

**MINUTES**

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

**One McInnis Parkway, 1<sup>st</sup> Floor  
Retirement Board Chambers  
San Rafael, CA**

**October 13, 2010 - 9 A.M.**

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<b><u>EVENT CALENDAR</u></b>	9 A.M.	Regular Board Meeting
<b><u>CALL TO ORDER</u></b>	Chair Phillips called the meeting to order at 9:09 A.M.	
<b><u>ROLL CALL</u></b>	PRESENT:	Bolger, Gladstern, Haim, Phillips, Smith, Webb (non-voting), Wofford
	ABSENT:	Brenk, Richardson, Hufford, Given (non-voting)

**MINUTES**

It was M/S Smith/Wofford to approve the September 8, 2010, Regular Board Meeting Minutes as submitted. The motion was approved by unanimous vote.

It was M/S Gladstern/Bolger to approve the September 9, 2010, Investment Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

It was M/S Gladstern/Wofford to approve the September 15, 2010, Board Strategic Workshop Meeting Minutes as submitted. The motion was approved by unanimous vote.

**A. OPEN TIME FOR PUBLIC EXPRESSION**

Melanie Wise, a nurse midwife with the County, addressed the Trustees to express the midwives' concerns about the difficulty of getting records that would allow the retirement office to provide information necessary to make retirement decisions in the face of potential layoffs. The specific records have to do with periods of time in which the nurse/midwives were contractors for the county. Ms. Wise noted that Retirement Administrator Wickman and Assistant Retirement Administrator Helen Moody recently provided information to her and explained reasons for the delay. Trustee Gladstern advised that the member needed to obtain specific pay and contract information. Retirement Administrator Jeff Wickman concurred that without payroll information, the office is challenged with fully assisting the members. At the request of Trustee Bolger, Mr. Wickman offered to assist the group with identifying where to locate the necessary records. The Communications and Member Services Committee was recommended to the member as a forum for any further concerns.

**B. BOARD OF RETIREMENT MATTERS**

1. Election Result – Seventh Member Safety

Chair Phillips announced that Trustee Karen Wofford, current Safety Alternate, won the recent election for the Seventh Member Safety position. Trustee Wofford will be sworn in at the November Board meeting.

2. Administrator’s Report (Oral)

a. Administrator’s update

Administrator Wickman reported that a number of public records requests have been received, one of which requests the retirement allowance amounts of certain retirees. The impacted retirees were notified by letter of the requests. Mr. Wickman stated that a request was also received from the Department of Justice for the names of members receiving annual retirement allowances from MCERA of over-\$195,000. MCERA identified one member who met this criteria and provided that information.

Mr. Wickman also reported receiving a public records request relating to MCERA’s portfolio holdings. Some of the information can be provided through existing reports that can be generated by MCERA staff. The remainder of the information may be available in pre-existing reports and will be provided.

Administrator Wickman discussed the CalAPRS Administrator’s Round Table he attended. There was significant discussion about requests for records that all the county systems are receiving from the public and media. Mr. Wickman said this led to a discussion of creating a centralized place where inquiries and responses reside, which could be available to all the county systems. Another topic of discussion was the concept of portfolio risk analysis, something the board’s Investment Committee has also been looking into.

New proposed accounting requirements will be the subject of a GASB open hearing in San Francisco, Mr. Wickman reported. Chair Phillips requested a review of the meeting by the Actuary.

Recently, Mr. Wickman addressed the Marin County Association of Retired Employees (MCARE) at its luncheon. Trustee Webb had attended the MCARE luncheon and commended the Administrator for his communication skills and for engaging the group in discussions. Communications Associate Syd Fowler also attended the meeting.

b. Staffing update

Preparations for the recruitment of an Assistant Retirement Administrator are under way, according to Mr. Wickman. An ad hoc committee will be appointed by Chair Phillips to address the matter (see below).

c. Facility Use Report

Mr. Wickman reported that there has been no use of One McInnis under the Facility Use Policy since the last Board meeting, but that there is continuing interest in such use.

Logistical matters surround the imminent occupation by AutoDesk of remaining offices in the building, according to the Administrator. He reported that he declined a request by AutoDesk for additional space that MCERA is currently using.

- d. Future meetings
  - October 21 Governance Committee
  - November 3 Regular Board meeting
  - November 4 Investment Committee
  - November 4 Finance and Risk Management Committee

3. Committee Reports

a. Communications and Member Services Committee

1. Approve Fall MCERA newsletter copy (Action)

Chair Phillips commended Communications Associate Syd Fowler for the newsletter. Trustee Smith addressed providing information on the funding status of the system as well as on investments in the next newsletter.

It was M/S Smith/Gladstern to approve the Fall MCERA newsletter copy as submitted. The motion was approved by unanimous vote.

b. Finance and Risk Management

1. Budget update FY 2010-11

Administrator Wickman stated that the Committee will address budget variances over 5%, if any, at the next Committee meeting.

c. Investment Committee

1. Watch list (Action)

Investment Consultant Kevin Dunne of Callan Associates provided a review of the current BlackRock Alpha Advantage fund, which is on the watch list. He stated that its quantitative strategy has experienced difficulties in recent years. Chair Phillips reviewed the acquisition by BlackRock of Barclays and questioned the stability of its management team as well as the frequently modified strategies. Mr. Phillips also provided an overview of the history of the investment in the Barclays portfolio (so named pre-BlackRock).

The consistent underperformance, organizational concerns, and difficult strategy of the BlackRock portfolio lend credence to replacing the portfolio with an alternative such as an index fund, according to Mr. Dunne. He posed three scenarios to replace the BlackRock portfolio:

- Indexing 100% in an S&P 500 strategy

- Indexing 50% in an S&P 500 strategy and allocating remaining 50% to current large cap managers
- Allocating 100% to current large cap managers

The investment consultant provided an extensive analysis of the growth vs. value bias of each large cap portfolio manager over time, observing that all large cap managers have had difficulty performing in recent years. In view of this situation, Mr. Dunne advised that indexing the large cap portfolio makes sense as the space is the most efficient.

Trustee Bolger proposed the use of a dividend-paying index fund, but Chair Phillips cautioned that such indices have recently not performed as well as the S&P 500. Trustee Smith observed that indexing the large cap space would bring balance to the portfolio and reduce management fees. Trustee Webb observed that the relatively small size of the system's portfolio causes the fee level to be relatively high.

Trustee Wofford was excused from the meeting at 10:02 A.M., returning at 10:15 A.M.

It was M/S Bolger/Smith to terminate the BlackRock portfolio and to replace it with a large cap domestic index fund. The motion was approved by unanimous vote.

Chair Phillips directed deliberations to **Agenda Item F.1, Financial Statements for 2010.**

**F. NEW BUSINESS**

1. Financial Statements for 2010 (TIME CERTAIN - 10:00 A.M.) – Brown Armstrong, Andrew Paulden

Andrew Paulden, CPA with Brown Armstrong, provided a review of the audited financial statements, reporting that the audit process went smoothly this year. Mr. Paulden stated that staff assisted with the audit in a timely and professional manner. The CPA congratulated the association on the clean and unqualified opinion of the financial statements. He said that he is comfortable that recommendations for improvement in procedures will be implemented.

According to Mr. Paulden, the audit process provides for confidence and transparency by reviewing internal control processes and procedures with third party validation. Audit procedures include verifying the accuracy of plan participant data, confirming the independence and professional standing of the actuary, and reviewing the Minutes of the Board and Committees. Mr. Paulden explained that the risk-based audit focuses on investment reporting, actuarial reports, the timeliness and accuracy of employee and employer contributions, and benefit payments.

Administrator Wickman assured Trustee Bolger that matters in the Management Report were being addressed, some of which will be resolved with the new CPAS system. He said that there is an ongoing task to review the items. Trustee Haim commended staff and the presentation by Mr. Paulden.

It was M/S Haim/Smith to accept the Financial Statements for 2010. The motion was approved by unanimous vote.

Chair Phillips recessed the meeting to Closed Session, **Agenda Items C and D**, at 10:30 A.M., reconvened the meeting in Open Session at 11:16 A.M., and directed deliberations to **NEW BUSINESS, Agenda Item F.2.**

2. Interest Crediting and Unrestricted Earnings Policy Discussion (Action)

County of Marin Administrator Matthew Hymel asked to address the board. Administrator Hymel reported on the financial difficulties facing the county over the past year. He reported that increasing retirement contributions further challenged the county's budget. He reminded the board that there were already significant pension obligations that have yet to be fully funded and recommended that the ad hoc COLA only be granted after reaching a 100%-funded status. Mr. Hymel requested a report on the impact of the proposed policies on funding. Actuary Graham Schmidt said that the effect of the policies on employer contribution rates would not be large.

Counsel Dunning reviewed the policies, observing that the provision for the Board's discretion in the future to distribute unrestricted earnings for supplemental benefits is limited, and would require among other things an analysis by the actuary of funding levels and contribution rates. Counsel also advised that the interest crediting policy would establish a non-valuation contingency reserve consistent with statutory provisions.

Retirement Administrator Wickman reminded the board that the need for this policy was established in 2009 when the board last deliberated granting of an ad hoc COLA, and did not grant that supplemental benefit. The policies provide a framework by which the board can determine if, after crediting interest, making up interest deficiencies in prior years and refilling the contingency reserve and retiree reserves, sufficient earnings exist that could be considered for an ad hoc supplemental COLA. The policies themselves do not grant or deny the ad hoc COLA. Chair Phillips concurred that the interest crediting and unrestricted earnings policies needed to be formalized. Counsel Dunning pointed to the unrestricted earnings policy provision to fund the retiree reserves to 100%. There was discussion that the policies are written to provide clear guidance to MCERA staff for the administration of the retirement system.

Mr. Hymel stated that he approves of a clearly defined policy for determining whether funds should be used to pay supplemental benefits, and he reiterated that if the funding level is under 80%, then it is difficult to conceive that "excess earnings" would be spent on supplemental benefits, particularly in the face of reduced public services by the County.

Ken Nordhoff, City Manager for the City of San Rafael, submitted a letter to register his preference that earnings be applied to employer liabilities first until the system is fully funded. His letter recorded the City's opposition to the granting of ad hoc supplemental

COLAs or other ancillary benefits due to the associated cost, unstable investment returns, and lack of adequate reserves.

Retirement Administrator Wickman reinforced the necessity of having policies in place that establish sound, structured processes for the prudent administration of the retirement system.

It was M/S Haim/Wofford to approve the Interest Crediting Policy, with a Statutory Contingency Reserve of one percent (1%) of market value of MCERA's total assets. The motion was approved by unanimous vote.

It was M/S Smith/Wofford to approve the Unrestricted Earnings Policy, amended as of 10/8/10.

A discussion followed the motion regarding policy provisions, and there was agreement with the Actuary that the time frame for the analysis of earnings should be annual. Trustee Bolger asked whether funding of unrestricted earnings should be prioritized. When Mr. Hymel objected to language referring to ancillary benefits, it was pointed out that the policy language is derived from the '37 Act. Trustee Haim observed that when reviewing the policy, the Board's duty is to the membership as a whole.

Trustee Smith was excused from the meeting at 12:01 P.M., returning at 12:04 P.M.

AYES: Bolger, Gladstern, Haim, Phillips, Wofford

NOES: None

ABSTAIN: None

ABSENT: Brenk, Hufford, Richardson, Smith

Chair Phillips directed deliberations to **Agenda Item B.3.d.**

d. Ad Hoc CPAS Committee Report

Chair Phillips reported that staff and our CPAS and Linea partners have constructed a segmented approach to delivering a fully configured system to MCERA. Three system builds will be delivered over the next three months. The system builds will contain functionality in priority order beginning with the system delivered in October which will contain the core retirement processing features. Mr. Phillips provided an updated, best-case timeline for the project, and he said that possible additional funding for Linea will be discussed. In response to Trustee Bolger's query, he stated that CPAS has changed project managers and is providing sufficient resources to the project.

Chair Phillips directed deliberations back to **Agenda Item B.3.c.1.**

Trustee Bolger recused herself from deliberations on hiring a manager to replace BlackRock under **Agenda Item B.3.c.1**, due to partiality based on her former employment with one of the managers and her deferred compensation from that manager. She was excused from the meeting at 12:17 P.M., returning at 12:30 P.M.

1. Watch List (Continue) (Action)

Kevin Dunne proposed replacing BlackRock with an index fund, with fees and securities lending as the two primary differentiators. He reviewed four index fund managers, stating that State Street excelled in produced securities-lending revenue and is the least expensive.

It was M/S Haim/Gladstern to approve replacing the BlackRock Alpha Advantage fund with the State Street Global Advisors S&P 500 Index Fund A without securities lending.

AYES: Gladstern, Haim, Phillips, Smith, Wofford

NOES: None

ABSTAIN: None

ABSENT: Brenk, Hufford, Richardson

RECUSED: Bolger

2. Market Neutral Equity Program (Action)

Investment Consultant Kevin Dunne reviewed the current market neutral portfolio structure, stating that performance has not met expectations and that the strategy is relatively complex and expensive. Positive characteristics of the group include management investment latitude and low correlation to domestic stocks and bonds, he said.

Chair Phillips recommended reviewing the Market Neutral program at the next Investment Committee meeting, and moved to the next agenda item.

e. Ad Hoc System Risk Committee Report

No report.

4. Trustee Comments

Chair Phillips appointed Trustees Gladstern, Haim, and Webb to join him as members of the Ad Hoc Assistant Retirement Administrator Committee that will assist in identifying potential candidates for the position.

Trustee Haim recommended modifying the Board agendas in order to mitigate inconvenience to attendees. At Administrator Wickman's suggestion, the matter was referred to the Governance Committee.

Chair Phillips recessed the meeting to lunch, and returned to Closed Session, **Agenda Items C and D**, at 12:33 P.M.

Chair Phillips was excused from the meeting at 2 P.M.

Vice Chair Gladstern reconvened the meeting in Open Session at 2:10 P.M.

**C. DISABILITIES**

<u>Applications to be Heard</u>	<u>Service/Non-Service Connected</u>	<u>Date of Application</u>	<u>Employer</u>
1. Rick Russell Consider and take possible action re Administrative Law Judge's Findings of Facts and Proposed Decision.	Service	11/11/08	County Sheriff
2. Jerry Reffner Initial consideration of an application for service-connected disability retirement filed by a Safety member	Service	8/10/09	So Marin Fire
3. Cheri Desemas Consider and take possible action on applicant's request for extension of time in which to conduct a hearing.	Service	5/28/09	Health & Human Services
4. Carolyn Tonnemacher Consider and take possible action re Administrative Law Judge's Findings of Facts and Proposed Decision and re Board's March 10, 1010, referral to ALJ for further proceedings.	Service	8/16/06	Health & Human Services

Vice Chair Gladstern reported the following Board actions:

1. The Board continued its consideration of Rick Russell's application to the November Board meeting, by a vote of 5-0; Trustee Wofford recused herself as she works for the County Sheriff's Department.
2. The Board approved Jerry Reffner's application for service-connected disability retirement by unanimous vote and, upon considering the evidence before it, waived MCERA's provision for an independent medical exam of the applicant.
3. The Board approved Cheri Desemas' request for a 60-day extension of time in which to conduct a hearing by a vote of 5-0; Trustee Webb recused himself due to his prior communications with the applicant, and his concern about whether he could be impartial.
4. The Board approved and adopted the Administrative Law Judge's Findings of Facts and Proposed Decision for Carolyn Tonnemacher by a vote of 5-1, with Trustee Bolger dissenting.

**D. LEGAL MATTERS**

1. Conference with Legal Counsel – Existing Litigation (Gov. Code sec. 54956.9(a): Sheldon v. MCERA, et al. Court of Appeal, First Appellate District, Div. 5, Case No. A124912 (CLOSED SESSION))  
No reportable action.
2. Conference with Legal Counsel – Exposure to Litigation (Gov. Code sec. 54956.9(b): one case (CLOSED SESSION))  
No reportable action.

**E. OLD BUSINESS**

None.

**F. NEW BUSINESS, continued.**

3. Future Meetings  
No discussion.

**G. INVESTMENT INFORMATION**

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

**PERIODIC REPORTS**

1. Equities and Fixed Income

	Abbott Capital	-Private Equities Fund	
	Analytic Investors	-Equitized US Market Neutral Portfolio	
* X	Artisan Funds, Inc.	-International 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	
	Eaton Vance	-Emerging Markets	
* X	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	
* 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	
	<u>Real Estate</u>		
* 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 September 30, 2010
4. Other

**H. FINANCIAL INFORMATION**

1. Treasurer's Monthly Report  
Short Term Investments for period ending August 31, 2010\*

The Board accepted the Treasurer's monthly report on Short Term Investments for the period ending August 31, 2010.

**I. OTHER INFORMATION**

1. Approved Trustee Training Calendar
2. *Keeping in Touch* – October Issue, Retired Employees Association newsletter

**J. CONSENT CALENDAR (Action)**

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

There being no further business, Vice Chair Gladstern adjourned the meeting at 2:17 P.M.

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James Phillips, Chair

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Michael Smith, Secretary