

It was M/S Arrigoni/Gladstern to approve the December 22, 2009 Special Board Meeting Minutes as submitted.

AYES: Arrigoni, Gladstern, Haim, Phillips, Richardson, Sweet

NOES: None

ABSTAIN: Bolger, Hufford

ABSENT: Given (non-voting), Smith

A. OPEN TIME FOR PUBLIC EXPRESSION

Nothing to report.

B. BOARD OF RETIREMENT MATTERS

1. Administrator's Report (Oral)

a. Administrator's Update

Acting Retirement Administrator Ford referred to the Trustee Handbooks presented to the Trustees, commending Communications Associate Sydney Fowler for her efforts to organize and complete the handbooks. He also expressed appreciation for Ms. Fowler's substantial skills in writing and publishing the winter newsletter, *FUNDamentals*. Mr. Ford noted that Rachel Williams recently returned from leave and will assist in reducing backlog in benefits and calculations. He added that he is preparing to have staff train in the areas of investments, disability and benefits by attendance at CalAPRS Round Tables as well as the Spring General Assembly. He said he is moving forward by developing the budget with Senior Accountant Lisa Jackson's assistance, as well as devising a budget policy to be presented to the Board at a later date. Mr. Ford added that he approved the County's request to use the parking lot for the County Fair during the weekend, when it is not in use by MCERA. On a more somber note, Administrator Ford requested that the Board adjourn today's meeting in the memory of noted civic advocate Donald Peterson, a long-time friend of SACRS and Marin County.

b. Financial summary

1. Marin County

Administrator Ford said that several plan sponsors had approached him about their fiscal difficulties during the current weak economic climate and that he offered them the opportunity to present to the Board on that topic. He introduced County Administrator Matthew Hymel, who commended Board Chair Jim Phillips and Administrator Tom Ford for their efforts to communicate effectively with the County.

Mr. Hymel stated that the County has experienced substantial revenue declines, with 60% attributable to the stock market and 40% due to the economic slowdown, with the result that for the first time in over twenty years layoffs will be necessary. He requested that the Board consider the County's economic condition when setting employer contribution rates so as to mitigate the impact of anticipated contribution increases. Mr. Hymel introduced Dan Eilerman, Budget Manager, who reiterated the funding mitigation request in the face of an expected \$20 million budget gap next year (revised up from \$15 million). Mr. Eilerman voiced concern that the county's pension contribution rate is likely to rise by 40%. The significant state budget shortfall will result in a significant impact to county safety net services, he said; additionally, over 100 vacant positions have been eliminated due to declining revenues and increasing costs. Additional work force reductions are planned over the next several years, as long-term plans are implemented to review and eliminate inefficient programs. Property tax revenue, one quarter of all revenue, will no longer be sufficient to cover health benefits and cost of living increases, Mr. Eilerman said, as the rate of growth experiences a hairpin turn from positive 8% to negative 2% next year.

Mr. Eilerman proposed saving \$3.5 million by amortizing last year's "aberrant" market losses over 30 years. County departments are defining 20% budget reductions for consideration in March, April and May, in advance of the July 1 budget. He also requested that the Board change the amortization of the County's unfunded liability to a rolling 16-year amortization next year. He noted that currently the amortization period is declining and will soon be 12 years. Trustee Hufford expressed support for the County's requests, saying he understood the request for 30-year amortization of market losses. Trustee Hufford also expressed approval of the increase in the unfunded liability amortization period, and Chair Phillips concurred. Striking a cautionary note, Trustee Haim advised that the Board is bound by the fiduciary duty to maintain the actuarial soundness of the system, and by the advice of both counsel and the actuary.

2. City of San Rafael

City Manager Ken Nordhoff stated that the effect on the City of recent economic weakness is unprecedented, with the result that the City adopted a recession action plan in March 2009. Mr. Nordhoff stated that due to an 11% revenue decline last year and an additional 5.5% decline expected this year, the general fund is declining to an uncomfortable level, resulting in measures to reduce the budget such as: furloughing 5% of employees and downsizing by 40 positions. He reported that while property tax is more stable than sales tax, there will be a net decline in assessed value. The result is that there is a \$3.5 million projected deficit this year, which will increase to \$4.4 million in FY10/11. Due to market losses, Mr. Nordhoff is expecting an increase in pension contributions. Such

conditions will necessitate structural changes in order to assure pension sustainability, he stated, referring to a pension reform report he recommended to the Retirement Administrator. Areas that the City may consider changing include assigning lower level tiers to new hires, capping COLA increases, and minimizing employer payment of employees' retirement contributions. As to State mandates, he said that archaic provisions should be remodeled in order to improve the health and vitality of the pension system. Also, he noted that the City is considering a pension obligation bond.

To address the anticipated large increase in retirement contributions caused by last year's investment losses, Mr. Nordhoff also requested that the Board amortize market losses from that year over 30 years. He advised that the City is working with a financial advisor to reduce its unfunded liabilities.

Trustee Haim noted that changes to benefit levels will not avert the short-term budget crisis. Chair Phillips expressed approval of sustainability avenues, requesting a copy of the report.

3. Novato Fire District

Novato Fire District Finance Manager Don Hom listed the District's budget difficulties as including: a 2.5% decline in FY09/10 secured property tax revenue (60% of total revenues); the highest percentage of foreclosures and re-assessments in Marin County; and a steady decline in funding opposite contribution rates of over 60%. The Finance Manager stated that, in retrospect, Novato Fire should not have raised its employees' benefit levels in 2002, and added that GASB 45 mandates create the perfect economic storm. Mr. Hom introduced Chief Marc Revere to address next steps. Chief Revere related that the District is currently negotiating with labor unions, and is contemplating furloughs. Efforts are being made to mitigate the personal service impact, he said, but service levels will be affected by cuts. For example, CPR survival rate is very high because Novato Fire has provided classes to the public. He argued not to make decisions in "silos" as everyone in Marin County is affected by cross-services provided by different agencies. Chief Revere expressed gratitude to MCERA for its sound investment decisions that resulted in mitigating the fund's investment losses (which he stated were much lower than PERS' investment losses), but he expressed fear that reserves cannot be sustained for more than seven years. Trustee Haim asked the Chief if consideration had been given to structural efficiencies in the special district and coordination with San Rafael.

In response to the three presenters, Counsel Dunning reminded the Board of the fiduciary duties with which they must comply when making funding and other decisions on the Board. Specifically, she noted that they should consider information presented, and seek out professional guidance as needed, in order to

make informed decisions that are prudent and in the overall best interest of MCERA's members and beneficiaries, which includes its current retirees as well as newest active members. It is important, she added, for MCERA's actuary to remain independent and not be subject to pressure from the plan sponsors. She impressed on the trustees that MCERA Board members and staff should not be involved in bargaining relating to benefit levels, so as to avoid real or perceived conflicts of interest with respect to retirement system funding issues.

c. EFI Actuarial Presentation

Administrator Ford introduced Actuary Graham Schmidt, who recommended that no decisions be made until the results of the actuarial valuation are available. The Actuary stated that EFI had concluded for another '37 Act system that it was reasonable to extend the amortization period for only that portion of market-value losses which may be considered "extraordinary;" such as last year's investment losses. Furthermore, he advised, any future "extraordinary" gains should also be recognized over a longer period of time to maintain symmetry. Mr. Schmidt noted the sponsors' unique funding level positions need to be taken into account.

Trustee Hufford inquired as to how funding rates would be affected by amortizing gains and losses over a longer period of time, and the Actuary said that they would be more stable.

d. CPAS update – Lucille Young

Trustees Arrigoni and Haim were excused from the meeting at 10:21 A.M., returning at 10:27 A.M.

Lucille Young, Linea Solutions representative, reported that the data conversion team has resolved an outstanding issue and is working on data cleanup and operational procedures. There are some challenges in data conversion as well as vendor quality concerns, she stated. The plan sponsors have been responsive to requests and have provided key employees to the project. Some delay in testing for the active payroll is being experienced.

Trustee Wofford was excused at 10:25 A.M., returning at 10:28 A.M.

Other concerns include the delay of CPAS delivery of core functionality for 60 days, according to Ms. Young, as well as senior management issues. Administrator Ford explained that he extended the delay as a matter of prudence from 30 to 60 days to provide extra time to cleanse data, assure reliability, and provide for sufficient time to train staff. Ms. Young noted the complexity of the system, concurring with the Administrator that additional time to train staff is important. The first checks arising from the CPAS system are expected September 1, 2010.

e. Other

2. Committee Reports

a. Communications Committee

Trustee Haim presented the Winter newsletter, *FUNDamentals*. Administrator Ford commended Communications Associate Sydney Fowler for her superb writing and publishing skills. Ms. Fowler related that members are responding to the information provided in the publication.

b. Governance Committee

Gladstern noted that Agenda Item F.5 provides a proposed Board policy on how negative COLAs would be addressed by MCERA. She said the policy was developed in order to educate members in the event of a possible negative COLA this year. An ad hoc committee of the Governance Committee plans to begin drafting an excess earnings funding policy, she added.

c. Finance Committee

1. Administrative Budget FY 2009/10 (Action)

Consider and take possible action to adopt Administrative Budget for FY 2009/10

Trustee Arrigoni said that the Committee spent six months developing the proposed budget for approval and he commended the efforts of Administrator Tom Ford and Senior Accountant Lisa Jackson in completing the budget in an efficient manner so that the Committee was comfortable with the proposal. Chair Arrigoni noted that a summary of non-administrative expenses was available in a separate document.

It was moved by Trustee Arrigoni to adopt the FY 2009/10 budget. Trustee Bolger voted with the understanding that the practice of allocating certain investment costs to the trust fund would be revisited next year. The motion passed unanimously.

2. Administrative Budget FY 2010/11 Budget

Consider and discuss Administrative Budget for FY 2010/11

Administrator Ford said that a budget policy is being developed to provide a time line for the development of the future budget. One change is using the most recent June 30 asset evaluation, which closely follows the County's policy. He noted the parallel costs with the County. In April there will be a budget update to prepare for proposed budget in May, with final adjustments made in August. He said there will be a comprehensive budget which will consider all revenues and all expenses including investment manager fees. He said the policy was under development welcomed comments. Chair Phillips emphasized the Board's

responsibility to monitor all expenses including investment fees and attorney's fees.

3. Trustee Comments

Chair Phillips said that he, Trustee Richardson and Senior Accountant Lisa Jackson will conduct a due diligence trip to Western Asset Management, Pathway Capital, and First Quadrant in January. In February, a second due diligence trip to Columbus Circle, Abbot Capital, and Morgan Stanley will be conducted by the Chair, Trustee Richardson, and Administrator Ford.

Trustee Haim praised the Trustee Handbook as a valuable document which allowed him to be well prepared for his presentation on legal ethics at a conference in San Francisco. Counsel noted that there is a recently published circular that highlights some of MCERA's policies as exemplary.

Trustee Gladstern noted that the Principles of Pension Management seminar at Stanford in March provides excellent training for trustees. She added that the Ad Hoc Education Committee is developing an agenda for the March Strategic Workshop.

The Chair adjourned the meeting to closed session at 11:00 A.M., reconvening in open session at 11:58 P.M.

C. **DISABILITIES**

All disability applications are heard in Closed Session unless applicant specifically waives confidentiality and requests that their application be heard in Open Session. Member records are confidential (Government Code Section 31532). (Action)

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|-------------------|---------|----------|------------|
| 1. James Von Bima | Service | 10/29/08 | San Rafael |
|-------------------|---------|----------|------------|
- Initial consideration of an application for disability retirement filed by a Miscellaneous member

It was M/S to deny service-connected disability to James Von Bima and to advise the applicant of his right to request a hearing before the Administrative Law Judge.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Sweet

NOES: Hufford

ABSTAIN: None

ABSENT: Given (non-voting), Smith

The Chair adjourned the meeting for a working lunch and closed session at 12:30 P.M.

D. LEGAL MATTERS

1. Conference with legal counsel -- anticipated litigation pursuant to subdivision (b) of Section 54956.9: three cases. (CLOSED SESSION)
2. Conference with Legal Counsel pursuant to Government Code §54956.9(a) – existing litigation - *MCERA v. Wooten-Brown, et al.*; Marin County Superior Court Case No. CV085325 (CLOSED SESSION)

Trustees Hufford and Wofford were excused from proceedings at 2:10 P.M. to attend to other commitments.

The meeting was reconvened in open session at 2:32 P.M.

No reportable action.

F. NEW BUSINESS

1. Staffing Recruitment
Consider and discuss possible staffing recruitment

Administrator Ford reported that Requests for Information (RFIs) were issued to five recruiters. Mr. Ford requested the assistance of a few Board members to review the data and propose a candidate to the Board. It was agreed that Trustees Bolger and Gladstern would assist the Administrator with the selection. He also indicated the opinions of other systems will be considered. The Administrator reported that individuals who are currently managing '37 Act systems have indicated an interest in the Retirement Administrator position.

Mr. Ford indicated his preference for an Assistant Administrator – Benefits to be hired to replace the Retirement Manager position. As to current staffing, Mr. Ford indicated that he does not anticipate needing additional staff in the next fiscal year.

2. Consider and take possible action on Amendment to Investment Policy Statement re: Wellington Management Company Core Plus Fixed Income Statement of Objectives, Guidelines & Procedures (Action)

It was M/S Richardson/Sweet to approve the Amendment to Investment Policy Statement re: Wellington Management Company Core Plus Fixed Income Statement of Objective, Guidelines & Procedures. The motion passed by unanimous vote.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Sweet

NOES: None

ABSTAIN: None

ABSENT: Given (non-voting), Hufford, Smith, Wofford (non-voting)

3. Notification of SACRS Board of Director Elections 2010-2011
Consider and discuss election process and deadlines

Trustee Gladstern noted that the SACRS election process is unique. There was limited discussion on this item.

4. Client Conferences and Other Educational Opportunities (Action)

Approve and authorize expenditures for listed events

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|--|----------------------|-------------------|
| a. Sustainability: Bigger Picture
RCM | January 27, 2010 | San Francisco, CA |
| b. Public Retirement Seminar
PERS – So California | February 11, 2010 | Los Angeles, CA |
| c. Focusing on Fundamentals
Morgan Stanley | February 22-24, 2010 | New York, NY |
| d. Corporate Governance
LA Trustees Network | March 1-2, 2010 | Los Angeles, CA |

It was M/S Bolger/Gladstern to approve the conferences as submitted.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Sweet

NOES: None

ABSTAIN: None

ABSENT: Given (non-voting), Hufford, Smith, Wofford (non-voting)

5. Resolution 2009/10-03 Pertaining to Negative COLAs (Action)
Consider and take possible action on [proposed] Resolution 2009/10-03

The proposed resolution was drafted in response to a concern that because of the slowing economy that there could be a negative CPI reported in the coming months. Trustee Gladstern explained that for those members who retire prior to April 1, 2010, Resolution 2009/10-03 explains that MCERA's Board interprets the '37 Act to provide that they will not begin with a negative COLA bank. Counsel explained, however, that under the '37 Act, if a retiree's COLA bank has no balance, and that retiree had received prior COLA increases, it is possible the retiree's retirement allowance could be reduced as the result of the negative COLA. Trustee Haim noted that as this is the first time in his experience there was the possibility of a negative COLA, notification should be provided

to retirees. Administrator Ford recommended delaying such notification until February at which time the CPI value will be determined.

It was M/S Gladstern/Richardson to adopt Resolution 2009/10-03 pertaining to Negative COLAs.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Sweet

NOES: None

ABSTAIN: None

ABSENT: Given (non-voting), Hufford, Smith, Wofford (non-voting)

G. INVESTMENT INFORMATION

“X” indicates report distributed; * indicates report distributed electronically

PERIODIC REPORTS

1. Equities and Fixed Income

- * X Abbot Capital -Private Equities Fund
- X Analytic Investors -Equitized US Market Neutral Portfolio
- X Analytic Investors -Equitized Japan Market Neutral Portfolio
- * X Artisan Funds, Inc. -International Equities Fund
- * X AXA Rosenberg -International Small Cap Equities Fund
- * X BlackRock -Alpha Advantage Index Fund
- * X The Clifton Group -Futures Overlay Program
- Columbus Circle Investors -Small Cap Growth Portfolio
- * X Dimensional Fund Advisors -Small Cap Value Fund
- * X Dodge & Cox -Large Cap Value Portfolio
- * X First Quadrant, LP -Equitized European Market Neutral Portfolio
- Morgan Stanley -International Equities Fund
- * X Numeric Investors -Equitized US Market Neutral Portfolio
- * X Pathway Capital -Private Equities Fund
- * X Pyramis Global Advisors -Equitized US Market Neutral Fund
- * X Pyramis Global Advisors -International Small Cap Equity Fund
- * X RCM -Large Cap Growth Equities Portfolio
- * X Wellington Management -Core Domestic Fixed Income Portfolio
- X Western Asset Management -Core Plus Domestic Fixed Income Portfolio

2. Real Estate

- * X Woodmont Realty Advisors -Direct ownership – Monthly report
- AEW Capital Management -Value Added Portfolio Quarter
- ING Clarion -Core Portfolio Quarter
- X RREEF -Value Added Portfolio Quarter
- Woodmont Realty Advisors -Direct Ownership Quarter

3. Market Neutral

- X Monthly Performance Report -For period ending December 31, 2009

4. Other

H. FINANCIAL INFORMATION

1. Treasurer's Monthly Report
Short Term Investments for period ending November 30, 2009

The Board accepted the Treasurer's monthly report on short Term Investments for the period ending November 30, 2009.

I. OTHER INFORMATION

1. Approved Trustee Training Calendar
2. *Keeping in Touch* – January Issue, Retired Employees Association newsletter
3. Trustee Handbook
4. Callan Investment Institute memo, "Private Markets Trends," Fall 2009
5. Morgan Stanley memo re Gregory Fleming, December 2009
6. First Quadrant memo re Jeppe Ladekarl, December 16, 2009
7. Artisan International Fund, Month End Summary, November 30, 2009
8. Pyramis Monthly Performance Returns, November 2009
9. Annual Statement of Investment Policy, Marin County Treasurer, FY2009-10
10. RCM memo re promotion of Bob Goldstein to CEO of San Francisco office
11. AEW Market Update: Real Estate Securities – Q3 2009
12. AEW Market Update: Global Property Securities – Q3 2009
13. AEW memo re elections for Advisory Board, December 17, 2009
14. RREEF memo re restructuring update, January 4, 2010
15. Dimensional memo re promotion of Eduardo Repetto, December 8, 2009
16. Western Asset Market Update, December 3, 2009

J. CONSENT CALENDAR (Action)

It was M/S Gladstern/Haim to approve the Consent Calendar as submitted. The motion passed by unanimous vote.

There being no further business, the meeting was adjourned at 3:00 P.M. in memory of Donald Francis Peterson.

James Phillips, Chair

Michael Smith, Secretary