

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

July 27, 2010

Agenda Item 3.0

**June 22, 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 the order chosen by the board chair.)

  - Disability Retirements
    - Michelle Eatmon
    - Barbara Greenberg
    - Loretta Keenan
  - Service Retirements
  - Continuances
  - Deferred Retirements
  - Member Account Refunds
  - Member Account Rollovers
5. Benefit & Actuarial Services
  - 5.1 Consideration and Adoption of Assumptions for June 30, 2010, Actuarial Valuation
  - 5.2 Consideration of Items Removed from the Consent Agenda
6. Investment Services
  - 6.1 Monthly Portfolio Performance Report
  - 6.2 Determine Global Bond Finalists
  - 6.3 Educational Presentation – Risk Parity Strategy (before the full board)
  - 6.4 Update on Implementation of *SamCERA*'s Fixed Income Credit Opportunity Mandate
  - 6.5 Determine Status of State Street Security Lending Program
  - 6.6 Approval of Action Regarding Most Favored Nation Side Letter Provisions for AG GECC Public-Private Investment Fund L.P.
7. Board & Management Support Services
  - 7.1 Monthly Financial Report
  - 7.2 Accept the Certification of Trustee Election to Fill the Eighth Retired Member Seat on the Board of Retirement
  - 7.3 Selection of Securities Litigation Finalists (The Audit Committee will meet on Tuesday, June 22 at 10 a.m.)
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

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

**June 22, 2010 – Board Minutes**

- 1006.1 **Call to Order:** Ms. Jadallah, Chair, called the Public Session of the Board of Retirement to order at 1:09 p.m., June 22, 2010, in *SamCERA*'s Board Room, 100 Marine Parkway, Suite 125, Redwood City, California.

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

**Roll Call:** Ms. Arnott for Mr. Buffington, Ms. Agnew, Mr. David, Ms. Jadallah, Ms. Kwan Lloyd, Ms. Stuart, Mr. Spinello and Mr. Tashman. *Excused:* Mr. Bowler. *Other Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Hood, Mr. Clifton, Ms. Dames, Ms. LeBlanc, Ms. Smith and Ms. Wong. *Consultants:* Mr. Whitlock, Dr. Fracchia, Mr. Brody and Mr. Thomas. *Retirees:* 0, *Public:* 7.

- 1006.2.1 **Oral Communications From the Board:** Mr. Spinello requested that staff add an agenda item at the next board meeting regarding *SamCERA's* Educational Policy.

Ms. Stuart thanked trustees and staff for the farewell luncheon in her honor. She said she will miss being a member of the board of retirement and plans to attend future meetings as a member of the public.

- 1006.2.2 **Oral Communications From the Public:** None.

- 1006.3 **Approval of the Minutes:** Ms. Arnott submitted the following correction to the minutes: 1005.7.1 L2: "Net assets increased ~~be~~ by approximately \$18.9 million..."

**Motion** by David, second by Arnott, carried unanimously to approve the minutes from the May 25, 2010, meeting, as amended.

- 1006.4 **Approval of the Consent Agenda:** Ms. Jadallah pulled the disability application of Barbara Greenberg from the day's consent agenda per the member's request.

Ms. Jadallah pulled the disability application of Loretta Keenan for consideration under agenda item 5.2 in open session per the member's request.

**Motion** by David, second by Kwan Lloyd, carried unanimously to approve the day's consent agenda, as amended, as follows:

**Disability Retirements:**

The board finds that **Michelle Eatmon** is unable to perform her usual and customary duties as a Public Health Nurse and **approves** her application for a non-service connected disability retirement.

**Service Retirements:**

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Farnham, Penella	February 17, 2010	Deferred from Chope Hospital
Mathews, Daily	March 23, 2010	Def'd from General Services
Byrne, Barbara	April 1, 2010	Aging & Adult Services
Carlson, Richard	April 1, 2010	Superior Court
Fabito, Ruperto	April 1, 2010	Def'd from Social Services
Leimer, Ronald	April 1, 2010	QDRO of Leimer, Judith
Peters, William	April 1, 2010	Sheriff's Office
Ralls, Peter	April 1, 2010	Sheriff's Office
Chaney, Dennis	April 5, 2010	Modified Work Program
Cervantes, Steve	April 23, 2010	Def'd from Human Services
Molina, Dora	April 26, 2010	Def'd from San Mateo Medical

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

Rud, Kandee	April 29, 2010	Def'd from Planning and
Apsley, Margaret	April 30, 2010	Probation
Dawson, Elsa	April 30, 2010	Human Services Agency
Rodriguez, Loida	April 30, 2010	Human Resources
Joy, Deborah	May 1, 2010	QDRO of Joy, John

**Continuance of Benefits:**

<b>Member Name</b>	<b>Beneficiary of:</b>
Brown, Zoilita	Brown, Dale
Killian, Carole	Killian, John
Simmons, Elaine	Simmons, Charles

**Deferred Retirements:**

<b>Member Name</b>	<b>Retirement Plan Type</b>	
Battar, Malliga	G4-Vested	Reciprocity
Swope, Virgil	G4-vested	Reciprocity
Atwood, Allison	G4-vested	
Hoang, Rosalind	G4-Vested	Auto defer per code 31700
Baird, Kelly	G2-vested	Auto defer per code 31700

**Member Account Refunds:**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Byers, Jennifer	G4 Non-vested
De La Torre, Elizabeth	G4 Non-vested
Garcia, Montia	G4 Non-vested
Gonzales, Mary	G4 Non-vested
Mendoza, Mandalyn	G4 Non-vested
Navarette, Rachel	G2/3 Vested
Washington, Mary	G4 Non-vested
Wright, Dianelle	G4 Non-vested

**Member Account Rollovers:**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Andrade, Claudia	G4 Non-vested
Kernes, Christianne	G4 Non-vested

Ms. Jadallah then took up agenda item 5.2

1006.5 **Benefit & Actuarial Services**

1006.5.1 **Consideration and Adoption of Assumptions for June 30, 2010, Actuarial Valuation:** Mr. Hood reported that Nick Collier of Milliman, Inc. was present at the last board meeting to discuss *SamCERA's* current assumed earnings rate and whether or not *SamCERA* should consider lowering the rate. The board deferred action on the issue until the June meeting to wait for any comment from County management and labor unions. Mr. David said that *SamCERA's* current rate is below the average rate of large public pension plans in the U.S. and is not an outlier amongst 1937 Act retirement systems. Staff recommended that the board evaluate the results of the June 30, 2011, Actuarial Experience Study prior to making changes in the assumed earnings rate. Ms. Agnew agreed with staff's recommendation saying that it would be prudent to wait for the experience study for more information. A delay of one year

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

will not create a large lost opportunity cost, and in one year's time, *SamCERA* should have more insight as to the direction of the economy as well as the strength and length of recovery. In a year, *SamCERA* will also have completed its asset/liability study and be able to develop clearer projections of the investment return potential of the adjusted asset allocation.

**Motion** by Agnew, second by David, carried unanimously to delay a change to the assumed earnings rate at this time and reconsider the matter as part of next year's actuarial valuation process.

Ms. Jadallah then took up agenda item 6.1.

- 1006.5.2 **Consideration of Items Removed from the Consent Agenda:** David Levy, County Counsel, and Scott Johnson, County Risk Manager, were present at the day's meeting to represent the County regarding the disability application of Loretta Keenan. Ms. Keenan was also present. Mr. Levy provided a 15-minute presentation of facts as it relates to the disability application. Mr. Johnson also commented on the matter. Mr. Levy and Mr. Johnson then answered several trustee questions and concerns. Trustees also referred to Dr. Fracchia and Mr. Whitlock for clarification on related issues.

Ms. Arnott opined that the burden of proof of Ms. Keenan's permanent incapacity to perform her job duties had not been met. **Motion** by Arnott, second by David, carried unanimously to find that Loretta Keenan is able to perform her usual and customary duties as a Psychiatric Social Worker and **deny** the application filed on her behalf by the County of San Mateo for a non-service connected disability retirement.

Ms. Jadallah then took up agenda item 5.1.

1006.6 **Investment Services**

- 1006.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA*'s -5.60% Total Fund Return for May 2010 slightly underperformed the Total Plan Policy Benchmark return of -5.58%. Both *SamCERA*'s equities and fixed income allocations underperformed their benchmarks. The fund's return for the trailing twelve months is 14.31%, which is 656 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, it is 100 basis points below *SamCERA*'s Total Plan Policy Benchmark of 15.31%. On May 12<sup>th</sup>, the assets in AXA Rosenberg Investment Management, approximately \$93.5 million, were transitioned through State Street Global Markets to BlackRock's Russell 1000 Index.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$855,882,794	-8.12%	24.04%	-0.37%
<i>International Equity</i>	<u>359,804,230</u>	-10.22%	7.03%	3.08%
Total Equity	\$1,215,687,024	-8.76%	18.37%	0.43%
Fixed Income	517,250,677	0.02%	17.43%	4.65%
Real Estate Aggregate	105,602,228	0.00%	-24.59%	0.19%
Cash Equivalents	21,960,409	0.07%	0.98%	2.06%
<b>TOTAL FUND</b>	<b>\$1,860,568,376</b>	<b>-5.60%</b>	<b>14.31%</b>	<b>1.85%</b>
<i>Benchmark</i>		-5.58%	15.31%	3.27%

\* Total Time-Weighted Rate of Return

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

- 1006.6.2 **Determine Global Bond Finalists:** Mr. Thomas discussed the final phase of enhancing *SamCERA*'s fixed income asset class by adding a 20% allocation to global bonds. He reported that ten firms passed the initial screening criteria and additional filters. He said that the committee thoroughly discussed the pros and cons of each of the ten firms and selected four firms to interview.

**Motion** by Tashman, second by Agnew, carried unanimously to approve the list of four finalists (1) Franklin Templeton, (2) Loomis Sayles, (3) PIMCO and (4) Brandywine for *SamCERA*'s Global Bond mandate.

- 1006.6.3 **Educational Presentation – Risk Parity Strategy:** Mr. Thomas briefly discussed risk parity and its potential benefits to *SamCERA*'s portfolio. Mr. Clifton introduced Adam Berger, CFA, Head of Portfolio Solutions, and Joey Lee, of AQR Capital Management. Mr. Berger provided a 45-minute presentation on understanding and implementing a risk parity portfolio, highlighting its benefits as well as its risks. Mr. Berger and Ms. Lee then addressed trustee questions and concerns.

This agenda item was an educational presentation. No action was taken.

- 1006.6.4 **Update on Implementation of *SamCERA*'s Fixed Income Credit Opportunity Mandate:** Mr. Clifton reported that he and Mr. Thomas conducted an on-site due diligence visit to Brigade Capital Management. The visit confirmed their view that the organization is well suited to manage *SamCERA*'s new credit opportunity mandate. Mr. Clifton presented draft documentation for an on-shore commingled fund. *SamCERA* will be the first investor in the fund along with Brigade CEO, Don Morgan. Staff and counsel are continuing to review the documentation. **Motion** by David, second by Spinello, carried unanimously to accept staff and consultant's due diligence report and continue forward with Brigade Capital Management for *SamCERA*'s fixed income credit opportunity mandate.

- 1006.6.5 **Determine Status of State Street Security Lending Program:** Mr. Clifton reported that on June 15<sup>th</sup>, eight of State Street's security lending staff left the firm to start their own security lending operation. Mr. Clifton listed the names and titles of the eight individuals. Three of the eight individuals were account representatives. He said that the entire SSgA team that manages the cash collateral remains in place as well as its 381-person strong securities lending team. Mr. Clifton said that his initial reaction after being notified of the departures of three specific individuals was to suspend the security lending program with State Street. After further analysis, Mr. Clifton said that the individuals that left the firm were not a driving force of operations and recommended no changes to the security lending program. To date, Mr. Clifton said that no other clients had suspended security lending with State Street due to the departures. Mr. Clifton said that the investment committee recommended continuing the security lending program with State Street. *SamCERA* will review the security lending program at State Street's annual custodial review.

**Motion** by Agnew, second by Kwan Lloyd, carried unanimously to accept the Investment Committee's recommendation and continue the Association's security lending program with State Street.

- 1006.6.6 **Approval of Action Regarding Most Favored Nation Side Letter Provisions for AG GECC Public-Private Investment Fund L.P.:** Mr. Clifton said that staff would like the board to review an amendment to the side letter agreement with Angelo Gordon. The

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

amendment provides additional most favored nation provisions to the side letter. Secondly, Mr. Clifton said that the Fund is also requesting *SamCERA*'s consent to amend the limited partnership agreement to reflect discussions with certain investors that invested in the Partnership subsequent to its initial closing. The primary amendments to the agreement include an expansion of the definition of "Cause" and the addition of provisions that allow the general partner to excuse limited partners from participating in investments in certain limited circumstances. The proposed amendments require the consent of a majority in interest limited partners as well as written consent from the US Treasury. Scott Smith of Hanson Bridgett is reviewing the proposed amendments.

Mr. Clifton reported that it is the Investment Committee's recommendation to approve the side letter provisions after the documentation has been reviewed by Mr. Smith of Hanson Bridgett and has incorporated his recommended changes. **Motion** by Kwan Lloyd, second by David, carried unanimously to authorize the staff and Chair to execute the amendments once Hanson Bridgett has thoroughly reviewed the documents.

1006.7      **Board & Management Support Services**

1006.7.1    **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of May 31, 2010, totaled \$1,858,980,586. Net assets held in trust for pension benefits decreased by approximately \$118.2 million, month over month. *SamCERA*'s assets increased by approximately \$267 million, year over year. The increase is mainly attributed to employee and employer contributions of ~\$144 million. In addition, the association has benefited from market appreciation of assets of ~\$123 million year to date.

1006.7.2    **Accept the Certification of Trustee Election to Fill the Eighth Retired Member Seat on the Board of Retirement:** Mr. Hood reported that on June 14, 2010, Ms. Kwan Lloyd ran unopposed for the 3<sup>rd</sup> Seat (General) and John Murphy ran unopposed for the 8<sup>th</sup> Seat Alternate (Retired). Mr. Hood distributed the certifications that deemed both Ms. Kwan Lloyd and Mr. Murphy as elected.

Mr. Hood then reported that Paul Hackleman won the election for the 8<sup>th</sup> Seat (Retired) and provided the certification from the Chief Elections Officer for that election.

1006.7.3    **Selection of Securities Litigation Finalists:** Ms. Kwan Lloyd reported that the Audit Committee discussed the twenty-five firms that responded to *SamCERA*'s issuance of Request for Proposals (RFP) for Securities Litigation Services. The committee requested that staff review which firms have been hired and retained by large state pension funds, specifically CalPERS, and by other CALAPRS and SACRS systems. The committee will review the short list at the next Audit Committee meeting on July 13<sup>th</sup>. The committee also authorized staff to contact client references provided by these firms.

1006.8      **Management Reports**

1006.8.1    **Chief Executive Officer's Report:** None.

1006.8.2    **Assistant Executive Officer's Report:** Mr. Hood distributed a CD containing the SACRS Trustee Handbook. He then said that the SACRS Public Pension Investment Management

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

Program will take place from August 9-11<sup>th</sup> at the UC Berkeley Haas School of Business. Mr. Hood informed trustees to submit a \$25 payment towards non-recourse fiduciary liability insurance.

Mr. Hood reported a 40% voting turnout rate for the Retired Trustee election. Unfortunately, only 9% of the votes were via internet voting.

Mr. Hood then presented a plaque of appreciation to Ms. Stuart. Ms. Stuart was a member of the board for nearly 20 years. Prior to her retirement in 1988, she was the Retirement Officer with San Mateo County. Ms. Stuart expressed gratitude to *SamCERA* and said she will continue to attend the Board of Retirement meetings, but as a member of the audience.

- 1006.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that Angelo Gordon issued another capital call, requesting an additional 5%. He then said that Christie Thomson of Pyramis was named its fixed income group CIO. Mr. Clifton said that AXA Rosenberg announced the departure of Barr Rosenberg from the firm.

Mr. Clifton then encouraged trustees to read Pensions & Investments and other pension publications for articles regarding Asset/Liability mixes, actuarial assumption rate changes, and other topics that relate to *SamCERA*'s work plan.

Lastly, Mr. Clifton reported that Ms. Jadallah was promoted to second in command at Bivium Capital.

- 1006.8.4 **County Counsel's Report:** Mr. Whitlock briefly discussed the possible future legal steps regarding the disability application of Loretta Keenan.

- 1006.9 **Report on Actions Taken in Closed Session:** None.

- 1006.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Jadallah adjourned the meeting at 4:18 p.m., in memory of the following deceased members:

Hendrick, Hugh	April 28, 2010	General Services
Wilder, Robert	May 2, 2010	Sheriff's Office
Simmons, Charles	May 7, 2010	Chope Community Hospital
Tillman, Creasie	May 11, 2010	Beneficiary of Tillman, AJ
Killian, John	May 15, 2010	Controller
Young, Gertrude	May 16, 2010	Mental Health
Bible, John	May 26, 2010	Superior Court
Brown, Dale	May 28, 2010	San Mateo Medical Center
Guston, James	May 30, 2010	Sheriff's Office

MARGARET JADALLAH, CHAIR