

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

May 5, 2010

Trustees Present:

Michael Cardenas
Vicki Crow
Steve Jolly

Nick Cornacchia
Eulalio Gomez
Phil Larson

Franz Criego
James Hackett
John Souza

Others Present:

Ronald S. Frye, Alternate Trustee
Jeffrey MacLean, Wurts & Associates
Kristin Harper, Lord Abbett & Company
Gerard Heffernan, Lord Abbett & Company
Dan Bandi, Integrity Asset Management
Matt Bevin, Integrity Asset Management
Ronald Mushock, Systematic Financial Management
Scott Garrett, Systematic Financial Management
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.

Trustee Jolly joined the Board at 8:34 AM.

3. Public Presentations

None.

Roberto L. Peña, Retirement Administrator, stated that Paul Angelo, The Segal Company (Segal), informed Administration that Fresno County had issued a Request for Proposal (RFP) for an actuarial study to which they would like to respond. Mr. Peña noted that, because FCERA is Segal's primary client, they are seeking the Board's approval to respond to the RFP.

Mr. Peña noted that the issue/request came to Administration's attention after the May 5, 2010 Regular Agenda had been finalized and posted and requested that the Board consider adding the matter for discussion in that immediate action is required as the Board will not meet again until after the May 27, 2010 deadline to respond to the RFP.

A motion was made by Chair Gomez, seconded by Trustee Larson, to add the matter for discussion after Item 17. VOTE: Unanimous (Absent – Criego, Crow)

Consent Agenda/Opportunity for Public Comment

Trustee Jolly pulled Consent Item 10 for discussion.

Chair Gomez pulled Consent Item 8 for discussion.

A motion was made by Vice Chair Hackett, seconded by Trustee Souza, to Approve Consent Items 4-7, 9, and 11-14. VOTE: Unanimous (Absent – Criego, Crow)

*4. Approve the April 21, 2010 Retirement Board Regular Meeting Minutes

RECEIVED AND FILED; APPROVED

*5. Retirements

RECEIVED AND FILED; APPROVED

Judy Allen	District Attorney	26.15
Daniel Cervantes	Sheriff	30.10
Pete Chavez	Sheriff	29.33
Nancy a. Cisneros	Superior Court	23.71
Karen Bosch Cobb	Library	37.53
Juan M. Contreras	Public Works & Planning	33.47
Dennis J. Cooper	District Attorney	30.01
Diana M. Cupps	Probation, Deferred	12.35
John M. Downing	General Services	29.12
Sandra L. Farley	ITSD, Deferred	8.51
Brent Foster	Sheriff	20.68
Susan Fujioka	Superior Court	22.11
Chris S. Fukagawa	Community Health, Deferred	18.57
Paul R. Hinkly	Public Defender	25.32
Helen Hubbard	VMC, Deferred	14.56
Jean J. Ishimoto	Sheriff, Deferred	18.35
Margaret L. Jackson	Dept. of Social Svs, Deferred	12.06
Jeanne A. Kelley	Dept. of Social Svs, Deferred	35.98
Deborah A. Kinoshita	Probation	26.61
Joyce A. Lewis	Dept. of Social Svs, Deferred	13.07
Adela M. Medina	Dept. of Social Services	18.85
Nancy Metzler	Sheriff, Deferred	13.58
Judith M. Mitchell	Superior Court	21.92
Dwayne E. Morine	Assessor-Recorder	28.68
Christine Mueller	Public Defender	27.85
Rose M. Ohanesian	Child Support Services	10.04
Chris Osborn	Sheriff	31.71
Rosario Palomo	Child Support Services	15.90
Cheryl Phelps	Library	19.84
Emily N. Piercy	Superior Court	24.18
Joe Rascon	Sheriff	30.48

James F. Shasky	CVMD, Deferred	0.93
Carol Sheela	Retirement	32.73
Sylvia L. Sorondo	Superior Court, Deferred	21.77
Stephen P. Stallard	Probation, Deferred	21.27
David Tafoya	Sheriff	30.31
Wayne H. Takeuchi	General Services	32.05
Maria Trevino	District Attorney	29.06
Josephine N. Valenzuela	Probation	28.41
Joan H. Wilson	Dept. of Social Services	10.04

***6. Disability Retirements**

RECEIVED AND FILED; APPROVED

Oscar Carter, II	Sheriff	16.41
Reuben P. Mange	District Attorney	11.81
Carol Y. Thompson	Sheriff	14.01
Debra Villegas	Sheriff	15.38

***7. Deferred Retirements**

RECEIVED AND FILED; APPROVED

Timothy R. Fillpot	Probation	18.10
Loren L. DeMoss	ITSD	8.35

Trustee Criego joined the Board at 8:36 AM.

***8. Public Records Requests and/or Retirement Related Correspondence from Igor Kossov, Money Management Letter; Fred McCrea, Asset Management; Kamalpreet Singh, The Janitorial Company; and Gene Freeman, IPRIO; Jun Payoyo, SEIU Local 521**

In response to a question from Chair Gomez regarding whether contribution refunds had been issued to the correctional officers that were laid off, Mr. Peña stated that they have been issued.

A motion was made by Chair Gomez, seconded by Trustee Souza, to Accept Consent Agenda Item 8 as presented. VOTE: Unanimous (Absent – Crow)

RECEIVED AND FILED

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

RECEIVED AND FILED

Trustee Crow joined the Board at 8:39 AM.

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

Trustee Jolly requested that Jeffrey MacLean, Wurts & Associates, use the same index (Russell 1000) when comparing INTECH's investment returns with other manager's in this space so that an accurate comparison can be made. Mr. MacLean agreed.

A motion was made by Trustee Jolly, seconded by Trustee Larson, to Accept Consent Agenda Item 10 as presented. VOTE: Unanimous

RECEIVED AND FILED

***11. Board Communications**

RECEIVED AND FILED

***12. Public Fund Universe Analysis Report for the period ending December 31, 2009 by 89 public funds from throughout the United States prepared by R.V. Kuhns & Associates, a registered investment advisor with the Securities Exchange Commission**

RECEIVED AND FILED

***13. Wurts & Associates March 2010 Quarterly Research Report**

RECEIVED AND FILED

***14. Budget Status for the period ending March 31, 2010**

RECEIVED AND FILED; APPROVED

15. Discussion and appropriate action on Investment Manager Fee Study presented by Jeffrey MacLean, Wurts & Associates

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that at the November 4, 2009 Regular meeting Wurts presented the 2008 Defined Benefit Investment CEM Benchmarking Survey which showed the Plan as having an excess cost of 9.7 basis points versus the CEM "benchmark" cost. As a result, the Board requested that Wurts benchmark the Plan's manager fees as a comparison to fees being paid by other plan sponsors.

Mr. MacLean noted that, although the CEM Survey is a good estimate of manager fees, the excess cost calculation does not take into account the following differences:

- How the various types of plan sponsors answer the survey questions
- Specific asset class and investment style costs between similar sized plan sponsors
- The number of managers the Plan uses versus similar sized plan sponsors
- Implementation style (internal versus external, passive versus active)

Mr. MacLean stated that, in order to more accurately benchmark the Plan's investment manager fees, Wurts conducted an investment manager fee study to compare the respective manager fees to managers of similar investment style and mandate size. Wurts gathered data as of December 31, 2009 for FCERA's investment managers to compare to the median manager in the respective asset class, investment style, and mandate size using the eVestment Alliance database. The tiered fee schedule FCERA currently has in place with each manager was used to calculate FCERA's fees for comparison purposes.

Mr. MacLean reviewed the results of the study and gave a brief summary as follows:

- In terms of investment manager fees, FCERA pays less than the median Plan Sponsor in all traditional asset classes (Domestic Equity, International Equity, and Fixed Income) when the implementation style, investment style, and mandate size are taken into account.
- FCERA pays more than the median manager in the Alternatives and Real Estate universes. However, the median fees for these two universes may not be ideal universes for comparison as they include multiple types of strategies and direct investments where FCERA has used a fund of funds approach which does not entail additional fees.
- Overall, Wurts believes FCERA is paying acceptable fees for its investment managers and the respective mandates.

Detailed discussions ensued regarding the manager costs as they relate to the investment returns.

A motion was made by Trustee Jolly, seconded by Trustee Souza, to direct Administration to provide the Investment Manager Fee Study on an annual basis and to Accept Agenda Item 15 as presented. VOTE: Unanimous

RECEIVED AND FILED; APPROVED

16. Discussion and appropriate action on Private Real Estate Environment/INVESCO presented by Jeffrey MacLean, Wurts & Associates

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that the private real estate market was especially hard hit in the most recent recessionary environment. As a result, core real estate funds faced challenges due to leverage, declining prices, falling occupancy, and investor redemptions. Mr. MacLean noted that Wurts is concerned that a manager dealing with all of these issues will be unable to take advantage of the depressed pricing for the benefit of investors.

Mr. MacLean noted that Wurts completed its second survey of core real estate managers, including FCERA's manager, INVESCO, and summarized the results noting that while fund leverage levels remain high, redemption queues have fallen dramatically. Some funds are starting to use cash flows to pay down queues or debt. While some managers still face a lot of debt maturing in the next two years, many are in much stronger positions than a year ago, with the average cost of debt around 5%. Finally, while about half the managers are expecting positive returns in 2010, all are forecasting positive returns in 2011, which are consistent with the marketplace's expectations that we are close to or at the bottom of the real estate cycle.

Mr. MacLean noted the following regarding FCERA's Real Estate investment manager, INVESCO:

- Moderate redemption queue of (14%) that is decreasing rapidly
- Very little debt coming due in the next two years (13%)
- Low cost of debt (4.9%)
- Beginning the second quarter of 2009, 100% of properties have had independent appraisals completed each quarter
- Strong long term performance
- No key personnel turnover

Mr. MacLean reviewed the results of the survey noting that, as clients begin to entertain the possibility of adding to their core real estate allocations, Wurts believes flexibility will be especially important for managers in this environment. Flexibility will allow managers to take advantage of attractive pricing opportunities as they present themselves. Managers with low debt, low redemption queues and low near term refinancing needs will be well positioned.

A motion was made by Trustee Hackett, seconded by Trustee Crow, to Accept Agenda Item 16 as presented. VOTE: Unanimous

RECEIVED AND FILED; APPROVED

In response to question from Roberto L. Peña, Retirement Administrator, regarding the possibility of changing the Real Estate allocation, Mr. MacLean stated that the asset allocation will be revisited in September 2010.

Trustee Cardenas departed at 9:31 AM.

17. Discussion and appropriate action on selection of investment management firms for the Small Cap Value mandate

Jeffrey MacLean, Wurts & Associates, opened discussions by reminding the Board of its decision to terminate FCERA's Small Cap Value manager, Brandywine, and to index the assets (approximately \$105 million) in the Russell 2000 until a time that a replacement is found.

Mr. MacLean noted, for the record, that Scott Garrett, Systematic, was employed by Wurts & Associates approximately 4 years ago.

Lord Abbett & Company (Lord Abbett)

Kristin Harper, Lord Abbett, began the presentation with an overview of the firm's background noting that Lord Abbett was founded in 1929 and has a broad client base of institutional clients including corporations, public funds, foundations, endowments, unions, individuals and family trusts. Lord Abbett is active in virtually all capital markets including taxable and tax-exempt fixed income securities, mortgage-backed securities, large and small cap equities, foreign bonds, convertibles, futures, options, and others.

In 2002 Lord Abbett transitioned from a general partnership to a limited liability company. Currently, Lord Abbett is owned by forty-six individuals who fully participate in the management and operation of the firm's investment activities. The partners serve as the firm's management committee with responsibility for setting the firm's business strategies and business efforts.

Trustee Criego departed at 9:50 AM.

Gerard Heffernan, Lord Abbett, reviewed the investment strategy noting that Lord Abbett believes in a low risk approach to investing in small capitalization stocks. Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to identify and invest in small capitalization undervalued securities. The small cap value team believes that, over time, this approach will generate above-average total returns with less than market risk.

Mr. Heffernan reviewed the investment process stating that through primary quantitative valuation screens, the small cap value team narrows the 2700 universe of eligible securities to a 600 stock universe. Valuation criteria include P/E ratios, P/B ratios, price/cash flow and price/sales. Secondary valuation screens are applied to further narrow the universe down to a 300 stock universe. In this step, the portfolio managers are assisted by the firm's research staff to narrow this list of candidates to those likely to produce superior investment returns over an eighteen-month time frame. Through research efforts, they try to specifically identify which of these companies are undergoing positive fundamental change that has not yet been reflected in the company's stock price. A portfolio is constructed with 80 to 120 stocks that have long operating histories, strong market positions, financial strength, and a high degree of insider ownership.

Portfolios are constructed through a process of integrating the results of the team's quantitative valuation work with the results of their fundamental analysis. Lord Abbett's approach results in a diversified portfolio that provides benefits of the "small-cap effect" without the inherent risks of growth-style funds. While the sector weightings of the portfolio are a result of bottom-up stock selection, Lord Abbett maintains broad sector guidelines so as to avoid the risk of a major sector swing.

Mr. Heffernan noted that Lord Abbett's Small Cap Value Equity philosophy is based on the following beliefs:

- Inefficiently valued small companies with improving fundamentals are often poised for appreciation.
- Quantitative screens, fundamental research and experienced portfolio management can identify companies positioned for capital appreciation.
- A well-diversified portfolio of undervalued stocks will produce attractive risk-adjusted returns.

Integrity Asset Management LLC (Integrity)

Matt Bevin, Integrity, began the presentation with an overview of the firm's background noting that Integrity was founded in 2003 and is organized as an independent limited liability company based in Kentucky with no affiliated companies and does not participate in any joint ventures.

Integrity's investment team consists of seven professionals and manages portfolios using a team approach and is 100% employee owned with ownership distributed among five principals who are active employees of the firm.

Mr. Bevin reviewed the firm's investment philosophy noting the following:

- Prudent value
 - Statistically cheap stocks trading below their estimate of intrinsic value
- Improving sentiment
 - Identify catalysts that lead to improving investor sentiment
- Risk Controls
 - Continuous evaluation of risk exposure to deliver consistent long-term performance

Dan Bandi, Integrity, noted that the Small Cap Value Equity philosophy is focused on achieving capital appreciation by maintaining a diversified portfolio of small capitalization stocks that are currently undervalued yet poised to outperform. To identify these stocks, their investment process seeks two elements: prudent value and improving sentiment. Prudent value implies that a statistically "cheap" stock, trading below their estimate of intrinsic value, will deliver strong total return over time. The process also identifies catalysts that lead to improving investor sentiment. Risk exposure is continuously evaluated throughout the process in an attempt to ensure consistent long-term performance versus the Russell 2000 Value index.

Mr. Bandi reviewed the investment process noting that Integrity's investment approach includes a multi-step portfolio construction process, which begins with the examination of an investable universe of 11,000 issues. Integrity performs an initial screen for issues with a market capitalization from \$100 million to \$2 billion. To ensure liquidity, Integrity also screens for issues with a trading volume of \$1 million per day. This reduces the universe to approximately 1,700 stocks.

This small cap universe is then screened for low price to book, price to sales and price to cash flows ratios. Those issues which fall in the 50% of this universe are then further evaluated for two key criteria: prudent value and investor sentiment.

To determine prudent value, the cheapest 50% of the universe is again ranked by the same measures of statistical cheapness. This ranking allows Integrity to identify and concentrate on the cheapest 70% of the previously identified small cap value universe.

Integrity seeks to determine which stocks from this smaller universe are most truly undervalued by using an intrinsic value score. A dividend discount model is applied and compared to the results of this analysis to determine an intrinsic value score. Integrity concentrates on stocks ranking in the cheapest 50th percentile, which further narrows the universe to approximately 350 stocks. To further limit the universe, Integrity applies rigorous fundamental analysis and searches for a catalyst to indicate improving investor sentiment.

The final portfolio consists of issues which have been identified as attractively valued, quantitatively, intrinsically and qualitatively, and that exhibit signs of improving sentiment reflective of an identified catalyst. Portfolios are continuously monitored and controlled by the investment team. Each portfolio consists of approximately 125 stocks.

Systematic Financial Management (Systematic)

Scott N. Garrett, Systematic, began the presentation with an overview of the firm's background noting that Systematic was established in 1982 and is a registered investment advisor specializing in the management of value portfolios throughout the market capitalization spectrum. The firm fosters a team approach to portfolio management utilizing extensive fundamental analysis reinforced by innovative quantitative techniques.

Since its inception, the firm has experienced strong growth in the number of clients and the assets managed on behalf of its clients. In early 1998 the firm began managing small cap portfolios and in 2000 the firm began its mid cap strategy.

Senior professionals of the firm share ownership of Systematic with Affiliated Managers Group (AMG), a holding company that invests in money management firms. AMG currently owns 65 percent of the firm, while five active senior employees of Systematic own the remaining 35 percent. AMG is a passive financial partner of Systematic with the employees retaining autonomous control of the investment philosophy and process as well as the comprehensive management of the firm.

Ronald M. Mushock, Systematic, reviewed the investment strategy stating that Systematic believes that investing in companies with a combination of attractive valuations and a positive earnings catalyst will generate superior long-term results that outperform the benchmark over the long run. Systematic does not buy companies simply because traditional valuation methods deem them bargains. The firm's objective is to invest in value companies that have a confirmed catalyst for stock appreciation thereby providing its clients with investment results that should exceed the benchmark over the long term.

Mr. Mushock gave a brief overview of the firm's investment process noting that Systematic's initial universe of companies includes all stocks with market capitalization for \$100 million and \$10 billion or the upper limit of the Russell 2500 Value Index. Companies are ranked by valuation and a positive earnings catalyst. This screening process generates a research focus list of approximately 150 companies meriting rigorous fundamental analysis to confirm each stock's value and catalyst for appreciation.

Systematic sells stocks when price appreciation causes company valuation to expand to fair value. In addition, the firm sells companies if other investment opportunities present more attractive prospects from a valuation and expected return basis. Systematic sells companies if the analysis leads them to anticipate downward estimate revisions.

Portfolios are constructed through a bottom-up security selection process, acquiring the most attractive companies based on their in-depth fundamental analysis. Purchase and sell decisions are made by the investment team with Mr. Mushock having lead responsibility. A portfolio of the best ideas is constructed with a range of typically between 60 and 90 companies. As risk controls, Systematic generally limits the portfolio to a maximum of 30 percent in any one economic sector and five percent in any individual stock at market value. Systematic employs a fully invested strategy; therefore, cash is typically less than five percent of the portfolio.

Trustee Cardenas re-joined the Board at 11:15 AM.

Detailed discussions ensued regarding the pros and cons of the various products including strategy basics, performance, characteristics, and fees.

A motion was made by Trustee Souza, seconded by Chair Gomez, to select Systematic Financial Management for further consideration and to proceed with the on-site due diligence process. ROLL CALL VOTE: Yes – Cornacchia, Gomez, Hackett, Jolly, Larson, Souza. No – Crow. Abstain – Cardenas. (Absent – Criego) Motion Passed.

Trustee Crow noted that she believes that Lord Abbett should be included in the due diligence process.

Trustee Jolly departed at 11:39 AM.

A motion was made by Trustee Souza, seconded by Trustee Crow, to reconsider the motion. VOTE: Unanimous (Absent – Criego, Jolly)

A motion was made by Trustee Souza, seconded by Trustee Crow, to select Systematic Financial Management and Lord Abbett & Company for further consideration and to proceed with the on-site due diligence process. ROLL CALL VOTE: Yes – Cornacchia, Crow, Gomez, Hackett, Souza. No – Larson. Abstain – Cardenas. (Absent – Criego, Jolly) Motion Passed.

RECEIVED AND FILED; APPROVED

18. Discussion and appropriate action on The Segal Company's request to respond to a Request for Proposal for an actuarial study for the County of Fresno

Roberto L. Peña, Retirement Administrator, opened discussions by stating that Paul Angelo, The Segal Company (Segal), informed Administration that Fresno County (County) had issued a Request for Proposal (RFP) for an actuarial study to which they would like to respond. Mr. Peña noted that, because FCERA is Segal's primary client, they are seeking the Board's approval to respond to the RFP.

Mr. Peña noted that Mr. Angelo believes that such an engagement would be consistent with its own ethical guidelines as actuaries. In addition, Mr. Peña noted that Jeffrey Rieger, Reed Smith, expressed concern that there may be an appearance of conflict when the work the actuary is doing for the plan sponsor could potentially compromise the actuary's independence on work it later does for the retirement system.

Trustee Crow departed at 12:00 PM.

Detailed discussions ensued regarding whether there may be a conflict with the actuary working for both the plan sponsor and the plan. Mr. Peña noted that, although there may be an appearance of conflict, both the actuary and attorney for the plan agree that there is none.

Trustee Larson departed at 12:05 PM.

A motion was made by Chair Gomez, seconded by Souza, to deny Segal's request to participate in the County's RFP for an Actuarial Study. ROLL CALL VOTE: Yes – Hackett, Souza, Gomez. No – Cardenas, Cornacchia. (Absent – Criego, Crow, Jolly Larson) Motion Passed.

RECEIVED AND FILED; APPROVED

19. Discussion and appropriate action on SACRS Business Meeting Agenda and SACRS Bylaws – Request for Amendment (Item 8)

Roberto L. Peña, Retirement Administrator, opened discussions by recommending that the Board direct its voting delegate to vote in support of the final version of the SACRS Bylaws as presented.

A motion was made by Trustee Souza, seconded by Chair Gomez, to accept the recommendation as presented. VOTE: Unanimous. (Absent – Criego, Crow, Jolly Larson)

RECEIVED AND FILED; APPROVED

20. Closed Session:

A. 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

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

1. James Papaleo

21. Report from Closed Session

20.A.1. Nothing to report.

20.B.1 James Papaleo – Decision – To Approve the Findings of Fact and Decision granting Service Connected Disability Retirement benefits. **M – Gomez. S – Souza. VOTE: Yes – Cornacchia, Gomez, Hackett, Souza. Abstain - Cardenas (Absent – Criego, Crow, Jolly, Larson)**

22. Report from FCERA Administration

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

1. Although the Board of Retirement approved a decision not to participate in the County's Mandatory Furlough program, Administration was informed by County Personnel that this was not a decision to be made by this Board and that potentially all staff would be mandated to participate in the mandatory furlough program. A more detailed discussion may be presented at the June 2, 2010 Board meeting.

2. The external auditors will begin their pre-audit process the last week of June 2010.
3. A few retired members have had issues receiving their “paper” checks timely. Administration is working with State Street on the issue.

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 12:27 PM.

Roberto L. Peña
Secretary to the Board