

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

October 23, 2012

Agenda Item 3.0

September 25, 2012 – Special Meeting Agenda

PUBLIC SESSION – The Board will hold a special meeting in Public Session at 10:00 A.M.

A Call to Order

B Roll Call

C Public Comment

D Investment Services

- 6.1 Preliminary Monthly Portfolio Performance Report
- 6.2 Review of SamCERA's Securities Lending Program
- 6.3 Report on the Annual Review of SamCERA's Bond Strategy Managers (Angelo Gordon, Brown Brothers Harriman, Brigade Capital Management)
- 6.4 Approval of Change to Management Structure in the Large Cap Allocation
- 6.5 Approval of Change to Management Structure in the Core Bond Portfolio
- 6.6 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions
- 6.7 Discussion Regarding Investment Objectives Section of SamCERA's Investment Policy

E Adjournment

September 25, 2012 – Special Meeting Minutes

A Call to Order: Ms. Sandie Arnott, Chair, called the Special Meeting of the Board of Retirement to order at 10:02 a.m.

B Roll Call:

Present: Sandie Arnott, Lauryn Agnew, Paul Hackleman, Michal Settles, David Spinello and Eric Tashman.

Excused: Natalie Kwan Lloyd, Ben Bowler, Albert David

Alternates Present: Christopher Miller (for Natalie Kwan Lloyd)

Staff: David Bailey, Michael Coultrip, Brenda Carlson, Gladys Smith, Lilibeth Dames and Kristina Perez.

Consultants: Patrick Thomas and Jonathan Brody, SIS

C Public Comment: Ms. Agnew commented on a recent conference she attended. There were no comments from the public.

D Investment Services: *(Numbering for this section's agenda items is consistent with the regular meeting numbering system.)*

6.1 Preliminary Monthly Portfolio Performance Report: Mr. Coultrip discussed the report for August with the Board. He stated that performance in August was strong with the total portfolio returning 2%. This item was informational and no action was taken.

6.2 Review of SamCERA's Securities Lending Program: Ms. Dames presented SamCERA's securities lending report for FY 2011-2012. This item was informational and no action was taken.

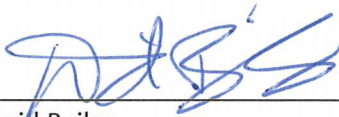
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- 6.3 Report on the Annual Review of SamCERA's Bond Strategy Managers (Angelo Gordon, Brown Brothers Harriman, and Brigade Capital Management):** Patrick Thomas, SIS, and Mr. Coultrip discussed the annual reviews of three non-core bond managers with the Board; evaluating each manager's annual performance and noting successes and concerns. Mr. Thomas stated that Angelo Gordon met with staff on September 13, 2012, and that the Angelo Gordon PPIP strategy was one of the strongest performers of all PPIP managers. A potential follow-on investment with Angelo Gordon was previewed for a discussion at a future Board meeting. Brown Brothers Harriman met with staff on September 11, 2012, and Mr. Thomas reported they have performed well. A discussion ensued regarding the vulnerability of the strategy to higher real interest rates. Brigade Capital met with staff on September 13, 2012. Mr. Thomas and Mr. Coultrip reported they were pleased with Brigade's performance and mandate. This report was informational only and no action was taken.
- 6.4 Approval of Change to Management Structure in the Large Cap Allocation:** Mr. Thomas discussed performance and personnel concerns about the BlackRock Fundamental Large Cap Growth fund, citing loss of confidence in the team and the strategy. Mr. Coultrip recommended the Board terminate the Blackrock Fundamental Large Cap Growth strategy and give a 30-day notice to Blackrock. He stated that staff would return to the Board with a proposal to search for a new manager.
Action: Mr. Tashman moved to terminate the large cap allocation with BlackRock, and direct staff to initiate a search for a U.S. large-cap growth equity strategy; the motion was seconded by Mr. Spinello and carried unanimously.
- 6.5 Approval of Change to Management Structure in the Core Bond Portfolio:** Mr. Thomas discussed concerns regarding organizational changes, significant personnel changes, and sizable client and asset losses have resulted in reduced conviction for the Aberdeen Core Bond strategy. Mr. Thomas stated that SamCERA has recouped most of the losses from Aberdeen's 2008 underperformance. Mr. Coultrip recommended the Board terminate the Aberdeen Core Bond strategy and give a 30-day notice to Aberdeen. He stated that the assets would be redeployed to higher-conviction existing managers in the asset class
Action: It was moved by Mr. Spinello, and seconded by Ms. Settles to terminate the Core Bond Portfolio account with Aberdeen. The motion carried unanimously.
- 6.6 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions:** Mr. Coultrip discussed the annual review of SIS with the Board, asking for Board member comments to the list of questions proposed to be submitted to SIS. Board members gave comments about the questions. Topics included: risks and actuarial assumptions; sustainability in investments; long term (5-year and 10-year) work plan of SIS; inclusion of conflict of interest code and code of conduct questions; proxy voting; and suggested educational opportunities for trustees.
Action: Mr. Hackleman moved to approve the topics for the Investment Consultant review, and to include changes as per Board member's comments. The motion was seconded by Ms. Agnew and carried unanimously.

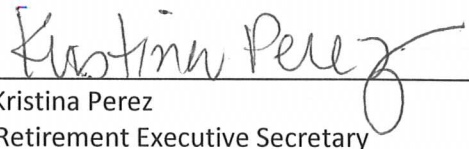
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6.7 Discussion Regarding Investment Objectives Section of SamCERA's Investment Policy: Mr. Coultrip opened up the discussion and asked the Board for their input regarding the types of investment objectives that should be included in the Investment Policy. The dialogue about the objectives section of SamCERA's Investment Policy included these topics and comments: Board members liked the examples of other funds' objectives; discussion of length of amortization of the unfunded liability; setting the funding policy; inclusion of asset allocation; reviewing the policy annually; desire to shorten the length of the document; reinforce the desire for long-term market moves; addressing risk in the policy; evaluation of fee structures; diversity; passive vs. active investing; transitional portfolio with a non-traditional augmentation; private equity; and the monitoring of the growing number of managers. Mr. Coultrip thanked the Board members for their input. This item was for discussion only and no action was taken.

E Adjournment: With no further business, Ms. Arnott adjourned the Special Meeting at 11:36 a.m.



David Bailey
Chief Executive Officer



Kristina Perez
Retirement Executive Secretary