BOARD OF RETIREMENT
FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

February 3, 2010 – 8:30 AM

Trustees Present:

Michael Cardenas	Nick Cornacchia	Franz Criego
Vicki Crow	Eulalio Gomez	James Hackett
Steve Jolly	Phil Larson	John Souza

Others Present:

Ronald S. Frye, Alternate Trustee
Michael Cunningham, FCERA Member
Christian McCormick, INTECH
Jennifer Young, INTECH
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

Chair Gomez called the meeting to order at 8:37 AM.

2. Pledge of Allegiance

Recited

3. Public Presentations

None.

Consent Agenda/Opportunity for Public Comment

A motion was made by Vice Chair Hackett, seconded by Trustee Jolly, to Approve Consent Agenda Items 4-17. VOTE: Unanimous (Absent – Crow)

***4. Approve the January 20, 2010 Retirement Board Regular Meeting Minutes**

RECEIVED AND FILED; APPROVED

***5. Retirements**

RECEIVED AND FILED; APPROVED

Caleb O. Aleru	Social Services	14.63
Phillip G. Atkisson	ITSD, Deferred	5.29
Mark A. Austin	Agriculture	10.26
Richard Ballantyne	LAFCO	21.14
Mary L. Benson	Social Services, Deferred	11.48

John A. Blanco, Jr.	Behavioral Health	19.84
Gary Brand	Social Services	20.41
Frances P. Buffaloe	Behavioral Health	15.06
Guadalupe Cordova Enriquez	Social Services	21.11
Angela Diaz	VMC, Deferred	1.95
Rudolph Diaz	Probation	31.56
Enrique Flores	Personnel Services, Deferred	13.21
Thelma M. Gomez	Behavioral Health	18.11
David J. Gonzales	Probation	29.46
Joe L. Gonzales	General Services	28.39
Mary Hacker	Probation	12.16
Melinda Jo Johnson	FMAAA	12.60
Lydia M. King	Superior Court	3.75
Nahid Laghaifar	District Attorney	26.74
Mark R. Miller	Public Works & Plan., Deferred	4.94
Sonja E. Murphy	Behavioral Health	7.99
Junso Ogawa	Public Works & Planning	13.67
Linda G. Perry	Social Services	23.26
Fedilina Pinera	Social Services	10.51
Sally A. Ritchie	Social Services, Deferred	5.41
Larry Robinson	Probation, Deferred	12.89
Patricio Santiago	Sheriff	18.88
Frank Serrano	General Services	30.44
Rosemary Sesma	Child Support Services	21.67
Gary L. Stinecipher	Probation	28.68
Judith A. Stuart	Sheriff	31.82
Michael R. Viar	Public Works & Planning	25.02
Clarence Whitmore	Behavioral Health	30.07
Douglas A. Ward	General Services	20.19
Lee E. Wiser	Social Services, Deferred	0.75
Edward G. Yamamoto	Community Health	34.00

***6. Disability Retirements**

RECEIVED AND FILED; APPROVED

Cynthia Flock	Assessor-Recorder	8.75

***7. Deferred Retirements**

RECEIVED AND FILED; APPROVED

Timothy Crane	Sheriff	12.26
Jimmie L. Finn	Probation	9.61
Kevin E. Fries	Personnel Services	21.89
Kevin Frye	Child Support Services	20.27
Eliseo O. Garcia	Social Services	3.58
Debra L. Gilstrap	Community Health	11.12

***8.** **Public Records Requests and/or Retirement Related Correspondence from Nicholas Morriss, EM Alternatives, LLC; Maria Barajas, Strategic Local Government Services; Don Oswalt, Investment Governance, Inc.; Sachin Hirani, Global Fund Exchange; Danny Coloso, City of Los Angeles; Simren Desai, Setter Capital, Inc.; and Andrea Mulzet, Madison Square Investors**

RECEIVED AND FILED

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

RECEIVED AND FILED

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

RECEIVED AND FILED

***11.** **Board Communications**

RECEIVED AND FILED

***12.** **Annual Report of Trustee Due Diligence Activities for calendar year 2009**

RECEIVED AND FILED

***13.** **Annual Report of Trustee Educational Activities for the calendar year 2009**

RECEIVED AND FILED

***14.** **Memorandum from Jeffrey MacLean, Wurts & Associates, regarding the departure of Greg Hartley from Kalmar Investment, Inc**.

RECEIVED AND FILED

***15.** **Correspondence from Jeffrey MacLean, Wurts & Associates, regarding 2009 4Q Quarterly Research Conference Call and Report**

RECEIVED AND FILED

***16.** **Requests by Trustees Nick Cornacchia and Michael Cardenas to attend the Pension Bridge Annual April 6-8, 2010 in San Francisco, California**

RECEIVED AND FILED; APPROVED

***17.** **Travel Advance Requests from Chair Eulalio Gomez in the amount of $458.00 (hotel accommodations) to attend the Stanford Law School Fiduciary College 2010 on March 25-26, 2010 and Trustees Nick Cornacchia and Franz Criego in the amount of $318.00 (each) (hotel accommodations) to attend the CALAPRS General Assembly in on March 7-9, 2010**

RECEIVED AND FILED; APPROVED

Trustee Crow joined the Board at 8:52 AM.

18. Discussion and appropriate action on Large Cap Growth INTECH mandate presentation by Christian McCormick, Vice President Portfolio Management Group, and Jennifer Young, President and Co-Chief Executive Officer

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board of Wurts' recommendation to terminate INTECH Investment Management across all its clients due to concerns regarding senior level departure and continued underperformance, as well as the results of their recently published analysis on the factors impacting quantitative strategies.

Mr. MacLean noted that as a result of the Boards decision to place INTECH on watch and to have Wurts conduct a search to potentially replace INTECH, representatives of INTECH requested an opportunity to address the Board regarding their investment strategy and performance.

Christian McCormick, INTECH, began the presentation with a brief overview of the firm's background noting that throughout the firm's 22-year history it has managed to generate excess returns through numerous market and economic cycles and events by applying its proprietary mathematical approach.

Jennifer Young, INTECH, gave a brief overview of the firm's investment philosophy and product noting that INTECH believes that value can be added by using natural stock volatility through a mathematically based and risk managed process. INTECH does not pick individual stocks or forecast stock alphas, but uses natural stock price volatility and correlation characteristics in an attempt to generate an excess return by capturing some of the stocks' movements relative to one another. Essentially, INTECH adjusts the cap weights of an index portfolio to potentially more efficient combinations resulting in virtually no style drift.

Ms. Young reviewed the firm's current organizational structure and key staff departures at INTECH noting that a solid and transparent succession plan is in place that provides stability to the firm going forward.

Ms. Young addressed a recent settlement agreement with the Securities and Exchange Commission (SEC) regarding the firm's failure to properly disclose their proxy voting guidelines prior to August 2006. The settlement included a cease and desist order, censure, and combined civil monetary penalties totaling $350,000. Ms. Young noted that INTECH has revised their proxy voting guidelines to fully comply with the SEC's Proxy Voting Rules.

Mr. McCormick commented on the recent market downturn and its impact on FCERA's investment portfolio performance noting that in 2009 significant equity market performance was largely dominated by a small number of the smaller of the large cap stocks. Managers who did not own substantial positions in smaller cap stocks largely underperformed the market. INTECH's investment process did not find the volatility or correlation characteristics in these types of stocks attractive. As a result, the portfolio was typically underweighted in these positions or did not own the stocks at all.

Mr. McCormick stated that a return to more “normal” relative volatility levels along with a decline in trading costs may be an indicator of a more stable volatility environment looking forward. In addition, Mr. McCormick noted that, over time, cycles have dominated in which both positive and negative trends occur in approximately equal proportions. INTECH’s process is expected to generate approximately its targeted relative return when cycles dominate.

In response to a question from Trustee Jolly regarding whether changes have ever been made to INTECH’s mathematical process, Mr. McCormick noted that “enhancements” to the mathematical process are made approximately every two years and are based on reducing trading costs and risks.

In response to a question from Trustee Criego regarding the targeted return rate, Ms. Young noted that the target return rate for the strategy is approximately 3%-4% excess return over the benchmark index over the long term.

Detailed discussions ensued regarding INTECH’s fees as they relate to the investment returns. Mr. Peña noted that the fees are approximately $500,000 (47-48 basis points based on assets under management) per year for expected returns of 3%-4% in excess of the benchmark. However, the returns have underperformed the benchmark (net of fees) 0.12% since inception.

Mr. MacLean stated that the INTECH portfolio has underperformed the S&P Citigroup Growth Index over the year-to date, one, and three year periods ending September 30, 2009 and ranks in the 75th percentile among its peers over the last five years. In addition, key staff departures over the last couple of years and the eventual retirement of the firm’s co-founders lead to concerns regarding the firm’s ability to meet future staffing needs and combat continuing intellectual competition.

Mr. MacLean noted that Wurts’ research on factors impacting quantitative strategies points to INTECH facing numerous theoretical barriers to success. The recent performance of their flagship strategies reflects the crowding out effect as they experienced substantial growth in their asset base over the last decade. The “black box” nature of their model makes it impossible to determine their potential for success. In addition, INTECH’s benchmark-constrained strategy limits the upside and makes it difficult to overcome recent underperformance to the benchmark.

Trustee Jolly referred to Page 25 of INTECH’s presentation (Large Cap Growth Historical Returns) and noted that INTECH outperformed the benchmark in 75% of one-year rolling periods, 85% of three-year rolling periods, 97% of five-year rolling periods, and 100% of ten-, and fifteen-year rolling periods. Over the long term, excess returns are expected to converge toward the long-term target.

In response to a question from Trustee Souza regarding expectations of a new investment manager should INTECH be terminated, Mr. MacLean stated that it is expected that a new firm will bring stability as well as excess returns.

In response to a comment by Ms. Young regarding the need to exercise patience during underperforming periods, Mr. Peña inquired as to what would be an acceptable period of time for exercising patience. Ms. Young stated that a quarter-by-quarter basis would be acceptable.

A motion was made by Trustee Crow, seconded by Trustee Larson, follow the recommendation by Wurts & Associates.

Trustee Souza expressed his concern regarding the relatively short “watch” timeframe and suggested that the watch status continue and that Mr. MacLean work with INTECH to reduce their fees performance improves. Detailed discussions ensued regarding prior watch status processes.

Mr. MacLean noted that, in the event the Board decides to not terminate INTECH at this time, it could opt to proceed with the search process while maintaining the watch status or set a specific watch period and request a fee reduction until performance improves reserving the right to terminate should performance not improve.

Chair Gomez restated the motion as follows:

To terminate INTECH and continue the search process as recommended by Wurts & Associates. ROLL CALL VOTE: Yes – Cornacchia, Criego, Crow, Hackett, Larson, Gomez. No – Cardenas, Jolly, Souza. MOTION PASSED.

Mr. Peña requested clarification on the termination timeline and process and suggested the Board follow past practice by continuing to have INTECH manage the mandate until the search for a replacement is complete.

Trustee Jolly expressed his concern that the Board’s decision to terminate INTECH at this time will add transition costs and requested the motion be reconsidered. Trustee Jolly suggested maintaining watch status through the search process.

Trustee Jolly indicated that the motion was to terminate. Mr. MacLean agreed and stated that the proper motion would be to reconsider the motion.

Trustee Crow clarified that the intent of her motion was to complete the selection process before terminating INTECH.

A motion was made by Trustee Crow, seconded by Vice Chair Hackett, to reconsider the motion to terminate INTECH. VOTE: Unanimous

A motion was made by Trustee Jolly, seconded by Trustee Crow, to continue the search process with the intent of terminating INTECH upon selection of a new manager. VOTE: Unanimous

RECEIVED AND FILED; APPROVED

Trustee Jolly departed at 10:58 AM.

19. Discussion on TALF Investment Commitment Update presented by Jeffrey MacLean, Wurts & Associates

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that in June 2009, Wurts recommended the PIMCO Treasury Asset-backed Loan Facility (TALF) Investment and Recovery Fund to FCERA to capitalize on the cheap and non-recourse loans offered by the Federal Reserve to reinvigorate the asset-backed securities market (ABS) and lending in the broader economy.

The TALF program was subsequently extended to the commercial mortgage-backed securities market (CMBS) and into March 2010. FCERA made a $60 million commitment to the fund in July 2009, with the remaining $40 million commitment granted to the MetWest Enhanced TALF Strategy Fund to complete the 5% TALF allocation previously agreed upon by the Board of Trustees.

Mr. MacLean stated that MetWest informed its limited partners in November 2009 that they are returning capital. PIMCO informed its limited partners in December 2009 that they are releasing 30% of commitments. Both managers acknowledged the diminished opportunity set.

MetWest provided limited partners two options: 1) returning two-thirds of uncalled capital or 2) returning nearly all uninvested, except a holdback of 5% of total commitment, and calling capital only as opportunities become available. Wurts recommended the second option to FCERA, and MetWest returned $13.25 million of capital in early December 2009. The total commitment to MetWest remains $40 million, with $24.7 million invested by year-end 2009. With PIMCO releasing 30% of commitments, FCERA's total commitment was reduced to $42 million. By year-end 2009, PIMCO has called $21 million, with the remaining $21 million expected to be called before March 2010. PIMCO has already indicated that commitments may be further scaled down should the opportunity set continue to contract.

Mr. MacLean noted that since the funds' inceptions, lending conditions have improved, with liquidity restored in the ABS market. No new TALF paper is available and there are few sellers conducting transactions on legacy CMBS issues. Additionally, companies can now obtain more favorable financing with fewer restrictions from the private sector. Wurts believes that both PIMCO and MetWest are exercising good investment discipline by recognizing the limited opportunities available and choosing to scale down commitments or return capital in order to preserve returns for their investors. Upon initial recommendation, Wurts acknowledged that the TALF strategy is unique, opportunistic and not enduring. Wurts agrees with MetWest and PIMCO in not reaching for higher returns and incurring unnecessary risks to compromise the superior risk-adjusted returns already offered by the TALF program.

Mr. MacLean stated that because the TALF allocation was a carve-out of fixed income the returned capital and released commitments from the TALF managers will be absorbed within the fixed income allocation.

RECEIVED AND FILED

20. Discussion and appropriate action on Active Small Cap Value Recommendation presented by Jeffrey MacLean, Wurts & Associates

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that at the October 2009 meeting, Wurts recommended the termination of Brandywine Global Investment Management from the small cap value mandate due to underperformance. The assets were transferred to the State Street Small Capitalization Value Index in November 2009 to maintain exposure to this sector of the market.

Mr. MacLean recommended that the Board approve a search for a small cap value manager to actively manage the mandate.

Mr. MacLean discussed the merits of active management noting that a study conducted by Wurts in 2007 found that about 75% of small cap managers in the ICC Universe outperformed their respective indices. Wurts believes that inefficiencies persist in the small cap market to warrant active management.

The small cap market is relatively illiquid which impacts price and trading costs. Additionally, small cap stocks receive less research coverage from sell-side research analysts and commercial data vendors. The universe of small cap stocks is not only bigger than large cap stocks but is always changing, as some companies creep up in capitalization and new companies enter the market. Furthermore, smaller companies are less likely to have dedicated resources to disseminate information to investors. Lastly, the economics of research affects coverage because less trading volume in small cap stocks generates less revenue to support the analysis. These inefficiencies create opportunities for well-resourced, active small cap managers.

To maintain a manager structure that is unbiased towards a value or growth style, Wurts recommends a search for a small cap value manager to complement Kalmar Management in the small cap growth mandate. As of year-end 2009, assets invested in the State Street Small Capitalization Value Index totaled approximately $105 million, constituting the 4% target allocation to small cap value equities.

A motion was made by Trustee Souza, seconded by Trustee Crow, to Approve the Active Small Cap Value search using an active strategy. VOTE: Unanimous (Absent – Jolly)

RECEIVED AND FILED; APPROVED

21. Discussion and appropriate action on Surplus Property presented by Becky Van Wyk, Assistant Retirement Administrator

Becky Van Wyk, Assistant Retirement Administrator, opened discussions by reminding the Board that on January 6, 2010 it approved the surplus of property no longer needed by FCERA. In compliance with the current policy, notices were forwarded to the plan sponsors announcing the availability of the equipment. None of the plan sponsors expressed an interest in the equipment.

Ms. Van Wyk noted that, although the surplus property policy does not authorize the donation of equipment to charitable agencies, some Board members have expressed a desire to donate surplus equipment to a charitable agency.

Ms. Van Wyk referred to a letter from Terry Berryhill, IS Manager of the Hinds Hospice, expressing interest in the equipment and informed the Board that Hinds Hospice was established by Nancy Hinds, the mother of FCERA's Supervising Accountant, Conor Hinds.

Ms. Van Wyk noted that, alternatively, the equipment could be surplussed through the Purchasing Department of the County of Fresno who would ultimately sell or dispose of the equipment. Discussions with County representatives indicate that the proceeds, less the cost of the sale, would be forwarded to FCERA.

Ms. Van Wyk recommended that the Board authorize the donation of the equipment to the Hinds Hospice given the relative low resale value of the equipment.

A motion was made by Trustee Crow, seconded by Trustee Cardenas, to Approve the donation of the equipment to Hinds Hospice as recommended. VOTE: Unanimous (Absent – Jolly)

RECEIVED AND FILED; APPROVED

Roberto L. Peña, Retirement Administrator, pulled Closed Session Agenda Item 22.B.1. as there was nothing to discuss.

22. Closed Session:

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

1. *Lynn Adams v. Fresno County Employees' Retirement Association - Case No. 09 CD CG 02928*

B. 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

C. Disability Retirement Applications – Personnel Exception (G.C. §54957):

1. Robert Hagler

23. Report from Closed Session

22.A.1. Nothing to Report
22.B.1. Pulled
22.C.1. Robert Hagler - Decision – Based on the Findings of Fact the Board finds that the Applicant, Robert Hagler, did not file his application for a service-connected disability retirement under Government Code section 31720 timely, under Government Code section 31722, and as set forth in the County Employees Retirement Law of 1937. M – Crow. S – Larson. VOTE: Unanimous (Absent – Jolly)

24. Report from FCERA Administration

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

1. Trustee Jolly was reappointed to the Board of Retirement for a three-year term.

25. Report from County Counsel

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

26. Board Member Announcements or Reports

Trustee Cornacchia commented on an investment article published in the February edition of Forbes Magazine.

There being no further business the meeting adjourned at 11:23 AM.

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Roberto L. Peña
Secretary to the Board