

MINUTES

**REGULAR BOARD MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**One McInnis Parkway, 1st Floor
Retirement Board Chambers
San Rafael, CA**

February 10, 2010 - 9 A.M.

EVENT CALENDAR 9 A.M. Retirement Board Meeting

CALL TO ORDER Chair Phillips called the meeting to order at 9:08 A.M.

ROLL CALL PRESENT: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,
Richardson, Smith, Sweet, Webb (non-voting)

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

MINUTES January 13, 2010 Regular Board Meeting Minutes
January 14, 2010 Investment Committee Meeting Minutes
January 19, 2010 Special Board Meeting Minutes

It was M/S Gladstern/Hufford to approve the January 13, 2010 Regular Board Meeting Minutes as submitted.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips, Richardson,
Sweet
NOES: None
ABSTAIN: Smith
ABSENT: Given (non-voting), Wofford (non-voting)

Chair Phillips deferred consideration of the January 14, 2010, Investment Committee Meeting Minutes until the March Investment Committee meeting.

It was M/S Arrigoni/Richardson to approve the January 19, 2010, Special Board Meeting Minutes as submitted.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Smith,
Sweet
NOES: None
ABSTAIN: Hufford
ABSENT: Given (non-voting), Wofford (non-voting)

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comments to report.

B. BOARD OF RETIREMENT MATTERS

1. Administrator's Report (Oral)

a. Administrator's update

Acting Retirement Administrator Tom Ford reported on his attendance at the CalAPRS Administrators' roundtable where discussions regarding IRS compliance were in focus. Other topics included new benefit structures such as new Safety Tiers for new employees only. The considerable investment losses for the year 2008 are being treated differently by many systems in order to spread the impact over time, he reported. Trustee Smith inquired if the Actuary was looking at similar methods of smoothing investment losses, and the Administrator replied that Actuary Schmidt is studying the issue and the Trustees will have an opportunity to review possible options. Mr. Ford said that the Benefits Manager David Sousa will attend the March CalAPRS benefits seminar. Regarding MCERA becoming a modified Special District, with only the three top executives becoming Board employees, the Marin County Board of Supervisors voted unanimously to proceed, Mr. Ford said. Mr. Ford also mentioned that MCERA was bequeathed a gift of \$5,000 from a deceased member's estate, and suitable deployment of the funds was under consideration.

b. CPAS update

The CPAS pension administration system continues to attract additional 1937 Act users, Administrator Ford reported, with seven systems currently in the installation process, though in earlier stages than MCERA. Eventually, according to the Administrator, a majority of systems are likely to implement CPAS. The Toronto CPAS Systems project team recently visited to review implementation status with Administrator Ford. Additionally, a presentation explaining the history and benefits of the system was recently given to staff. According to Administrator Ford, the system will perform complex calculations at a notably faster pace; furthermore, a custom general ledger will enhance accounting. For quality assurance, the Administrator proposed designation of dedicated CPAS work days during the months of April, June, and July prior to full implementation, during which the MCERA office would close to member services.

c. Staffing update

In addition to the Retirement Administrator position currently be recruited, said Mr. Ford, discussions are under way with the County regarding the Assistant Retirement Administrator position. The Acting Administrator continues to pursue avenues to improve efficiency within the office.

d. Other

2. Committee Reports

a. Governance Committee

Trustee Gladstern reported that the Governance Committee will meet February 11.

b. Member Services Committee

The Member Services Committee report was deferred due to the absence of the Committee Chair.

3. Trustee Comments

Trustee Haim reported that the Communications Committee will meet on March 3.

Trustee Gladstern reported that she and Trustee Sweet attended the CalAPRS Trustees' roundtable. Discussions on excess earnings, due diligence, placement agents, and the SACRS budget, were enlightening, she reported.

The matter of members' calculation errors was reviewed by the Administrator Ford. He described the case of a Safety member who found, after nine years of working for the County, that she had overpaid her contributions since May 2001. The Administrator reported that staff manually recalculated the member's contributions, requiring approximately three and a-half weeks of staff hours. He said the member has been advised that she is due a refund in excess of \$17,000. A few other similar cases are in the process of being resolved, he stated. Chair Phillips inquired as to the priority given to such cases and the Administrator explained that normal member requests maintain their priority. Trustee Haim inquired as to the quality of calculations and the Administrator assured him of constant improvements.

Trustee Bolger reported on her attendance at the Dimensional Fund Advisors symposium. Interestingly, she said, small cap and value stocks outperform over time, according to the studies presented.

While the system is not directly exposed to the Greek sovereign debt default, Administrator Ford referred the Trustees to an informative handout provided by Western Asset Management. The discussion included the ancillary exposure of the German financial system to the Greek debt.

The Chair recessed the meeting to Closed Session at 9:43 A.M. for deliberations on **Item C, Disabilities**, and **Item D, Legal Matters**. The Chair reconvened the meeting in Open Session at 11:21 A.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)

1. Bruce Cook Service 6/16/09 County Sheriff

Initial consideration of an application for disability retirement filed by a Safety member
The Board approved Bruce Cook's application for disability retirement by unanimous vote of 9-0.

2. Doug Kirchessner Service 3/27/07 Marin County

Initial consideration of an application for disability retirement filed by a Miscellaneous member
The Board approved Doug Kirchessner's application for disability retirement by a vote of 8-1, with Bolger dissenting.

3. Wendy Collier Non-service 8/10/07 County H&HS

Request for extension of time in which to conduct a hearing.
The Board approved Wendy Collier's request for extension of time by unanimous vote.

4. Sherrald McMurray Service 10/10/07 County Sheriff

Request for extension of time in which to conduct a hearing.
The Board approved Sherrald McMurray's request for extension of time by unanimous vote.

5. Kim Shine Service 10/2/08 Marin County

Request for extension of time in which to conduct a hearing.
The Board approved Kim Shine's request for extension of time by unanimous vote.

6. Carmen Vasquez-Lind Service 12/4/06 Marin County

Request for extension of time in which to conduct a hearing.
The Board approved Carmen Vasquez-Lind's request for extension of time by unanimous vote.

7. Monte Payne Service 11/21/07 San Rafael Fire

Request for extension of time in which to conduct a hearing.
The Board approved Monte Payne's request for extension of time by unanimous vote.

D. LEGAL MATTERS

1. Conference with legal counsel -- anticipated litigation pursuant to subdivision (b) of Section 54956.9: one case. (CLOSED SESSION)

No reportable action.

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)

No reportable action.

E. OLD BUSINESS

1. Staffing Recruitment (Action)

Consider and possibly approve contract for Alliance Resources Consulting LLC for the recruiting of the Retirement Administrator position

Administrator Ford reported that Trustees Bolger and Gladstern provided assistance with the selection process, which resulted in unanimous agreement to select Eric Middleton of Alliance Resources Consulting as the recruiter for the new Retirement Administrator. Mr. Middleton has participated in recruiting four Retirement Administrator 1937 Act systems and comes highly recommended, according to Mr. Ford. Mr. Middleton will determine requirements by conducting interviews with Board members, with the goal of initiating recruitment at the beginning of March. Responding to Trustee Smith's concern regarding applicant integrity, Mr. Middleton reported that three of the four Administrators he placed were still on the job. Background checks are thorough and include references going back fifteen years, he stated.

It was M/S Hufford/Sweet to approve the contract for Alliance Resources Consulting LLC for the recruiting of the Retirement Administrator position. The motion passed by unanimous vote.

2. Due Diligence – Investment Manager Site Visits Report

Consider and discuss recent due diligence site visits to Pathway Capital and Western Asset Management

Chair Phillips provided a written report and reported a successful due diligence trip attended by himself, Investment Committee Chair Richardson, and Senior Accountant Lisa Jackson. The site visit included a thorough tour of Pathway Capital Management and extended discussions which alleviated anticipated concerns, he said. The Chair stated that he found the Western Asset Management operation to be very impressive and with proper risk controls. Considering the firm to be one of the top fixed income managers in the world in spite of aggressive investments in 2008, Chair Phillips recommended that the firm be removed from the watch list.

The goal of making a due diligence visit to new investment managers within six months will be accomplished soon by a visit with new manager Columbus Circle Investors, according to Administrator Ford. The Morgan Stanley and Abbot Capital Management teams will also be visited during the trip to be conducted by himself, Chair Phillips, and Investment Committee Chair Richardson.

F. NEW BUSINESS

1. Financial Statements for 2009 (TIME CERTAIN - 11:00 A.M.) – Brown Armstrong, Andrew Paulden

Consider and discuss auditor's review of audited financial statements

Administrator Ford introduced Senior Accountant Lisa Jackson who announced the County's new policy of freezing financial transactions June 30, the end of the fiscal year, with all adjustments finalized by July 31. The new method will avoid recent delays experienced in financial reporting, she explained. She introduced Andrew Paulden, CPA and Partner, Brown Armstrong Accountancy.

Mr. Paulden reported that the firm has issued an unqualified opinion of the financial statements. Additional standards relating to government agencies are reviewed as required in a separate report and also resulted in a clean report, he stated. Mr. Paulden reviewed the audit process, stating that the majority of audit areas are examined on a risk-based approach, with fair value of investments and benefit and contribution data areas of focus. Items to strengthen controls and become more efficient are presented in the Report to Management. Trustee Smith recommended, since the system's cash flows through the County, that the Board consider expanding the scope of the review to include the County's internal controls and Mr. Paulden agreed that would be a good idea. The Senior Accountant reported that the cash level in the County account is being minimized in light of concerns about the SAP system.

There was discussion regarding the report's recommendation to reconcile deceased member information with the County. Trustee Smith concurred that efficiencies could be achieved, including providing beneficiaries with needed information. Administrator Ford said that he is proactively considering engaging a new firm with on-line access to assure receipt of key information in a timely manner.

The discussion turned to funding status and plan sponsor financial health. Mr. Paulden related that the funded ratio is calculated in order to gauge the trend of the actuarial value over time. If the ratio declines, then improvement in earnings or reduction of benefits should be considered, he said. The accountant expressed concern that the 83.97% funded ratio was declining while covered payroll was increasing. It was noted that five-year smoothing will cause the funded ratio to continue its decline in the face of recent market advances. The Unfunded Actuarial Accrued Liability (UAAL) was reported to be 132.29%. Administrator Ford said that funding and amortization will be discussed thoroughly at the Strategic Workshop. He stated that the system will make every effort to provide relief to plan sponsors and maintain benefit levels while assuring the competency of the system assets going forward.

Mr. Paulden recommended that the system develop a policy for interest rate risk. Possible discrepancies in Trustee terms were noted. Mr. Paulden said that he expects a good audit going forward and praised staff for their efforts. Mr. Ford commended Mr.

Paulden for his thorough work and also commended the Senior Accountant Lisa Jackson for her superior performance.

2. Annual Cost of Living Adjustment as of April 1, 2010 (Action)

Consider and take possible action to adopt actuarial recommendation for annual cost of living increase for retirees.

Administrator Ford said that as the relevant geographic area CPI was positive, he recommends the COLA be granted as provided by law. In response to a question about possible conflicts of interest for Board members who receive COLAs to participate in the decision, Counsel advised that because COLAs are provided to similarly MCERA retired members on the same terms and conditions as they are provided to Board members who are retired MCERA members, there is no conflict of interest under California law for those Board members to participate in decision-making on COLAs.

It was M/S Hufford/Arrigoni to adopt the actuarial recommendation for the annual cost of living increase for retirees. The motion was approved by unanimous vote.

3. SACRS Funding – Phase II, SIRS Task Force (Action)

Consider and possibly approve SACRS funding request dated 1/4/10

Administrator reported that as Phase II was unfunded, MCERA had been assessed a new fee of \$6,000. There was discussion as to the nature of Phase II activities, with Trustee Gladstern explaining that a SACRS committee is drafting regulations to assure that the 1937 Act complies with IRS requirements. The Administrator reported that Phase II will determine needed regulation for the 1937 Act, and also action needed for individual systems to provide for IRS compliance.

It was M/S Hufford/Richardson to approve the SACRS Phase II funding request of \$6,000 dated January 4, 2010. The motion was approved by unanimous vote.

4. Investment Management Fees

Consider and discuss investment management fees

Investment Committee Chair Richardson recommended commencing discussions with the purpose of reducing investment fees. Reducing the number of managers should also be considered, he stated. According to a recent bond management study, high fees did not translate to superior performance according, Trustee Bolger noted. Administrator Ford recommended scrutiny of smaller investments which have relatively large fees. He said that investment reporting will provide additional needed detail, and that monitoring of asset allocation will increase. For underperforming investments, Mr. Ford stressed the importance of determining whether the source is the manager or the strategy. Trustee Gladstern advised that the matter will be including in Spring Workshop discussions.

5. Client Conferences and Other Educational Opportunities (Action)

Approve and authorize expenditures for listed events

- a. Investment Conference 4-19/20-10 New York City
 ING Clarion
- b. Public Funds Roundtable 4-21/23-10 Austin, TX
 Institutional Investor Institute

There was discussion that no-fee conferences such as ING Clarion should be considered reportable gifts. The better option is for the system to pay for such events, according to Administrator Ford. The Administrator added that membership in CII was in process.

It was M/S Hufford/Smith to approve the Client Conferences as submitted. The motion was approved by unanimous vote.

G. INVESTMENT INFORMATION

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

PERIODIC REPORTS

1. Equities and Fixed Income

	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	
	X 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	
	Pathway Capital	-Private Equities Fund	
*	X Pyramis Global Advisors	-Equitized US Market Neutral Fund	
*	X Pyramis Global Advisors	-International Small Cap Equity Fund	
	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

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

3. Market Neutral
X Monthly Performance Report -For period ending January 31, 2010
4. Other

H. FINANCIAL INFORMATION

1. Treasurer's Monthly Report
Short Term Investments for period ending December 31, 2009

The Board accepted the Treasurer's monthly report on short Term Investments for the period ending December 31, 2009.

I. OTHER INFORMATION

1. Approved Trustee Training Calendar
2. Corporate Governance Round Up, LA Trustees Network, March 1&2, 2010
3. *Keeping in Touch* – February Issue, Retired Employees Association newsletter
4. Letter to Robert Palmer, SACRS, from Tom Ford re Donald Peterson, January 19, 2010
5. Callan Insights memo re Rodger Lawson, current President, Fidelity, January 21, 2010
6. AEW market letter from Jeffrey Furber, January 11, 2010
7. Artisan International Fund, Portfolio Manager Perspective, December 31, 2009
8. AXA Rosenberg letter re continuing research, January 8, 2010
9. AXA Rosenberg Research Note, Summary of Key Projects, January 2010
10. Clifton Group Summary Results, December 31, 2009
11. Dimensional Fund Advisors US Small Cap Value Quarterly Performance Review 12/09
12. ING Clarion Quarterly Review 4Q90
13. Numeric Investors, "The Current State of Equity Market Structure, January 2010
14. Numeric Investors, Quarterly letter, January 21, 2010
15. Pyramis Global Advisors, US Equity Market Neutral Commentary, December 2009
16. RCM Informed, Global View, January 2010
17. RREEF America III, Preliminary Results, December 31, 2009

Administrator Ford recommended writing down the RREEF investment to simplify reporting, as there is no exit strategy available at this time. It was noted that the Board will be represented at a RREEF meeting in March.

J. CONSENT CALENDAR (Action)

Board members expressed a preference for the detailed version of the report.

It was M/S Hufford/Smith to approve the Consent Calendar as submitted. The motion passed unanimously.

There being no further business, the meeting was adjourned at 1:37 P.M.

James Phillips, Chair

Michael Smith, Secretary