

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

December 14, 2010

Agenda Item 3.0

October 26, 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
 - Hearing Officer's Report- Cathleen O'Brien
 - Service Retirements
 - Continuance
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items Removed from the Consent Agenda
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Annual Investment Manager Review –
 - 6.2 a Blackrock (Investment Committee Interview - Tuesday, October 26 at 9:30 a.m.)
 - 6.2 b Invesco Realty Advisors (Investment Committee Interview - Tuesday, October 26 at 10:30 a.m.)
 - 6.3 Discussion of Impact Investing
 - 6.4 Approval of Investment Management Search Semi-Finalists – Risk Parity Mandate
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Acceptance of the Financial Audit Report for the Period Ended June 30, 2010
 - 7.3 Approve Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2010
 - 7.4 Annual Review of SamCERA's Independent Auditor
 - 7.5 Review of SamCERA's Internal Control Structure
 - 7.6 Review of Proposed Amendments to the Board of Retirement Regulations
 - 7.7 Quarterly Budget Report for Period Ended September 30, 2010
 - 7.8 Review of Board/Staff Retreat Agenda – Retreat Scheduled for March 2011
 - 7.9 Discussion of Issues Planned for the Fall SACRS Business Meeting
 - 7.10 Approval to Cancel the November 16, 2010, Board of Retirement Meeting and Reschedule the December 21st Meeting to December 14th
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 and appropriate for closed session
9. Report on Actions Taken in Closed Session
10. Adjournment

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October 26, 2010 – Board Minutes

1010.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 1:04 p.m., October 26, 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. 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 and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Ms. Archer, Mr. Thomas, Mr. Brody and Mr. Paulden. *Retirees:* 0, *Public:* 1.

1010.2.1 **Oral Communications From the Board:** None.

1010.2.2 **Oral Communications From the Public:** None.

1010.3 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the minutes: 1009:4 Service Retirements L5: "~~Goltz~~ Goltz, Portor"; 1009.5.4 L8: "Mr. David and ~~Mrs.~~ Ms. Jadallah..."; 1009.6.2b L3: "Committee for T. Rowe Price's annual review." **Motion** by Tashman, second by Arnott, carried unanimously to approve the minutes from the September 28, 2010, board meeting, as amended.

1010.4 **Approval of the Consent Agenda:** Mr. David removed the hearing officer's report of Cathleen O'Brien (Spinello) from the consent agenda. **Motion** by Spinello, second by Kwan Lloyd, carried unanimously to approve the day's consent agenda, as amended.

Disability Retirements: None.

Service Retirements:

Member Name	Effective Retirement Date	Department
Akam, Gail	August 5, 2010	Human Services Agency
Gonzalez, Kathleen	August 6, 2010	Library
Barnes, Chiu Sheng Amy	August 7, 2010	San Mateo Medical Center
Ferrer, Ellen	August 7, 2010	Human Services Agency
Fujino, Carrie	August 7, 2010	Superior Court
Nenchev, Nina	August 7, 2010	Probation
Schwab, Susan	August 7, 2010	Human Services Agency
Barrera, Rosalinda	August 12, 2010	Def'd from Revenue Services
Kalai, Linda	August 12, 2010	Def'd from Admin. & Business
Repp, Marilyn	August 20, 2010	Sheriff's Office
Evans, Beverly	August 21, 2010	Revenue Services
Conklin, Bryan	August 23, 2010	Def'd from Human Services
Arthur, Richard	August 28, 2010	Def'd from Human Services
Chung, Mary	August 31, 2010	San Mateo Medical Center
Singh, Rashida	August 31, 2010	San Mateo Medical Center
Dela Pena, Erlinda	September 1, 2010	San Mateo Medical Center

Continuance of Benefits:

Member Name	Beneficiary of:
Sans, Beverly	Sans, William

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Deferred Retirements:

Member Name	Retirement Plan Type	
Billingsley, Randall	Vested-S4	Reciprocity
Fermin-Castaned, Marilou	Vested-G4	Reciprocity
Lawton, Vanessa	Vested-G4	
O'Malley-Riley, Marsi	Vested-G4	

Member Account Refunds:

Member Name	Retirement Plan Type
Aldama, Jose	G4 Non-vested
Cachola, Jennifer	G4 Non-vested
Fernando, Homer	G4 Non-vested
Leyva, Cecilia	G4 Non-vested
Pinkerton, Amber	G4 Non-vested
Rivera, Denny	S4 Non-vested
Scroggins, David	G4 Non-vested
Taufete'e, Bethlehem	G4 Non-vested

Member Account Rollovers:

Member Name	Retirement Plan Type
Albagli, Minna	G4 Non-vested
Berthoud, Charles	G4 Non-vested
Ellis, Lenita	G4 Non-vested
Thiruppanambakk, Balasubraman	G4 Non-vested

1010.5 **Benefit & Actuarial Services**

1010.5.1 **Consideration of Benefit & Actuarial Items Removed from the Consent Agenda:** Please see agenda item 9.0.

1010.6 **Investment Services**

1010.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 6.42% Total Fund Return for September 2010 underperformed the Total Plan Policy Benchmark return of 6.64%. The fund's return for the trailing twelve months is 9.86%, which is 211 basis points (bps) above the Actuarial Discount Rate, 7.75%. It is 9 basis points above *SamCERA's* Total Plan Policy Benchmark of 9.75%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	<i>\$899,025,808</i>	<i>10.34%</i>	<i>11.77%</i>	<i>-0.38%</i>
<i>International Equity</i>	<i>414,113,196</i>	<i>9.30%</i>	<i>5.39%</i>	<i>3.29%</i>
Total Equity	1,313,139,004	10.01%	9.65%	0.59%
Fixed Income	616,714,405	0.71%	13.09%	5.66%
Real Estate Aggregate	109,210,472	0.00%	-0.24%	-1.33%
Cash Equivalents	7,522,030	0.12%	0.98%	1.94%
TOTAL FUND	\$2,046,585,910	6.42%	9.86%	2.13%
<i>Benchmark</i>		<i>6.64%</i>	<i>9.75%</i>	<i>3.59%</i>

* Total Time-Weighted Rate of Return

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1010.6.2 **Annual Investment Manager Reviews**

1010.6.2a **Blackrock:** Mr. Clifton reported that the investment committee had met with Edward Dowd, Managing Director; Anthony Freitas, Managing Director; Stephanie Hill, Director, Investment Strategist; and Vickie Chan, Associate, of BlackRock for the firm's annual review. Mr. Freitas gave a brief overview of the firm's organization. Mr. Dowd reviewed the investment team, philosophy and process of the Large Cap Growth product with the board as well as portfolio construction, risk management and performance. Ms. Hill then briefly discussed the Russell 1000 Index product's characteristics and performance.

1010.6.2b **Invesco Realty Advisors:** Mr. Clifton reported that the investment committee had met with Max Swango and Bill Grubbs of Invesco Realty Advisors for the firm's annual review. Mr. Grubbs had briefly discussed his near departure from Invesco and said that he made the right decision to stay with the firm. Mr. Swango and Mr. Grubbs provided the committee with a thorough overview of the fund strategy, characteristics, performance and outlook.

1010.6.3 **Discussion of Impact Investing:** Ms. Agnew presented her recent paper entitled "Impact Investing: Environmental, Social & Governance Criteria Promote Sustainable, Positive Outcomes." Ms. Agnew opined that the old Socially Responsible Investing (SRI) strategy has evolved to be more proactive and rewarding, incorporating broad concepts like sustainability and governance across all asset classes. She then discussed the various issues surrounding Impact Investing. Mr. Thomas noted that *SamCERA's* investment in the PPIP program has both economic and social benefits. Trustees and staff will save this topic for future discussion. Mr. David thanked Ms. Agnew for her lead on this investment subject.

1009.6.4 **Approval of Investment Management Search Semi-Finalists – Risk Parity Mandate:** Mr. Thomas and Mr. Brody discussed the initial screening criteria for *SamCERA's* risk parity search and provided a summary of each of the five candidates that passed the screening process. Ms. Agnew expressed some concern regarding the strategy in general.

Motion by Hackleman, second by Spinello, unanimously carried to approve the list of semi-finalists for the risk parity mandate search: (1) AQR Capital Management, (2) Bridgewater, and (3) PanAngora.

1010.7 **Board & Management Support Services**

1010.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of September 30, 2010, totaled \$2,041,177,603. The increase in net assets by approximately \$115.7 million, month over month, is largely attributed to market appreciation.

1010.7.2 **Acceptance of the Financial Audit Report for the Period Ended June 30, 2010:** Andrew Paulden of Brown Armstrong was present to discuss the auditor's reports for *SamCERA's* June 30, 2010, financial audit. He provided the board with a thorough overview of the June 30, 2010, audit process. Brown Armstrong rendered an unqualified ("clean") opinion on *SamCERA's* financial statements. Brown Armstrong recommended one agreed-upon finding which has been discussed with the appropriate members of management. All prior year findings have been resolved. No reportable conditions which would be considered material

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weaknesses were found.

Motion by Arnott, second by Spinello, carried unanimously to approve the auditor's reports for *SamCERA's* June 30, 2010, financial audit.

- 1010.7.3 **Approve Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2010:** Mr. Clifton presented *SamCERA's* Comprehensive Annual Financial Report (CAFR) for the period ended June 30, 2010. Ms. Agnew submitted a correction to the CAFR regarding the adopted employer contribution rate for FY 2010-2011.

Motion by Agnew, second by Kwan Lloyd, carried unanimously to approve *SamCERA's* Comprehensive Annual Financial Report for the period ended June 30, 2010, as amended.

- 1010.7.4 **Annual Review of *SamCERA's* Independent Auditor:** Andrew Paulden of Brown Armstrong was present for the firm's annual review. Mr. Paulden provided a brief organizational update. He said that Brown Armstrong has historically had low employee turnover and is poised to experience new growth. Mr. Paulden also said that Connie Perez will be relocated to the firm's new office in Pasadena with Eric Berman. Mr. Clifton reported that Brown Armstrong rated high in all performance evaluation criteria and that staff and trustees are pleased with the quality of advice and services provided by the firm as the Association's auditor.

- 1010.7.5 **Review of *SamCERA's* Internal Control Structure:** Mr. Clifton presented the internal controls guidelines which are *SamCERA's* framework for implementing an effective and efficient internal control system. Mr. Clifton also provided a compilation of *SamCERA's* identified risks. The identification process drew heavily on the work completed by Brown Armstrong. A staff project for the upcoming fiscal year will be to expand the areas of risk identification. Mr. Clifton then reviewed the internal control guidelines with trustees.

- 1010.7.6 **Review of Proposed Amendments to the Board of Retirement Regulations:** In conjunction with *SamCERA's* process to comply with IRS regulations and receive a positive IRS Tax Determination Letter, possible changes to the Regulations of the Board of Retirement will be required. As of the day's meeting, Mr. Bailey said that proposed model regulations drafted by Hanson Bridgett are being reviewed by staff and counsel. The approval of proposed amendments will be brought forth at a future board meeting.

- 1010.7.7 **Quarterly Budget Report for Period Ended September 30, 2010:** Mr. Clifton reported the preliminary First Quarter Budget Reports. He said that with 25% of the fiscal year completed, administrative expenditures to date represent 13.1% of the appropriations. The Salaries & Benefits, Services & Supplies and Capital Assets are all under budget.

***SamCERA's* Administrative Budget**

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$2,640,000	\$ 438,900
Services & Supplies	\$2,343,000	\$ 215,300
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$4,983,000	\$ 654,200

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The Asset Management Budget encompasses *SamCERA's* in-house expenditures, which are incurred when managing the association's assets. It currently includes percentages of the salary and benefits and overhead costs of specific employees in relation to their job responsibilities supporting investment functions. The Asset Management Budget is as follows:

***SamCERA's* Asset Management Budget**

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$ 550,000	\$ 102,500
Services & Supplies	\$ 430,700	\$ 24,800
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$ 980,700	\$ 127,300

All professional services expenditures are on target in accordance with the budget appropriations. As of September 30, 2010, the aggregate professional services fee was approximately 39.7 basis points.

- 1010.7.8 **Review of Board/Staff Retreat Agenda – Retreat Scheduled for March 2011:** Mr. Bailey presented a rough draft list of topics for the Board/Staff Retreat, planned for March 22-23, 2011 and requested input from trustees. The list of topics will be reviewed again at the December board meeting.
- 1010.7.9 **Discussion of Issues Planned for the Fall SACRS Business Meeting:** Mr. Bailey discussed the two proposals that are scheduled to be voted on by all designated 1937 Act system representatives at the SACRS Fall 2010 Conference Business meeting.
- 1010.7.10 **Approval to Cancel the November 16, 2010, Board of Retirement Meeting and Reschedule the December 21st Meeting to December 14th:** During the discussion at the previous board meeting, it became clear that it would be difficult to schedule a November meeting due to scheduled conferences and the Thanksgiving holiday. **Motion** by Hackleman, second by Agnew, carried unanimously to (1) cancel the November 16, 2010, board meeting, (2) reschedule the December 21, 2010, board meeting to December 14, 2010, and (3) direct the CEO to make all appropriate communications to notify the public and all interested parties of those changes.
- 1010.8 **Management Reports**
- 1010.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that, since retaining securities litigation firms, the association has been asked three times to participate in securities litigation as lead plaintiff. He said that securities litigation policy will be drafted.

Mr. Bailey said that *SamCERA* will send recruitment letters to San Mateo County corporations regarding the Board of Retirement seat vacancy.

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- 1010.8.2 **Assistant Executive Officer's Report:** Mr. Hood distributed a flyer for the upcoming Financial Knowledge Network classes. He said that a representative from FKN was present at the County Benefits Fair. Mr. Hood reported that staff met with the thirty-three individuals from the San Carlos police department transferring to the County sheriff's department to discuss retirement and reciprocity. Mr. Hood then invited trustees to attend an AED/CPR training that will be conducted for *SamCERA* staff on November 1st.
- 1010.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that Angelo Gordon issued another capital call. *SamCERA* has funded 85% of its capital commitment. He then said that Sheridan Partners, private equity manager, has issued a 1.25% capital call due October 18th.
- 1010.8.4 **County Counsel's Report:** Ms. Carlson provided an update on various new legislation pertinent to 1937 Act retirement systems, including AB 609, AB 1743 and SB 1479.
- 1010.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. David convened the board in closed session, with all trustees present for roll call in attendance.

In the matter of the hearing officer's recommendations regarding the disability application of Cathleen O'Brien, refer the matter back to the hearing officer with instructions and direct staff to submit questions to the hearing officer for clarification of the ruling.

Mr. David then adjourned the closed session at 4:31 p.m.

- 1010.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David adjourned the meeting at 4:32 p.m., in memory of the following deceased members:

Lucas, Thomas	May 20, 2010	Public Works
Perry, Cindy	August 2, 2010	Probation
Smith, Emily	September 2, 2010	Beneficiary of Smith, Glen
Zelaya, Ofelia	September 4, 2010	Beneficiary of Zelaya, Guillermo
Sans, William	September 12, 2010	Building and Grounds
Johnson, Lillian	September 15, 2010	District Attorney's Office
Tatum, Jeanne	September 19, 2010	Board of Supervisors
Russell, Alpheus	September 20, 2010	General Services
Wyant, Clarice	September 21, 2010	Social Services
Evans, James	September 27, 2010	Assessor's Office

AL DAVID, CHAIR