

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

June 22, 2010

Agenda Item 3.0

May 25, 2010 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 8 a.m.

1. Call to Order and Roll Call
2. Oral Communications
 - 2.1 Oral Communications From the Board
 - 2.2 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda
(Any items removed from the Consent Agenda for discussion will be inserted into the Regular Agenda and considered in accordance with their numeric item label, except disability items which will be considered in closed session under agenda item C1.)
5. Benefit & Actuarial Services
Consideration and Adoption of Assumptions for June 30, 2010, Actuarial Valuation
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Quarterly Investment Performance Analysis for period ended March 31, 2010
 - 6.3 Investment Educational Presentation – Global Fixed Income Mandates
 - 6.4 Investment Manager Annual Interviews – Domestic Fixed Income Mandates
 - 6.4 a Annual Investment Manager Review – Aberdeen Asset Management
(Interviewed by the Investment Committee at 10:00 a.m.)
 - 6.4 b Annual Investment Manager Review – Western Asset Management
(Interviewed by the Investment Committee at 11:00 a.m.)
 - 6.4 c Annual Investment Manager Review – Pyramis Global Advisors
(Interviewed by the Board 1:45 p.m.)
 - 6.5 Introduction to SamCERA's Asset/Liability Study
 - 6.6 Approval of Investment Consultant Work Plan
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Acceptance of Entrance Letter for the June 30, 2010, Financial Audit
 - 7.3 Approval of SamCERA's Fiscal Year 2010-2011 Budget(s)
 - 7.4 Approval of SamCERA Policy on Placement Agents
 - 7.5 Approval to Reschedule the June 2010 Board of Retirement Meeting
 - 7.6 Appointment of an Ad Hoc Nominating Committee for the Fiscal Year 2010/2011 Board Officers
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 disability items, if any, removed from the Consent Agenda
- C2 Conference with Labor Negotiations – Government Code section 54957.6
Designated Representative: Brenda B. Carlson
Unrepresented Employee: Chief Executive Officer

9. Report on Actions Taken in Closed Session
10. Adjournment

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May 25, 2010 – Board Minutes

1005.1 **Call to Order:** Ms. Jadallah, Chair, called the Public Session of the Board of Retirement to order at 1 p.m., May 25, 2010, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Roll Call: Ms. Arnott (dep. 5 p.m.) for Mr. Buffington, Ms. Agnew, Mr. Bowler, Mr. David (dep. 5 p.m.), Ms. Jadallah, Ms. Kwan Lloyd, Ms. Stuart, Ms. Salas for Mr. Spinello and Mr. Tashman. *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Ms. LeBlanc, Ms. Smith and Ms. Wong. *Consultants:* Ms. Carlson, Mr. Collier, Dr. Fracchia, Mr. Brody, Mr. Masarik, Mr. Thomas. *Retirees:* 0, *Public:* 3.

1005.2.1 **Oral Communications From the Board:** Ms. Agnew attended the SACRS Spring Conference and found the event valuable.

1005.2.2 **Oral Communications From the Public:** None.

1005.3 **Approval of the Minutes: Motion** by Arnott, second by David, carried unanimously to approve the minutes from the April 27, 2010, board meeting, as submitted.

1005.4.0 **Approval of the Consent Agenda:** Ms. Jadallah removed the disability application of Loretta Keenan (Bailey) from the day's consent agenda. Ms. Jadallah also removed agenda items 6.8 and 6.9 from the consent agenda.

Trustees requested that staff list consent agenda items on the regular agenda.

Motion by Arnott, second by David, carried unanimously to adopt the day's consent agenda, as amended, as follows:

5.1 Disability Retirements:

The board finds that **Luisa Gahob** is unable to perform her usual and customary duties as a Licensed Psychiatric Technician; further finds that her disability is service-connected; and approves her application for a service-connected disability retirement.

The board finds that **Judyt Bardales** is unable to perform her usual and customary duties as an Emergency Response Social Worker; further finds that her disability is service-connected; and approves her application for a service-connected disability retirement.

5.2 Service Retirements:

Member Name	Effective Retirement Date	Department
Fleming, Robert	March 6, 2010	San Mateo Medical Center
Tate, Ronald	March 6, 2010	San Mateo Medical Center
Galvin, Lisa	March 10, 2010	QDRO of Steve Paul
Gutierrez, Jorge	March 15, 2010	San Mateo Medical Center
Mitchell, Yolanda	March 15, 2010	Def'd from Superior Court
Salmeron, Frank	March 16, 2010	Def'd from Housing Dept.
Raabe, Gail	March 17, 2010	Ag Commission Sealer
Campbell, Pamela	March 20, 2010	Human Services Agency
Rogers, Victoria	March 26, 2010	Sheriff's Office

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Banks, Russell	March 27, 2010	District Attorney
Buerer, Leslie	March 27, 2010	Ag Commission Sealer
Hanners, Linda	March 27, 2010	Def'd from Social Services
Swanner, Linda	March 27, 2010	Superior Court
Roberts, Thomas	March 29, 2010	Def'd from Human Services
Sclar, Randall	March 29, 2010	Def'd from Behavioral Health
Carnevale, Jenne	March 31, 2010	Sheriff's Office
Cuneo, John	March 31, 2010	Sheriff's Office
Fisher, Betty	March 31, 2010	Human Services Agency
Fullmer, Ruth	March 31, 2010	San Mateo Medical Center
Liu, Lee	March 31, 2010	Assessor
Mitchell, Danette	March 31, 2010	Human Services Agency
Narvaez, Edna	March 31, 2010	San Mateo Medical Center
Nystrom, Peter	March 31, 2010	Controller
Patel, Mukta	March 31, 2010	San Mateo Medical Center
Pellizer, Jan	March 31, 2010	Def'd from County Manager's
Pugliese, Michael	March 31, 2010	Sheriff's Office
Randleman, Murray	March 31, 2010	Sheriff's Office
Savoca, Laury	March 31, 2010	Human Services Agency
Schleef, Toni	March 31, 2010	San Mateo Medical Center
Vega, Aurora	March 31, 2010	San Mateo Medical Center

5.3 Continuance of Benefits:

Member Name

None.

5.4 Deferred Retirements:

Member Name

Retirement Plan Type

None.

5.5 Member Account Refunds:

Member Name

Retirement Plan Type

Adamovitch, Lev

G4 Non-vested

Burgin, Christian

G4 Vested

Flatmoe, Chris

G2 Vested

Tang, Xiaohua

G4 Non-vested

5.6 Member Account Rollovers:

Member Name

Retirement Plan Type

Fisher, Mina

G4 Non-vested

Flynn, Mary Margaret

G4 Non-vested

6.0 Investment Services

6.7 Approval of Topics for Investment Consultant Review

7.0 Board & Management Support Services

7.7 Approval of Questions for the Annual Review of Legal Counsel - County Counsel

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1005.5 **Benefit & Actuarial Services**

- 1005.5.1 **Consideration and Adoption of Assumptions for June 30, 2010, Actuarial Valuation:** Nick Collier of Milliman, Inc., reviewed the assumptions for the June 30, 2010, actuarial valuation. Mr. Collier provided an overview of the investment return assumption. The board adopted the 7.75% investment return assumption as part of the 2005 Investigation of Experience. He discussed the process in calculating the expected return and selecting a specific return assumption. Mr. Collier said that the financial impact of a 0.25% decrease in the investment return assumption would be an increase in employer contribution rates by nearly 3% of payroll and a 2.5% increase in member contribution rates. The average investment return assumption of other retirement systems is 7.95% from a 2009 public fund survey.

Mr. Bailey said that staff recommends the board not make any decision regarding the investment return assumption until a future board meeting. This will allow time for labor unions and county representatives to comment on the issue.

Ms. Jadallah then took up agenda item 6.3.

1005.6 **Investment Services**

- 1005.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* Total Fund Return for April 2010 slightly outperformed the Total Plan Policy Benchmark return of 1.30%. Once again this month *SamCERA's* international equities underperformed the international benchmark. The fund's return for the trailing twelve months is 27.56%, which is 1,981 basis points (bps) above the Actuarial Discount Rate, 7.75%. However, it is 114 basis points below *SamCERA's* Total Plan Policy Benchmark of 28.70%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$926,913,469	2.31%	42.26%	2.23%
<i>International Equity</i>	400,753,940	-0.84%	33.16%	5.54%
Total Equity	\$1,327,667,409	1.34%	39.75%	3.03%
Fixed Income	515,136,654	1.70%	20.23%	4.82%
Real Estate Aggregate	105,602,228	0.00%	-24.59%	0.19%
Cash Equivalents	30,530,622	0.07%	1.08%	2.10%
TOTAL FUND	\$1,978,936,912	1.35%	27.56%	3.58%
<i>Benchmark</i>		1.30%	28.70%	4.97%

* Total Time-Weighted Rate of Return

- 1005.6.2 **Quarterly Investment Performance Analysis for period ended March 31, 2010:** Mr. Thomas presented the quarterly investment performance for the period ended March 31, 2010. The composite fund returned 3.6% in the first quarter of 2010 and ranked 46th among other public funds greater than \$100 million (median of 3.6%). The fund lagged its policy index (3.9%) during this time period. Longer term, the three and five-year returns of -3.0% (93rd percentile) and 3.0% (93rd percentile), respectively, were below median among large public plans (-0.8% and 4.2%).

Ms. Jadallah then took up agenda item 6.5.

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- 1005.6.3 **Investment Educational Presentation – Global Fixed Income Mandates:** Mr. Masarik of SIS was present to conduct an educational presentation on Global Fixed Income. He discussed the diversification benefits of investing in Global Fixed Income as well as the expanded opportunity set and general characteristics of the mandate. SIS provided a glossary of terms as it relates to global fixed income for trustees' education.

Ms. Jadallah then took up agenda item 6.4c.

1005.6.4 **Investment Manager Annual Interviews – Domestic Fixed Income Mandates**

- 1005.6.4a **Annual Investment Manager Review – Aberdeen Asset Management:** Mr. Clifton reported that Christopher Gagnier, Head of Investments, and Boris Karol, Client Portfolio Manager, were present at the Investment Committee for Aberdeen Asset Management's annual review. Mr. Gagnier performed an extensive portfolio review, discussing the portfolio's underperformance as well as performance attribution. Mr. Karol distributed a list of downgraded securities. He said that 4.80% of the portfolio is rated lower than BBB. Mr. Gagnier then discussed portfolio construction and enhancements to the risk management process. Mr. Gagnier and Mr. Boris then answered several questions from trustees, staff and consultant.

- 1005.6.4b **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. The one-year performance as of March 31, 2010, outperformed the Barclays Capital U.S. Aggregate Index by 1,446 basis points. Mr. Plotsky then discussed the attribution analysis, stating that high yield, credit and non-agency MBS were the main contributors to outperformance. He then reviewed the portfolio's sector and credit quality allocation and provided mortgage-backed sector and non-agency mortgage sub-sector analysis.

- 1005.6.4c **Annual Investment Manager Review – Pyramis Global Advisors:** Christian Pariseault, Institutional Portfolio Manager, was present for Pyramis Global Advisors' annual review. He reminded the board that Chris Sullivan, formerly of Goldman Sachs Asset Management, became President of Pyramis' Fixed Income group last June.

Mr. Pariseault performed an overview of the portfolio's performance and discussed the additive and hindering aspects of the portfolio's return. Year to date, the portfolio's return of 2.75% outperformed the benchmark return of 1.78% which was led by an overweight to CMBS as higher yields continued to attract buyers. An overweight to credit, specifically Finance, REITS and Insurance, was also additive. An allocation to TIPS detracted during the quarter as breakevens declined and an underweight to Agency MBS was also detracted from performance. Mr. Pariseault then discussed the current sector positioning of the portfolio and answered trustees questions and concerns.

Ms. Jadallah then took up agenda item 6.1.

- 1005.6.5 **Introduction to SamCERA's Asset/Liability Study:** Marc Gesell of Strategic Investment

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Solutions was present to conduct an introduction to *SamCERA's* Asset/Liability Study. The study will take place over the next several months. Mr. Gesell provided a 45-minute presentation, reviewing the strategic planning process, discussing the various risks and how some may be mitigated, and discussing a systematic approach for developing expected returns. He then reviewed the next steps in the asset liability study and answered trustee questions.

- 1005.6.6 **Approval of Investment Consultant Work Plan:** Mr. Clifton presented SIS' draft work plan which includes action items and education items. He asked trustees to review the plan and suggest any changes. The investment committee requested SIS to conduct an educational workshop on alternatives (risk parity, commodities, hedge funds, etc.) at the July board meeting. This would slightly alter the current draft project timeline, including the asset/liability study.

- 1005.6.8 **Approval of Topics for Manager Review – Artio Global Investors (Consent Agenda):** Trustees recommended changes to the list of topics for Artio's annual review. The annual review is scheduled for July.

Motion by Salas, second by David, carried unanimously to approve the topics of Artio's annual review, as amended.

- 1005.6.9 **Approval of Topics for Manager Review – Mondrian Investment Partners (Consent Agenda):** Trustees recommended changes to the list of topics for Mondrian's annual review. The annual review is scheduled for July.

Motion by Salas, second by David, carried unanimously to approve the topics of Mondrian's annual review, as amended.

1005.7 **Board & Management Support Services**

- 1005.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of April 30, 2010, totaled \$1,976,308,345. Net assets increased by approximately \$18.9 million, month over month, and have increased by approximately \$385 million, year over year. The increase is mainly attributed to the market appreciation of assets, although *SamCERA* has also received ~\$140 million in employee and employer contributions year to date.

- 1005.7.2 **Acceptance of Entrance Letter for the June 30, 2010, Financial Audit:** Mr. Clifton presented the auditor's engagement letter from *SamCERA's* auditor, Brown Armstrong, for the June 30, 2010, 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, Partner, 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 \$45,500.

Motion by Agnew, second by David, carried unanimously to approve Brown Armstrong's entrance letter for the June 30, 2010, financial audit.

- 1005.7.3 **Approval of *SamCERA's* Fiscal Year 2010-2011 Budget(s):** Mr. Clifton presented

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SamCERA's Budget for Fiscal Year 2010-2011. He discussed the line items of the administrative, professional services, and asset management budgets.

Motion by Kwan Lloyd, second by Agnew, carried unanimously to adopt **Resolution 09-10-13** , approving *SamCERA's* Fiscal Year 2010-2011 Budget, as submitted, as follows:

“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 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 \$1,978.9 million on April 30, 2010 and projected to be \$2,269.0 million on June 30, 2011; and

“WHEREAS, the Chief Executive 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 2010-2011</u> (000)	<u>Basis Points</u>
Salaries & Benefits	\$2,640.0	
Services & Supplies	2,343.0	
Capital Assets	0.0	
Total	\$4,983.0	~21.9 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

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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."

- 1005.7.4 **Approval of SamCERA Policy on Placement Agents:** Mr. Bailey reviewed an agenda item that was deferred from the previous board meeting. All 1937 Act systems are required to adopt a placement agent policy by June 30, 2010, to remain in compliance with Government Code section 7513.85.

Ms. Jadallah said that she will not seek reappointment in June. She will stay on the board until a replacement is found. Ms. Agnew said she will resign only if a future job may conflict with the law.

Motion by Agnew, second by Kwan Lloyd, carried unanimously to adopt **Resolution 09-10-14**, "Policy Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions", as follows:

"WHEREAS, Government Code §7513.85 requires the board to develop and implement, a policy requiring the disclosure of payments to placement agents in connection with system investments in or through external managers; and

"WHEREAS, Government Code §7513.85 mandates that the policy include certain requirements and this board has read the attached policy "Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign contributions" determined that all such requirements are included in the policy; and

"WHEREAS, this board has determined that adopting this policy is consistent with its fiduciary responsibilities;

"RESOLVED that the board hereby adopts the attached 'Policy Requiring Disclosure Of Placement Agent Fees, Gifts, and Campaign Contributions.'"

- 1005.7.5 **Approval to Reschedule the June 2010 Board of Retirement Meeting:** Mr. Bailey said that he is unavailable to attend the regularly scheduled board meeting on June 22nd. Ms. Carlson, County Counsel, also has a conflict on that date. He requested to change the date of the June meeting to June 15th.

Due to several conflicts with trustees' schedules, the board decided to keep the board meeting on its regularly scheduled date, June 22nd at 1 p.m. The Investment Committee will meet earlier in the morning on that day.

- 1005.7.6 **Appointment of an Ad Hoc Nominating Committee for the Fiscal Year 2010/2011 Board Officers:** Mr. Bailey said that the ad hoc committee is recommended to nominate officers for the 2010-2011 fiscal year.

Ms. Jadallah **appointed** Ms. Arnott, Chair; Mr. Tashman and Ms. Agnew to the ad hoc nominating committee.

- 1005.8 **Management Reports**

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- 1005.8.1 **Chief Executive Officer's Report:** Mr. Bailey provided a report on the upcoming trustee elections in June. Ms. Kwan Lloyd ran for her seat uncontested. Therefore, there will be no internet election for the active members this year. There will be an internet voting option for the retired member election. There is a slate of three individuals running for the Retired trustee seat. Mr. Murphy ran uncontested for the Retired Alternate seat. Therefore, there will be no election for the Alternate position.

Mr. Bailey said that the two new positions that the board approved at last month's board meeting need approval from the County Manager, who is still considering the positions.

Mr. Bailey said that the next board meeting will be Ms. Stuart's last meeting as a board member. Ms. Stuart has been on the board for nearly 20 years. Prior to her retirement in 1988, Ms. Stuart was the Retirement Officer with San Mateo County.

- 1005.8.2 **Assistant Executive Officer's Report:** None.

- 1005.8.3 **Chief Investment Officer's Report:** None.

- 1005.8.4 **County Counsel's Report:** Ms. Carlson said that she attended the SACRS Spring Conference earlier in the month. She found the conference very valuable. The legal breakout session discussed the tax determination letter and various benefit-related items.

- 1005.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Ms. Jadallah took the board meeting into closed session at 5:25 p.m., with all trustees present for roll call, except for Ms. Arnott and Mr. David, in attendance. The board met in closed session for conference with Legal Negotiations – Government Code Section 54957.6, Designated Representative: Brenda Carlson, Unrepresented Employee: Chief Executive Officer.

No action was taken.

Ms. Jadallah adjourned the closed session at 5:50 p.m.

- 1005.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Jadallah adjourned the meeting at 5:50 p.m., in memory of the following deceased members:

Bunch, Curtis	March 24, 2010	Building & Grounds
Young, Helen	April 1, 2010	District Attorney's Office
Balent, Beth	April 2, 2010	Social Service
King, Betty	April 3, 2010	Social Service
Castor, Nancy	April 9, 2010	Superior Court

MARGARET JADALLAH, CHAIR