeen Asset Management.

0905.6.5 **Approval of Account Structure with Pyramis Global Advisors:** Mr. Clifton reported that the Investment Committee reviewed the topic of *SamCERA*'s account structure with Pyramis Global Advisors. Mr. Pariseault of Pyramis discussed the benefits of retaining the current commingled account structure during the firm's annual review at the Investment Committee meeting. Regarding liquidity, he stated that creating a separate account might pose more liquidity issues than a commingled account.

Motion by Bowler, second by Wozniak, carried unanimously to retain the current commingled account structure with Pyramis Global Advisors and acknowledge the three notices concerning the Pyramis Group Trust for Employee Benefits Plans (the "Group Trust").

0905.6.6 **Approval of Manager Selection & Investment Management Agreement for a Large Cap Fundamental Value Mandate:** Ms. Jadallah reported that Mr. Clifton and Mr. Thomas provided a thorough overview of their due diligence visits to (1) Cohen & Steers Capital Management, and (2) Barrow, Hanley, Mewhinney & Strauss. The Investment Committee recommended that the board select Barrow Hanley for the Association's domestic large cap fundamental value mandate based on Barrow's qualitative and quantitative information.

Motion by Hooley, second by David, carried unanimously to adopt **Resolution 08-09-12**, selecting Barrow, Hanley, Mewhinney & Strauss for the domestic large cap fundamental value mandate:

"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*

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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**, on February 24, 2009, the Board considered proposals from eleven firms for investment management services under a large cap domestic equity value mandate. Barrow, Hanley, Mewhinney & Strauss, Cohen & Steers Capital Management, Evergreen Investment Management and Wellington Management Company were invited to participate in interviews at the April board meeting; and

“**WHEREAS**, on April 28, 2009, the Board interviewed representatives from the four finalists, and directed staff and consultant to conduct due diligence visits to Barrow, Hanley, Mewhinney & Strauss and Cohen & Steers Capital Management to obtain additional qualitative data prior to making a final decision; and

“**WHEREAS**, on May 26, 2009, the Board reviewed staff and consultant’s due diligence reports on their visits to Barrow, Hanley, Mewhinney & Strauss and Cohen & Steers Capital Management and selected Barrow, Hanley, Mewhinney & Strauss for a large cap value mandate to be funded with approximately \$115 million; Therefore, be it

“**RESOLVED** that the Board hereby approves the agreement between the Board and Barrow, Hanley, Mewhinney & Strauss for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Barrow, Hanley, Mewhinney & Strauss to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Policy* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the agreement 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 Agreement 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.”

0905.6.7 **Approval of Investment Management Agreement – AXA Rosenberg:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and AXA Rosenberg Investment Management. He reviewed differences between the IMA and *SamCERA's* boilerplate IMA. The Investment Committee recommended board approval. **Motion** by David, second by Salas, carried unanimously to adopt **Resolution 08-09-13**, authorizing the board chair to execute the Investment Management Agreement between

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SamCERA and AXA Rosenberg:

“**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**, on October 28, 2008, the Board considered proposals from fifteen firms for investment management services under a large cap enhanced mandate. AXA Rosenberg, D.E. Shaw, Advanced Investment Technologies (Intech), Quantitative Management Associates (QMA), and T. Rowe Price were invited to participate in interview at the November board meeting; and

“**WHEREAS**, on November 25, 2008, the Board interviewed representatives from the five finalists, selecting AXA Rosenberg, D.E. Shaw and T. Rowe Price for a large cap enhanced mandate to be funded with approximately \$75 million each; Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and AXA Rosenberg Investment Management for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to AXA Rosenberg Investment Management to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Policy* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the agreement 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 Agreement 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.”

0905.6.8 **Approval of Investment Management Agreement – D.E. Shaw:** Mr. Clifton discussed the Investment Management Agreement between the Board of Retirement and D.E. Shaw. Contract negotiations were still ongoing and a draft IMA was unavailable. Mr. Clifton reported that the Investment Committee recommended that staff continue contract negotiations with D. E. Shaw and bring back a draft IMA to the July board meeting. Without objection, Ms. Tashman accepted the committee’s recommendation.

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0905.6.9 **Approval of Investment Management Agreement – T. Rowe Price:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and T. Rowe Price. He reviewed the differences between the IMA and *SamCERA's* standard boilerplate. The committee recommended board approval. **Motion** by Salas, second by Wozniak, carried unanimously to adopt **Resolution 08-09-14**, authorizing the board chair to execute the Investment Management Agreement with T. Rowe Price:

“**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**, on October 28, 2008, the Board considered proposals from fifteen firms for investment management services under a large cap enhanced mandate. AXA Rosenberg, D.E. Shaw, Advanced Investment Technologies (Intech), Quantitative Management Associates (QMA), and T. Rowe Price were invited to participate in interview at the November board meeting; and

“**WHEREAS**, on November 25, 2008, the Board interviewed representatives from the five finalist, selecting AXA Rosenberg, D.E. Shaw and T. Rowe Price for a large cap enhanced mandate to be funded with approximately \$75 million each; Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and T. Rowe Price Group, Inc. for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to T. Rowe Price Group, Inc. to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Policy* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the agreement 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 Agreement 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.”

0905.6.10 **Approval of Investment Management Agreement – BlackRock:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and BlackRock. He reviewed the differences between the IMA and *SamCERA's* standard boilerplate. The committee recommended board approval. **Motion** by David, second by Bowler, carried unanimously to adopt **Resolution 08-09-15**, authorizing the board chair to execute the

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Investment Management Agreement with Black Rock:

“**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**, on October 28, 2008, the Board considered proposals from eleven firms for investment management services under a large cap Growth mandate: BlackRock, Inc., Delaware Investments, Waddell & Reed Investment Management Company, and Wells Capital Management, Inc. were invited to participate in interview at the February 2009 board meeting; and

“**WHEREAS**, on February 24, 2009, the Board interviewed representatives from the four finalist, selecting BlackRock, Inc for a large cap growth mandate. to be funded with approximately \$115 million each; Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and BlackRock, Inc. for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

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

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the agreement 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 Agreement 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.”

0905.6.11 **Approval of Investment Management Agreement – The Boston Company:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and The Boston Company. He reviewed the differences between the IMA and *SamCERA's* standard boilerplate. The committee recommended board approval. **Motion** by David, second by Stuart, carried unanimously to adopt **Resolution 08-09-16**, authorizing the board chair to execute the Investment Management Agreement with The Boston Company:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board

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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**, on November 25, 2008, the Board considered proposals from twelve firms for investment management services under a small cap value mandate, and Denver Investment Advisors, Mesirow Financial Investment Management, Inc., Netols Asset Management, Inc., and The Boston Company were invited to participate in interviews at the March 2009 board meeting; and

“**WHEREAS**, in March 2009, the Board interviewed representatives from the four finalists, selecting The Boston Company for a small cap value mandate to be funded with approximately \$35 million; Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and The Boston Company for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to The Boston Company to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Policy* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the agreement 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 Agreement 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.”

0905.6.12 **Approval of Topics for Investment Consultant Review – Strategic Investment Solutions:** Mr. Clifton presented the suggested list of topics for Strategic Investment Solutions’ annual review. During the Investment Committee, Ms. Jadallah added questions regarding SIS’ ability to assist the association with its real estate portfolio. **Motion** by Salas, second by David, carried unanimously to approve the list of topics for Strategic Investment Solutions’ annual review.

0905.6.13 **Approval of Topics for Manager Review – Artio Global Investors:** Mr. Clifton presented the list of suggested questions for Artio Global Investors’ annual review. There were no recommended changes to the list of topics. **Motion** by Salas, second by Wozniak, carried

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unanimously to approve the list of topics for Artio Global Investors' annual review.

0905.6.14 **Approval of Topics for Manager Review – Mondrian Investment Partners:** Mr. Clifton presented the suggested list of questions for Mondrian Investment Partners' annual review. There were no recommended changes to the list of topics. **Motion** by Wozniak, second by Salas, carried unanimously to approve the list of topics for Mondrian Investment Partners.

0905.6.15 **Educational Presentation – Future Overlay Programs:** Mr. Clifton introduced Greg Nordquist, Senior Portfolio Manager, of Russell Investments. Mr. Nordquist provided an educational presentation on overlay services and exposure management. He discussed issues facing institutional investors and the common challenges faced by investment staff in terms of liquidity and rebalancing. Mr. Nordquist then discussed various overlay strategies and exposure management services for the board to consider should they decide to use futures to rebalance the portfolio. The presentation was informational. No action was taken.

0905.6.16 **Due Diligence Reports – AXA Rosenberg, T. Rowe Price, D.E. Shaw, & Aberdeen Asset Management:** Mr. Clifton provided the due diligence reports on AXA Rosenberg, T. Rowe Price, D.E. Shaw and Aberdeen Asset Management, which were prepared by SIS. The reports were informational.

0905.7 **Board & Management Support Services**

0905.7.1 **Monthly Financial Report:** Mr. Clifton presented the monthly financial report for the period ending April 30, 2009. He reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of April 30, 2009, totaled \$1,537,527,134. The net assets increased by approximately \$78.5 million, month over month, primarily due to the increased value of the capital market assets. The year over year decrease of \$433.5 million is primarily due to the devaluation of the capital market assets.

0905.7.2 **Approval of *SamCERA's* Sources, Uses & Budget for Fiscal Year 2009/2010:** Mr. Clifton presented *SamCERA's* Budget for Fiscal Year 2009-2010. Mr. Clifton briefly discussed the line items of the administrative budget and reported that staff will postpone three IT projects due to budget constraints. He indicated that there were two resolutions to be taken under consideration: (1) the Administrative Budget and (2) the Asset Management Budget.

Motion by David, second by Stuart, carried unanimously to adopt **Resolution 08-09-17**, and approve *SamCERA's* Fiscal Year 2009-2010 Administrative Budget:

“WHEREAS, Government Code §31580.2 vests authority in the Board of Retirement to *...annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund;* and

“WHEREAS, Government Code §31580.3 requires that ... (a) *If during any year the expense of administration of the retirement system includes expenditures for software, hardware ,and computer technology consulting services in support of that software or hardware, the expense incurred may not exceed the greater of the following: (1) The sum of eighteen*

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hundredths of 1 percent of the total assets of the retirement system plus one million dollars (\$1,000,000). (2) Twenty-three hundredths of 1 percent of the total assets of the retirement system. (b) This section shall remain in effect only until January 1, 2013, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2013, deletes or extends that date.; and

“WHEREAS, the retirement fund had total assets with a market value of approximately \$1,539.4 million on April 30, 2009; and

“WHEREAS, the Chief Investment Officer has recommended a budget for the next fiscal year, which the board has reviewed and revised as necessary. Therefore, be it

“RESOLVED, that the Board hereby adopts the following Budget to cover the entire expense of the administration of the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

<u>Budget Item</u>	<u>Fiscal 2009-2010</u> (000)	<u>Basis Points</u> (Information Only)
Salaries & Benefits	\$2,287.0	
Services & Supplies	1,459.1	
Fixed Assets	200.0	
Total	\$3,946.1	~23.0 Estimate

“RESOLVED, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved budget in accordance with his Delegation of Authority; be it further

“RESOLVED, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the annual maintenance and enhancement of PensionGold Version 1; be it further

“RESOLVED, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the purchase of fiduciary liability insurance coverage with the assistance of the County’s Risk Manager; be it further

“RESOLVED, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted Budget.”

Motion by Wozniak, second by David, to adopt **Resolution 08-09-18**, to approve SamCERA’s Fiscal Year 2009-2010 Asset Management Budget:

“WHEREAS, Government Code §31595 vests authority in the Board of Retirement to . . . *exclusive control of the investment of the employees retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly restricted by the California Constitution and by law,*

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the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board. The board and its officers and employees shall discharge their duties with respect to the system: (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. (b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. (c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and

“WHEREAS, Government Code §31596.1 requires that . . . *The expenses of investing its moneys shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered as a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board: (a) The costs, as approved by the board, of actuarial valuations and services rendered pursuant to Section 31453. (b) The compensation of any bank or trust company performing custodial services. (c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages. (d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties. (e) The compensation to an attorney for services rendered pursuant to Section 31607 or legal representation rendered pursuant to Section 31529.1.; and*

“WHEREAS, the retirement fund had total assets with a market value of approximately \$1,539.4 million on April 30, 2009; and

“WHEREAS, the Chief Investment Officer has recommended a budget for the next fiscal year, which the board has reviewed and revised as necessary. Therefore, be it

“RESOLVED, that the Board hereby adopts the following Budget to cover the entire expense of the administration of the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

<u>Budget Item</u>	<u>Fiscal 2009-2010</u> (000)	<u>Basis Points</u> (Information Only)
Salaries & Benefits	\$555.0	
Services & Supplies	186.4	
Fixed Assets	0.0	
Total	\$741.1	~00.0 Estimate

“RESOLVED, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved budget in accordance with his

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Delegation of Authority; be it further

“**RESOLVED**, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted Budget.”

0905.7.3 **Approval of Topics for the Annual Review of Legal Counsel - County Counsel:** Mr. Clifton presented the list of suggested questions for Chief Deputy County Counsel Brenda Carlson’s annual review. No changes were recommended. **Motion** by Salas, second by Wozniak, carried unanimously to approve the list of topics for County Counsel’s annual review.

0905.7.4 **Report on Trustee Election to Fill Second and Seventh Seats on the Board of Retirement:** Mr. Hood provided an informational report on the upcoming trustee elections and appointments. The terms of the Second Member, Mr. David, the Seventh Member, Mr. Wozniak and the Seventh Member Alternate, Ms. Salas, expire on June 30, 2009. Elections are scheduled for Monday, June 8th. The Board of Supervisors is to appoint the Fourth Member, currently Ms. Tashman, and the Sixth Member, currently Mr. Hooley, whose terms also expire on June 30, 2009.

0905.7.5 **Approval to Cancel the June Meeting of the Board of Retirement:** Mr. Bailey reported that staff expects the agenda for the June meeting to be light. He asked the board whether or not it would be appropriate to cancel the meeting scheduled for that day. Mr. Bailey said that the Board of Retirement does not normally hold a meeting in June. **Motion** by Bowler, second by Stuart, carried unanimously to cancel the June 23, 2009, meeting of the Board of Retirement.

0905.7.6 **Appointment of Ad Hoc Nominating Committee for Board Officers:** Mr. Bailey stated that the ad hoc committee is recommended to nominate officers for the 2009-2010 fiscal year.

Ms. Tashman **appointed** Ms. Arnott, Chair; Mr. Bowler and Mr. Wozniak. Ms. Salas will serve as an Alternate to the ad hoc committee.

0905.8 **Management Reports**

0905.8.1 **Chief Executive Officer’s Report:** Mr. Bailey reported that *SamCERA* has received a letter from the IRS stating that the IRS has received and accepted the report from their fieldwork auditor who performed the *SamCERA*’s audit for the tax year 2007. Mr. Bailey then said that *SamCERA*’s next IRS project will be a tax determination letter. Staff will attend a detailed workshop discussing the various requirements for the letter at the offices of Hanson Bridgett, the association’s tax advisor.

Mr. Bailey announced that Ms. Kwan Lloyd gave birth to her daughter, Alyssa, earlier in the month. The wife of Tariq Ali, Chief Technology Officer, gave birth to their daughter, Maryam, also in May.

Mr. Bailey presented a certificate of appreciation to Ms. Tashman and Mr. Hooley, whose terms expire on June 30, 2009. Ms. Tashman has served on the board since January 2004 and has served as Board Chair, Vice Chair and Investment Committee Chair. Mr. Hooley has been on the Board of Retirement since September 2003. Mr. Hooley has served as Board Secretary. Both thanked the trustees and staff for the experience of serving as trustees and

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said they were pleased to serve.

- 0905.8.2 **Assistant Executive Officer's Report:** Mr. Hood distributed informational flyers regarding *SamCERA's* financial educational seminar scheduled later in the week. The seminar is conducted by Financial Knowledge Network. The next financial courses are scheduled for the fall.
- 0905.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that Mark Cuneen of Chartwell Investment Partners has left the firm.
- 0905.8.4 **County Counsel's Report:** This agenda item was taken in closed session. Please see agenda item 9.0.
- 0905.9 **Report on Actions Taken in Closed Session:** The board went into closed session on two separate occasions during the meeting.

C1 First closed session:

Ms. Carlson reported that Ms. Tashman convened the board in closed session at 1:10 p.m, with all trustees present for roll call in attendance.

The board unanimously finds that Michelle Rozario-Shrum is unable to perform her usual and customary duties as a Correctional Officer, finds that her incapacity is permanent, and GRANTS her application for a service-connected disability retirement.

Ms. Tashman adjourned the closed session and reconvened the board at 1:25 p.m.

C2 Second closed session:

Ms. Carlson reported that Ms. Tashman convened the board in closed session at 5:30 p.m, with all trustees present for roll call, except for Ms. Arnott and Ms. Jadallah, in attendance.

The board discussed a significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9 with legal counsel.

Ms. Tashman adjourned the closed session at 6:15 p.m.

Ms. Carlson reported that in closed session the board instructed the CEO to respond to a public records request by providing the amounts and the departments of all retirees receiving more than \$8,333 per month.

- 0905.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Tashman adjourned the meeting at 6:16 p.m., in memory of the following deceased members:

Elston, Dorothy	March 8, 2009	Canyon Hospital
Mizuno, Gary	March 9, 2009	Beneficiary of Mizuno, Chiyo
Dolci, Patricia	March 19, 2009	Human Services Agency
Davis, William	March 23, 2009	Agricultural Commissioner
Tullo, Millie	April 3, 2009	Beneficiary of Tullo, Vincent

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Creighton, Helen	April 9, 2009	Social Services
Springle-Lord, Annie	April 16, 2009	Public Health
Visher, John	April 17, 2009	Mental Health Services
Smith, Rue	April 18, 2009	Social Services
Raeside, Vena	April 27, 2009	Social Services

EMILY TASHMAN, CHAIR