

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

**March 3, 2010**

**Trustees Present:**

Michael Cardenas  
Eulalio Gomez  
John Souza

Nick Cornacchia  
James Hackett

Franz Criego  
Steven Jolly

**Trustees Absent:**

Vicki Crow

Phil Larson

**Others Present:**

Ronald S. Frye, Alternate Trustee  
Jeffrey MacLean, Wurts & Associates  
Bea Lim, Wurts & Associates  
Carol Sheela, Retirement Benefits Manager  
Martha Smith, Retirement Coordinator Supervisor  
Marta Gonzalez, Supervising Account Clerk  
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 8:33 AM.

**2. Pledge of Allegiance**

Recited.

**3. Public Presentations**

Trustee Criego requested that the Board observe a moment of silence at 10:00 AM in memory of Fresno County Deputy Sheriff Joel B. Wahlenmeier and Reedley Police Officer Javier Bejar and in honor of Fresno County Deputy Sheriff Mark Harris.

**A motion was made by Trustee Criego, seconded by Trustee Souza, to Approve the request for a moment of silence be observed at 10:00. VOTE: Unanimous (Absent – Crow, Larson)**

Roberto L. Peña, Retirement Administrator, introduced and welcomed Marta Gonzalez, Supervising Account Clerk and Martha Smith, Retirement Coordinator Supervisor, to the FCERA team. In addition, Mr. Peña informed the Board that Carol Sheela, Retirement Benefits Manager, announced her retirement effective April 3, 2010. Mr. Peña thanked Ms. Sheela for her years of service to FCERA.

## Consent Agenda/Opportunity for Public

**A motion was made by Trustee Souza, seconded by Vice Chair Hackett, to Approve Consent Agenda Items 4-13 as presented. VOTE: Unanimous (Absent – Crow, Larson)**

### \*4. Retirements

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Susan Aguilar-Valenzuela	Agriculture, Deferred	6.98
Nella Audas	Public Works & Plan, Deferred	9.37
Ian F. Barrimond	Sheriff	20.62
Christie K. Clendenan	Dept. of Social Svs., Deferred	7.37
Orron S. Dougherty	Probation, Deferred	6.79
George M. Gingo	District Attorney, Deferred	5.49
Paul N. Hulak	Community Health, Deferred	9.44
Leona E. James	Public Works & Plan, Deferred	7.39
Marlene G. Jensen	Assessor-Recorder	33.00
Joyce A. Likens	Dept of Social Services	10.02
Barbara Lindstrom	General Services	10.41
Peggy L. Littlefield	Superior Court	39.03
Claudette McCoy	Superior Court	11.52
Sherryn McNab	Library	10.08
Salvador M. Montana	Dept of Social Svs., Deferred	18.31
Cynthia Morales	Child Support Services	22.30
Leticia Morales	Retirement Association	21.25
Toby L. Rien	Sheriff	29.40
Peter J. Ruggerello	Community Health, Deferred	14.19
Pauline Sedra	Superior Court	21.10
Sharon D. Thomas	VMC, Deferred	14.88

### \*5. Deferred Retirements

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Richard E. Ramirez	Superior Court	2.36
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### \*6. Public Records Requests and/or Retirement Related Correspondence from Michael McKay, FCERA Member; Valerie Murray, FCERA Member; Jim Andersen, FCERA Member; Rob Rossi, C.S. McKee, L.P.; John Bennett, Southern Community Investments, LLC; Glen Beigel, Cogent Investment Research, LLC; Duff Daniels, WCM Investment Management; Peter Martenson, C.P. Eaton Partners, LLC; Marisa Avansino, Gabelli Asset Management Inc., Pat Eroh, FCERA Member; and Rob Lingle, Asset Alliance Advisors

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**\*7. Update of Board of Retirement directives to FCERA Administration**

RECEIVED AND FILED

**\*8. Most recent investment returns, performance summaries and general investment information from investment managers**

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**\*9. Board Communications**

RECEIVED AND FILED

**\*10. Correspondence to FCERA Retirees regarding the -0.5% Cost of Living (COL) decrease approved by the Board at its Regular meeting on February 17, 2010**

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**\*11. Correspondence from Jeffrey MacLean, Wurts & Associates, regarding BlackRock Update: *Acquisition of Barclays Global Investors Closes; Scott Amero, Vice Chairman and Global CIO for Fixed Income, Announces Upcoming Retirement***

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**\*12. Travel Advance Requests from Trustees Cardenas and Cornacchia in the amount of \$518.00 (hotel accommodations) to attend the Pension Bridge Annual on April 5-7, 2010**

RECEIVED AND FILED; APPROVED

**\*13. Final version of the Employer Contribution Equity Policy approved by the Board at the February 17, 2010 Regular meeting**

RECEIVED AND FILED; APPROVED

Jeffrey MacLean, Wurts & Associates, introduced Bea Lim, Associate Director of Research. Ms. Lim was hired in January 2010 and holds a CFA and CAIA and comes to Wurts & Associates with seven years of direct hedge fund experience.

**14. Discussion and appropriate action on Large Cap Growth Mandate Search presented by Jeffrey MacLean, Wurts & Associates**

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions with an overview of the Large Cap search process noting that, in addition to subscribing to outside data bases, Wurts uses its own internal data base to ascertain which firms are best for its clients.

Mr. MacLean reviewed the Large Cap Growth manager screening process noting that the data bases identified approximately 778 investment strategies. After applying screens that included only managers with over \$500 million in assets and a seven year outperformance of the Russell 1000 Growth index, the various investment strategies were reduced to approximately 75.

After applying two additional screens, which included a portfolio manager turnover of less than 100% over five years and R-squared to the Russell 1000 Growth of .97, the strategies were reduced to approximately 30 firms. Finally, applying a qualitative assessment reduced the candidates to six, including Rainier Investment Management, Sands Capital Management, T. Rowe Price Group, Turner Investment Partners, Waddell & Reed Asset Management, and Winslow Capital Management.

Ms. Lim gave a detailed overview of the candidates noting their individual characteristics including ownership, strategy, fees, track record, team tenure and potential concerns.

Mr. MacLean reviewed the investment strategies as follows:

Rainier Investment Management – The investment style of the portfolio is Large Cap Growth. The majority of the companies owned have a market capitalization of over \$5 billion. Smaller companies may be owned when especially attractive. Stock selection focuses on companies that are likely to demonstrate superior earnings, revenue, or cash flow growth relative to their industry peers. The portfolio normally will hold approximately 40 to 85 companies in various stages of growth. The portfolio's economic sector weightings are compared to a growth equity index such as the Russell 1000 Growth Index.

Sands Capital Management – Is a bottom-up, Large Cap Growth manager concentrating on high-quality large capitalization growth companies. The firm's investment philosophy is rooted in the belief that over time common stock prices will reflect the earnings growth of the underlying businesses. The firm has a highly-disciplined investment strategy based on a bottom-up fundamental approach with an emphasis on quality. Sands Capital believes its value-added relative to an index is a consequence of the firm's on-going qualitative and quantitative assessment of companies' long term prospects for the sustainability of growth. Many growth companies have high projected rates of earnings growth but very few will actually deliver consistently on such exalted growth expectations over long periods of time. Sands Capital's mission and focus is to identify and own these few leading companies in client account and construct a concentrated, high conviction, benchmark agnostic portfolio of 25-30 businesses.

T. Rowe Price Group – The Large Cap Growth strategy is a fundamentally driven active approach to large company growth investing. The strategy's primary benchmark is the Russell 1000 Growth Index. The Large Cap Growth strategy's investment philosophy is centered on the manager's belief that long-term growth in earnings and cash flow drive equity returns. The management team relies on in-house fundamental research to identify companies with high-quality earnings, strong free cash flow growth, shareholder-oriented management, and rational competitive environments.

Turner Investment Partners – The firm's investment philosophy, that earnings expectations drive stock prices, has remained unchanged since the firm's inception in 1990. Turner implements this philosophy with a process that has dynamic elements that adapt to market conditions. Turner believes that investing in companies with strong earnings prospects is an effective long-term strategy; therefore, Turner will not deviate from its philosophy. The same investment process is applied to all of its growth equity portfolios to help provide clients a uniform and consistent approach to investing in growth stocks. The firm's objective is to significantly outperform the market with a level of risk commensurate with the market.

Turner adds value primarily through stock selection and pursues a bottom-up strategy that blends quantitative, fundamental, and technical analyses. Ideal candidates for investment are growth companies believed to have favorable earnings prospects, reasonable valuations, favorable trading volume and favorable price patterns. Each security is subjected to three separate evaluation criteria: fundamental analysis (approximately 80%), quantitative screening (approximately 10%), and technical analysis (approximately 10%).

Waddell & Reed Asset management Group – The Large Cap Growth investment process is a combination of top-down and bottom-up investment styles. The stock selection process is a blend of quantitative and fundamental research.

Large Cap Growth Equity style is predicated on three core beliefs:

- The market tends to overpay for high near-term earnings growth and undervalues long-term structural earnings power
- Structurally advantaged companies are characterized by high levels of profitability
- Growth investors often underestimate risk

Winslow Capital Management – The Large Cap Growth team believes that investing in companies with above-average earnings growth provides the best opportunity for achieving superior portfolio returns over the long term. While above-average earnings growth is a necessity, valuation relative to their estimated earnings growth rate is also important in selecting a stock. In the Large Cap product they invest in companies they believe can deliver future annual earnings growth of at least 12% with a rising return on invested capital. Their portfolios have a weighted three-year forward annual earnings growth rate of about 18%. They invest in three types of earnings growth: long-term sustainable earnings growth, cyclical growth in the right part of the cycle, and newer industries with rapid growth. Over time each of these averages one-third of the portfolio.

Winslow Capital's investment philosophy is founded on fundamental research. All of the investment principals have had many years of research experience. The majority of their analytical work is conducted internally by the investment principals. They are "bottom-up" stock pickers and position the portfolio decision-makers as close as possible to the flow and source of fundamental information directly from a company, its suppliers and competitors. This hands-on research process eliminates "information filtering". They also work with selected analysts whom they believe have the best insights. Importantly, they use their research skill to identify factors which will lead to a company's earnings growth beating street consensus expectations over the next few years.

Mr. MacLean reviewed the firm's annualized returns over a ten-year period noting that Sands Capital, Turner Investment, and Winslow Capital have outperformed the benchmark 80% of the time.

Mr. MacLean stated that the Large Cap Growth mandate of approximately \$110 million is designed to replace INTECH. In addition, Mr. MacLean reviewed the firm's proposed fees noting that each are reasonable, ranging from 40 basis points (T. Rowe Price Group) to 61 basis points (Sands Capital Management). Performance based fees are available for Sands Capital Management, Turner Investment Partners, and Winslow Capital Management.

Ms. Lim recommended that the Board select Rainier Investment Management, Sands Capital Management, and Winslow Capital Management for further consideration. Detailed discussions ensued regarding the pros and cons of each firm.

Based on performance, strategy, and fee structure, Trustees Souza and Jolly suggested that the Board select Waddell & Reed Investment Management, Sands Capital Management, and Winslow Capital Management for further consideration.

Based on performance versus risk and fee structure, Trustee Cornacchia expressed his support for Wurt's recommendation.

In response to a comment by Roberto L. Peña, Retirement Administration, regarding the similar characteristics of Rainier Investment Management and Waddell & Reed Investment Management, Mr. MacLean reviewed the qualitative assessment process leading to the recommendation to consider Rainier Investment Management.

**A motion was made by Trustee Jolly, seconded by Trustee Souza, to select Waddell & Reed Investment Management, Sands Capital Management, and Winslow Capital Management for further consideration. VOTE: Yes – Cardenas, Cornacchia, Criego, Gomez, Jolly, Souza. No – Hackett. (Absent – Crow, Larson)**

Mr. Peña requested that Mr. MacLean include the search/screening processes, to the extent possible, as part of the written presentation materials going forward.

The Board directed Administration to schedule a special meeting to hear the Large Cap Growth presentations. Administration agreed.

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A moment of silence was observed at 10:00 AM in memory of Fresno County Deputy Sheriff Joel B. Wahlenmeier and Reedley Police Officer Javier Bejar and in honor of Fresno County Deputy Sheriff Mark Harris.

**15. Discussion and appropriate action on “What Are You Really Getting” presentation and article regarding Quantitative Strategies presented by Jeffrey MacLean, Wurts & Associates**

Bea Lim, Wurts & Associates, opened discussions by stating that the presentation is designed to provide a fundamental understanding of quantitative strategies. She noted that these strategies had difficulty during the recent market downturn.

The Board heard the presentation “What are you really getting?” which summarizes a fundamental understanding of the unique factors driving returns for quantitative strategies. Though Wurts believes there is room for improvement in the optimal implementation of these strategies, their primary concerns surround the appropriate formulation of expectations and integration into portfolio design.

Ms. Lim reviewed the general types of Quantitative Models and noted the practical barriers to success as follows:

- Benchmark Constraints – given Efficient Market Hypothesis (EMH), volatility, and crowding out concerns, the more a manager is constrained, the more difficult it is to achieve success
- Fees – expensive for the actively managed portion
- The large number of managers employing quantitative strategies limits potential alpha
- Implementation of quantitative strategies rest upon certain volatility assumptions to produce alpha

Ms. Lim noted that quantitative strategies rely on a medium level of volatility and do not perform well with little or high volatility.

In response to a question from Roberto L. Peña, Retirement Administrator, regarding whether the Board should consider terminating its existing quantitative strategies for a more passive approach, Ms. Lim stated that because any approach to investing has its own unique qualities and worthwhile characteristics and attributes that there is no universally appropriate strategy for every portfolio.

Detailed discussion ensued regarding the different approaches and strategies of FCERA's current quantitative managers, INTECH and Aronson Johnson Ortiz (AJO). It was noted that AJO's approach is fundamentally based and more transparent than INTECH's strategy.

Mr. MacLean stated that Wurts' goal is to simplify the understanding of the fundamental forces driving quantitative strategies and noted that an improvement in best practices is warranted in not only how these strategies are most successfully designed and employed, but also with respect to appropriately educating institutional investors as to the factors that drive success or failure.

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**16. Presentation of the December 31, 2009 Investment Performance Review presented by Jeffrey MacLean, Wurts & Associates**

Jeffrey MacLean, Wurts & Associates, began the presentation with an overview of the current economic environment and its impact on the investment markets noting that from a big picture view, US Gross National Product (GDP) is essentially unchanged on a real basis year over year, while at the same time millions of people lost their jobs, households recovered but a small fraction of their losses since the economic peak, and housing market fundamentals rapidly deteriorated as evidenced by rising defaults and foreclosure activity. Of particular concern is the US' apparent continued dependence on debt as a means to fuel our economy. In the past seven quarters, total outstanding US debt has grown by approximately \$3 trillion, or more than 20% of GDP. Much of this debt growth is being borne by the government at low interest rates, but such rates of borrowing are simply unsustainable over time.

Mr. MacLean reviewed the quarterly investment performance as of December 31, 2009 noting that the total fund returned 3.5% in the fourth quarter, ranking in the 36<sup>th</sup> percentile.

Mr. MacLean reviewed the Plan's various asset classes and the individual investment managers within the asset classes noting any significant over or under performance over a three and five year period. It was noted that the Plan's market value as of the end of December 2009 is approximately \$2.6 billion.

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**17. Presentation of the December 31, 2009 Guideline Compliance Report presented by Jeffrey MacLean, Wurts & Associates**

Jeffrey MacLean, Wurts & Associates, had no violations to report.

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**18. Discussion and appropriate action on Voting Proxy for SACRS 2010 Spring Conference presented by Roberto L. Peña, Retirement Administrator**

**A motion was made by Vice Chair Hackett, seconded by Chair Gomez, to appoint Trustee Crow as the delegate to vote on behalf of FCERA at the upcoming SACRS 2010 Spring Conference and to appoint Trustee Criego as the alternate voting delegate.  
VOTE: Unanimous (Absent – Crow, Larson)**

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Roberto L. Peña, Retirement Administrator, pulled Closed Session Agenda Item 19.B.1. as there was nothing to discuss.

**19. 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

**20. Report from Closed Session**

19.A.1. Nothing to Report.

19.B.1. Pulled.

**21. Report from FCERA Administration**

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

1. The implementation of the General Ledger project will begin March 15, 2010.
2. The prospective buyer of the Fresno Station Business Center has begun minor cleanup and repairs on the building, at their expense, in anticipation of closing the sale.
3. The Conflict of Interest Form 700 is due by March 30, 2010.

**22. Report from County Counsel**

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

**23. Board Member Announcements or Reports**

The Board Members had nothing to report.

There being no further business, the meeting adjourned at 10:59 AM.

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Roberto L. Peña  
Secretary to the Board