

**BOARD OF RETIREMENT
FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

October 6, 2010

Trustees Present:

Michael Cardenas
Steven Jolly

Nick Cornacchia
John Souza

James E. Hackett

Trustees Absent:

Franz Criego
Phil Larson

Vicki Crow

Eulalio Gomez

Others Present:

Ronald S. Frye, Alternate Trustee
Beckie Lambert, FCERA Member
Michael Cunningham, FCERA Member
Diana Vasquez, SEIU Local 521
Jeffrey MacLean, Wurts & Associates
Susan Coberly, Senior Deputy County Counsel
Roberto L. Peña, Retirement Administrator
Becky Van Wyk, Assistant Retirement Administrator
Elizabeth Avalos, Administrative Secretary

1. Call to Order

Vice Chair Hackett called the meeting to order at 8:38 AM.

2. Pledge of Allegiance

Recited.

3. Public Presentations

Beckie Lambert, FCERA Member, addressed the Board regarding her application for disability retirement benefits. Ms. Lambert expressed concern that the disability process has taken over two years without a conclusion.

The Board directed Administration to meet with Ms. Lambert to discuss the status of her disability claim. Administration agreed.

Diana Vasquez, SEIU Local 521, noted that four Trustees were absent and requested that, due to the importance of discussion Item 19, the Board table the discussion until a time more Board members were present.

The Board agreed to consider her request prior to beginning the discussion.

Roberto L. Peña, Retirement Administrator, informed the Board that an issue was brought to Administration's attention the afternoon of October 5, 2010 that requires action by the Board before October 16, 2010. Because the Board does not meet again until October 20, 2010, Mr. Peña requested that the Board move to add the item for discussion during the Closed Session meeting.

A motion was made by Trustee Jolly, seconded by Trustee Souza, to add the item for discussion and possible action. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)

Consent Agenda/Opportunity for Public Comment

Trustee Souza pulled Consent Agenda Item 10 for discussion.

A motion was made by Trustee Jolly, seconded by Trustee Souza, to Approve Consent Agenda Items 4-9 and 11-14. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)

***4. Approve the September 1, 2010 and September 15, 2010 Regular Board Meeting Minutes**

RECEIVED AND FILED; APPROVED

***5. Retirements**

RECEIVED AND FILED; APPROVED

Edward H. Avila	Probation	16.41
Kimberly A. Carson	Social Services	21.65
Jennifer Chan	VMC, Deferred	6.04
Angelina DeSantiago	Public Health, Deferred	15.15
Lorayne M. Hinman	Child Support Services	22.70
Leslie Moore	District Attorney, Deferred	6.71
Robert Sandoval	Social Services, Deferred	22.82
Dennis L. Scala	Administrative Office, Deferred	2.09
Patricia Jo Scarbrough	Sheriff	13.03
Joan R. Sides	Social Services	10.02
James J. Spolsdoff	Public Health	34.96
Michael Stanford	Sheriff, Deferred	9.53
Fe B. Torio	Behavioral Health, Deferred	8.79
Susan Woodward	Social Services	27.93
Charlene Wylie	Sheriff	37.14

***6. Disability Retirements**

RECEIVED AND FILED; APPROVED

Nicketta Scott	Sheriff	1.23
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***7. Deferred Retirements**

RECEIVED AND FILED; APPROVED

Isaias H. Bravo	Social Services	7.80
Jennifer J. Davenport	Public Defender	4.71
Amy P. Dinh	Social Services	9.02
Hope N. Giordano	Social Services	10.15
Elaine Jimenez-Obeso	Public Health	28.46
Michael E. Knevelbaard	Public Works & Planning	20.11
William Mar	County Counsel	20.53
Kristy Sherman	Public Health	9.30

***8. Public Records Requests and/or Retirement Related Correspondence from Nancy Gordon, Buyouts Magazine; Kamila Kowalke, Calamos Investments; Jason Johnson, Brown Brothers Harriman; John Hock, Dix Hills Partners, LLC; Bradford Paskewitz, Paskewitz Asset Management; Allison M. Johnson, San Francisco Employees' Retirement System; Maria Kutscher, American Century Investments; Catherine Frey, Frey Capital Advisors, LLC; Thomas Heller, Department of Justice; Mary O'Brien, Spearhead Capital Partners; Karen Palma, Institutional Real Estate, Inc.; Andrew Tangel, The Record; and Patti Williams, FCERA Member**

RECEIVED AND FILED

***9. Educational Reading Materials**

RECEIVED AND FILED

General

- September 6, 2010 Pensions & Investments article – *Rate assumptions go under the microscope*
- September 10, 2010 Bloomberg article – *Christi Said to Propose New Jersey Pension Benefits Rollback Next Week*
- September 15, 2010 The New York Times article – *How Pensions Can Get Out of the Red*
- September 15, 2010 CBS News article – *States Cutting Public-Sector Retiree Pensions*
- September 15, 2010 Bloomberg article – *'Death Spiral' Besets State Pensions as Benefits Grow*
- September 15, 2010 The Wall Street Journal article – *Case Tests Retirees' Pension Cuts*
- September 16, 2010 The Street article – *Pension Plans Face Ballooning Deficits*
- September 16, 2010 The New Haven Register article – *Public Employees feeling pinch of benefit reduction*
- September 21, 2010 Voice of San Diego article – *Why a 401(k)-Style Retirement Plan Won't Save the City Money*
- September 21, 2010 The New American article – *Debate Over Government Pension Plans Heats Up*

- September 22, 2010 Fresno Bee article – *Stocks dive as bonuses soar*
- September 29, 2010 Top1000Funds.com research – *Do funds of hedge funds really add value*
- September 2010 rogerscasey opinion – *Inside the Pension Crisis*
- September 2010 Tulare County Employees' Retirement Association Newsletter
- Summer/Fall 2010 Alameda County Employees' Retirement Association Newsletter

***10. Update of Board of Retirement directives to FCERA Administration**

In response to a question from Trustee Souza regarding the status of the Board Directives dated 6/20/07 (disability analysis) and 5/5/10 (mandatory furlough), Roberto L. Peña, Retirement Administrator, gave a brief update on both directives and noted that an update/discussion of the directives is scheduled for October 21, 2010 during the annual Board Retreat.

A motion was made by Trustee Souza, seconded by Trustee Jolly, to Accept Item 10 as presented. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)

RECEIVED AND FILED

***11. Most recent investment returns, performance summaries and general investment information from investment managers**

RECEIVED AND FILED

***12. Revised Investment Performance information as of June 30, 2010 from Wurts & Associates Investment**

RECEIVED AND FILED

***13. Report on Active Management Environment from Eric Petroff, Wurts & Associates**

RECEIVED AND FILED

***14. Reaffirm Retirement Administrator's decision to not include the FCERA Public Records Request (PRA) Policy with letters to FCERA Retirees notifying them of a request by Retired Employees of Fresno County's (REFCO) president, Shirley Carlson**

RECEIVED AND FILED; APPROVED

15. Discussion and appropriate action on Large Cap Growth search including possible termination of INTECH

Due to the absence of four Board members, Trustee Souza requested that the item be tabled until a meeting when Board members are present.

A motion was made by Trustee Souza, seconded by Vice Chair Hackett, to Table Item 15 until the November 3, 2010 Regular Board meeting.

Trustees Jolly and Cardenas opposed the motion because the issue has been ongoing for more than six months and they find no justified reason in deferring a decision as all Board members were notified in advance that discussion and/or action on the issue would take place today.

Roberto L. Peña, Retirement Administrator, cautioned the Board on tabling items based on Board member attendance noting that the FCERA Bylaws reflect that business can be conducted with a quorum of five members of the Board.

Vice Chair Hackett restated the motion as follows:

To Table Item 15 until the November 3, 2010 Regular Board meeting. ROLL CALL VOTE: Yes – Hackett, Souza. No – Cardenas, Cornacchia, Jolly. (Absent - Criego, Crow, Gomez, Larson) MOTION FAILED.

Mr. Peña opened discussion by reminding the Board that INTECH is the current manager for the Large Cap Growth mandate and has been recommended for termination by Wurts & Associates due to concerns regarding senior level departures and continued underperformance, as well as, factors impacting quantitative strategies. Mr. Peña noted that Wurts recommends Waddell & Reed and Winslow Capital to manage the Large Cap Growth mandate.

Jeffrey MacLean, Wurts & Associates, reviewed in detail the reasons for recommending termination of INTECH including the concerns regarding senior level changes, underperformance, lack of transparency, and a limited ability to recover because of their constrained strategy.

Trustee Souza noted that INTECH is currently outperforming the benchmark and raised concerns of terminating INTECH as this time. Trustee Souza suggested that the Board give INTECH more time to determine whether they can continue outperform the benchmark.

Mr. MacLean reviewed INTECH's returns for the period ending September 30, 2010 noting that although they have recently outperformed the benchmark their portfolio has underperformed the S&P Citigroup Growth Index over the one and three year periods ending September 30, 2009 and ranks in the 75th percentile among its peers over the last five years.

A motion was made by Trustee Cardenas, seconded by Trustee Jolly, to terminate INTECH as recommended by Wurts & Associates. ROLL CALL VOTE: Yes – Cardenas, Cornacchia, Jolly. No – Hackett, Souza. (Absent - Criego, Crow, Gomez, Larson) MOTION PASSED.

At the request of Trustee Jolly, Mr. MacLean explained the correlation matrix of excess returns vs. the Russell 1000 Growth and the S&P 500 Growth between INTECH and Waddell Reed, Waddell Reed and Winslow, and INTECH and Winslow over the one, three, five, seven, and ten year periods noting that INTECH and Winslow Capital have the lowest correlation.

A motion was made by Trustee Jolly, seconded by Vice Chair Hackett, to hire Waddell & Reed and Winslow Capital to manage the \$280 million Large Cap Growth mandate pending successful contract negotiations.

Trustee Souza opposed the motion due to Waddell Reed's investment performance and the high correlation between Waddell & Reed and Winslow Capital.

At the request of Mr. Peña, Mr. MacLean commented on a Fresno Bee article on Waddell & Reed's role in the recent "Flash Crash" that occurred on May 6, 2010 noting that based on further research and discussion with Waddell & Reed, it is his opinion that there was no wrongdoing or unethical practices by Waddell & Reed.

Vice Chair Hackett restated the motion as follows:

To hire Waddell & Reed and Winslow Capital to manage the \$280 million Large Cap Growth mandate pending successful contract negotiations. ROLL CALL VOTE: Yes – Cardenas, Hackett, Jolly. No – Cornacchia, Souza. MOTION PASSED.

RECEIVED AND FILED; APPROVED

16. Discussion and appropriate action on International Equity Mandate search process presented by Jeffrey MacLean, Wurts & Associates

Jeffrey MacLean, Wurts & Associates, opened discussions with an overview of the proposed search criteria for the International Equity mandate.

The search criteria include:

- Firm assets under management greater than \$1.75 billion
- Strategy assets under management greater than \$500 million
- Minimum 7 year track record
- Minimum performance standards
- Investment approach consistent with value style investing
- Investment strategy will invest primarily in developed countries
- R-Squared should be between 85 and 97
- Institutional assets should be greater than 40% of the firm's assets
- Must pass subjective screens

A motion was made by Trustee Jolly, seconded by Trustee Souza, to Approve the search criteria as presented.

Discussions ensued regarding how using the established criteria will aid the Board in the selection of potential candidates by narrowing the universe from about 500 firms to approximately six or seven.

Vice Chair Hackett restated the motion as follows:

To Approve the search criteria as presented. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)

RECEIVED AND FILED; APPROVED

17. Discussion and appropriate action on Systematic Financial Management performance fee structure

Jeffrey MacLean, Wurts & Associates, opened discussions by reminding the Board that in August 2010 hired Systematic in the small cap value mandate and instructed Wurts & Associates to negotiate a performance fee arrangement. Subsequent negotiations yielded 35 basis points base fee and a required excess return of 250 basis points over the Russell 2500 Value Index to earn their normal fee of 73 basis points on the \$105 million FCERA mandate. The base fee equates to \$367,500 vs. \$767,500 of normal fee, resulting in a \$400,000 annual savings excluding the performance-based component.

Mr. MacLean believes the negotiated performance based fee schedule aligns Systematic's interest with FCERA's and the base fee provides immediate savings and recommended that the Board adopt the fee structure as presented.

A motion was made by Trustee Souza, seconded by Trustee Jolly, to Adopt the performance based fee structure as presented. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)

RECEIVED AND FILED; APPROVED

18. Discussion and appropriate action on Western Asset Management Company (WAMCO) fee revision

Jeffrey MacLean, Wurts & Associates, opened discussions by reminding the Board that WAMCO remains on watch status due to their underperformance.

At the August 2010 meeting, WAMCO CIO Stephen Walsh addressed the disappointing recent performance and offered fee concessions to FCERA, which the Board instructed Wurts to pursue.

The WAMCO portfolio has been on a performance based fee schedule since October 2008 and is structured with a 15 basis point base fee and a required excess return of 75 basis points over the Barclays Aggregate Index to earn their normal fee of 23 basis points on the \$181.5 million FCERA mandate. WAMCO has proposed applying that schedule retroactively to the account inception date, resulting in a fee rebate of \$53,634. The fee rebate would be applied to the third quarter 2010 invoice.

Wurts believes that the performance fee structure has benefitted FCERA during WAMCO's period of underperformance, having paid the lower fee base of 15 basis points during that time. Additionally, their research supports higher credit exposure given the current level of credit spreads, so it is expected the credit exposure through WAMCO to benefit FCERA in the near term. Mr. MacLean believes that the current performance fee schedule is fair and recommended acceptance of the retroactive date.

A motion was made by Trustee Souza, seconded by Trustee Jolly, to Approve the recommended fee structure as presented. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)

RECEIVED AND FILED; APPROVED

As requested by Diana Vasquez, SEIU Local 521, the Board considered whether to Table Item 19 until a time that more Trustees are present.

A motion was made by Trustee Souza, seconded by Vice Chair Hackett, to Table Item 19 as requested. ROLL CALL VOTE: Yes – Hackett, Souza. No – Cardenas, Cornacchia, Jolly. MOTION FAILED.

19. Discussion and appropriate action on Trustee Steven Jolly's participation in the County of Fresno Retirement Task Force

Roberto L. Peña, Retirement Administrator, opened discussions by stating that Trustee Jolly was asked by a member of the Board of Supervisors to participate on a task force that will review and report on issues facing the County of Fresno pension system and, at the request of Trustee Jolly, agendized the request for participation for open discussion.

Mr. Peña supports the request in that Mr. Jolly is well informed on issues facing the pension plan and noted that, after speaking with Counsel, there appears to be no legal conflict of interest. However, there could be a perception of a conflict.

Trustee Jolly stated that he was asked by Judy Case, Board of Supervisor Chair, to participate on a task force that will review and report on key issues facing the pension system. The task force will be comprised of various professionals and expertise. Trustee Jolly stated that should he accept the offer and participate it will be as a private citizen and not as a Board of Retirement Trustee.

Trustee Souza raised concerns that there is potential for conflict of interest should benefit changes occur due to recommendations of the task force.

Detailed discussions ensued regarding Trustee Jolly's knowledge in investments and retirement administration which support his qualifications to participate on the task force.

Ms. Vasquez expressed concern with Trustee Jolly's participation in the task force in that his role will be recommending changes to a retirement plan that he also administers.

Mr. Peña supports Trustee Jolly's participation on the task force because he believes that Trustee Jolly can provide meaningful discussions and recommendations to the Board of Supervisors.

Trustee Jolly stated that it is his intent to participate on the task force as a private citizen.

NO ACTION TAKEN

Roberto L. Peña, Retirement Administrator, pulled Closed Session Agenda Items 20.B. (one case) and 20.D.4. as there was nothing to discuss.

20. Closed Session:

A. Conference with Legal Counsel – Actual Litigation - pursuant to G.C. §54956.9(a)

- 1. *Geraldine Chisom, et al. v. Board of Retirement, etc., et al., Fresno County Superior Court Case No. 10 CECG 02372***

2. *Thomas Alberda v. v. Board of Retirement of the Fresno County Employees' Retirement Association; Fresno County Superior Court Case No. 10 CE CG 02961*
 3. *Lynn Adams v. Board of Retirement of the Fresno County Employees' Retirement Association (Respondent), County of Fresno, Fresno County Employees' Retirement Association (Real Parties in Interest); Fresno County Superior Court No. 09 CE CG 02928*
- B.** Conference with Legal Counsel – Potential Litigation – pursuant to G.C. §54956.9(c) – possible initiation of litigation (three cases)
- C.** Conference with Real Property Negotiators – pursuant to G.C. §54956.8
1. Property: 1713 Tulare Street, Fresno, CA 93721
Agency Negotiators: Brian Decker of Colliers Tingey
- D.** Disability Retirement Applications – Personnel Exception (G.C. §54957):
1. Dennis Folks
 2. Cathleen Harris
 3. Ronald Vaughn
 4. Rudolph Gutierrez
 5. Eugene Buchanan

21. Report from Closed Session

- 20.A.1. Nothing to Report.
- 20.A.2. Nothing to Report.
- 20.A.3. Nothing to Report.
- 20.B. The Board authorized Cohen & Milstein to file, as lead plaintiff, a motion against Alphatec. **M – Souza. S – Jolly. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)**
The Board adopted a resolution authorizing an Opt-Out claim to be filed in connection with the collapse of Countrywide. **M – Souza. S – Jolly. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)**
- 20.C. Nothing to Report
- 20.D.1. Dennis Folks – Decision – To grant Dennis Folks Service Connected Disability benefits based on the Findings of Fact and Decision. **M – Souza. S – Hackett. VOTE: Yes – Cornacchia, Hackett, Jolly, Souza. Abstain – Cardenas. (Absent – Criego, Crow, Gomez, Larson)**
- 20.D.2. Cathleen Harris – Decision – To grant Cathleen Harris Non-Service Connected Disability benefits based on the Findings of Fact and Decision. **M – Souza. S – Hackett. VOTE: Yes – Cornacchia, Hackett, Jolly, Souza. Abstain – Cardenas. (Absent – Criego, Crow, Gomez, Larson)**
- 20.D.3. Ronald Vaughn – Decision – To grant Ronald Vaughn Service Connected Disability benefits based on the Findings of Fact and Decision with an effective date of December 14, 2005, the day following the last day compensated. **M – Souza. S – Hackett. VOTE: Yes – Cornacchia, Hackett, Jolly, Souza. Abstain – Cardenas. (Absent – Criego, Crow, Gomez, Larson)**

- 20.D.4. Pulled.
- 20.D.5. Eugene Buchanan – Decision – To grant Eugene Buchanan Non-Service Connected Disability benefits based on the Findings of Fact and Decision with an effective date of February 1, 2009. **M – Jolly. S – Cardenas. VOTE: Unanimous (Absent – Criego, Crow, Gomez, Larson)**

22. Report from FCERA Administration

Roberto L. Peña, Retirement Administrator, reported on the following:

1. Administration received six nominations for the position of General Member and two nominations for the position of Retired Alternate Member on the Board of Retirement. John Souza, Retired position, ran unopposed and will serve a three-year term beginning January 2011. The election will be held November 18, 2010.
2. Administration is finalizing the plans for the Board Retreat scheduled on October 20-21, 2010 at Harris Ranch Inn in Coalinga, California.
3. The Personnel Committee will meet October 13, 2010 at 9:00 AM.

23. Report from County Counsel

Susan Coberly, Senior Deputy County Counsel, had nothing to report.

24. Board Member Announcements or Reports

The Board Members had nothing to report.

There being no further business, the meeting adjourned at 11:31 AM.

Roberto L. Peña
Secretary to the Board