

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

July 26, 2011

Agenda Item 3.0

June 21, 2011 – 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
 - Rose Kao (*Per Board of Retirement Resolution 5.2 Active Death*)
 - Service Retirements
 - Edward Lusnich (*Per Board of Retirement Resolution 5.2 Active Death*)
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Interview Finalist for Commodities Mandate
 - 6.2 a Cargill Risk Management – ProAlpha Index
 - 6.2.b Gresham Investment Management – Tangible Asset Program
 - 6.2.c Invesco - Balanced-Risk Commodities
 - 6.2 d State Street Global Advisors – Multisource Active Commodity Strategy
 - 6.3 Adopt Criteria for International Developed Markets Equity Growth Manager
 - 6.4 Approve Criteria and Timeline for an International Small Cap Equity Manager Search
 - 6.5 Approve Criteria and Timeline for an Emerging Market Equity Manager Search
 - 6.6 Approval of Alternative Asset Manager Resolutions
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Approval to Cancel the November 2011 Board Meeting and Reschedule the December 2011 Board Meeting
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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June 21, 2011 – Board Minutes

1106.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 8:07 a.m., June 21, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Roll Call: Ms. Arnott (arr. 10:28 a.m.), Ms. Agnew, Mr. Bowler, Mr. David, Mr. Hackleman, Ms. Kwan Lloyd, Ms. Settles, Mr. Spinello (arr. 8:25 a.m.) and Mr. Tashman (arr. 12:45 p.m.). *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames and Mr. Clifton. *Consultants:* Mr. Whitlock, Mr. Brody, Mr. Nicolini and Mr. Thomas. *Retirees:* 0, *Public:* 0.

1106.1.1 **Welcome and Introduction of New Board Member:** Mr. David welcomed Ms. Settles to the board. Ms. Settles is serving out the unexpired term of former trustee, Margaret Jadallah. Her term is set to expire on June 30, 2013. Ms. Settles thanked everyone and commended the board for their work to date. She expressed her enthusiasm and hoped to offer her experience and expertise going forward.

1106.1.2 **Appointment of Ad Hoc Board Officers Nominating Committee:** Mr. David **appointed** Mr. Hackleman, Chair; Ms. Arnott, Ms. Kwan Lloyd and Mr. Bowler, to the Ad Hoc Board Officers Nominating Committee. The general sense of the board was to maintain the same slate.

1106.2.1 **Oral Communications From the Board:** Ms. Agnew attended a Clean and Green Investment Forum in San Francisco. She found the conference very informative and is interested in viewing the progress of this investment area.

1106.2.2 **Oral Communications From the Public:** None.

1106.3 **Approval of the Minutes: Motion** by Bowler, second by Agnew, carried unanimously to approve the minutes from the May 24, 2011, board meeting, as submitted.

Mr. David then took up agenda item 6.1.

1106.4 **Approval of the Consent Agenda: Motion** by Spinello, second by Kwan Lloyd, carried unanimously to adopt the day's consent agenda, as submitted, as follows:

Disability Retirements:

The board approved staff's recommendation that they grant the request for non-service connected disability retirement (per Regulation 5.2 *Death of member prior to completion of application process*) for the purpose of establishing a continuance to Shen Kao, spouse of deceased member, **Rose Kao**.

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Service Retirements:

The board approved staff's recommendation that they grant the request for a service retirement (per Regulation 5.2 *Death of member prior to completion of the application process*) for the purpose of establishing a continuance to Susan Beaulien, spouse of deceased Plan 3 member, **Edward Lusnich**. Mr. David disclosed that he had worked very closely with Mr. Lusnich.

Member Name	Effective Retirement Date	Department
Lima, Samuel	January 20, 2011	Def'd from Probation
Jensen, Anne	April 6, 2011	Def'd from Environmental
Gutierrez, Jorge	April 10, 2011	Def'd from Plan 3
Fleishman, Mark	April 12, 2011	Sheriff's Office
Jower, Bruce	April 22, 2011	Def'd from Superior Court
Janatpour, Danna	April 23, 2011	Def'd from San Mateo Medical
Enberg, Mary	April 29, 2011	Human Services Agency
Nicholas, Deborah	April 29, 2011	Def'd from Assessor
Bush, Henry	April 30, 2011	Probation
Bussani, Carol	April 30, 2011	Human Services Agency
Cabatic, Serafin	April 30, 2011	Assessor
Cachuela, Angelita	April 30, 2011	Controller
Contreras, Prima	April 30, 2011	Human Services Agency
Cortopassi, Margaret	April 30,	Human Services Agency
Hiraki, Kenneth	April 30, 2011	Probation
Kennon, Leon	April 30, 2011	Probation
Livingstone, Virginia	April 30, 2011	Human Services Agency
Lopes, Michael	April 30, 2011	Human Services Agency
Ojeda, Raymond	April 30, 2011	Probation
Redington, Guy	April 30, 2011	Probation
Seetho, Jeff	April 30, 2011	Assessor
Vasquez, Daniel	April 30, 2011	Probation
Villaluna, Miguel	April 30, 2011	Controller
Kissoon, Sandra	May 1, 2011	San Mateo Medical Center

Continuance of Benefits:

Member Name	Beneficiary of:
Beaulien, Susan	Lusnich, Edward
Concepcion, Antonio	Concepcion, Louella
Derner, Donna	Derner, Leland
Kao, Shen	Kao, Rose
Tacorda, Jose	Tacorda, Gracia

Deferred Retirements:

Member Name	Retirement Plan Type
Nofield, Keith	G4 - Reciprocity

Member Account Refunds:

Member Name	Retirement Plan Type
Sydnor, Mallory	G4 Non-vested

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Member Name	Retirement Plan Type
Arecelo, Agripino	G4 Vested
Bland, Jeanette	G4 Non-vested
Chu, Frances	G4 Non-vested
DeBord, Amalia	G4 Non-vested
Glenn, Camila	G4 Non-vested
Koziol, Maria	Beneficiary of Koziol, Mary
Smith, Troy	G4 Non-vested
Sweeney, Travis	G4 Non-vested

1106.5 **Benefit & Actuarial Services**

1106.5.1 **Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:**
 None.

1106.6 **Investment Services**

1106.6.1 **Monthly Portfolio Performance Report:** *SamCERA's* -0.86% Total Fund Return for the month slightly outperformed the Total Plan Policy Benchmark return of -0.96%.

The fund's return for the trailing twelve months and twenty-four months are 22.26% and 18.18% respectively. The twelve-month period is 1451 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, for the same period the total fund return is 17 basis points behind *SamCERA's* Total Plan Policy Benchmark of 22.43%. As a reminder, *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation, specifically private equity, is being fully implemented.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$968,820,068	-1.17%	28.51%	2.46%
<i>International Equity</i>	<u>418,041,331</u>	-2.80%	27.30%	2.57%
Total Equity	1,386,861,399	-1.69%	28.11%	2.44%
Private Equity	2,776,631	-4.45%	N/A	N/A
Risk Parity	147,619,360	0.25%	N/A	N/A
Hedge Fund	70,000,000	N/A	N/A	N/A
Fixed Income	598,766,658	0.60%	11.03%	6.75%
Real Estate Aggregate	126,673,968	0.00%	20.84%	0.15%
Cash Equivalents	8,283,950	0.08%	1.06%	1.56%
TOTAL FUND	\$2,340,981,966	-0.86%	22.26%	3.75%
<i>Benchmark</i>		-0.96%	22.43%	5.09%

* Total Time-Weighted Rate of Return

1106.6.2 **Interview Finalist for Commodities Mandate:** Mr. Thomas provided a brief overview of *SamCERA's* commodities mandate and reviewed the search process and some challenges.

The board interviewed the following four finalists for *SamCERA's* Commodities mandate: (1) Cargill Risk Management, (2) Gresham Investment Management, (3) Invesco, and (4) State

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Street Global Advisors.

Please see agenda items 6.2a, 6.2b, 6.3c and 6.3d for a summary of each interview.

Following the four interviews, the board discussed the pros and cons of each of the four finalists and reviewed their investment profiles.

Motion by Arnott, second by Agnew, carried unanimously to select State Street Global Advisors' Multisource Active Commodity Strategy for the association's commodities mandate, subject to due diligence.

- 1106.6.2a **Cargill Risk Management – ProAlpha Index:** Mr. Clifton introduced Thomas King, Commercial Manager, and Andrew Brodbeck, Institutional Marketer, of Cargill Risk Management. The firm provided a 45-minute presentation and answered trustees' questions and concerns.
- 1106.6.2b **Gresham Investment Management – Tangible Asset Program:** Mr. Clifton introduced Jonathan Berland, Managing Director, of Gresham Investment Management. The firm provided a 45-minute presentation and answered trustees' questions and concerns.
- 1106.6.2c **Invesco - Balanced-Risk Commodities:** Mr. Clifton introduced Scott Hixon, Portfolio Manager, Head of Research, and Greg Murphy, Managing Director, of Invesco. The firm provided a 45-minute presentation and answered trustees' questions and concerns.
- 1106.6.2d **State Street Global Advisors – Multisource Active Commodity Strategy:** Mr. Clifton introduced Paul Lucek, Director of Research, Senior Portfolio Manager, and Christopher Hawkins, Vice President Client Services, of State Street Global Advisors. The firm provided a 45-minute presentation and answered trustees' questions and concerns.
- 1106.6.3 **Adopt Criteria for International Developed Markets Equity Growth Manager:** Mr. Brody of Strategic Investment Solutions discussed the proposed schedule and criteria for the international developed markets equity growth manager search. He also attached a list of eleven firms that passed all formal screens. SIS proposed to send an RFI to each of the firms listed. **Motion** by Hackleman, second by Kwan Lloyd, carried unanimously to adopt the initial search criteria for the international developed markets equity growth manager search, as submitted, and send RFI's to the firms per SIS' recommendation.
- 1106.6.4 **Approve Criteria and Timeline for an International Small Cap Equity Manager Search:** Mr. Brody of Strategic Investment Solutions discussed the proposed schedule and criteria for the international small cap equity manager search. In terms of investment style, he said that the product should be primarily core with a moderate growth or value tilt and no extreme style biases. Mr. Brody said that international small cap is a newer strategy for most investment managers and therefore the initial search criteria only requires a 3-year minimum track record. **Motion** by Bowler, second by Kwan Lloyd, carried unanimously to adopt the initial search criteria for the small cap equity manager search, as submitted.
- 1106.6.5 **Approve Criteria and Timeline for an Emerging Market Equity Manager Search:** Mr. Brody of Strategic Investment Solutions discussed the proposed schedule and criteria for the emerging market equity manager search. **Motion** by Bowler, second by Spinello, carried to adopt the initial search criteria for the emerging market equity manager search.

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1106.6.6 **Approval of Alternative Asset Manager Resolutions:** Mr. Clifton informed the board that this agenda item was a housekeeping measure. The board previously adopted and authorized the chair to execute documentation for five varying investments.

Motion by Spinello, second by Kwan Lloyd, carried unanimously to adopt (1) **Resolution 10-11-08** for Sheridan Production Partners II, (2) **Resolution 10-11-15** for AQR Global Risk Premium Fund III, (3) **Resolution 10-11-16** for ABRY Partners VII, (4) **Resolution 10-11-17** for ABRY Advanced Securities Fund II, and (5) **Resolution 10-11-20** for AQR Delta Fund II, as follows:

**“Contract for Private Equity Investment Management Services
With a Strategy to Buyout Income Producing Oil & Gas Properties**

Sheridan Production Partners II

RESOLUTION 10-11-08

THIS RESOLUTION, adopted by the Board of Retirement (“Board”) of the San Mateo County Employees' Retirement Association (“SamCERA”), approves the contract between the Board and Sheridan Production Partners (“Sheridan”)

“**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**, in August 2010, the Board completed an asset-liability study, which designated 8.0% of the total portfolio to be allocated to private equity investments opportunities; and

“**WHEREAS**, the Board’s agreement with Strategic Investment Solutions (“SIS”) delegates to SIS discretion to source and perform due diligence for private equity investment opportunities; and

“**WHEREAS**, the Board delegated to staff and legal counsel full discretionary authority for all tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“**WHEREAS**, the board approved a multi-year private equity implementation plan and charged SIS and staff to begin executing that plan; and

“**WHEREAS**, in August 2010, SIS presented to the Board their due diligence for the Sheridan Production Partners II Fund and staff reviewed and prepared the required documentation to subscribe to the investment. Therefore, be it

“**RESOLVED** that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required alternative investment documentation on behalf of the Board that has been approved by staff and counsel.

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Be it further

“RESOLVED that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation 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 investment agreement and this resolution.”

**“Contract for an Alternative Investment Opportunity
With a Risk Parity Strategy**

AQR Global Risk Premium Fund III

RESOLUTION 10-11-15

THIS RESOLUTION, adopted by the Board of Retirement (“Board”) of the San Mateo County Employees' Retirement Association (“SamCERA”), approves the contract between the Board and AQR Capital Management (“AQR”)

“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, in August 2010, the Board completed an asset-liability study, which designated 6.0% of the total portfolio to be allocated to risk parity investments opportunities; and

“WHEREAS, the Board delegated to staff and legal counsel full discretionary authority for all tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“WHEREAS, in October, 2010, the Board reviewed the following five candidates to manage a risk parity strategy: AQR Capital Management: Global Risk Premium Strategy 10% Volatility, BlackRock: Market Advantage, Bridgewater: All Weather Strategy, First Quadrant: Essential Beta and PanAgora: Risk Parity; and

“WHEREAS, on December 14, 2010, the Board interviewed AQR Capital Management, Bridgewater and PanAgora as finalists before selecting AQR Global Risk Premium Fund III with a 10% volatility as the firm to implement the risk parity mandate; and

“WHEREAS, staff reviewed and prepared the required documentation to subscribe to the investment. Therefore, be it

“RESOLVED that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required alternative investment documentation on behalf of the Board that has been approved by staff and counsel.
Be it further

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“RESOLVED that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation 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 investment agreement and this resolution.”

**“Contract for Private Equity Investment Management Services
With a Strategy to Buyout Companies
In Media, Communications and Business Services**

ABRY Partners VII

RESOLUTION 10-11-16

THIS RESOLUTION, adopted by the Board of Retirement (“Board”) of the San Mateo County Employees' Retirement Association (“SamCERA”), approves the contract between the Board and ABRY Partners VII, L.P. (“ABRY VII”)

“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, in August 2010, the Board completed an asset-liability study, which designated 8.0% of the total portfolio to be allocated to private equity investments opportunities; and

“WHEREAS, the Board’s agreement with Strategic Investment Solutions (“SIS”) delegates to SIS discretion to source and perform due diligence for private equity investment opportunities; and

“WHEREAS, the Board delegated to staff and legal counsel full discretionary authority for all tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“WHEREAS, the board approved a multi-year private equity implementation plan and charged SIS and staff to begin executing that plan; and

“WHEREAS, on February 22, 2011, SIS presented to the Board their due diligence for the ABRY Partners VII Fund and staff reviewed and prepared the required documentation to subscribe to the investment. Therefore, be it

“RESOLVED that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required alternative investment documentation on behalf of the Board that has been approved by staff and counsel.

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Be it further

“RESOLVED that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation 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 investment agreement and this resolution.”

**“Contract for Private Equity Investment Management Services
With a Strategy to Acquire Leveraged Sr. Bank Loans
For Companies in Media, Communications and Business Services**

ABRY Advanced Securities Fund II

RESOLUTION 10-11-17

THIS RESOLUTION, adopted by the Board of Retirement (“Board”) of the San Mateo County Employees' Retirement Association (“SamCERA”), approves the contract between the Board and ABRY Advanced Securities Fund II, L.P. (“ASF II”)

“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, in August 2010, the Board completed an asset-liability study, which designated 8.0% of the total portfolio to be allocated to private equity investments opportunities; and

“WHEREAS, the Board’s agreement with Strategic Investment Solutions (*“SIS”*) delegates to SIS discretion to source and perform due diligence for private equity investment opportunities; and

“WHEREAS, the Board delegated to staff and legal counsel full discretionary authority for all tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“WHEREAS, the board approved a multi-year private equity implementation plan and charged SIS and staff to begin executing that plan; and

“WHEREAS, on February 22, 2011, SIS presented to the Board their due diligence for the ABRY Advanced Securities Fund II and staff reviewed and prepared the required documentation to subscribe to the investment. Therefore, be it

“RESOLVED that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required alternative investment

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documentation on behalf of the Board that has been approved by staff and counsel.
Be it further

“RESOLVED that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation 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 investment agreement and this resolution.”

**“Contract for an Alternative Investment Opportunity
With a Hedge Fund Strategy**

AQR DELTA FUND II

RESOLUTION 10-11-20

*THIS RESOLUTION, adopted by the Board of Retirement (Board)
of the San Mateo County Employees' Retirement Association (SamCERA), approves
the contract between the Board and AQR Capital Management (“AQR”)*

“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, in August 2010, the Board completed an asset-liability study, which designated 3.0% of the total portfolio to be allocated to hedge fund investments opportunities; and

“WHEREAS, the Board delegated to staff and legal counsel full discretionary authority for all tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“WHEREAS, beginning in January 2011, the Board vetted five different methods for implementing *SamCERA's* hedge fund mandate before selecting one. The board eliminated index replication strategies as not providing an adequate alpha. Multi-strategy managers, and direct investment managers were also eliminated as a first step in implementing the mandate. Those two were dismissed primarily because *SamCERA* lacks adequate experience with the various hedge funds strategies. Either of those strategies may be considered at a future date as an augmentation to *SamCERA's* hedge fund program. The methodologies that the board believed were most promising for a first step in implementing a hedge fund mandate were a fund of hedge funds manager or a hedge fund beta product; and

“WHEREAS, In April 14, 2010, the Board selected AQR Capital Management's Delta Fund II

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as the firm and product as *SamCERA's* first step in implementing a hedge fund strategy: and

“**WHEREAS**, staff reviewed and prepared the required documentation to subscribe to the investment. Therefore, be it

“**RESOLVED** that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required alternative investment documentation on behalf of the Board that has been approved by staff and counsel. Be it further

“**RESOLVED** that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation 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 investment agreement and this resolution.”

1106.7 **Board & Management Support Services**

1106.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of May 31, 2011, totaled \$2,338,577,029. Net assets held in trust for pension benefits decreased by approximately \$26.9 million, month over month. The decrease is primarily due to market depreciation in assets.

1106.7.2 **Approval to Cancel the November 2011 Board Meeting and Reschedule the December 2011 Board Meeting:** Mr. Bailey said that last year, in consideration of the holidays occurring at the end of the calendar year, the board chose to cancel the November meeting and hold the December meeting earlier in the month, essentially combining the business of both meetings to avoid dates that were close to the holidays during those two months. Mr. Bailey recommended the board reschedule in the same way in 2011.

Motion by Kwan Lloyd, second by Bowler, carried unanimously to (1) cancel the November 22, 2011, board meeting, (2) reschedule the December 27, 2011, board meeting to December 13, 2011, and (3) direct the CEO to make all appropriate communications to notify the public and all interested parties of those changes.

1106.8 **Management Reports**

1106.8.1 **Chief Executive Officer's Report:** Mr. Bailey provided a follow-up to an inquiry Mr. Tashman had made at last month's board meeting when *SamCERA's* FY2011-2012 budgets were reviewed and subsequently adopted. Mr. Tashman asked if there was any legal opinion allowing 1937 Act systems to remove certain expenses from the administrative budget into an asset management budget and thereby excluded from the administrative expense budget cap. Mr. Bailey said that Ms. Carlson is aware of at least one documented legal opinion available and will provide more information at the July board meeting.

Mr. Bailey then said that staff is working with an IT vendor to program four new retirement benefit tiers into *SamCERA's* pension administration system. He noted that some union

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negotiations are still on-going.

Mr. Bailey said that *SamCERA*'s financial auditor, Brown Armstrong, intends to request that board members complete a confirmation letter and form similar to the questions asked in the Form 700. He will discuss the matter with the auditors when they arrive for their interim fieldwork at *SamCERA*'s offices. In light of the fiscal year end on June 30th, he then requested that the board submit any reimbursement forms to staff by June 24th.

1106.8.2 **Assistant Executive Officer's Report:** Mr. Hood provided a status update on the construction of the new board room.

1106.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that the local private equity firm that SIS had discussed at last month's board meeting formally notified staff that *SamCERA* will regretfully not be permitted to invest monies in its fund. The firm cited their concerns about the appearance of conflicts of interest with upcoming building and real estate matters in San Mateo County.

Mr. Clifton reported that Mr. Thomas will not be present at the July board meeting; however, Mr. Brody will be in attendance. He then said that he recently attended a CALAPRS Investment Officers Roundtable. At the roundtable, he learned that Kern County is suing its investment consultant, Wilshire, for the lack of due diligence concerning a particular investment. In light of this information, he then discussed possibly defining the parameters of "due diligence" with the association's own investment consultant, SIS.

Mr. Clifton said that the association has been conducting several audits and suggested that it might be a good time to conduct a one-time trade cost analysis to see how *SamCERA* compares with its peers. A consulting firm that specializes in trade cost analysis is scheduled to conduct an educational presentation at the August board meeting. Mr. Bowler said that given the size of the portfolio, a commission recapture program might be a viable option.

Lastly, he reported that he and Ms. Dames attended a few fixed income educational sessions hosted by Western Asset Management. They both attended sessions on emerging markets and mortgages. Mr. Clifton also attended a session on governmental investing from a global perspective.

1106.8.4 **County Counsel's Report:** None.

1106.9 **Report on Actions Taken in Closed Session:** None.

1106.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David adjourned the meeting at 1:45 p.m., in memory of the following deceased members:

Wright, Dortha	April 28, 2011	District Attorney
Bohlen, Edward	May 1, 2011	Engineers Dept.
Okamura, Miki	May 6, 2011	Human Services Agency
MacLennan, Barbara	May 7, 2011	General Services
Einhoff, Lucille	May 9, 2011	Social Services
Tacorda, Gracia	May 9, 2011	Human Services Agency
Moore, Beatrice	May 14, 2011	Social Services
Fabbro, Sylveen	May 15, 2011	Ben of Fabbro, Bruno

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Czellecz, Joyce	May 18, 2011	Social Services
Vassalle, Lucille	May 18, 2011	Ben of Vasalle, Lino
Rehanek, Lillian	May 19, 2011	Ben of Rehanek, Edward
Hendrickson, Vivian	May 22, 2011	Social Services
Stepp, Jo Anne	May 24, 2011	Ben of Stepp, John Paul
Yee, Robert	May 24, 2011	Ben of Yee, Vivian
Derner, Leland	May 28, 2011	Sheriff's Office
Kimlinger, Patsy	May 28, 2011	Recorder's Office
Smith, Bojan	May 29, 2011	Ben of Smith, Rue

AL DAVID, CHAIR