

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

October 26, 2010

Agenda Item 3.0

September 28, 2010 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 1 p.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
 - Arthur Clayton
 - Louella Concepcion
 - Lonny Pini
 - Roberta Warner
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - Request for Approval of Conference Attendance
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items Removed from the Consent Agenda
 - 5.2 Acceptance of June 30, 2010, Actuarial Valuation Report
 - 5.3 Acceptance of 2011-2012 Fiscal Year Employer & Employee Contribution Rates
 - 5.4 Annual Review of *SamCERA's* Actuary – Milliman, Inc.
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Annual Investment Manager Review – Large Cap Equities
 - 6.2 a Barrow Hanley (Investment Committee Interview - Monday, September 27 at 9:30 a.m.)
 - 6.2 b T. Rowe Price (Investment Committee Interview - Monday, September 27 at 10:30 a.m.)
 - 6.2 c D.E. Shaw (Board Interview - Tuesday, September 28 at 2:30 p.m.)
 - 6.3 Approval of Investment Management Agreement – Chartwell Investment Partners
 - 6.4 Approval of Investment Management Agreement – Artio Global Investors
 - 6.5 Approval of Investment Management Agreement – Mondrian Investment Partner
 - 6.6 Approval of Investment Management Agreement – Western Asset Management
 - 6.7 Approval of Limited Partnership Agreement & Side Letter- Sheridan Production Partners II-B, L.P.
 - 6.8 Report on Proposed Timing and Implementation of *SamCERA's* Alternative Assets
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Approval of *SamCERA* Electronic Devices Policy
 - 7.3 Status Report on *SamCERA's* Application for a Tax Determination Letter
 - 7.4 Approval of SACRS Voting Delegate and Alternate
 - 7.5 Approval of Contract for Member Audit Services – Small World Solutions
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report
 - 8.3 Chief Investment Officer's Report

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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 and appropriate for closed session

C2 Anticipated Litigation – One Item

9. Report on Actions Taken in Closed Session

10. Adjournment

September 28, 2010 – Board Minutes

1009.1 **Call to Order:** Ms. Jadallah, Chair, called the Public Session of the Board of Retirement to order at 1:02 p.m., September 28, 2010, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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

Mr. Bailey requested that the board take agenda item 7.2 out of order following agenda item 5.4. Mr. Bailey also requested that an item be added under closed session that required immediate action and which came to the staff's attention after the posting of the agenda. The item was regarding the disability application of Loretta Keenan. **Motion** by Hackleman, second by David, carried unanimously to approve Mr. Bailey's requests.

The board then went into closed session regarding the second matter. Please read agenda item 9.0 for any reportable actions.

1009.2.1 **Oral Communications From the Board:** Ms. Kwan Lloyd reported that she along with Ms. Agnew attended a conference on Liability Driven Investing hosted by Pensions & Investments.

Ms. Agnew then reported that she attended a conference focusing on impact investing. The conference discussed the future of sustainable, responsible investing. She recommended that impact investing be a possible board retreat topic. She will report back to the board with a formal conference summary for the October meeting.

Ms. Jadallah said that it was her last month as a *SamCERA* board member due to the recent placement agent legislation. Ms. Jadallah then **re-appointed** Ms. Arnott, chair; Ms. Agnew and Mr. Tashman to the ad-hoc nominating committee. She also **appointed** Mr. Hackleman to the Investment Committee as an interim Investment Committee member for the October meeting.

1009.2.2 **Oral Communications From the Public:** None.

1009.3 **Approval of the Minutes:** **Motion** by Arnott, second by David, carried unanimously to approve the minutes from the August 24, 2010, board meeting, as submitted.

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- 1009.4 **Approval of the Consent Agenda: Motion** by Kwan Lloyd, second by Spinello, carried unanimously to approve the day's consent agenda, as follows:

Disability Retirements:

The board finds that **Arthur Clayton** is unable to perform his usual and customary duties as a Deputy Sheriff and approves his application for a service connected disability retirement.

The board finds that **Lonny Pini** is unable to perform her usual and customary duties as a Superior Court Administrative Assistant and approves her application for a service connected disability retirement.

The board grants the request for a non-service disability retirement for the purpose of establishing a continuance to the spouse of deceased member, **Louella S. Concepcion**.

The board authorizes termination of the processing of the disability retirement application for **Roberta Warner**. Staff is informed that effective 5/20/10 Mrs. Warner was released to work without restrictions with regard to her hand injury. She does however have permanent restrictions for her low back injury, in which the employing department is able to accommodate those restrictions on a permanent basis.

Service Retirements:

Member Name	Effective Retirement Date	Department
Smith, Leslie	June 28, 2010	QDRO of Lewellen, William
Dare, Alan	July 10, 2010	Environmental Health
Lee, Lorraine	July 10, 2010	Family Health Services
Goltz, Portor	July 10, 2010	County Counsel's Office
Johnson, Larry	July 10, 2010	Housing Department
Keeton, Donald	July 11, 2010	Def'd from Medical Center
Fotis, Alexander	July 14, 2010	Public Safety Commission
Hamilton, Christine	July 15, 2010	San Mateo Medical Center
Maruyama, Thomas	July 15, 2010	Def'd from Sheriff's Office
Singer, Melodee	July 15, 2010	San Mateo Medical Center
Landeros, Alesia	July 26, 2010	Def'd from Correctional/ Food
Champion, Tirrell	July 30, 2010	San Mateo Medical Center
Zeno, Perry	July 30, 2010	Public Works
Baron, Herminia	July 31, 2010	San Mateo Medical Center
Bravo, Luis	July 31, 2010	Behavioral Health
Bruley, Madeleine	July 31, 2010	Assessor's Office
Cosio, Rachel	July 31, 2010	San Mateo Medical Center
Feldstein, Nancy	July 31, 2010	Human Resources
Kelly, Teresa	July 31, 2010	San Mateo Medical Center
Kumler, Daniel	July 31, 2010	Planning and Building
Luke, Alfred	July 31, 2010	Behavioral Health
Mercado, Aurelia	July 31, 2010	Controller's Office
Mercado, Nestor	July 31, 2010	Family Health Services
Nickson, Judith	July 31, 2010	Assessor's Office
Nolan, Martha	July 31, 2010	Assessor's Office
Schiel, Betty	July 31, 2010	San Mateo Medical Center
Zachos, Frances	July 31, 2010	Human Services Agency

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Booker, Carolyn
Del Re, Benny

August 1, 2010
August 1, 2010

Def'd from Medical Center
Def'd from Sheriff's Office

Continuance of Benefits:

Member Name

Beneficiary of:

Boselly, Harry
Collins, George
Kramer, Margaret

Boselly, Gwendolyn
Collins, J. Carolyn
Kramer, Berthold

Deferred Retirements:

Member Name

Retirement Plan Type

Esguerra, Chris
Fernandez, Anaquilina
Hernandez, Josserand
Newton, Pamela
Armstrong, Kevin

G4-Vested
G4-Vested
G4-Vested
G4-Vested
G4

Reciprocity

Member Account Refunds:

Member Name

Retirement Plan Type

Beadle, Mellysa
Cowans, Eric
Dy, Nicolette
Mouat, Linda
Smith, Ronald
Stewart, Morena

G4 Non-vested
S4 Vested with
G4 Non-vested
G4 Non-vested
G4 Non-vested
G4 Non-vested

Member Account Rollovers:

Member Name

Retirement Plan Type

Fucilla, Regina
Koopman, Travis
Tran, Chau

G4 Non-vested
G4 Non-vested
G4 Non-vested

Request for Approval of Conference Attendance

1009.5 **Benefit & Actuarial Services**

1009.5.1 **Consideration of Benefit & Actuarial Items Removed from the Consent Agenda:** None.

1009.5.2 **Acceptance of June 30, 2010, Actuarial Valuation Report:** Nick Collier of Milliman, Inc. was present to discuss the June 30, 2010, actuarial valuation. (The Actuarial Valuation is available for review on *SamCERA's* website at www.SamCERA.org under Communications >> Reports). Mr. Collier thoroughly discussed the various factors that led to a decrease in a required employer contribution rate compared to last year from 34.00% to 31.40%. Member contribution rates remained the same. *SamCERA's* funded ratio increased from 63.9% to 70.3%. He said there were no changes in assumptions since the previous valuation. There was one change to benefit provisions since last year. This change was due to the San Mateo County Mosquito & Vector Control's adoption of the enhanced retirement formula.

Motion by Agnew, second by David, carried unanimously to accept the June 30, 2010,

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Actuarial Valuation Report as submitted.

- 1009.5.3 **Acceptance of 2011-2012 Fiscal Year Employer & Employee Contribution Rates:** Mr. Bailey said that staff recommends that the board maintain the current employer contribution rate and not adopt the decreased rate that resulted from the valuation. He said given this extraordinary time, and given what is expected for future rates, staff believes it is most reasonable to diverge slightly from the rates produced by the valuation process in order to maintain and strengthen the retirement fund. Because of the high probability that the employer contribution rate must increase in future years, it does not seem prudent to reduce the contribution rate temporarily. Milliman was supportive of this action.

Motion by Hackleman, second by Agnew, carried unanimously to adopt **Resolution 10-11-03**, approving *SamCERA*'s FY 2010-2011 contribution rates, as follows:

"WHEREAS, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board..."*shall, at least 45 days prior to the beginning of the succeeding fiscal year, recommend to the Board of Supervisors such changes in the rates of interest, in the rates of contributions of members, and in the county and district appropriations as are necessary...*" and

"WHEREAS, the County of San Mateo and its bargaining units have entered into agreements to enhance benefit formulas contingent on supplementing basic member contribution rates with cost sharing percentages and those benefit formulas and cost sharing percentages are assumed to continue, and

"WHEREAS, the Board has received and accepted the June 30, 2010, valuation report from its actuarial firm, Milliman, Inc., and

"WHEREAS, Milliman, Inc. expects the employer contribution rate to escalate significantly in the years following 2011-12 as all the losses of the 2007-08 and 2008-09 fiscal years are fully recognized in the actuarial process, and

"WHEREAS, maintaining payment of the 2010-11 employer rates will lower the level of expected future increases and help keep *SamCERA* on a path toward greater fiscal strength, and

"WHEREAS, the Chief Executive Officer has recommended, in agreement with Milliman, Inc., the contribution rates necessary to assure the actuarial soundness of the Retirement Fund,

Therefore, be it

"RESOLVED that the Board hereby accepts the employer and member contribution rates as set forth below for the fiscal year 2011-2012.

Be it further

"RESOLVED that the Board recommends that the Board of Supervisors adopt the recommended employer contribution rates for fiscal year 2011-2012 for the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the following schedule, as a percentage of covered salaries, effective July 1, 2011:

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	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>	<u>Tier 4</u>
<i>“COUNTY OF SAN MATEO AND SAN MATEO SUPERIOR COURT</i>				
<u>General Member Rates:</u>				
Employer Normal Cost	11.04%	10.94%	7.80%	9.81%
Contribution to Unfunded Actuarial Accrued Liability	<u>18.40%</u>	<u>18.40%</u>	<u>18.40%</u>	<u>18.40%</u>
Total General Member Rates	29.44%	29.34%	26.20%	28.21%
<u>Safety Member Rates:</u>				
Employer Normal Cost	24.37%	20.42%	none	18.26%
Contribution to Unfunded Actuarial Accrued Liability	<u>51.83%</u>	<u>51.83%</u>	<u>none</u>	<u>51.83%</u>
Total Safety Member Rates	76.20%	72.25%		70.09%
<u>Probation Member Rates:</u>				
Employer Normal Cost	24.47%	22.19%	none	18.90%
Contribution to Unfunded Actuarial Accrued Liability	<u>23.84%</u>	<u>23.84%</u>	<u>none</u>	<u>23.84%</u>
Total Probation Member Rates	48.31%	46.03%		42.74%
 <i>“SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT</i>				
<u>General Member Rates:</u>				
Employer Normal Cost	14.04%	13.94%	none	13.07%
Contribution to Unfunded Actuarial Accrued Liability	<u>18.40%</u>	<u>18.40%</u>	<u>none</u>	<u>18.40%</u>
Total General M&VCD Member Rates	37.44%	32.34%		31.47%
	%	%		

Be it further

“RESOLVED that the Board of Retirement hereby recommends that the Board of Supervisors adopt the recommended basic entry age member contribution rates for the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the schedule set forth in the attachment entitled *Basic Member Contribution Rates*, as a percentage of covered salaries, effective July 1, 2011. “Cost sharing” percentages are member contributions in addition to the basic rates. They are not included in the *Basic Member Contribution Rates* table, but are assumed to continue at their current levels in the valuation assumptions. These cost sharing percentages are for San Mateo County and Superior Court employee members in Plans 1, 2 and 4 and are as follows:

General Members: 3.0%.

Safety Members (except Deputy Sheriffs): 5.0%.

Safety Members (Deputy Sheriffs only): varying rates based on age and service.

If age 45 or older: 4.5%.

If age is less than 45 and:

- Service is less than 5 years: 3.0%.
- Service between 5 & 15 years: 3.5%.
- Service is more than 15 years 4.5%.

Probation Members: 3.5%.

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Be it further

“**RESOLVED** that the Chief Executive Officer is hereby authorized to transmit these rates and recommendations to the Board of Supervisors and to take all actions necessary to provide for their implementation effective July 1, 2011.

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Basic Member Contribution Rates

Entry	Age *	<u>General (County and Court)</u>		<u>General (SMCM&VCD)</u>		<u>Probation</u>		<u>Safety</u>	
		Plans 1&2	Plan 4	Plans 1&2	Plan 4	Plans 1&2	Plan 4	Plans 1&2	
16		5.12%	4.90%	5.12%	4.90%	5.55%	5.31%	6.93%	6.64%
17		5.21%	4.99%	5.21%	4.99%	5.65%	5.41%	7.06%	6.76%
18		5.31%	5.08%	5.31%	5.08%	5.75%	5.51%	7.19%	6.88%
19		5.41%	5.18%	5.41%	5.18%	5.86%	5.61%	7.32%	7.01%
20		5.51%	5.27%	5.51%	5.27%	5.96%	5.71%	7.45%	7.14%
21		5.61%	5.37%	5.61%	5.37%	6.07%	5.81%	7.59%	7.27%
22		5.71%	5.47%	5.71%	5.47%	6.18%	5.92%	7.73%	7.40%
23		5.82%	5.57%	5.82%	5.57%	6.30%	6.03%	7.87%	7.53%
24		5.92%	5.67%	5.92%	5.67%	6.41%	6.14%	8.01%	7.67%
25		6.03%	5.78%	6.03%	5.78%	6.53%	6.25%	8.16%	7.81%
26		6.14%	5.88%	6.14%	5.88%	6.64%	6.36%	8.31%	7.95%
27		6.25%	5.99%	6.25%	5.99%	6.76%	6.48%	8.46%	8.10%
28		6.37%	6.10%	6.37%	6.10%	6.89%	6.59%	8.61%	8.24%
29		6.48%	6.21%	6.48%	6.21%	7.01%	6.71%	8.77%	8.39%
30		6.60%	6.32%	6.60%	6.32%	7.14%	6.84%	8.93%	8.55%
31		6.72%	6.43%	6.72%	6.43%	7.27%	6.96%	9.09%	8.70%
32		6.84%	6.55%	6.84%	6.55%	7.40%	7.09%	9.26%	8.86%
33		6.97%	6.67%	6.97%	6.67%	7.54%	7.22%	9.43%	9.03%
34		7.09%	6.79%	7.09%	6.79%	7.68%	7.36%	9.60%	9.19%
35		7.22%	6.91%	7.22%	6.91%	7.83%	7.49%	9.78%	9.37%
36		7.35%	7.04%	7.35%	7.04%	7.98%	7.63%	9.97%	9.54%
37		7.49%	7.17%	7.49%	7.17%	8.13%	7.77%	10.16%	9.71%
38		7.63%	7.30%	7.63%	7.30%	8.28%	7.90%	10.35%	9.88%
39		7.77%	7.44%	7.77%	7.44%	8.43%	8.04%	10.53%	10.05%
40		7.92%	7.58%	7.92%	7.58%	8.57%	8.17%	10.72%	10.21%
41		8.07%	7.72%	8.07%	7.72%	8.72%	8.29%	10.90%	10.36%
42		8.22%	7.86%	8.22%	7.86%	8.86%	8.40%	11.07%	10.50%
43		8.37%	8.00%	8.37%	8.00%	8.99%	8.50%	11.23%	10.63%
44		8.52%	8.13%	8.52%	8.13%	9.10%	8.59%	11.38%	10.74%
45		8.67%	8.26%	8.67%	8.26%	9.21%	8.66%	11.52%	10.83%
46		8.82%	8.38%	8.82%	8.38%	9.30%	8.70%	11.63%	10.88%
47		8.96%	8.50%	8.96%	8.50%	9.37%	8.70%	11.71%	10.88%
48		9.09%	8.60%	9.09%	8.60%	9.40%	9.01%	11.75%	11.26%
49		9.21%	8.69%	9.21%	8.69%	9.40%	9.34%	11.75%	11.68%
50		9.32%	8.76%	9.32%	8.76%	9.40%	9.34%	11.75%	11.68%
51		9.41%	8.80%	9.41%	8.80%	9.40%	9.34%	11.75%	11.68%
52		9.48%	8.80%	9.48%	8.80%	9.40%	9.34%	11.75%	11.68%
53		9.51%	9.11%	9.51%	9.11%	9.40%	9.34%	11.75%	11.68%
54		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
55		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
56		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
57		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
58		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
59		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
60		9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%

* For County General members entering after age 55, the rate equals the rate at age 55. Likewise for Safety and Probation members entering after age 50, the rate equals the rate at age 50. Only Probation rates reflect employer pick-up.

* Beginning with the 2010 actuarial valuation, all current and future Mosquito and Vector Control District members

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contribute the same member rates as General County Members.

- 1009.5.4 **Annual Review of SamCERA's Actuary – Milliman, Inc.:** Mr. Collier was present for Milliman's actuarial consultant annual review. Mr. Clifton presented Milliman's responses to SamCERA's annual questionnaire and the annual performance evaluation. Staff commended Milliman's effective communication, responsiveness and useful information. With difficult decisions regarding funding policies and actuarial assumptions over the next few years, staff is confident that Milliman will issue timely notices for changes and will be proactive in its approach to discuss the issues and help chart a course of action for SamCERA to react to the various situations. Mr. David and Ms. Jadallah also commended Mr. Collier and his staff for the quality of their work.

Mr. Bailey said that it is industry standard to conduct an actuarial audit every five years. Staff will recommend that the board approve an audit of the next actuarial valuation, which will review the scope of Milliman's work.

Ms. Jadallah then took up agenda item 7.2.

1009.6 **Investment Services**

- 1009.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that SamCERA's -2.13% Total Fund Return for August 2010 outperformed the Total Plan Policy Benchmark return of -2.55%. The fund's return for the trailing twelve months is 6.25%, which is 150 basis points (bps) below the Actuarial Discount Rate, 7.75%. It is 5 basis points above SamCERA's Total Plan Policy Benchmark of 6.20%

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	<i>\$814,774,021</i>	<i>-5.10%</i>	<i>5.83%</i>	<i>-2.18%</i>
<i>International Equity</i>	<i>378,875,129</i>	<i>-1.86%</i>	<i>0.98%</i>	<i>2.37%</i>
Total Equity	\$1,193,649,151	-4.10%	4.22%	-0.99%
Fixed Income	606,747,648	1.48%	14.14%	5.25%
Real Estate Aggregate	109,210,472	0.00%	-7.29%	0.06%
Cash Equivalents	16,402,321	0.11%	0.92%	1.96%
TOTAL FUND	\$1,926,009,592	-2.13%	6.25%	1.07%
<i>Benchmark</i>		<i>-2.55%</i>	<i>6.20%</i>	<i>2.50%</i>

* Total Time-Weighted Rate of Return

1009.6.2 **Annual Investment Manager Review – Large Cap Equities:**

- 1009.6.2a **Barrow Hanley:** Ms. Jadallah reported that Mark Giambrone, Managing Director, was present at the Investment Committee for Barrow Hanley's annual investment manager review. Mr. Giambrone provided an organizational, investment process, performance and market overview for the committee.
- 1009.6.2b **T. Rowe Price:** Ms. Jadallah reported that Jennifer O'Hara Martin, Portfolio Specialist, and John Plowright, Institutional Client Service Executive, were present at the Investment Committee for T. Rowe Price's annual review. Ms. Martin and Mr. Plowright detailed T. Rowe Price's organization, investment process, roles of industry analysts and the principles of

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their portfolio construction.

1009.6.2c **D.E. Shaw:** Erik Gosule, Senior Vice President, Quantitative Product Specialist and Letitia Yang, Vice President, were present for D.E. Shaw's annual review. Ms. Yang provided a brief organizational update. She reported that D.E. Shaw is in the process of a head count reduction of 10% but will have no impact on *SamCERA's* portfolio. Ms. Yang attributed the reduction in staff to portfolio changes and decreased demand in real estate and less liquid assets. In response to a question from Ms. Jadallah, Ms. Yang said that the reductions were part of a longer strategic decision as opposed to decreased AUM and fee pressure. Mr. Thomas asked why D.E. Shaw did not cut staff in 2008 but has decided to do so now. Ms. Yang said that D.E. Shaw outperformed their peers during that period and wanted to be more strategic in their organizational structure than that of their peers. At that time, she said that D.E. Shaw wanted to wait and see how the economy would be over the course of the following year. Mr. Gosule then provided a performance summary. He also discussed performance attribution and portfolio characteristics.

1009.6.3 **Approval of Investment Management Agreement – Chartwell Investment Partners:** Mr. Clifton presented Chartwell's IMA, extending the previous contract for an additional three years. He reported that there were no amendments to the IMA executed three years ago. The Investment Committee recommended board approval. **Motion** by Agnew, second by Hackleman, carried unanimously to adopt **Resolution 10-11-04**, to approve the Investment Management Agreement with Chartwell Investment Partners, as follows:

“**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 March 23, 2004, the Board considered proposals from four firms for investment management services under a small cap growth mandate. Wellington Management Company, and Westcap Investors were eliminated. Chartwell Investment Partners and Next Century Growth Investors were invited to return for a second interview as finalists.; and

“**WHEREAS**, before the final interviews on April 27, 2004 Next Century Growth Investors requested that it be excused from the finalist selection process due to uncertainty surrounding its relationship with Strong Funds and the Security Exchange Commission's investigation into market timing.; and

“**WHEREAS**, The Board interviewed representatives from Chartwell Investment Partners on April 27, 2004 before offering it *SamCERA's* small cap growth mandate to be funded with approximately \$37 million; and

“**WHEREAS**, the Board renewed the investment management agreement for an additional three-year period, ending September 30, 2010; and

“**WHEREAS**, the Board again wishes extend the investment management agreement for an additional three-year period, ending September 30, 2013. Therefore, be it

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“**RESOLVED** that the Board hereby approves the contract between the Board and Chartwell Investment Partners 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 Chartwell Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (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.”

1009.6.4 **Approval of Investment Management Agreement – Artio Global Investors:** Mr. Clifton presented Artio Global’s IMA, extending the previous contract for an additional three years. He reported that the only amendment to the IMA executed three years ago is the name change from Julius Baer Investment Management to Artio Global Investment Management. The Investment Committee recommended board approval. **Motion** by David, second by Agnew, carried unanimously to adopt **Resolution 10-11-05**, to approve the Investment Management Agreement with Artio Global Investors, as follows:

“**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 April 27, 2004, the Board considered proposals from six firms for equity investment management services under an international core growth mandate. BPI Global Asset Management, Clan Finlay, Inc, JPMorgan Fleming Asset Management and New Star Institutional Managers were eliminated. Capital Guardian Trust Company and Julius Baer Investment Management (now Artio Global Management) were invited to return for a second interview as finalists; and

“**WHEREAS**, on May 25, 2004 the Board interviewed representatives from Capital Guardian Trust Company and Artio, selecting Artio for an international core growth mandate to be funded with approximately \$110 million; and

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- “**WHEREAS**, an Investment Management Agreement was executed between *SamCERA* and Artio on October 25, 2004, for a term of three years; and
- “**WHEREAS**, On September 25, 2007, the Board renewed the Investment Management Agreement for an additional term of three years, ending September 30, 2010; and
- “**WHEREAS**, On February 29, 2008, Julius Baer Investment Management announced that it would offer an initial offering of public shares (IPO) and change the name to Artio Global Investment Management, LLC, and *SamCERA* agreed to assign the existing IMA to Artio Investment Management Agreement; and
- “**WHEREAS**, the Board wishes to renew the 2007 Investment Management Agreement and amend to the new name of Artio Global Investment Management, LLC for an additional term of three years, ending September 30, 2013. Therefore, be it
- “**RESOLVED** that the Board hereby approves the contract between the Board and Artio Global Management, LLC 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 Artio Global Management to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (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.”

1009.6.5 **Approval of Investment Management Agreement – Mondrian Investment Partners:** Mr. Clifton presented Mondrian Investment Partners’ IMA, extending the previous contract for an additional three years. He reported that there were no amendments to the IMA executed three years ago. The Investment Committee recommended board approval. **Motion** by Kwan Lloyd, second by Spinello, carried unanimously to adopt **Resolution 10-11-06**, to approve the Investment Management Agreement with Mondrian Investment Partners, as follows:

- “**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 .*

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. . ."; and

"WHEREAS, on April 27, 2004, the Board considered proposals from six firms for equity investment management services under an international core growth mandate. Alliance Bernstein Institutional Investment Management, INVESCO Global Asset Management (N.A.), Inc. Philadelphia International Advisors and The Boston Company Asset Management. LLC. were eliminated. Delaware International Advisors, Ltd., and LSV Asset Management were invited to return for a second interview as finalists.; and

"WHEREAS, on May 25, 2004 the Board interviewed representatives from Delaware International Advisors, Ltd., and LSV Asset Management, selecting Delaware International Advisors, Ltd. for an international core value mandate to be funded with approximately \$110 million; and

"WHEREAS, on September 27, 2004, Delaware International Advisors, Ltd. changed its name to Mondrian Investment Partners; and

"WHEREAS, an Investment Management Agreement was executed between *SamCERA* and Mondrian Investment Partners on October 25, 2004, for a term of three years; and

"WHEREAS, on September 24, 2007, the Board amended and renewed the Investment Management Agreement for an additional term of three years, ending September 30, 2010; and

"WHEREAS, the Board wishes to once again renew the Investment Management Agreement for an additional term of three years, ending September 30, 2013. Therefore, be it

"RESOLVED that the Board hereby approves the contract between the Board and Mondrian Investment Partners 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 Mondrian Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (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."

1009.6.6 **Approval of Investment Management Agreement – Western Asset Management:** Mr. Clifton presented Western Asset Management's IMA, extending the previous contract for an additional three years. He reported that there were no amendments to the IMA executed three

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years ago. The Investment Committee recommended board approval. **Motion** by Hackleman, second by Spinello, carried unanimously to adopt **Resolution 10-11-07**, to approve the Investment Management Agreement with Western Asset Management, as follows:

“**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 July 27, 2004, the Board considered proposals from six firms for fixed income investment management services under a core plus mandate. Hartford Investment Management, Payden & Rygel, Inc., PIMCO (Pacific Investment Management Company LLC), and TCW (Trust Company of the West Group, Inc.) were eliminated. Deutsche Asset Management, and Western Asset Management Company were invited to return for a second interview as finalists.; and

“**WHEREAS**, on September 28, 2004 the Board interviewed representatives from Deutsche Asset Management, and Western Asset Management Company, selecting Western Asset Management Company for an core-plus fixed income mandate to be funded with approximately \$145 million; and

“**WHEREAS**, an Investment Management Agreement and Subscription Booklet were approved by County Counsel as to form and the Investment & Finance Manager recommended approval of both. The board executed the agreement on October 25, 2004.; and

“**WHEREAS**, the Board renewed the investment management agreement for an additional three-year period, ending September 30, 2010: and

“**WHEREAS**, the Board again wishes extend the investment management agreement for an additional three-year period, ending September 30, 2013. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Western Asset Management 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 Western Asset Management Company to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the Subscription Booklet, the *Investment Plan* (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 and the Subscription Booklet on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the both and hereby authorizes the

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Investment & Finance Manager 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.”

- 1009.6.7 **Approval of Limited Partnership Agreement & Side Letter- Sheridan Production Partners II-B, L.P.:** Mr. Clifton reported that Mr. Whitlock was present at the Investment Committee to highlight the final negotiated provisions in the Sheridan LPA and Side Letter. The committee recommended board approval. **Motion** by Hackleman, second by David, carried unanimously to approve the Limited Partnership Agreement and Side Letter with Sheridan Production Partners II-B, L.P.
- 1009.6.8 **Report on Proposed Timing and Implementation of *SamCERA*’s Alternative Assets:** Mr. Thomas provided a brief summary of SIS’ recommended alternatives “road map”, detailing the expected alternatives funding over time. *SamCERA*’s new alternatives investment program will include (8% Private Equity, 6% Risk Parity, 3% Hedge Funds, and 3% Commodities). Mr. Thomas said that SIS will provide a list of candidates for the Risk Parity mandate at next month’s board meeting.
- 1009.7 **Board & Management Support Services**
- 1009.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*’s Net Assets Held in Trust for Pension Benefits as of August 31, 2010, totaled \$1,924,175,649. Net assets decreased by approximately \$49.7 million, month over month. The decrease is attributed to market depreciation of assets of \$42.4 million, and benefit payments of \$10.5 million, with a slight offset by a small inflow of contributions, \$3.7 million.
- Ms. Jadallah then took up agenda item 7.3.
- 1009.7.2 **Approval of *SamCERA* Electronic Devices Policy:** Mr. Bailey presented a policy regarding the use of *SamCERA* portable electronic devices. In order to reduce the amount of paper that must be handled by board members and staff for each board or committee meeting, *SamCERA* has now made all materials available to board members electronically. Mr. Bailey reviewed the policy with the board.

After extensive discussion, **motion** by Kwan Lloyd, second by Spinello, carried unanimously to approve *SamCERA*’s Electronic Devices Policy, as follows:

“*SamCERA* Portable Electronic Device Policy

“For purposes of this policy, “portable electronic devices” are defined to include cellular phones, personal digital assistants, laptops, e-readers, netbooks, notebooks or any other electronic device capable of displaying data or images.

“Purpose:

This policy is intended to set forth the authorization and limitations of use of *SamCERA* portable electronic devices.

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“Scope:

These guidelines apply to all *SamCERA* board members and staff.

“Background:

SamCERA board packet material is extensive. The copying, delivering and producing of the packet material is expensive and not in line with environmental policies and practices of *SamCERA*. *SamCERA* now makes available an electronic PDF version of the monthly board packet. *SamCERA* would like to facilitate the offsite access and usage of the electronic version by allowing board and staff to use *SamCERA* portable electronic devices to retrieve, store, edit and read the electronic board packet.

“Portable electronic devices are a security risk because they may contain private, confidential or sensitive *SamCERA* member information, and being portable, are at risk for loss, theft, or other unauthorized access.

“Portable electronic devices may be more vulnerable to viruses and other such threats because the user may not regularly use virus protection software and other safeguards available to *SamCERA*’s desktop computers.

“Policy:

1. Board members and staff understand that their authorization to periodically use *SamCERA* portable electronic devices, associated equipment and software (“*SamCERA* portable electronic devices”) is limited to and for the sole purpose of conducting *SamCERA* business. Board members and staff further understand that they have no expectation of privacy with regard to their use of such devices.
2. *SamCERA* portable electronic devices are not solely assigned to individual Board Members and staff but are resources to be used on an as needed basis and will be rotated amongst Board Members and staff in accordance with *SamCERA*’s business needs. *SamCERA* is entitled to and will require such devices to be returned to *SamCERA* for routine maintenance and to ensure that they are being used only in a manner that is consistent with these policies.
3. *SamCERA* portable electronic devices are not for the personal use of the Board member or staff employee or any other person or entity. Board members and staff will not permit anyone else including, but not limited to, the Board member or staff’s family and/or associates, to use this *SamCERA* property.
4. Board members and staff may not download or install any software onto any *SamCERA* portable electronic devices without prior authorization by the *SamCERA* CEO or Chief Technology Officer (CTO).
5. Board members and staff who have an assigned portable electronic device are responsible for the security of the device, all associated equipment and all data. Board members and staff must report any lost or stolen portable electronic equipment or data to the CEO or CTO of *SamCERA* as soon as discovered.
6. Portable electronic devices may remotely access the *SamCERA* network only through remote access systems maintained by *SamCERA*.”

Ms. Jadallah then took up agenda item 6.1.

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- 1009.7.3 **Status Report on *SamCERA*'s Application for a Tax Determination Letter:** Mr. Bailey provided the board with an update on the status of *SamCERA*'s application to the Internal Revenue Service for a Tax Determination Letter. The process of preparing *SamCERA*'s application began more than two years ago. *SamCERA* is working closely with County Counsel on this project. *SamCERA* and other 1937 Act systems are also working with the Hanson-Bridgett law firm to prepare their submissions which are due in January 2011. Mr. Bailey said that a review of the 1937 Act by Hanson-Bridgett for compliance with IRS regulations resulted in a set of recommendations from the firm for changes or additions to the Act and additional regulations for each 1937 retirement board. Staff is currently waiting for information from the IRS via Hanson-Bridgett regarding the IRS review of the Orange County submission, which was submitted in August of this year.

This report was informational. No action was taken.

- 1009.7.4 **Approval of SACRS Voting Delegate and Alternate:** Mr. Bailey reviewed the list of board member and staff registered to attend the SACRS Fall 2010 Conference and made a recommendation regarding voting delegates and alternates.

Motion by Kwan Lloyd, second by Agnew, carried unanimously to authorize Mr. David as the Voting Delegate, David Spinello as First Delegate Alternate and David Bailey, as the Second Delegate Alternate.

- 1009.7.5 **Approval of Contract for Member Audit Services – Small World Solutions:** Ms. Wong recommended that the board authorize an agreement with Small World Solutions for member audit services. She said that *SamCERA* had previously used two other vendors for the purposes of auditing member status. Small World Solutions, a death audit company, was recommended by peer 1937 Act counties. On a trial basis, *SamCERA* conducted parallel testing between their current vendor and Small World Solutions in August. Staff found that the database offered by Small World Solutions was more robust than *SamCERA*'s current vendor. Ms. Wong said that Small World Solutions also provides more timely and efficient reporting at a lower cost.

Motion by Arnott, second by Agnew, carried unanimously to approve the contract for member audit services with Small World Solutions.

1009.8 **Management Reports**

- 1009.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that the San Carlos police department will be absorbed by the San Mateo County Sheriff's Office. *SamCERA* will be meeting with those individuals to discuss reciprocity with CalPERS.

Mr. Bailey then reported that *SamCERA* received a public records request from the Attorney General. The letter requests a list of retirees who receive over \$195,000 in pension as well as current employees who earn over \$245,000 in pensionable earnings. Staff is working with Ms. Carlson regarding the request.

He then discussed legislation AB1987, an anti-spiking bill. Ms. Carlson provided further details about the bill. The bill was opposed by SACRS but was approved by the legislature

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and awaiting the governor's approval.

Mr. Bailey presented a plaque of appreciation to Ms. Jadallah, board chair. Appointed by the Board of Supervisors, Ms. Jadallah first served on the board in August 2007. Ms. Jadallah thanked the board and staff.

- 1009.8.2 **Assistant Executive Officer's Report:** Mr. Hood distributed a flyer for the upcoming Financial Knowledge Network courses which will be held at 455 County Center as well as the *SamCERA* office. Mr. Hood said that annual statements will soon be mailed to members. The statements will now include the member's date of birth. Members will be asked to contact *SamCERA* should the information be incorrect.

Mr. Hood then distributed a blueprint of Suite 160, the proposed location of *SamCERA*'s new board room. Suite 160 is located at the opposite side of the lobby from *SamCERA*'s current board room. He asked trustees' for opinions regarding the layout of room.

- 1009.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that Angelo Gordon, *SamCERA*'s PPIP investment manager, issued another capital call notice of 10%. The association will have funded 85% of its committed capital to date. Mr. Clifton then thanked Ms. Jadallah for her knowledge and expertise while serving as a *SamCERA* board member.

- 1009.8.4 **County Counsel's Report:** None.

- 1009.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Ms. Jadallah convened the board in closed session at 1:03 p.m., with all trustees present for roll call in attendance.

The board voted unanimously to issue a subpoena to Loretta Keenan to confirm her relationship with Shasta County. Mr. Hackleman abstained from the vote.

Ms. Jadallah then adjourned the closed session at 1:12 p.m. and took up agenda item 2.0.

Second Closed Session

Ms. Carlson reported that Ms. Jadallah convened the board in closed session at 4:37 p.m., with all trustees present for roll call in attendance.

The board conferred with Counsel on Anticipated Litigation – One Item. No action was taken.

Ms. Jadallah then adjourned the closed session at 4:48 p.m.

- 1009.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Jadallah adjourned the meeting at 4:48 p.m., in memory of the following deceased members:

Mercier, Sarah	August 1, 2010	Mental Health Services
Garcia, Estela	August 3, 2010	Beneficiary of Garcia, Tomas
Henzel, Betty	August 8, 2010	Public Health
Yates, Esther	August 9, 2010	Assessor's Office
Kramer, Berthold	August 17, 2010	General Services
Kiernan, Clarence	August 22, 2010	Planning and Building

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Torres, Vicente
Takis, Minerva

August 28, 2010
August 31, 2010

Sheriff's Office
Board of Supervisors

MARGARET JADALLAH, CHAIR