

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

December 1, 2010

Trustees Present:

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

Others Present:

Ronald S. Frye, Alternate Trustee
Ron Madsen, FCERA Member
Maylon Buck, Private Citizen
Judy Case, Fresno County Board of Supervisor
Paul Angelo, The Segal Company
Andy Yeung, The Segal Company
Jeffrey MacLean, Wurts & Associates
Attorney Harvey Leiderman, Reed Smith – via tele-conference
Susan Coberly, Senior Deputy County Council
Roberto L. Peña, Retirement Administrator
Becky Van Wyk, Assistant Retirement Administrator
Elizabeth Avalos, Administrative Secretary
Sign In Sheet Attached

1. Call to Order

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

2. Pledge of Allegiance

Recited.

3. Public Presentations

None.

Consent Agenda/Opportunity for Public Comment

Agenda Items 4, 15, and 17 were pulled for discussion.

A motion was made by Trustee Jolly, seconded by Trustee Souza, to Approve Consent Agenda Items 5-14, 16, and 18. VOTE: Unanimous (Absent – Cardenas)

Trustee Cardenas joined the Board at 8:47 AM.

***4. Approve the October 20-21, 2010 Board Retreat Minutes, October 28, 2010 Personnel Committee Meeting Minutes and November 3, 2010 Retirement Board Regular Meeting Minutes**

Elizabeth Avalos, Administrative Secretary, informed the Board that the October 20-21, 2010 Board Retreat Minutes, October 28, 2010 Personnel Committee Meeting Minutes and November 3, 2010 Retirement Board Regular Meeting Minutes are less detailed than minutes prepared in the past. Ms. Avalos requested that Administration be allowed to continue with the less detailed method should the Board finds them sufficient.

Because the Minutes are audio archived on the web-site and on computer disks, the Board agreed.

A motion was made by Trustee Crow, seconded by Chair Gomez, to Approve the October 20-21, 2010 Board Retreat Minutes, October 28, 2010 Personnel Committee Meeting Minutes and November 3, 2010 Retirement Board Regular Meeting Minutes as presented. VOTE: Unanimous

RECEIVE AND FILE; APPROVE

***5. Retirements**

Guadalupe G. Aldrete	General Services	17.39
Virginia Aguirre	Public Health	20.93
Alicia Carrasco	Superior Court	31.33
Gloria A. Clark	Child Support Svcs, Deferred	16.88
Grover Clark	VMC, Deferred	12.76
Nancy Cooper	Superior Court	18.44
Marian M. Cote	Dept. of Social Svcs, Deferred	2.38
Fernie Cuevas	Public Works & Planning	9.00
Elmer Cummings	Probation	12.82
Daniel L. DeRoo	Library	10.00
Kenneth W. Farrar	Dept of Social Services	29.51
Guillermina Flores	Assessor-Recorder	30.03
Luz M. Garza	Child Support Services	22.73
William E. Gunn	Sheriff, Deferred	7.81
Kathy Hayden	Public Health, Deferred	4.68
Charles A. Hipwell	Superior Court, Deferred	9.35
Darren R. Hise	Public Defender	10.01
Darrol W. Johnson	Probation, Deferred	12.10
Stanley Kwan	Public Health, Deferred	3.24
Jared Pajcai Moua	Dept of Social Services	20.27
Debbie Nottingham	Dept of Social Svcs, Deferred	13.31
Susan Peron	VMC, Deferred	7.24
Ronald E. Richardson	General Services	10.79
Robert R. Torzynski	Public Works & Plan, Deferred	2.39
Yolanda Varniak	Behavioral Health, Deferred	5.99
Kristine Wallace	Behavioral Health	13.58

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***6. Deferred Retirements**

Jimmy Z. Quintana	Dept of Social Services	6.28
Bo Vue	Dept of Social Services	6.61

RECEIVED AND FILED; APPROVED

***7. Request to Rescind Deferred Retirement**

Mike A. Harshberger	Public Health	7.89
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***8. Summary of monthly statistics from the Retirement Association Office on buybacks, retirement benefit estimates, public service, age adjustments, final compensation calculations, and disability retirement applications for September and October 2010**

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***9. Public Records Requests and/or Retirement Related Correspondence from Jakema Lewis, Investment Management Weekly; Carl Winfield, Money Management Letter; Christopher Smith, The Financial Times; Larry Wages, FCERA Member; Sandra Brock, FCERA Member; Donna Busse, City of San Jose; Laura Guglielmo, Los Angeles Fire and Police Pensions; Michele Tabak, Capital Formation Group; John Bennett, Southern Community Investments; Patricia Gammon, Octagonal Capital; Yokasta Beaz, AXA Private Equity; Gary Anderson, FCERA Member; Ivelisse Simon, Avante Mezzanine Partners; Kevin Mallon, RD Legal Capital LLC; Steve Mitchell, Conix Inc.; and Brad Paskewitz, Paskewitz Asset Management**

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***10. Educational Reading Materials**

- August 10, 2010 The New York Times article – *The Quants Are Reeling*
- October 18, 2010 Pensions & Investments article – *Revealing a secret code*
- October 18, 2010 Pensions & Investments article – *Setting a hierarchy for managing risks*
- October 18, 2010 Pensions & Investments article – *Mercer creates \$240 billion vacuum*
- October 29, 2010 Asset International article – *Former San Diego Officials to Pay Penalties in SEC Municipal Bond Fraud Case*
- November 1, 2010 Pensions & Investments article – *Illinois Employees lowers return assumption*
- November 1, 2010 Pensions & Investments article – *Investors forced to take bigger role in valuations*
- November 1, 2010 Pensions & Investments article – *Tough decision looms*
- November 1, 2010 Pensions & Investments article – *Funds begin to move risk to center stage*
- November 2, 2010 The Examiner article – *Money-saving pension reform killed*

- November 7, 2010 [Stateline.org](#) article – *Election adds pressure to change public employee pensions*
- November 8, 2010 [Asset International](#) article – *Reality Check: Trustees Unable to Devote Adequate Time to Investment Decisions, UK Survey Says*
- November 9, 2010 [CIO.com](#) article – *Is the Consulting Model Broken?*
- November 10, 2010 [Top1000Funds.com](#) article – *'Lazy' actuaries need to look forward, not back*
- October 2010 [Government Finance Review](#) article – *GFOA Takes Position on Proposed Pension Changes*
- October 2010 [Government Finance Review](#) article – *Transparency Breeds Self-Correcting Behavior*
- First Quarter 2010 [Payden & Rygel](#) article – *Hedge Funds: The Changing Landscape*
- Fall 2010 [The Retirement View FCERA](#) Newsletter
- Fall 2010 [SACRS](#) Newsletter
- Fall 2010 [PERSist NCPERS](#) Newsletter
- November 2010 [The Monitor NCPERS](#) Newsletter

RECEIVED AND FILED; APPROVED

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

RECEIVED AND FILED

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

RECEIVED AND FILED

***13. Board of Supervisor's unanimous decision to appoint John P. Souza as Retired Member Representative on the Board of Retirement for a Term expiring December 31, 2013**

RECEIVED AND FILED

***14. Official results of the November 18, 2010 Board of Retirement General and Retired Alternate Members Elections**

RECEIVED AND FILED

***15. Results of the Mercer Public Fund Universe Investment Analysis for the period ending June 30, 2010 presented at the SACRS Fall Conference**

Vice Chair Hackett commented on the Mercer Public Fund Universe Investment Analysis and FCERA's favorable ranking compared with its peers.

A motion was made by Trustee Crow, seconded by Trustee Larson, to Accept Item 15 as presented. VOTE: Unanimous

RECEIVED AND FILED

***16. Approve Outstanding Check Notification Procedures**

RECEIVED AND FILED; APPROVED

***17. Approve Travel Request and Travel Advance Request in the amount of \$640.00 (hotel accommodations) from Eulalio Gomez to attend the Public Funds Summit on January 12-14, 2011 in Scottsdale, Arizona**

Trustee Souza noted that Item 17 had been incorrectly numbered in his Board Packet.

**A motion was made by Trustee Souza, seconded by Trustee Larson, to Accept Item 17.
VOTE: Unanimous**

RECEIVED AND FILED; APPROVED

***18. Approve Fourth Amended and Restated Employment Agreement with Retirement Administrator**

RECEIVED AND FILED; APPROVED

19. Discussion and appropriate action on draft Actuarial Valuation report as of June 30, 2010 presented by Paul Angelo, The Segal Company

Paul Angelo, The Segal Company, opened discussions by noting that the valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and reviewed the actuarial valuation key findings as follows:

- As of June 30, 2010, after crediting interest to the various reserve accounts at the assumed earnings rate and reducing the 1% Statutory Contingency Reserve to a zero balance, the balance of the Contra Tracking Account increased from \$175.3 million to \$210.6 million for the six-month period ending December 31, 2009 and increased again from \$210.6 million to \$300.0 million for the six-month period ending June 30, 2010.
- In this June 30, 2010 valuation, the funding ratio on valuation value of assets has decreased from 78.6% to 72.9%, and the Unfunded Actuarial Accrued Liability (UAAL) has increased from \$779.8 million to \$1,109.4 million.
- The aggregate employer rate calculated in this valuation has increased from 33.78% of payroll to 44.01% of payroll. The reasons for this change are: (i) lower than expected return on investments (based on valuation value of assets), (ii) one year delay in implementing employer and employee contribution rates calculated in the June 30, 2009 valuation, (iii) salary increases less than expected, (iv) increase in UAAL rate due to less than expected increase in total payroll, (v) Cost of Living Adjustment (COLA) increases less than expected, (vi) fewer retiree and beneficiary deaths than expected, (vii) changes in actuarial assumptions, and (viii) other actuarial gains and losses.
- The aggregate member rate calculated in this valuation has increased from 7.79% of payroll to 8.87% of payroll. The change in the member rate is due to changes in actuarial assumptions and the change in membership demographics for the June 30, 2010 valuation.

- In accordance with Board policy, any investment gains/losses will be recognized over five years and the actuarial value of assets will be further adjusted, if necessary, to within 30% of the market value of assets.
- The employer and member rates developed in this valuation have been determined only with respect to the Regular and the Settlement benefits. Assets and liabilities associated the non-vested supplemental benefits (i.e., discretionary purchasing power and additional non-vested retiree health benefits) have been excluded from the development of the employer and member rates.
- The total unrecognized investment losses will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will offset any investment gains that may occur after June 30, 2010. This means, if the Association earns the net rate of investment return of 7.75% per year on a market value basis, it will result in investment losses on the actuarial value of assets in the next few years. So, if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met, the contribution requirements would increase in each of the next few years.
- The unrecognized investment losses represent 17% of the market value of assets. Unless offset by future investment gains or other favorable experience, the recognition of the \$441.5 million market losses is expected to have a significant impact on the association's future funded ratio and the aggregate employer contributions. This potential impact may be illustrated as follows:
 - If the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 72.9% to 62.1%.
 - If the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer contribution rate would increase from 44.01% of payroll to 53.50% of payroll.
- In preparing the breakdown of the total costs of the General Tier I plan into the cost to provide the "Regular" and the "Settlement" benefits, Segal has followed the Association's practice of allocating the cost to provide a benefit under section 31676.12 as the cost for the "Regular" benefit and allocating the difference between this "Regular" benefit cost and the cost to provide a benefit under Section 31676.14 plus Section 31627 as the "Settlement" benefit. In particular, this means that the difference between benefits under Sections 31676.12 and 31676.14 is considered "Settlement" and so under the Settlement Agreement could be funded out of future undistributed earnings.

Mr. Angelo reviewed, in detail, the changes in the recommended employer contribution rate from the prior valuation to the current year's valuation and the average member contribution rates noting the rates vary based on data such as tier level, age, and salary.

Detailed discussions, questions, and comments ensued regarding the demographic and financial data provided in the valuation.

The Board requested changes as follows:

- On page 16 of the valuation report, Segal calculated an increase in the employer rate of 7.77% due to the changes in actuarial assumptions. The Board requested that Segal provide a breakdown of that increase from the change in the interest rate assumption from 8% to 7.75% and from the rest of the assumptions.

- On page 34 of the valuation report, Segal calculated an increase in the UAAL of \$281 million due to the changes in the actuarial assumptions. The Board requested that Segal provide a breakdown of that increase from the change in the interest rate assumption from 8% to 7.75% and from the rest of the assumptions.

The Board heard from Judy Case, Fresno County Board of Supervisor, and Maylon Buck, Private Citizen, regarding concerns of the growing liabilities.

A motion was made by Chair Gomez, seconded by Trustee Larson, to Adopt the draft Actuarial Valuation as of June 30, 2010 with noted changes and to Adopt the employer and employee contribution rates as recommended. VOTE: Unanimous

RECEIVED AND FILED; APPROVED

20. Discussion and appropriate action on FCERA's current asset allocation/exposure of the fund

Jeffrey MacLean, Wurts & Associates, opened discussions with a brief review of the Plan's current asset allocation and the recent changes to FCERA's portfolio. In addition, Mr. MacLean reviewed potential allocation changes going forward.

Detailed discussions, questions, and comments followed.

At the February or March 2011 meeting, Mr. MacLean will present a revised asset allocation which incorporates their latest strategic asset allocation viewpoints.

A motion was made by Vice Chair Hackett, seconded by Chair Gomez, to Accept Item 20 as presented. VOTE: Unanimous

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21. Discussion and appropriate action on Waddell & Reed and Winslow transition of assets and selection of transition manager

Jeffrey MacLean, Wurts & Associates, opened discussions by stating that Wurts has analyzed the transition costs of restructuring FCERA's US equity portfolio that is currently with Intech Investment Management and State Street Global Advisors. As part of the transition the current portfolio of US equities will be reorganized and moved to a combination of Waddell & Reed Financial and Winslow Asset Management.

Mr. MacLean state that he and Roberto L. Peña, Retirement Administrator, reviewed the pre-transition analysis reports from BlackRock and State Street and determined that State Street's explicit costs are less than BlackRock's costs and were given greater weight than the less reliable soft costs (i.e., market impact). Based on the data provided by each firm, Mr. MacLean and Mr. Peña selected State Street to transition the funds.

Detailed discussions, questions, and comments ensued.

A motion was made by Trustee Jolly, seconded by Trustee Souza, to Accept Item 21 as presented. VOTE: Unanimous

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22. Presentation of the September 30, 2010 Investment Performance Review presented by Jeffrey MacLean, Wurts & Associates

Jeffrey MacLean, Wurts & Associates, opened discussions with an overview of the current economic environment and its impact on the investment markets. He further reviewed the Plan's various asset classes and the individual managers within the asset classes noting any significant over or under performance over the three and five year periods.

It was noted that the Plan's market value as of September 30, 2010 is approximately \$2.8 billion.

A motion was made by Vice Chair Hackett, seconded by Trustee Souza to Accept Item 22 as presented. VOTE Unanimous

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23. Presentation of the September 30, 2010 Guideline Compliance Report presented by Jeffrey MacLean, Wurts & Associates

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

A motion was made by Vice Chair Hackett, seconded by Trustee Souza to Accept Item 23 as presented. VOTE Unanimous

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Trustee Larson departed at 12:36 PM.

24. Discussion and appropriate action on Placement Agent Policy presented by Harvey Leiderman, Reed Smith

Fiduciary Counsel Harvey Leiderman of Reed Smith described the requirements of AB 1584, passed earlier this year, and AB 1743, passed in September. Together these bills require investment managers who seek to and do invest funds for public retirement systems in California, like FCERA, to disclose their use of placement agents to solicit the fund's business. Under the new laws, a "placement agent" includes not only third party intermediaries but also the internal marketing staff of the investment managers who do not spend at least 1/3 of their time managing the assets. The law now requires FCERA to adopt a policy by January 1, 2011 requiring disclosures about the use and compensation of placement agents. Mr. Leiderman presented a draft Policy Regarding Placement Agent Disclosure Information for the Board's consideration and action. Discussions ensued.

A motion was made by Trustee Jolly, seconded by Trustee Criego, to revise Paragraph IV.A.1, of the proposed draft policy. VOTE: Unanimous. (Absent – Larson)

A motion was made by Trustee Jolly, seconded by Trustee Gomez, to adopt the proposed policy with the deletion of Par. IV.B.4 and to direct staff to finalize the Policy as indicated, circulate it to existing managers and post it on FCERA's website. ROLL CALL VOTE: Yes – Cardenas, Cornacchia, Crow, Hackett, Jolly, Gomez, Frye. No – Criego. (Absent – Larson)

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Trustee Souza departed at 12:56 PM and Alternate Trustee Ronald S. Frye joined the Board.

Roberto L. Peña, Retirement Administrator pulled Closed Session Agenda Items 25.A.1. and 25.B.1. as there was nothing to discuss.

25. 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. *David Moore v. Board of Retirement, etc., Fresno County Superior Court Case No. 10 CECG 03861*
 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 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. Loretta Scruggs-Leach
 2. Ethel Vierra
 3. Grace Venegas-Gonzales
 4. Dan Boria

26. Report from Closed Session

- 25.A.1. Pulled.
- 25.A.2. David Moore v. Board of Retirement – Superior Court Petition for Writ of Mandate – Decision to Defend. **M – Crow. S – Gomez. VOTE: Unanimous (Absent – Larson)**
- 25.A.3. Nothing to Report.
- 25.B.1. Pulled.
- 25.C.1. **Loretta Scruggs-Leach** – Decision – To grant Service Connected Disability benefits based on the Findings of Fact and Decision. **M – Hackett. S – Crow. VOTE: Yes – Cornacchia, Criego, Crow, Gomez, Hackett, Jolly, Frye. Abstain – Cardenas. (Absent – Larson)**
- 25.C.2. **Ethel Vierra** – Decision – To grant Service Connected Disability benefits based on the Findings of Fact and Decision. **M – Hackett. S – Gomez. VOTE: Yes – Cornacchia, Criego, Crow, Gomez, Hackett, Jolly, Frye. Abstain – Cardenas. (Absent – Larson)**
- 25.C.3. **Grace Venegas-Gonzales** – Decision – To grant Service Connected Disability benefits based on the Findings of Fact and Decision. **M – Criego. S – Gomez. VOTE: Yes – Cornacchia, Criego, Crow, Gomez, Jolly, Frye. Abstain – Cardenas, Hackett. (Absent – Larson)**

25.C.4. **Dan Boria** – Decision – To grant Service Connected Disability benefits based on the Findings of Fact and Decision. **M – Gomez. S – Hackett. VOTE: Yes – Cornacchia, Criego, Crow, Gomez, Hackett, Jolly, Frye. Abstain – Cardenas. (Absent – Larson)**

27. Report from FCERA Administration

Administration had nothing to report.

28. Report from County Counsel

County Counsel had nothing to report.

29. Board Member Announcements or Reports

The Trustees had nothing to report.

There being no further business the meeting adjourned at 1:28 PM.

Roberto L. Peña
Secretary to the Board