

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

March 29, 2011

Agenda Item 3.0

February 22, 2011 – 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
 - Marina Diaz-Bados
 - Loretta Keenan
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - Trustee Request for Conference Approval
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 Quarterly Investment Performance Analysis for Period Ended December 31, 2010
 - 6.3 Investment Manager Review – Mondrian Investment Partners
 - 6.4 Approval of Investment Management Agreement(s) for the Risk Parity Mandate
 - 6.5 Select Commodities RFP Recipients
 - 6.6 Approval of Private Equity Investment Opportunity - Buyouts (Media, Communications, Business Services)
 - 6.7 Approval of Private Equity Investment Opportunity - Leveraged Sr. Bank Loans (Media, Communications, Business Services)
 - 6.8 Approval of the Investment Committee's Plan for Fiscal Year 2011/2012
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Approval of First 5 UAAL Calculation Methodology and Resultant Amount
 - 7.3 Approval of the Audit Committee's Plan for Fiscal Year 2011/2012
 - 7.4 Introduction of *SamCERA*'s Sources, Uses & Budget for Fiscal year 2011/2012
 - 7.5 Annual Review & Reaffirmation of *SamCERA*'s Mission, Goals and Objectives
 - 7.6 Annual Review & Reaffirmation of *SamCERA*'s Code of Fiduciary Conduct
 - 7.7 Annual Review & Reaffirmation of *SamCERA*'s Conflict of Interest Code
 - 7.8 Annual Review & Reaffirmation of *SamCERA*'s Strategic Services Resolution
 - 7.9 Annual Review & Reaffirmation of *SamCERA*'s Internal Controls Policy
 - 7.10 Annual Review & Reaffirmation of *SamCERA*'s Travel Policy
 - 7.11 Annual Review and Reaffirmation of *SamCERA*'s Educational Policy
 - 7.12 Annual Review and Reaffirmation of *SamCERA*'s Expense Reimbursement Policy
 - 7.13 Approval to Authorize *SamCERA*'s Chief Executive Officer to Amend the Lease for Office Space
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report

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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

February 22, 2011 – Board Minutes

1102.1 **Call to Order:** Ms. Arnott, Vice Chair, called the Public Session of the Board of Retirement to order at 1 p.m., February 22, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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

1102.2.1 **Oral Communications From the Board:** None.

1102.2.2 **Oral Communications From the Public:** None.

1102.3 **Approval of the Minutes:** Mr. Bowler submitted the following correction to the minutes: 11017.3 L3: “investigate the possibility of impacting investing to the association’s portfolio.” **Motion** by Agnew, second by Hackleman, carried unanimously to approve the board minutes from the January 25, 2011, meeting, as amended.

1102.4 **Approval of the Consent Agenda: Motion** by Salas, second by Agnew, carried unanimously to approve the day’s Consent Agenda, as submitted, as follows. Mr. Hackleman abstained from the vote regarding the matter of the disability application of Loretta Keenan.

Disability Retirements:

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

The board approves and adopts the decision of Hearing Officer Roy Abrams and denies a non-service disability retirement to **Loretta Keenan**.

Service Retirements:

Member Name	Effective Retirement Date	Department
Boyle, Michael	December 4, 2010	Def'd from Elections
Krause, Lori	December 5, 2010	Def'd from Sheriff's Office
Singh, Kamlesh	December 8, 2010	San Mateo Medical Center

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Torrelío, Elisa	December 9, 2010	Def'd from Behavioral Health
Chow, Betty	December 10, 2010	Admin and Emergency Svcs.
Cooke, Louis	December 30, 2010	Def'd from Superior Court
Conley, Kathryn	December 31, 2010	Def'd from Environmental
Amberg, Barbara	January 1, 2011	Library
Chiotti, Mark	January 1, 2011	Human Services Agency
Fox, James	January 1, 2011	District Attorney
Hesler, Shelley	January 1, 2011	Behavioral Health
Leduna, Alicia	January 1, 2011	San Mateo Medical Center
McHenry, Margaret	January 1, 2011	District Attorney
Moore, David	January 1, 2011	Parks Dept.
Moser, Christine	January 1, 2011	Superior Court
Penalosa, Georgina	January 1, 2011	Probation
Buffington, Lee	January 4, 2011	Tax Collector
Slocum, Warren	January 4, 2011	Assessor
Woodward, Carol	January 4, 2011	County Counsel

Continuance of Benefits:

Member Name	Beneficiary of:
Hamid, Khawer	Hamid, Asghar
Murphy, John	Murphy, Marjorie

Deferred Retirements:

Member Name	Retirement Plan Type
None	

Member Account Refunds:

Member Name	Retirement Plan Type
Angeles, Ferdinand	G4 Non-vested
Boone, Maryanne	G4 Non-vested
Ceja, Anastacio	G4 Non-vested
Cherry, Courtney	G4 Non-vested
Diaz, Madeleine	G4 Non-vested
Faumuina, Tolopa	P4 Vested
Houston, Kimberly	G4 Non-vested
Laffoon, Valerie	G4 Non-vested
Lee, Lindsay	G4 Non-vested
Estate of Lucas, Henry	G1 Vested
Martinson, Katherine	G4 Non-vested
Melgarejo, Larry	G4 Non-vested
Newman, Charles	G4 Vested
Villagomez, Emanuela	G4 Non-vested

Member Account Rollovers:

Member Name	Retirement Plan Type
Brumidis, Sydney	G4 Non-vested
Estrada, Rosa	G4 Non-vested
Gilliland, Stephanie	Ben of Reeves, Claire
McCord, James	G4 Non-vested

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Smith, Debi

QDRO of Smith, Carlos

Trustee Request for Conference Approval

1102.5 **Benefit & Actuarial Services**

1102.5.1 **Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:** None.

1102.6 **Investment Services**

1102.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA*'s 1.13% Total Fund Return for January 2011 underperformed the Total Plan Policy Benchmark return of 1.17%. The fund's return for the trailing twelve months is a robust 17.47%, which is 972 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, the total fund return is 99 basis points behind *SamCERA*'s Total Plan Policy Benchmark of 18.46%. The 99 basis point underperformance is highly attributed to the international equity portfolios.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$1,010,517,767	2.00%	25.28%	1.10%
<i>International Equity</i>	<u>438,383,566</u>	0.84%	14.05%	2.43%
Total Equity	1,448,901,332	1.65%	21.66%	1.41%
Private Equity	250,000	0.00%	N/A	N/A
Fixed Income	621,060,237	0.18%	9.22%	5.66%
Real Estate Aggregate	122,302,877	0.00%	16.70%	0.47%
Cash Equivalents	60,002,894	0.06%	1.08%	1.78%
TOTAL FUND	\$2,252,517,340	1.13%	17.47%	2.76%
<i>Benchmark</i>		1.17%	18.46%	4.11%

* Total Time-Weighted Rate of Return

1102.6.2 **Quarterly Investment Performance Analysis for Period Ended December 31, 2010:** Mr. Brody and Mr. Thomas of Strategic Investment Solutions gave a brief overview of the quarterly investment performance report for the period ended December 31, 2010. SIS performed a thorough review of the portfolio's performance with the Investment Committee. The composite fund returned 6.9% in the fourth quarter of 2010 and ranked 15th among other public funds greater than \$100 million (median of 6.0%). The one-year return of 13.6% was behind the policy index return of 14.3% and ranked in the 39th percentile of the universe. Longer term, the three and five-year returns of -1.0% (85th percentile) and 3.2% (95th percentile), respectively, were below median among large public plans (0.5% and 4.5%).

Mr. Clifton said that staff and consultant will conduct a due diligence site visit with Artio Global in April. Staff will then provide a full due diligence report to the board.

1102.6.3 **Investment Manager Review – Mondrian Investment Partners:** Mr. Clifton reported that the Investment Committee conducted the annual investment review for Mondrian Investment Partners. Jim Brecker, Senior Vice President, Client Service, and Russell Mackie, Senior Portfolio Manager, were present at the committee from Mondrian Investment Partners for

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their annual review.

- 1102.6.4 **Approval of Investment Management Agreement(s) for the Risk Parity Mandate:** Mr. Clifton said that Mr. Thomas reported on staff and consultant's on-site due diligence visit to AQR at the investment committee. Mr. Thomas was impressed by the firm and product, overall. Mr. Clifton said that staff and Mr. Whitlock of County Counsel are working with AQR to finalize the documentation required to formalize the agreement for AQR to invest a portion of *SamCERA's* portfolio. He reported that the investment committee recommended that the board approve the investment management agreement with AQR for the risk parity mandate and authorize the board chair to execute the documentation upon approval of counsel.

Motion by Hackleman, second by Agnew, carried unanimously to approve the IMA with AQR Capital Management for the risk parity mandate.

Ms. Carlson then discussed the clause in *SamCERA's* Conflict of Interest Code that requires that "consultants" file the Annual Disclosure of Economic Interest Statement Form 700 with the Fair Political Practices Commission, and that the term consultants also include investment managers. The board then discussed possible pushback from private equity managers. Ms. Carlson will conduct further research on the matter.

- 1102.6.5 **Select Commodities RFP Recipients:** Mr. Thomas reviewed the search criteria for the commodity manager search. He said that the set of screens produced 11 products managed by 10 firms, which he proposed as candidates to receive the Request for Information (RFI). Mr. Clifton added questions regarding the compliance to the California Statement of Economic Interests Form 700 and California placement agent policies.

Motion by Hackleman, second by Bowler, carried unanimously to approve the list of 11 semi-finalists to receive the amended RFI for a commodity mandate. Once firms respond to the RFI, SIS will bring back detailed analysis of each firm to the board.

- 1102.6.6 **Approval of Private Equity Investment Opportunity - Buyouts (Media, Communications, Business Services):** Faraz Shooshani of Strategic Investment Solutions was present to discuss the in-depth review and analysis that SIS performed for the private equity investment, ABRY Partners VII, L.P. The fund has a focus to buyout media, communications and business services. SIS recommended that the board approve to commit \$10 million to ABRY Partners VII, L.P. pending legal due diligence by staff and counsel. Mr. Shooshani discussed fund strategy, performance and fee structure. He then answered trustees' questions and concerns. *SamCERA* has an 8% allocation to Private Equity, with a sub-asset class allocation of 60% buyouts, 20% venture capital and 20% debt-related/special situations. The commitment to ABRY Partners VII, L.P. would be allocated to buyouts.

Motion by Spinello, second by Bowler, carried unanimously to authorize the board chair to execute the documentation for ABRY Partners VII, L.P. with a fund focus of Buyouts (Media, Communications, Business Services)

- 1102.6.7 **Approval of Private Equity Investment Opportunity - Leveraged Sr. Bank Loans (Media, Communications, Business Services):** Faraz Shooshani of Strategic Investment Solutions was present to discuss the in-depth review and analysis that SIS performed for the private equity investment ABRY Advanced Securities Fund II, L.P. The fund has a focus on

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leveraged senior bank loans by media, communications and business services. SIS recommended that the board approve to commit \$20 million to ABRY Advanced Securities Fund II, L.P. pending legal due diligence by staff and counsel. Mr. Shooshani discussed fund strategy, performance and fee structure. He then answered trustees' questions and concerns. *SamCERA* has an 8% allocation to Private Equity, with sub-asset class allocation of 60% buyouts, 20% venture capital and 20% debt-related/special situations. The commitment to ABRY Advanced Securities Fund II, L.P. would be allocated to debt-related/special situations.

Motion by Spinello, second by Bowler, carried unanimously to authorize the board chair to execute the documentation for ABRY Advanced Securities Fund II, L.P. with a fund focus on Leveraged Senior Bank Loans (Media, Communications, Business Services).

- 1102.6.8 **Approval of the Investment Committee's Plan for Fiscal Year 2011/2012:** Mr. Clifton said that the investment committee discussed the delegation of annual investment manager reviews to staff and consultant, given the increased number of active managers in *SamCERA*'s portfolio. Staff would provide a full report of each review for the board. Investment managers with extreme under- or over-performance, significant organizational changes, or other potential factors of concern, would be reviewed by the investment committee or the board. Ms. Agnew said that with over twenty investment managers, conducting each annual review would be overbearing for the board. Delegation of the annual reviews would allow the committee and board more time for strategic conversations.

Motion by Salas, second by Spinello, carried unanimously to approve the Investment Committee's Plan for Fiscal Year 2011/2012 and the committee's recommendation to delegate annual investment manager reviews to staff and consultant, going forward. The board may request to conduct the annual reviews of specific investment managers at the board level at any time.

1102.7 **Board & Management Support Services**

- 1102.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of January 31, 2011, totaled \$2,249,420,527. Net assets increased by approximately \$81.5 million, month over month, primarily attributed to a \$65 million prepayment of employer contributions that occurred at month end.

- 1102.7.2 **Approval of First 5 UAAL Calculation Methodology and Resultant Amount:** Mr. Bailey said that First 5 San Mateo, a county agency that may be eliminated by state budget cuts, is considering paying off the Unfunded Actuarial Accrued Liability (UAAL) associated with its county employees.

Motion by Hackleman, second by Kwan Lloyd, carried unanimously to approve Resolution 10-11- , adopting a calculation method and UAAL amount for First 5 San Mateo, as follows:

"WHEREAS, First 5 San Mateo is considering the payment of its proportionate share of the county of San Mateo's Unfunded Actuarial Accrued Liability ; and

"WHEREAS, Section 31564.2 of the California Government Code sets forth a methodology for the development of a proportional Unfunded Actuarial Accrued Liability for a district

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withdrawing from a retirement system; and

“WHEREAS, the Board of Retirement finds that 31564.2 provides guidance in appropriately calculating First 5 San Mateo’s proportionate share of the total general member Unfunded Actuarial Accrued Liability of the San Mateo County Employees’ Retirement Association as of June 30, 2011; and

“WHEREAS, Milliman, Inc. has determined the Unfunded Actuarial Accrued Liability of First 5 San Mateo as of June 30, 2011, to be \$1,273,457; it is now, therefore

“RESOLVED that the board hereby adopts the methodology and results regarding the calculation of the Unfunded Actuarial Accrued Liability of First 5 San Mateo County, including all provisional statements, as set forth in the February 18, 2011, letter from Nick Collier, Milliman, Inc. to David Bailey, Chief Executive Officer, *SamCERA*.”

1102.7.3 **Approval of the Audit Committee’s Plan for Fiscal Year 2011/2012:** Mr. Clifton presented the Audit Committee’s Plan for Fiscal Year 2011/2012. The current audit committee consists of Ms. Kwan Lloyd, Chair; Ms. Arnott, Mr. Tashman and Mr. Spinello. **Motion** by Tashman, second by Bowler, carried unanimously to approve the Audit Committee’s Plan for the upcoming fiscal year.

1102.7.4 **Introduction of *SamCERA*’s Sources, Uses & Budget for Fiscal year 2011/2012:** Mr. Clifton introduced *SamCERA*’s Sources, Uses and Budget Report for FY 2011/2012. Mr. Clifton reminded trustees to complete and return their FY 2011/2012 educational conference request forms to Ms. Dames for budget planning purposes.

1102.7.5 **Annual Review & Reaffirmation of *SamCERA*’s Mission, Goals and Objectives:** Mr. Clifton presented the latest iteration of Resolution 95-96-05, *SamCERA*’s Mission, Goals and Objectives, as amended on January 27, 2009. There were no recommended amendments this year. The board unanimously reaffirmed *SamCERA*’s Mission, Goals, and Objectives, as submitted.

1102.7.6 **Annual Review & Reaffirmation of *SamCERA*’s Code of Fiduciary Conduct:** Mr. Clifton presented *SamCERA*’s Code of Fiduciary Conduct, Resolution 96-97-02, as amended on February 23, 2010. Mr. Tashman recommended changing the gift limit dollar amount to reflect the FPPC website.

Motion by Tashman, second by Salas, carried unanimously to reaffirm *SamCERA*’s Code of Fiduciary Conduct, as amended.

1102.7.7 **Annual Review & Reaffirmation of *SamCERA*’s Conflict of Interest Code:** This agenda item was deferred to a future board meeting upon counsel’s review regarding the Form 700 requirements for investment managers.

1102.7.8 **Annual Review & Reaffirmation of *SamCERA*’s Strategic Services Resolution:** Mr. Clifton presented Resolution 95-96-06, *SamCERA*’s Strategic Services Resolution, as amended on March 22, 2005. Following review, no changes were recommended by the board. The board unanimously reaffirmed *SamCERA*’s Strategic Services Resolution, as submitted.

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- 1102.7.9 **Annual Review & Reaffirmation of *SamCERA*'s Internal Controls Policy:** Mr. Clifton presented Resolution 95-96-16, *SamCERA*'s Internal Controls Policy, as amended on April 22, 2003. Mr. Clifton also presented the Internal Controls Guidelines for the board's review. Following review, no changes were recommended by the board. The board unanimously reaffirmed *SamCERA*'s Internal Controls Policy and Guidelines, as submitted.
- 1102.7.10 **Annual Review & Reaffirmation of *SamCERA*'s Travel Policy:** Mr. Clifton presented Resolution 06-07-01, *SamCERA*'s Travel Policy, as amended on March 24, 2009. The current reimbursement rates for the Continental United States (CONUS) as set forth in the Code of Federal Regulations were updated and also presented to the board. The board unanimously reaffirmed *SamCERA*'s Travel Policy, as submitted.
- 1102.7.11 **Annual Review and Reaffirmation of *SamCERA*'s Educational Policy:** Mr. Clifton presented Resolution 98-99-12, *SamCERA*'s Educational Policy, as amended on August 24, 2010. Mr. Tashman asked if trustees can attend or view educational sessions online or electronically. Mr. Bailey said that SACRS videotapes its sessions and makes presentation materials available online. Mr. Clifton will amend the policy to include language regarding online education and bring it back for board approval. Mr. Tashman encouraged trustees to take advantage of online educational opportunities.
- 1102.7.12 **Annual Review and Reaffirmation of *SamCERA*'s Expense Reimbursement Policy:** Mr. Clifton said that in February 2010, Ms. Wong introduced *SamCERA*'s Expense Reimbursement Policy as a result of an internal control review. The policy provides an explicit guideline for the reimbursement of business expenses incurred in the performance of official duties of *SamCERA*'s trustees and staff. The policy works in conjunction with the Travel Policy.
- 1102.7.13 **Approval to Authorize *SamCERA*'s Chief Executive Officer to Amend the Lease for Office Space:** Mr. Hood said that additional permanent space is required to house additional staff, create space for information technology development and take advantage of space now available with the current location. Staff had been negotiating with the landlord to add suite 160 to the current lease and Mr. Hood provided the terms and conditions for the lease amendment. He requested that the board authorize the CEO to execute the amendment to the current lease under those terms and conditions. He estimates that the total cost to *SamCERA* to prepare both suites for occupancy to be approximately \$140,000 after the tenant improvement allowance. Staff anticipates that there is enough funding in the current budget to cover this cost. Should additional funding be required, staff will make a separate request to the board at a subsequent meeting.

Motion by Agnew, second by Hackleman, carried unanimously to authorize the CEO to negotiate and amend *SamCERA*'s current lease to add Suite 160 per the terms in the letter provided by staff.

1102.8 **Management Reports**

- 1102.8.1 **Chief Executive Officer's Report:** Mr. Bailey commended Mr. Hood for his work in lease negotiations for *SamCERA*'s additional office space. He then said that the County of San Mateo and City of San Carlos are in discussions regarding the UAAL of retirement costs from

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CalPERS. San Carlos recently contracted its police force with the County. Mr. Bailey then provided an update on the vacancy on the board. The application process has been re-opened with a new deadline of March 14th. He reported on *SamCERA*'s staff retreat that took place earlier in the month. He said that the two-day retreat was very productive and resulted in a list of several projects for the upcoming fiscal year. He will bring a draft strategic plan to the board in a few months. Mr. Bailey expressed appreciation for the participation by all staff. Lastly, Mr. Bailey said that Rich Goss' wife, Sharlyn Goss, recently passed away and expressed his condolences. Mr. Goss was the former administrator of CALAPRS.

1102.8.2 **Assistant Executive Officer's Report:** Mr. Hood said he conducted a survey regarding board meeting security measures. Mr. Spinello opined that security was of real concern given the current environment. Mr. Tashman said that safety is of great importance and that the board should allow staff to hire security personnel through the County's sheriff office for next month's meeting. The board agreed with Mr. Tashman's recommendation. A ratification item regarding security measures will be placed on the March board agenda. Mr. Hood then distributed the most recent Financial Knowledge Network educational flyer.

1102.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that he was notified by AXA Rosenberg that an independent firm completed its review of their investment model's coding error that was discovered in 2009. It was determined that the error had no financial impact on *SamCERA*'s portfolio. The error had been corrected in September 2009 and *SamCERA* had entered into a contract with AXA Rosenberg in August 2009. *SamCERA* terminated the manager after being notified of the coding error. It was determined that the firm owes \$242 million in settlements to clients and the SEC due to the error.

1102.8.4 **County Counsel's Report:** Ms. Carlson thanked Mr. Bailey and the rest of staff for their efforts through the Human Resources' process regarding union negotiations. Most unions have come into agreement with a few M.O.U.'s left for negotiation. She reported that the Board of Supervisors is going through a budget priority process by department. *SamCERA* will field several questions regarding early retirement options and lay-offs. Staff has been very helpful throughout this process.

1102.9 **Report on Actions Taken in Closed Session:** None.

1102.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Arnott adjourned the meeting at 3:08 p.m., in memory of the following deceased members:

Stone, William	December 31, 2010	Public Works
Braasch, Gladys	January 4, 2011	Library
Stevens, Thomas	January 5, 2011	Engineer-Road
Lewis, Robert	January 10, 2011	Controller
Roeder, Lois	January 15, 2011	Ben. of Roeder, Harvey
Newman, Margaret	January 24, 2011	Ben. of Newman, Alfred
Silva, James	January 24, 2011	Ben. of Silva, Shirley

SANDIE ARNOTT, VICE CHAIR