

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

September 22, 2009

Agenda Item 3.0

**August 25, 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 [Annual Review, Revision, and Reaffirmation of the Investment Committee Charter](#)
  - 6.3 [Quarterly Investment Performance Analysis for period ended June 30, 2009](#)
  - 6.4 [Annual Review of SamCERA's Small Cap Equity Asset Class and Investment Managers](#)
    - 6.4 a [Annual Investment Manager Review – Chartwell Investment Partners](#)  
*(Interviewed by the Investment Committee at 10 a.m.)*
    - 6.4 b [Annual Investment Manager Review – Jennison Associates](#)  
*(Interviewed by the Board)*
  - 6.5 [Annual Review of SamCERA's Investment Policy](#)
  - 6.6 [Approval of SamCERA's Fixed Income Structure](#)
  - 6.7 [Approval of Topics for Annual Manager Review – INVESCO Realty Advisors](#)
  - 6.8 [Approval of Topics for Annual Manager Review – Barclays Global Investors](#)
  - 6.9 [Approval of Resolution Authorizing the Chief Executive Officer to Grant Limited Power of Attorney Status for Certain Custodial Operations](#)
7. Board & Management Support Services
  - 7.1 [Monthly Financial Report](#)
  - 7.2 [Appointment of Ad Hoc Committee to Review SamCERA's Medical Consultant](#)
  - 7.3 [Report on Status of the Financial Audit for the Period Ended June 30, 2009](#)
  - 7.4 [Acceptance of a Report on Experience from the First Half-Year of Formalized Member Education](#)
  - 7.5 [Authorization for Chief Executive Officer to Engage Outside Counsel for Certain Disability Hearings](#)
  - 7.6 [Annual Review of Legal Counsel - County Counsel](#)
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 [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](#)

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10. [Adjournment](#)

**August 25, 2009 – Board Minutes**

- 0908.1     **Call to Order:** Ms. Jadallah, Chair, called the Public Session of the Board of Retirement to order at 1:05 p.m., August 25, 2009, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- 0908.2.1   **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bowler, Mr. David, Mr. Hooley, Ms. Jadallah, Ms. Kwan Lloyd, Mr. Spinello and Mrs. Stuart. *Excused:* Ms. Tashman. *Other Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Mr. Hood and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Mr. Brody and Mr. Thomas. *Retirees:* 2, *Public:* 0.
- 0908.3     **Approval of the Minutes:** **Motion** by Mr. Bowler, second by Ms. Stuart, carried unanimously to approve the minutes from the July 28, 2009, board meeting, as submitted.
- 0908.4.1   **Oral Communications From the Board:** None.
- 0908.4.2   **Oral Communications From the Public:** Mr. Bailey introduced Richard White, President of SACRS Board of Directors and safety trustee on the Orange County retirement board. Mr. White provided an overview of the SACRS organization, its legislative projects and overall goals. Mr. White is personally visiting all twenty 1937 Act counties on behalf of the SACRS Board of Directors.
- 0908.5     **Benefit & Actuarial Services**
- 0908.5.1   **Adoption of Consent Agenda:** **Motion** by David, second by Arnott, carried unanimously to approve the day's consent agenda, as submitted.

**Disability Retirements:**

The board finds that **Ma Corazon Conanan** is unable to perform her usual and customary duties as a Medical Services Assistant II, finds that her incapacity is permanent and **GRANTS** her 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:**

Miller, Francene	July 31, 2009	Deferred from Controller
Lewis-Johnese, Frances	August 1, 2009	Def'd from Social Services
Smith, Susan	August 1, 2009	Behavioral Health
Au, Kenneth	August 4, 2009	Public Works
Buangan, Flora	August 8, 2009	Probation
Giusto, Gerald	August 14, 2009	San Mateo Medical Center
Takechi, Rumiko	August 14, 2009	Probation
Okada, Jerry	August 18, 2009	Public Works

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Deis, Roberta	August 29, 2009	Human Services Agency
Del Bene, Joanne	August 29, 2009	Sheriff's Office
Gilley, Jesse	August 30, 2009	Parks Department
Sweetin, Ellen	August 30, 2009	Public and Family Health

**Continuance of Benefits:**

Rolih, Mary                      Beneficiary of Rolih, Max

**Deferred Retirements:**

Ozan, Julieta	G4 Vested	
Mojas, Michelle	G2 Vested	
Shori, Asha	G4 Vested	
Arthur, Richard	G4 Vested	
William, Karen	G2 Vested	Reciprocity
Jaeger, Dorothy	G4 Vested	Reciprocity

**Refunds:**

Arcia, Carlota	G4 Non-vested
Brady, Adriano	G4 Non-vested
Carter, Scott	Funeral Payment for Carter, Todd
Chin, Judy	G4 Non-vested
Irene Eguilos	G4 Non-vested
Ferrigno, Richard	Beneficiary of Ferrigno, Gary
Hall, James	G4 Non-vested
McDonald, Jessica	G4 Non-vested
Peters, Kimberly	G2 Non-vested
Pineda, Isabel	G4 Non-vested
Semien, Julene	G4 Non-vested

**Rollovers:**

Colvin, Julie	G4 Non-vested
Guzman, Jorge	G4 Non-vested
Mai, Thanh	G4 Non-vested
Passmore, Colleen	G4 Non-vested
Scherrer, Kyle	G4 Non-vested

0908.5.2    **Consideration of Items Removed from Consent Agenda:** None.

0908.6    **Investment Services**

0908.6.1    **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 5.95% Total Fund Return for July 2009 underperformed the Total Plan Policy Benchmark return of 6.19%. The underperformance is primarily due to the equity portfolios. *SamCERA's* three bond portfolios substantially outperformed the Barclays Capital Aggregate Index. The fund's return for the trailing twelve months is -15.59%, which is 2,334 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 326 basis points below *SamCERA's* Total Plan Policy Benchmark of -12.33%.

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Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$742,206,958	7.52%	-22.43%	-0.62%
<i>International Equity</i>	<u>360,570,352</u>	8.93%	-23.90%	6.27%
Total Equity	1,102,777,310	8.05%	-22.61%	1.17%
Fixed Income	444,798,433	3.50%	4.05%	3.52%
Real Estate Aggregate	118,894,616	0.00%	-29.83%	5.80%
Cash Equivalents	21,581,989	0.08%	-2.74%	2.45%
<b>TOTAL FUND</b>	<b>\$1,688,052,348</b>	<b>5.95%</b>	<b>-15.59%</b>	<b>2.32%</b>
<i>Benchmark</i>		6.19%	-12.33%	3.67%

\* Total Time-Weighted Rate of Return

- 0908.6.2 **Annual Review, Revision, and Reaffirmation of the Investment Committee Charter:** Mr. Clifton reported that the Investment Committee thoroughly reviewed the charter at the day's morning meeting. He stated that the committee will be analyzing risk tolerance more in depth. He also mentioned that the committee will be working on the upcoming RFP for the Investment Consultant search. The committee made no changes to the charter. The board unanimously reaffirmed the charter.
- 0908.6.3 **Quarterly Investment Performance Analysis for period ended June 30, 2009:** Mr. Thomas and Mr. Brody of Strategic Investment Solutions gave a brief overview of the quarterly investment performance report for the period ended June 30, 2009. SIS performed a thorough review of the portfolio's performance with the Investment Committee. The composite fund returned 11.7% in the second quarter of 2009 and ranked 37<sup>th</sup> among other public funds greater than \$100 million (median of 11.1%). The fund trailed its policy index (13.8%) during this time period. Longer term, the three and five-year returns of -5.4% (96<sup>th</sup> percentile) and 0.7% (91<sup>st</sup> percentile) and 0.7% (91<sup>st</sup> percentile), respectively, were below median among large public plans (-2.8% and 2.1%). Mr. Thomas noted that INVESCO Core Real Estate-USA fund returned -15.8% for the quarter, trailing the NCREIF (-5.2%) and ranking in the bottom quartile among real estate investments. INVESCO has been aggressive with its appraisals and SIS expects more write downs in the future.
- 0908.6.4 **Annual Review of *SamCERA*'s Small Cap Equity Asset Class and Investment Managers:**
- 0908.6.4a **Annual Investment Manager Review – Chartwell Investment Partners:** Ms. Jadallah reported that the Investment Committee conducted the annual review of Chartwell Investment Partners. Dave Reidinger, Principal, Portfolio Manager/Senior Portfolio Analyst, and Roddy Marino, Partner, Vice President/Director, were present for the review. Mr. Thomas provided an overview of Chartwell's annual review conducted at the committee. He reviewed Chartwell's organizational changes, investment philosophy and performance. Chartwell has underperformed the benchmark due to poor stock selection within quality high growth companies. Mr. Thomas said that Chartwell's performance will be monitored as the market stabilizes and quality high growth companies rebound.
- 0908.6.4b **Annual Investment Manager Review – Jennison Associates:** Jason Swiatek, Managing Director, and Daniel Nichols, Vice President, were present for Jennison Associates' annual review. Mr. Nichols provided a brief organizational overview. Ms. Jadallah inquired about the addition of Hilary Frisch, technology sector analyst. Mr. Swiatek said that the year to date

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performance in technology has been very good and that Ms. Frisch has added significant value to the portfolio. Mr. Nichols said that the capacity of the fund stands at \$2 billion. The fund was actually closed to new clients last summer. However, due to the declining market, the fund has depreciated by approximately \$450 million. Mr. Swiatek then provided an overview of the performance over the past twelve months as well as its current characteristics.

Jennison is cautiously optimistic that equity markets will continue to recover for the remainder of 2009. While the unprecedented fiscal and monetary stimulus has improved liquidity in the financial system, the market has not corrected some of the fundamental imbalances resulting from excessive leverage. Despite Jennison's concerns about many aspects of the macroeconomic environment, they believe there are many companies which will be able to successfully execute their business and thrive in a difficult period of low economic growth. The portfolio is heavily weighted in relatively high quality, sustainable growth companies which are generating solid returns on capital and strong free cash flow. Jennison is also increasingly focused not just on the overall free cash flow yield, but the willingness of companies to return cash to shareholders in the forms of dividends.

0908.6.5     **Annual Review of *SamCERA*'s Investment Policy:** Mr. Clifton reported that the Investment Committee reviewed the Investment Policy, which had been previously reviewed in July 2008. The Investment Committee's work plan calls for the issuance of a request for proposal (RFP) for investment consultant services for September 2009. An initial project following the RFP will be an asset liability study. The study should be completed in late winter or early spring of 2010. Staff recommends that the board consider rewriting the entire policy at that time.

0908.6.6     **Approval of *SamCERA*'s Fixed Income Structure:** Mr. Thomas and Mr. Brody provided a thorough analysis of *SamCERA*'s fixed income structure to the Investment Committee. Mr. Thomas reported that the committee looked at the characteristics of the Association's current fixed income structure and reviewed various alternatives. The committee also looked at the spectrum of risk alternatives. SIS recommended that the committee select Alternative 4, introducing global, credit and TIPS mandates to the fixed income structure. The committee concurred with SIS' recommendation.

SIS was asked to create an implementation plan and timeline for Alternative 4 for the committee's next meeting.

0908.6.7     **Approval of Topics for Annual Manager Review – INVESCO Realty Advisors:** Mr. Clifton presented the list of topics for INVESCO's annual investment manager review. INVESCO has asked the fund's advisory committee to increase its maximum leverage percentage from 35% to 40% or 45%.

**Motion** by David, second by Bowler, carried unanimously to approve the list of topics for INVESCO's annual review.

0908.6.8     **Approval of Topics for Annual Manager Review – Barclays Global Investors:** Mr. Clifton presented the list of topics for Barclays Global Investors' annual investment manager review. He reported that Ms. Jadallah requested that questions be added regarding the BlackRock acquisition and its effect on *SamCERA*'s team.

**Motion** by Bowler, second by David, carried unanimously to approve the list of topics for Barclays Global Investors' annual review.

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0908.6.9    **Approval of Resolution Authorizing the Chief Executive Officer to Grant Limited Power of Attorney Status for Certain Custodial Operations:** Mr. Clifton presented the resolution authorizing *SamCERA*'s CEO to grant certain Power of Attorney to sub-custodians in certain international markets to evidence their authority on *SamCERA*'s behalf. Mr. Clifton reported that, during the Investment Committee, Mr. David recommended that staff provide reports on how often Power of Attorney are granted to sub-custodians. Mr. Bailey added that staff will forward all Power of Attorney documents to County Counsel to review.

**Motion** by Bowler, second by David, carried unanimously to adopt **Resolution 09-10-02**, authorizing the Chief Executive Officer to Grant a Limited Power of Attorney in Custodial Operations, as follows:

“**WHEREAS**, this Board has determined that from time to time *SamCERA* will need to grant certain “Powers of Attorneys” to sub-custodians in certain international markets to evidence the sub-custodian’s authority to operate accounts and conduct transactions on behalf of *SamCERA*; and

“**WHEREAS**, this Board has further determined that in order to effectuate *SamCERA* instructions and prevent delays in service of account opening, corporate actions, proxy voting and income events that the Power of Attorney needs to be granted in a timely fashion; and

“**WHEREAS**, this Board has determined that it is in the best interest for the Association that the Chief Executive Officer should be authorized on behalf of the Board and *SamCERA* to grant limited Power of Attorney in certain custodial operations, now therefore be it:

“**RESOLVED**, that the Chief Executive Officer, or his or her designee, is hereby authorized on behalf of the Board of Retirement and the San Mateo County Employees' Retirement Association to grant limited Power of Attorney in custodial operations as deemed necessary by the Chief Executive Officer.”

0908.7    **Board & Management Support Services**

0908.7.1    **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of July 31, 2009, totaled \$1,686,113,261. The net assets experienced a substantial increase, month over month. However, year over year net assets still show a decrease of \$394.6 million. The decrease is primarily due to the devaluation of the capital market assets. The year over year decrease is in line with the experience by the capital markets as a whole and that of *SamCERA*'s peer retirement plans.

0908.7.2    **Appointment of Ad Hoc Committee to Review *SamCERA*'s Medical Consultant:** Ms. Jadallah **appointed** Ms. Arnott, Chair; Mr. David and Ms. Stuart to the ad hoc medical consultant review committee. The committee will conduct a review of *SamCERA*'s Medical Advisor and report its findings to the board.

0908.7.3    **Report on Status of the Financial Audit for the Period Ended June 30, 2009:** Ms. Wong provided an oral report on the interim field work and current status for the June 30, 2009, Financial Statement Audit conducted by *SamCERA*'s auditor, Brown Armstrong Paulden McCown Starbuck Thornburg & Keeter. A Brown Armstrong audit team headed by Connie

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Perez and Brooke Decuir conducted interim field work in *SamCERA*'s office the weeks of July 13<sup>th</sup> and August 17<sup>th</sup>. Ms. Wong reported that the auditors have discovered one finding regarding retirees not listed on the consent agenda. The auditors have not completed the audit and may report more findings.

- 0908.7.4    **Acceptance of a Report on Experience from the First Half-Year of Formalized Member Education:** Mr. Hood provided a report on information collected by Financial Knowledge Network, surveying members after each class offered to *SamCERA*'s members for financial education. Based on feedback from class attendees, Financial Knowledge Network does a superb job in providing the information to members. Mr. Hood said that staff is pleased with the performance by Financial Knowledge Network and the relationship with its team.

Financial courses offered by *SamCERA* and Financial Knowledge Network will resume on September 24<sup>th</sup> and will run through December.

- 0908.7.5    **Authorization for Chief Executive Officer to Engage Outside Counsel for Certain Disability Hearings:** Mr. Bailey said that disability issues may come before the board which are potentially inappropriate for County Counsel's Office to advise the board upon. An example of such an instance is when an employee from the County Counsel office is applying for disability. Ms. Carlson and he suggest that the board pre-authorize the CEO, after consultation, to engage a private attorney for representation in such disability matters. Ms. Carlson said that engaging a Counsel from another 1937 Act retirement system would be ideal and had an individual that could be asked. Ms. Arnott stated that it was an excellent idea.

**Motion** by Arnott, second by David, carried unanimously to adopt **Resolution 09-10-03**, authorizing the use of private counsel in certain disability retirement application matters, as follows:

**"WHEREAS**, Government § 31529 provides that the County Counsel is the attorney for the Board of Retirement; and

**"WHEREAS**, Government Code § 31529.9 provides that the Board of Retirement may authorize contracts with attorneys in private practice by resolution adopted by majority vote making section § 31529.9 applicable; and

**"WHEREAS**, this Board and County Counsel have determined that there may be certain applications for disability retirement in which private counsel should be used to represent either the board and/or the *SamCERA* fund, now therefore be it:

**"RESOLVED**, that Government Code § 31529.9 is applicable and that the Chief Executive Officer is hereby authorized after consultation with County Counsel to execute a contract for legal services from attorneys in private practice for the purposes of representing the Board of Retirement and/or the San Mateo County Employees' Retirement Association fund in certain matters arising from applications for disability retirement."

- 0908.7.6    **Annual Review of Legal Counsel - County Counsel:** Brenda Carlson, Chief Deputy County Counsel, was present for county counsel's annual review. Mr. Hood gave an overview of the responsibilities and services that Ms. Carlson continuously provides to staff that the board might be unaware of. Staff is very pleased with its relationship with Ms. Carlson and thanked her for her hard work. Ms. Carlson then provided a brief organizational

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overview of the County Counsel's office as well as a summary of her history with the retirement board. She said that she spends most of her time working with the Grand Jury, the Health Director of the Medical Center and *SamCERA*. She also has been temporarily working with the Elections Department as its assigned counsel is on leave until December. Ms. Carlson also said that she has no plan on leaving her position but has been working with Eugene Whitlock in terms of succession planning.

The board thanked Ms. Carlson for her outstanding services as *SamCERA*'s legal counsel.

0908.8     **Management Reports**

0908.8.1    **Chief Executive Officer's Report:** Mr. Bailey reported that there are two candidates applying for the vacant positions that will be left by Ms. Tashman and Mr. Hooley.

He then noted that the November board meeting is scheduled for the Tuesday before Thanksgiving. He asked the board if they would like to reschedule the meeting. The board will tentatively meet on Thursday, November 19<sup>th</sup>.

Mr. Bailey congratulated Ms. Smith for graduating from the Management Academy hosted by CALAPRS. Ms. Smith said that she has learned a lot from the course and has implemented management strategies in the office.

0908.8.2    **Assistant Executive Officer's Report:** Mr. Hood reported that the *SamCERA* annual member statement will be printed and mailed to members the week after the Labor Day weekend.

0908.8.3    **Chief Investment Officer's Report:** Mr. Clifton reported on BlackRock's acquisition of BGI. He also reported that Delaware Investments will be acquired by MacQuarie Group from Lincoln Financial Group.

0908.8.4    **County Counsel's Report:** None.

0907.9     **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Ms. Jadallah convened the board in closed session at 2:44 p.m., with all trustees present for roll call in attendance, except for Mr. Hooley.

The board discussed the matter of anticipated litigation – significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956-9, with counsel.

Ms. Jadallah adjourned the close session at 3:01 p.m.

0907.10    **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Jadallah adjourned the meeting at 3:02 p.m., in memory of the following deceased members:

Morrall, Richard	June 30, 2009	Beneficiary of Morrall, Virginia
Rolih, Max	July 1, 2009	County Manager
Burtch, William	July 5, 2009	Social Service
Christianson, Dorothy	July 8, 2009	Municipal Court
Butt, Adela	July 24, 2009	Controller

MARGARET JADALLAH, CHAIR