

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

May 24, 2011

Agenda Item 3.0

April 25 and 26, 2011 – Board Agenda

RETREAT DAY ONE

PUBLIC SESSION – The Board will meet in Public Session at 9 a.m. on April 25th

1. Call to Order, Roll Call and Miscellaneous Business
2. Retreat Activities
 - 2.1 Retreat Presentations and Discussions including:
 - Public Pension Investment Trends
 - *SamCERA's* Investment History and Hedge Fund Issues
(Please Note: Agenda item 6.2, Selection of Hedge Fund Implementation Strategy, and agenda item 6.3, Approval of Hedge Fund Provider (if required) may be considered at this point in the agenda, at the discretion of the Board Chair.)
 - Open Discussion
 - Fiduciary Duties
 - *SamCERA* Survey Results
 - Open Discussion
 - 2.2 Recess until 9 a.m., April 26th

RETREAT DAY TWO

PUBLIC SESSION – The Board will resume in Public Session at 9 a.m. on April 26th

1. Call to Order, Roll Call and Miscellaneous Business
2. Retreat Activities & Oral Communications
 - 2.1 Retreat Presentations and Discussions including:
 - Assumed Earnings Rates
 - Plan Changes
 - Open Discussion
 - Inflation vs. Deflation
 - 2.2 Oral Communications From the Board
 - 2.3 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda (Set for 2:30 p.m. April 26 time certain.)*
(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
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - SACRS Recommended Ballot -- 2011-12 Officers
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 Selection of Hedge Fund Implementation Strategy
 - 6.3 Approval of Hedge Fund Provider (if required)
 - 6.4 Approval of Action Regarding *SamCERA's* International Equity Structure
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Adoption of Section 31529.9 Regarding Provision of Legal Services

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

- 7.3 Approval to Establish and Fill the Position of Chief Legal Counsel
 - 7.4 Approval of SACRS Voting Delegate and Alternates
 - 7.5 Reaffirmation and Approval of Conflict of Interest Policy
 - 7.6 Acceptance of Entrance Letter for the June 30, 2011, Financial Audit
 - 7.7 Quarterly Budget Report for Period Ended March 31, 2011
 - 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

April 25 and 26, 2011 – Board Minutes

1104.1 **Call to Order:**

Retreat Day One: Ms. Kwan Lloyd, Secretary, called the Public Session of the Board of Retirement to order at 9:03 a.m. on April 25, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Retreat Day Two: Ms. Arnott, Vice Chair, called the Public Session of the Board of Retirement to order at 9:05 a.m. on April 26, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Roll Call:

Retreat Day One: Ms. Agnew, Ms. Arnott (arr. 3:20 p.m.), Mr. Bowler, 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 and Ms. Dames, Mr. Clifton. *Consultants:* Ms. Carlson, Mr. Masarik and Mr. Thomas. *Retirees:* 0, *Public:* 0.

Retreat Day Two: Ms. Agnew, Ms. Arnott, Mr. Bowler (arr. 2:30 p.m.), Mr. Hackleman, Ms. Kwan Lloyd, Mr. Spinello and Mr. Tashman. *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames, Mr. Clifton, Ms. Wong, Ms. LeBlanc and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Mr. Brody and Mr. Thomas. *Retirees:* 0, *Public:* 1.

1104.2.1 **Retreat Presentations and Discussions:** The retirement board met on Monday, April 25th and Tuesday, April 26th for its 2011 board/staff retreat. The following individuals were present to conduct an educational workshop for trustees. Please note that the regular board meeting agenda was conducted at the conclusion of the board/staff retreat on April 26th.

Retreat Day One: April 25, 2011	
Topic	Speaker
Public Pension Plan Investment Trends	Mark Friebel, Head of Global Investment Strategies, Pyramis
<i>SamCERA's</i> Investment History/Hedge Fund	Patrick Thomas, Vice President, Strategic Investment Solutions

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

Implementation Discussion	Gary Clifton, Chief Investment Officer, <i>SamCERA</i>
Fiduciary Duties	Brenda Carlson, Chief Deputy County Counsel, San Mateo County
Inflation v. Deflation	Scott Grannis, former Chief Economist, Western Asset Management
Open Discussion	

Retreat Day Two: April 26, 2011	
Topic	Speaker
Assumed Earnings Rates, Pension Liabilities and GASB Preliminary Views	Nick Collier, Principal, Consulting Actuary, Milliman, Inc.
Plan Changes	Gladys Smith, Retirement Benefits Manager, <i>SamCERA</i>
<i>SamCERA</i> Survey Results	Scott Hood, Assistant Executive Officer, <i>SamCERA</i> David Bailey, Chief Executive Officer, <i>SamCERA</i>
Open Discussion	
Regular Board Meeting Agenda	

1104.2.2 **Oral Communications From the Board:** Ms. Kwan Lloyd reported that she attended the Pension Bridge Annual Conference in San Francisco earlier in the month. Ms. Agnew, Ms. Arnott and Mr. Spinello also attended the conference. The trustees found the sessions very informative and educational. Ms. Agnew recommended that trustees attend the conference in the future.

1104.2.3 **Oral Communications From the Public:** None.

1104.3 **Approval of the Minutes:** Mr. Bailey said that the staff noticed that the October 25, 2010, minutes omitted the election of the current officers of the board as well as the appointment of one Investment Committee member. He submitted the minutes with the addition of those items. Ms. Arnott submitted the following correction to the October meeting minutes: 1010.1.2 ¶2 “Mr. David re-appointed Ms. Kwan Lloyd, Chair; Mr. Spinello, Ms. Arnott and Mr. Tashman to the Audit Committee...” **Motion** by Hackleman, second by Spinello, carried unanimously to approve the minutes from the October 25, 2010, board meeting, as amended.

Motion by Hackleman, second by Spinello, carried unanimously to approve the minutes from the March 29, 2011, board meeting, as submitted.

1104.4 **Approval of the Consent Agenda:** **Motion** by Hackleman, second by Bowler, carried unanimously to approve the day’s consent agenda, as submitted, as follows:

Disability Retirements:

The board finds that Oscar Campos is unable to perform his usual and customary duties as an Equipment Mechanic II and grants his application for a service-connected disability retirement.

Service Retirements:

Member Name	Effective Retirement Date	Department
Franklyn, Bernard	January 8, 2011	Aging & Adult Services

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

Kamiya, Stanley	February 8, 2011	Mosquito Abatement
Keenan, Loretta	February 10, 2011	Behavioral Health Services
Reith, Sunia	February 12, 2011	San Mateo Medical Center
Street, Michael	February 16, 2011	Sheriff's Office
Pesso, Kenneth	February 19, 2011	Probation
Talcove, Davida	February 26, 2011	San Mateo Medical Center

Continuance of Benefits:

Member Name	Beneficiary of:
Panero, Anna	Panero, Joseph
Thomas, Lance	Thomas, Billie

Deferred Retirements:

Member Name	Retirement Plan Type
Yamani, David	G4 - Vested

Member Account Refunds:

Member Name	Retirement Plan Type
Cassin, Michael	G4 Non-vested
Gomez, Danielle	G4 Non-vested
Kerr, Valerie	G4 Non-vested
Magat, Maria	G4 Non-vested
Stuart, Elizabeth	G4 Non-vested

Member Account Rollovers:

Member Name	Retirement Plan Type
Bokser, Julie	G4 Non-vested
Hoang, Rosalind	G4 Vested
Morales, Anthony	G4 Non-vested

1103.5 **Benefit & Actuarial Services**

1103.5.1 **Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:**
 None.

1103.6 **Investment Services**

1103.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 0.74% Total Fund Return for the month slightly outperformed the Total Plan Policy Benchmark return of 0.65%.

The fund's return for the trailing twelve months and twenty-four months are 14.11% and 23.97% respectively. The twelve-month period is 636 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, for the same period the total fund return is 86 basis points behind *SamCERA's* Total Plan Policy Benchmark of 14.97%. The outperformance is evenly attributed to the equity and fixed income portfolios. As a reminder, *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation is being fully implemented.

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

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$1,008,158,022	0.91%	18.28%	1.34%
<i>International Equity</i>	<u>447,665,408</u>	0.22%	10.37%	1.85%
Total Equity	1,455,823,430	0.70%	15.79%	1.42%
Private Equity	255,000	-53.69%	N/A	N/A
Risk Parity	140,894,740	0.65%	N/A	N/A
Fixed Income	584,010,470	0.25%	10.01%	5.98%
Real Estate Aggregate	126,673,968	3.62%	19.95%	-0.40%
Cash Equivalents	2,792,200	0.08%	1.06%	1.67%
TOTAL FUND	\$2,310,449,808	0.74%	14.11%	3.02%
<i>Benchmark</i>		0.65%	14.97%	4.43%

* Total Time-Weighted Rate of Return

1104.6.2 **Selection of Hedge Fund Implementation Strategy:** The board thoroughly discussed the pros and cons of implementing *SamCERA's* hedge fund mandate through a Fund of Hedge Funds (FoHF) or a Hedge Fund Beta product. At the March board meeting, the board discussed Fund of Hedge Funds implementation with representatives from Aetos Capital and the use of a beta product to implement a hedge fund program with representatives from AQR Capital Management, LLC. Staff provided a side-by-side comparison chart of the two hedge fund implementation strategies. Mr. Masarik and Mr. Thomas reviewed the matrix with trustees and answered questions and concerns.

Motion by Hackleman, second by Kwan Lloyd, carried with five ayes and one no (Agnew), to select a hedge fund beta product as *SamCERA's* hedge fund implementation strategy.

1104.6.3 **Approval of Hedge Fund Provider (if required):** Following the board's selection of a hedge fund beta product as the association's hedge fund implementation strategy under agenda item 6.2, Mr. Clifton recommended that the board direct staff to enter into an agreement with AQR Capital Management for that service. He said that SIS believes the beta product is sufficiently unique and AQR is currently the only provider of that strategy.

In terms of fees, Mr. Tashman requested that staff negotiate the incentive hurdle rate with AQR. Mr. Thomas said that there is typically no incentive hurdle rate for such products but will attempt to negotiate for a higher hurdle. Because of the low probability of successful negotiation, Mr. Hackleman expressed preference to approve the agreement even if negotiations of the hurdle rate are unsuccessful.

Motion by Hackleman, second by Spinello, carried with five ayes and one no (Tashman), to direct staff to negotiate the fee structure regarding the incentive hurdle rate and authorize staff to execute an agreement even if fee negotiations prove unsuccessful.

Pursuant to the board's direction, staff and consultant contacted AQR regarding the fee arrangement. Mr. Clifton then reported that AQR agreed to a higher hurdle rate but with an increased incentive fee. Mr. Thomas calculated that the proposed fee schedule benefits *SamCERA* relative to the original fee structure.

1104.6.4 **Approval of Action Regarding *SamCERA's* International Equity Structure:** Mr. Thomas

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

and Mr. Brody discussed *SamCERA*'s international equity structure and recent performance of the managers under that strategy. Artio Global Investors and Mondrian Investment Partners were both recently visited by SIS and trustees received due-diligence reports from both site visits.

SIS discussed Artio's underperformance with the board. Mr. Brody and Mr. Thomas also addressed trustees' questions and concerns regarding the portfolio. Following extensive discussion, Mr. Thomas and Mr. Brody recommended that the board conduct an international growth manager search for a possible replacement.

Regarding *SamCERA*'s international value equity manager, SIS said that the reasons for Mondrian's underperformance were primarily due to its defensive, value positioning. Mr. Thomas and Mr. Brody indicated that they still maintained trust in Mondrian's implementation of the strategy and that Mondrian's defensive characteristics position the portfolio to perform well in a weaker market, adding to *SamCERA*'s diversification.

Following discussion regarding *SamCERA*'s international equity managers, **motion** by Spinello, second by Agnew, carried unanimously to commence an international growth manager search and to reconsider Artio at the finals.

1104.7 **Board & Management Support Services**

1104.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of March 31, 2011, totaled \$2,303,596,550. Net assets increased slightly by approximately \$7.2 million, month over month. The increase is primarily due to market appreciation of assets.

1104.7.2 **Adoption of Section 31529.9 Regarding Provision of Legal Services:** Mr. Bailey said that the Board of Retirement may adopt Section 31529.9 of the 1937 Act which would grant the board authority to add staff or private sector sources of legal services. The 1937 Act originally designated county counsel as the sole source of legal services for retirement systems operating under the act. However, the code was amended to allow all 1937 Act retirement boards to adopt Section 31529.9 of the act, making it effective for their selection of legal services sources.

Motion by Spinello, second Tashman, carried unanimously to adopt **Resolution 10-11-19**, making Government Code Section 31529.9 effective in San Mateo County, as follows:

“WHEREAS, Government Code section 31529 provides that the County Counsel is the attorney for the board; and

“WHEREAS, Government Code §31529.9 provides that notwithstanding Government Code section 31529, this board may contract with attorneys in private practice or employ staff attorneys for legal services; and

“WHEREAS, this board has determined that the level of legal services required and the complexity of legal issues to be resolved are increasing for *SamCERA*; and

“WHEREAS, this board has determined that it would improve the governance structure for

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

SamCERA to have its own independent counsel; therefore, be it

“**RESOLVED** that the board hereby adopts this resolution making Government Code section 31529.9 effective in San Mateo County.”

- 1104.7.3 **Approval to Establish and Fill the Position of Chief Legal Counsel:** Subsequent to the board’s adoption of Government Code Section 31529.9 under agenda item 7.2, Mr. Bailey said that the board can then request that the county amend its salary ordinance to include a *SamCERA* Chief Legal Counsel position and direct the CEO to fill that position. He said that because of the increasing level of legal complexity for *SamCERA*, staff believes the time has come for *SamCERA* to employ independent legal counsel. Mr. Bailey then discussed workload, governance, costs and other considerations regarding the position. He said that staff recommends that, if the Retirement Chief Legal Counsel position is established, the CEO should be authorized to directly appoint Brenda Carlson to fill that position. Ms. Carlson has consistently demonstrated her strong commitment to the interests of *SamCERA* and its members and staff does not believe there can be a better candidate for the position. Ms. Arnott agreed with Mr. Bailey and said that it would be a great opportunity for *SamCERA* to hire Ms. Carlson as in-house counsel.

Motion by Hackleman, second by Kwan Lloyd, carried unanimously to authorize staff to work with the county Human Resources Department to establish the position of Retirement Chief Legal Counsel, such position to be established at the same pay and benefits levels as that of Chief Deputy County Counsel in the San Mateo County salary ordinance, and that the Chief Executive Officer be authorized to directly appoint Brenda Carlson to the position.

- 1104.7.4 **Approval of SACRS Voting Delegate and Alternates:** Mr. Bailey reviewed the list of trustees and staff registered to attend the SACRS Spring 2011 Conference and made a recommendation regarding voting delegates and alternates.

Motion by Spinello, second by Kwan Lloyd, carried unanimously to authorize Mr. David as Voting Delegate, Ms. Arnott, as the First Delegate Alternate and Mr. Bailey as the Second Delegate Alternate, to cast *SamCERA*’s votes at the Spring 2011 SACRS Conference.

- 1104.7.5 **Reaffirmation and Approval of Conflict of Interest Policy:** This agenda item was deferred to a future board meeting.

- 1104.7.6 **Acceptance of Entrance Letter for the June 30, 2011, Financial Audit:** Mr. Clifton presented the auditor’s engagement letter from *SamCERA*’s auditor, Brown Armstrong, for the June 30, 2011, financial audit. The audit will examine, on a test basis, evidence supporting the amounts and disclosures in *SamCERA*’s financial statements. A Brown Armstrong audit team headed by Ms. Brooke DeCuir-Baird, Audit Manager, will be in *SamCERA*’s office to conduct interim work prior to the closing of *SamCERA*’s books. The gross base audit fee, including expenses, is not to exceed \$45,500. **Motion** by Spinello, second by Tashman, carried unanimously to approve Brown Armstrong’s entrance letter for the June 30, 2011, financial audit.

- 1104.7.7 **Quarterly Budget Report for Period Ended March 31, 2011:** Mr. Clifton reviewed the preliminary Third Quarter Budget Reports. He said that with 75% of the fiscal year completed, administrative expenditures to date represent only 50.1% of the appropriations. The Salaries & Benefits, Services & Supplies and Capital Assets are all under budget.

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

SamCERA's Administrative Budget

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$2,640,000	\$1,591,239
Services & Supplies	\$2,343,000	\$ 905,026
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$4,983,000	\$2,496,265

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	\$ 336,174
Services & Supplies	\$ 430,700	\$ 134,153
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$ 980,700	\$ 470,327

All professional expenditures are on target in accordance with the budget appropriations. As of March 31, 2011, the aggregate professional services fee was approximately 32.2 basis points, which is lower than the 39.7 basis points reported in September. The decrease is attributed to an increase in assets under management per manager. Contracts are written such as to reduce fees as assets under management grow.

1104.8 **Management Reports**

1104.8.1 **Chief Executive Officer's Report:** Mr. Bailey said that Colin Bishop, Retirement Communications Specialist, will start employment with *SamCERA* on May 9th and is looking forward to having him on board.

1104.8.2 **Assistant Executive Officer's Report:** Mr. Hood reiterated Mr. Bailey's report regarding Mr. Bishop. He added that Mr. Bishop is currently performing similar tasks and duties that the *SamCERA* position requires of him.

1104.8.3 **Chief Investment Officer's Report:** Mr. Clifton said that Michael Bowman of INVESCO has left employment with the firm. He also said that Mark Roberts of INVESCO Realty has moved on to RREEF. Mr. Roberts had been on the advisory committee of the INVESCO Core fund since its inception. As a founding investor of the fund, *SamCERA* is also a member of the advisory committee. Mr. Clifton then discussed topics discussed at the most recent INVESCO Core fund advisory committee meetings.

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

Mr. Clifton said that Jennison Associates reported that it has introduced Global Equity capabilities. It also reported management structure changes effective January 2012. Mr. Clifton then said that DE Shaw has noted a couple staff changes. Those changes will have no impact on *SamCERA*'s portfolio.

Mr. Clifton then discussed the various capital calls from two of *SamCERA*'s private equity managers, Sheridan Production Partners and ABRY Advanced Securities Fund II, and *SamCERA*'s PPIP manager, Angelo Gordon.

Lastly, Mr. Clifton said that the Audit Committee is scheduled to meet on May 4th to review the responses to *SamCERA*'s actuarial audit RFP.

1104.8.4 **County Counsel's Report:** None.

1104.9 **Report on Actions Taken in Closed Session:** No closed session was held.

1104.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Arnott adjourned the meeting at 3:04 p.m., April 26, 2011, in memory of the following deceased members:

Plessner, Emma	March 2, 2011	Library
Gomes, Eltha	March 3, 2011	Superior Court
Scott, Anna	March 3, 2011	Library
Kinsey, Florence	March 5, 2011	Planning Department
Machado, Lawrence	March 5, 2011	General Services
Sevey, Arthur	March 7, 2011	Social Services
Scofield, Russell	March 13, 2011	Elections
Raynes, Katherine	March 14, 2011	Library
Lamb, Richard	March 20, 2011	Probation
Van Aken, Eileen	March 22, 2011	Chope Hospital
Glascock, Iris	March 23, 2011	General Services
Roa, Elizabeth	March 26, 2011	General Services
Roth, Barbara	March 26, 2011	Library

NATALIE KWAN LLOYD, SECRETARY
SANDIE ARNOTT, VICE CHAIR