# BOARD OF RETIREMENT
# FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**June 2, 2010**

**Trustees Present:**

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

**Trustees Absent:**

Eulalio Gomez

**Others Present:**

Ronald S. Frye, Alternate Trustee
Jeffrey MacLean, Wurts & Associates
Paul Angelo, The Segal Company
Shelly Chu, The Segal Company
Michael Cunningham, FCERA Member
Ron Madsen, FCERA Member
Mike Rowe, 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 8:35 AM.

**2. Pledge of Allegiance**

Recited.

**3. Public Presentations**

None.

**Consent Agenda/Opportunity for Public Comment**

Vice Chair Hackett noted that Alternate Trustee Ronald S. Frye was sitting for Trustee Souza.

**A motion was made by Trustee Frye, seconded by Trustee Larson, to Approve Consent Agenda Items 4-19. VOTE: Unanimous (Absent – Crow, Gomez)**

Trustee Crow joined the Board at 8:36 AM.

***4. Approve the April 30, 2010 Special Meeting Minutes**

RECEIVED AND FILED; APPROVED

***5. Summary of monthly statistics from the Retirement Association Office on service credit purchases, retirement benefit estimates, public service, age adjustments, final compensation calculations, and disability retirement applications for April 2010**

RECEIVED AND FILED

***6. Retirements**

RECEIVED AND FILED; APPROVED

| | | |
|---|---|---|
| Margaret Alvarado | Child Support Services | 17.32 |
| Karen S.D. Bailey | Community Health | 7.10 |
| Phillip Bellefeuille | Sheriff | 31.00 |
| Jimmie L. Finn | Probation, Deferred | 9.61 |
| Laurence V. Hawks | Public Works & Plan, Deferred | 11.85 |
| Jeffrey L. Kuhn | County Counsel, Deferred | 6.53 |
| Conrad Lopez | Sheriff, Deferred | 2.71 |
| Michael Lui | Community Health, Deferred | 1.94 |
| Esther J. Malone | Child Support Services | 16.10 |
| Patricia Mora | VMC, Deferred | 11.99 |
| Silvia E. Ortiz | Community Health | 17.63 |
| Julia S. Peña | ACTTC, Deferred | 8.94 |
| Robert Pole | District Attorney | 20.01 |
| Lewis V. Pond | Public Works & Plan, Deferred | 7.00 |
| Manual S. Rodriquez | Dept. of Social Services | 16.64 |
| Andrea Sartain | Library | 10.79 |
| Carla K. Schoetker | Dept of Social Services, Deferred | 4.27 |
| Wesley D. Thiessen | Dept of Social Services, Deferred | 12.53 |
| Edward J. Thompson | Behavioral Health, Deferred | 6.46 |

***7. Deferred Retirements and Request to Rescind Deferred Retirements**

RECEIVED AND FILED; APPROVED

| | | |
|---|---|---|
| Charles A. Hipwell | Superior Court | 9.35 |
| Michael J. Robinson | District Attorney | 6.43 |
| Eddie J. Santos | General Services | 12.44 |

***8. Disability Retirements**

RECEIVED AND FILED; APPROVED

| | | |
|---|---|---|
| Roseanna Aguayo-Garcia | Dept. of Social Services | 21.73 |
| Dora E. Mugica | Sheriff | 11.70 |

***9. Public Records Requests and/or Retirement Related Correspondence from Anna Owens, Alameda County Employees' Retirement Association; Norman Preston, FCERA Member; Evan Small, Cape One Financial Advisors; Carl Cook, Quantum Equities; Jim Johnston, Chickasaw Capital Management; Alex Casale, Audax Group; Peter Martenson, Eaton Partners; Garold Fabor, FCERA Member; and Ron Madsen, FCERA Member**

RECEIVED AND FILED

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

RECEIVED AND FILED

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

RECEIVED AND FILED

***12. Board Communications**

RECEIVED AND FILED

***13. Report from Roberto L. Peña, Retirement Administrator, on attendance at the SACRS Spring Conference 2010**

RECEIVED AND FILED

***14. Report from Eric Petroff and Bee G. Lim, Wurts & Associates, on Hedge Fund Outlook**

RECEIVED AND FILED

***15. Ratify Administration's decision to approve the Primary Fiduciary Insurance Policy for the period May 31, 2010 through May 31, 2011**

RECEIVED AND FILED; APPROVED

***16. Ratify Administration's decision to approve the Excess Fiduciary Insurance Policy for the period May 31, 2010 through May 31, 2011**

RECEIVED AND FILED; APPROVED

***17. Approve final settlement agreement with Mary Frances Johnson**

RECEIVED AND FILED; APPROVED

***18. Approve request by potential buyer for access to the Fresno Station Business Center to complete site improvements**

RECEIVED AND FILED; APPROVED

***19. Approve Three-year Contract Extension for financial audit services by Brown Armstrong as agreed to by the Board on February 17, 2010**

RECEIVED AND FILED; APPROVED

On behalf of Trustee John Souza, Roberto L. Peña, Retirement Administrator, requested that Agenda Item 20 be delayed until Trustee Souza was present later in the meeting.

**A motion was made by Trustee Cardenas, seconded by Trustee Frye, to approve the request to delay discussion of Item 20 (INTECH) until later in the meeting. VOTE: Unanimous (Absent – Crow, Gomez)**

**20. Discussion and appropriate action on updated investment returns for the Large Cap Growth candidates and possible termination of INTECH as investment manager for this mandate**

Please see discussion following Item 24.

**21. Discussion and appropriate action on Western Asset Management Company (WAMCO) "Watch" update presented by Jeffrey MacLean, Wurts & Associates**

Jeffrey MacLean, Wurts & Associates, opened discussions with a brief update on the Western Asset Management Company (WAMCO) core plus fixed income mandate noting that WAMCO's excess returns were extremely volatile during the recent credit crisis, affected by the heavy exposure to risky fixed income investments. While WAMCO adhered to their investment philosophy of seeking higher yields in relation to the Barclays Aggregate Index and focusing on long term economic value, the aggregate credit market conditions impacted their credit exposure and dragged portfolio performance.

Mr. MacLean stated that while the potential upside for WAMCO's exposures is limited over the next decade, Wurts believes that there is room for recovery and appreciation on the shorter-term. Wurts does not recommend a reclassification of the WAMCO mandate for the FCERA at this time; Wurts views the higher credit exposure as an opportunistic play on the credit markets in the short run. Ultimately, Wurts believes that WAMCO failed to understand the credit sensitivity of many of their holdings, which warrants eventual termination. However, Wurts would like to allow the portfolio time to continue to recover until most, if not all, of the remaining upside is captured. The Board agreed.

NO ACTION TAKEN

**22. Discussion and appropriate action on the Colony CDCF I Fund update presented by Jeffrey MacLean, Wurts & Associates**

Jeffrey MacLean, Wurts & Associates, opened discussions with a brief update on the performance and investment activity of the Colony Distressed Credit Fund (CDCF) noting that FCERA acquired a $40 million commitment and $4 million potential reserve via a secondary transaction in December 2009.

FCERA's total capital called totaled $16.4 million as of March 31, 2010, $8 million of which was called in the first quarter. CDCF now comprises 16 investments consisting of non-performing loans acquired from the FDIC, newly originated first mortgages, and acquired first mortgages from various financial institutions. In total CDCF has committed over $620 million or 70% of total commitments in approximately 1,500 loans of first mortgages on commercial real estate assets. Colony expects to be fully invested and committed by July 2010 and to be fully called by the end of the third quarter.

A majority of the current investments are in the most senior position of the capital structure. Only two of the investments involve leverage, which are US government-sponsored through the FDIC or TALF. Portfolio leverage was 10% equity. The loans/assets are diversified across asset types and geography. On a cost basis, the portfolio has 27% exposure to the West Coast and 11% in Europe. Office and Retail constitute over one-third of the portfolio.

In May 2010, CDCF made its first distribution from the sale of portions of the FDIC and the CMBS bond portfolios, generating the 2x target multiple. FCERA's portion of the distribution was $1.1 million net of fees. Colony projects that the current investments will generate a gross IRR of 20% and equity multiple greater than 2x. As of March 31, 2010 Colony reported that the fund's market value was 112% of cost, up from 104% at year end 2009. The return of FCERA's investment would be higher because the negotiated price of $1.7 million for the initial interest was $2.7 million less than the capital paid in by the original investor.

NO ACTION TAKEN

**23. Presentation of the March 31, 2010 Investment Performance Review presented by Jeffrey MacLean, Wurts & Associates**

Jeffrey MacLean, Wurts & Associates, began the presentation with an overview of the current economic environment noting that recent Gross Domestic Product (GDP) growth was more a function of inventories than any other single factor. Mr. MacLean stated that after two years of inventory decline such a reversal seems all but reflexive and is by no means the mark of a definitive recovery because both household and corporate net worth remain suppressed from 2007 levels and total US debt continues its upward pace. Until asset values are inflated one way or another there is little reason to believe either consumer or corporate spending will return with fervor anytime soon.

Mr. MacLean noted that the Federal government accounts for one quarter of US economic activity and represents the single largest decision maker in our economy. Fortunately, the Congressional Budget Office (CBO) periodically lays forth detailed economic forecasts alongside Federal revenue, spending, and debt estimates for the next decade. These reports offer useful insight into potential influences on the shape of the economy. However, it is worrisome that the current forecasts contain unrealistic optimism for economic growth while at the same time laying forth utterly horrendous estimates for debt and taxation. These outlooks conflict with one another conceptually and are effectively mutually exclusive on a directional basis. The CBO is forecasting robust GDP with virtually non-existent inflation, the best of both worlds.

Mr. MacLean stated that skepticism over projected GDP growth leads to concerns over the reliability of deficit and debt estimates. Even with the forecasts laid forth by the CBO of strong GDP growth, low unemployment, low inflation, and sharp increases in Federal revenue, outstanding Treasury debt is expected to be nearly 120% of GDP by 2020. Such levels of debt are likely to hinder economic growth and increase volatility as societal leverage mounts. Both outcomes are bad for risky assets.

Trustee Criego joined the Board at 9:03 AM.

Mr. MacLean reviewed the quarterly investment performance as of March 31, 2010 noting that the total fund returned 4.6% in the first quarter, ranking in the 37th percentile.

Trustee Crow departed at 9:30 AM.

Mr. MacLean reviewed the Plan's various asset classes and the individual 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 March 2010 is approximately $2.7 billion.

Trustee Jolly noted that the Plan is a consistent top performer when compared with other retirement systems.

Mr. MacLean reviewed the Investment Manager Performance Standard Checklist noting the performance and "watch" status of Franklin Templeton and Western Asset Management Company.

NO ACTION TAKEN

**24. Presentation of the March 31, 2010 Guideline Compliance Report presented by Jeffrey MacLean, Wurts & Associates**

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

NO ACTION TAKEN

**20. Discussion and appropriate action on updated investment returns for the Large Cap Growth candidates and possible termination of INTECH as investment manager for this mandate**

Jeffrey MacLean, Wurts & Associates, opened discussions by reminding the Board of its decision to place INTECH on watch status and to potentially terminate INTECH if it is determined that there is a suitable replacement. Mr. MacLean noted that the Large Cap Growth mandate consists of approximately $140 million invested with INTECH and an additional $115 million invested in the Russell 1000 Growth Index.

Mr. MacLean noted that, although INTECH modestly outperformed the index in the first quarter, he continues to recommend termination based on INTECH's long-term underperformance and their decision to begin implementing adjustments to the parameters utilized to select stocks and suggested that the Board proceed with its decision to conduct on-site due diligence with Waddell & Reed and Winslow Capital and delay the decision on whether to terminate INTECH until the Board is able to discuss the outcome of the on-site due diligence visits.

As requested by the Board, Mr. MacLean reviewed a summary/comparison of INTECH's investment returns with Waddell & Reed and Winslow Capital noting that, although INTECH has outperformed both firms over the last ten year period, INTECH has underperformed the firms more recently.

Trustee Souza joined the Board at 9:52 AM.

In response to a question from Vice Chair Hackett regarding the implications, if any, in delaying the due diligence visits until a final decision is made on whether to terminate INTECH, Mr. MacLean stated that delaying the due diligence would lengthen the time in replacing INTECH should the Board decide to terminate.

Trustee Souza expressed concern in terminating INTECH at a time when they are outperforming the benchmark while the candidates being considered for the mandate are not performing as well. Trustee Souza suggested that the Board allow INTECH to continue managing the portfolio until the end of the year at which time the Board would revisit the issue.

**A motion was made by Trustee Criego, seconded by Trustee Jolly, to take no further action related to the immediate termination of INTECH and to proceed with the due diligence related to Waddell & Reed and Winslow Capital**

Trustee Souza suggested that, in the event the Board delays the termination of INTECH, Wurts work with INTECH to reduce their management fees.

Discussions ensued regarding a timeline in which the due diligence visits would take place. Trustee Criego noted that his motion did not reference a timeline in which to conduct the due diligence visits because the Board has not yet decided to terminate INTECH.

Trustee Cornacchia expressed concern that funds will be used to conduct due diligence before a determination on whether to terminate INTECH has be finalized.

Mr. MacLean suggested that, since the Board is planning to allocate funds that are currently invested in an index fund to one of the managers being considered, the Board should move forward with the due diligence visits as planned.

The motion was restated as follows:

**To take no further action related to the immediate termination of INTECH and to proceed with the due diligence related to Waddell & Reed and Winslow Capital. ROLL CALL VOTE: Unanimous (Absent – Crow, Gomez) MOTION PASSED.**

The Board directed Administration to schedule the Small Cap Value and Large Cap Growth due diligence visits as soon as practicable. It was noted that Trustee Criego will join Mr. Peña and Mr. MacLean on the visits.

RECEIVED AND FILED; APPROVED

**25. Discussion and appropriate action on the Triennial Experience Study for the July 1, 2006 – June 30, 2009 and the Economic Actuarial Assumptions for the June 30, 2010 Actuarial Valuation presented by Paul Angelo, The Segal Company**

Paul Angelo, The Segal Company, presented the experience analysis for the three-year period ending June 30, 2009 which included recommendations for changes to the demographic assumptions.

Mr. Angelo's demographic actuarial assumptions recommendations include:

- Adjusting the retirement rates for General Tier I Male, General Tier I Female, and Safety member to anticipate later retirement and increasing the reciprocity assumption for Safety members.
- Adjusting the rates to include a two-year improvement in mortality for General members and all beneficiaries and a one-year improvement in mortality for Safety members.
- Adjusting the termination rates to reflect higher incidence of termination.
- Adjusting the disability rates to reflect slightly lower incidence of disability for General Male and Safety members and slightly higher incidences of disability for General Females.
- Increasing the merit and promotional rates of salary increase to reflect past experience.
- Adjusting the current assumptions to reflect an increase in accumulated annual leave for members in the Annual Leave Plan II.

Discussions, questions, and comments followed regarding the methodologies used in determining the recommended assumptions.

Trustee Crow joined the Board at 10:57 AM.

Mr. Angelo reviewed, in detail, the current, actual, and proposed rates as for:

- Retirement
- Mortality
- Termination
- Disability Incidence
- Merit and Promotional Salary Increases
- Annual Leave

It was noted that, by adopting the recommended demographic assumptions, the employer contribution rate will increase by approximately $16.8 million in the fiscal year beginning July 1, 2011.

**A motion was made by Trustee Jolly, seconded by Trustee Criego, to adopt the Demographic Actuarial Assumptions as recommended. VOTE: Unanimous (Absent – Cornacchia, Gomez)**

Mr. Angelo presented the economic actuarial assumptions which included recommendations for changes as follows:

- Reducing the current 8.00% investment return assumption to 7.75% per annum.
- Reducing the current 3.75% inflation assumption to 3.50% per annum.
- Reducing the current inflationary salary increase assumption from 3.75% to 3.50% per annum consistent with the recommended general inflation assumption but increase the real "across the board" salary increase assumption from 0.25% to 0.50%. The combined inflationary and real "across the board" salary increases will remain unchanged at 4.00% per annum.

Discussions, questions, and comments followed regarding the methodologies used in determining the recommended economic assumptions. Mr. Angelo noted that the Board has more discretion in exercising judgment on the position and range of reasonable economic assumptions than it does with demographic assumptions. It was noted that by adopting the recommended economic assumptions as presented, the employer contribution rate will increase approximately 4% of pay (approximately $16.8 million).

Trustee Cardenas departed at 12:02 PM.

Roberto L. Peña, Retirement Administration, stated for the record, that should the Board adopt the economic assumptions as recommended when combined with the demographic assumptions, the total employer contribution rate for fiscal year beginning July 1, 2011 will increase approximately $33.5 million. Detailed discussions ensued regarding the impact of the contribution rate increase on the employer.

**A motion was made by Trustee Jolly, seconded by Trustee Cornacchia, to adopt the Economic Actuarial Assumptions as recommended. ROLL CALL VOTE: Unanimous (Absent – Cardenas, Gomez) MOTION PASSED.**

RECEIVED AND FILED; APPROVED

Trustee Crow departed at 12:34 PM.

Roberto L. Peña, Retirement Administrator, pulled Closed Session Agenda Item 26.A.1. as there was nothing to discuss.

**26.** 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

**27. Report from Closed Session**

26.A.1. Pulled.

**28. Report from FCERA Administration**

Administration had nothing to report.

**29. Report from County Counsel**

Mike Rowe, Senior Deputy County Counsel, had nothing to report.

**30. Board Member Announcements or Reports**

The Board Members had nothing to report.

There being no further business the meeting adjourned at 12:34 PM.

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Roberto L. Peña
Secretary to the Board