BOARD OF RETIREMENT  
FRESNO COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION  

August 4, 2010

Trustees Present:

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

Trustees Absent:

Vicki Crow

Others Present:

Ronald S. Frye, Alternate Trustee
Steve Walsh, Western Asset Management Company
Frances Coombes, Western Asset Management Company
Jeffrey MacLean, Wurts & Associates
Jeffrey Rieger, Reed Smith – via teleconference
Kelly Prinz, Retirement Benefits Manager
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 Jolly called the meeting to order at 8:35 AM.

2. Pledge of Allegiance

Recited.

3. Public Presentations

None.

Consent Agenda/Opportunity for Public Comment

Roberto L. Peña, Retirement Administrator, pulled Consent Item 15 for discussion.

A motion was made by Trustee Jolly, seconded by Trustee Larson, to Approve Consent Agenda Items 4 -14. VOTE: Unanimous with Trustee Souza abstaining from Consent Item 4 (July 14, 2010 Regular Meeting Minutes) as he was absent from the meeting.
*4. Approve the June 16, 2010 and July 14, 2010 Regular Board Meeting Minutes

RECEIVED AND FILED; APPROVED

*5. Retirements

RECEIVED AND FILED; APPROVED

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Laurie S. Tafoya  Sheriff  16.45
Robin R. Tani  Public Works & Planning  31.43
Luella Z. Theus  Probation  25.93
Fifiwidiyana Tjahjadi  ACTTC  11.71
Angie Vargas  Behavioral Health  20.66
Dennis L. Weibert  Sheriff  9.89
Donald L. Werum  Assessor-Recorder  26.44
Dawn E. Williams  Social Services  25.01
Joe R. Wilson  Behavioral Health, Deferred  20.42
Carol A. Winningham  Assessor-Recorder  28.16

*6.  Deferred Retirements

RECEIVED AND FILED; APPROVED

Jimmy Carter  Sheriff  5.91
Gracie Galvan  Social Services  6.32
Rudy Montoya  Sheriff  2.98

*7.  Disability Retirements

RECEIVED AND FILED; APPROVED

David L. Hamman  General Services  7.34
Stephen Stallard  Probation  21.27

*8.  Public Records Requests and/or Retirement Related Correspondence from Jim Andersen, Mendocino County Employees’ Retirement Association; Alan Lau, PitchBook Data, Inc.; Richard Stensrud, Sacramento County Employees’ Retirement Association; Michael Gallagher, Lloyd George Management Ltd.; Don Steinbrugge, Agecroft Partners, LLC; Victoria West Grissom, Aviva Investors North America, Inc.; Dan Young, American Benefits Strategies; Mike Austin, Public; Bobbie Ormonde, ACTTC Office; Jennifer Diaz, Haven Financial Services; Gary Bei, Sonoma County Employees’ Retirement Association; Dave Kehler, Tulare County Employees’ Retirement Association; Charles Fracchia, Medical Doctor; Elizabeth Hamelin, Hogan Lovells US LLP; and Michael Long, Cortex Applied Research

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. Trustee Binder Updates

RECEIVED AND FILED

*13. Budget Status for the period ending June 30, 2010

RECEIVED AND FILED

*14. Requests from Chair Gomez to attend the PRI in Person Annual Event October 5-6, 2010 in San Francisco, CA and to receive a travel advance in the amount of $438.00 for hotel accommodations

RECEIVED AND FILED; APPROVED

*15. Revised Policies and Procedures regarding Public Records Requests

Roberto L. Peña, Retirement Administrator, pulled the revised Policies and Procedures regarding Public Records Requests in the event the Board had questions or comments. The Board had none.

A motion was made by Chair Gomez, seconded by Vice Chair Hackett, to Approve the Policies and Procedures regarding Public Records Requests as presented. VOTE: Unanimous (Absent – Crow)

RECEIVED AND FILED; APPROVED

16. Discussion and appropriate action on Performance and Economic Summary Report ~ Western Asset Management Company presented by Frances Coombes, Client Services Executive, and Steve Walsh, Chief Investment Officer

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that Western Asset Management Company (WAMCO) is a Core Plus Fixed Income manager and manages approximately $175 million for the Plan. WAMCO was placed on “watch” status in September 2008 due to underperformance.

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 longer term economic value, the aggregate credit market conditions impacted their credit exposure and dragged portfolio performance. Wurts research expected recovery in the credit markets and recommended retaining WAMCO during the credit crisis.

Since then, credit markets and WAMCO’s 5-year excess returns have recovered. However, the current portfolio yield is more than double the index yield and is composed of securities that
are markedly different from the benchmark. Therefore, Wurts believes that WAMCO retains higher potential risk and greater credit sensitivity than the benchmark.

Mr. MacLean stated 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, the remaining upside is captured.

Trustee Cardenas joined the Board at 8:45 AM.

Steve Walsh, WAMCO, reviewed the firm’s investment results for the period June 2007 through December 2008 noting that the WAMCO clearly did not foresee the financial credit crisis that enveloped the markets during that time and as a result meaningfully underperformed the benchmark.

Mr. Walsh stated that, in response to the firm’s 2007-2008 “challenges”, the firm underwent a thorough self assessment of the organization’s processes in order to prevent the same situation for reoccurring. As a result, the firm restructured the investment team, reduced the profile risk in the portfolio, and added process enhancements such as forming an Advisory Committee and making personnel skill set additions.

Mr. Walsh reviewed the firm’s more recent returns noting that, during the past year, the returns have met or exceeded the benchmark and further recovery is expected in the near future.

In response to a question from Roberto L. Peña, Retirement Administrator, regarding what key issues, if any, the firm “learned” from the recent crisis, Mr. Walsh stated that their team now looks at their risk assessment processes differently.

Discussions ensued regarding an offer by Mr. Walsh to reduce the management fees in an attempt to “earn back FCERA’s trust”. Mr. MacLean reminded the Board that WAMCO was placed on an incentive based fee schedule at the time that they were placed on watch and noted that will pursue Mr. Walsh’s offer of additional savings.

At the request of Mr. Peña, Mr. MacLean commented on WAMCO’s presentation noting that he is satisfied with the presentation in that Mr. Walsh was direct and factual. Mr. MacLean recommended that the Board continue the watch status at this time.

NO ACTION TAKEN, RECEIVED AND FILED

Chair Gomez suggested that the Board hear Item 18 at this time in that a decision, if any, on this issue could impact the discussion and/or decision on the Large Cap Growth search issue.

A motion was made by Trustee Souza, seconded by Trustee Criego, to hear Item 18 at this time. VOTE: Unanimous (Absent – Crow)

18. Discussion and appropriate action on INTECH Large Cap Growth mandate

Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board that in December 2009 Wurts recommended termination of INTECH Investment Management (INTECH) across all its clients due to concerns regarding senior level departures and continued underperformance, as well as results of Wurts' published analysis on the factors impacting quantitative strategies. The Board decided to place INTECH on watch status and
directed Wurts to conduct a search to potentially replace INTECH should it decide to hire a new investment manager.

On-site due diligence visits for the Large Cap Growth mandate were conducted by Roberto L. Peña, Retirement Administrator; Jeffrey MacLean, Wurts & Associates; and Trustees Nick Cornacchia and Franz Criego on June 29, 2010 through July 2, 2010.

Trustee Souza noted that INTECH’s returns have recently improved and expressed concern in terminating INTECH at time when they performing well and suggested that the Board review INTECH’s investment returns over the next few months before making a determination regarding termination.

Discussions ensued regarding INTECH’s senior level departures and the overall factors impacting quantitative strategies.

Mr. Peña cautioned the Board against making investment decisions based on month to month performance returns and suggested that, should the Board decide that INTECH is the right manager for the job, to retain their services for a longer period of time in order to properly monitor their performance.

A motion was made by Trustee Souza, seconded by Trustee Gomez, to retain the services of INTECH and re-evaluate their performance returns at the end of the year. ROLL CALL VOTE: Yes – Cardenas, Cornacchia, Souza, Gomez. No – Criego, Hackett, Jolly, Larson. (Absent – Crow) MOTION FAILED.

A motion was made by Trustee Criego, seconded by Larson, to terminate INTECH as recommended by Wurts & Associates. ROLL CALL VOTE: Yes – Criego, Hackett, Jolly, Larson. No – Cardenas, Cornacchia, Souza, Gomez. (Absent – Crow) MOTION FAILED.

A motion was made by Chair Gomez, seconded by Trustee Souza, to Table the issue until the October 6, 2010 Regular Board meeting. VOTE: Yes – Cardenas, Cornacchia, Gomez, Hackett, Jolly, Larson, Souza. No – Criego, Larson. (Absent – Crow) TABLED

17. Discussion and appropriate action on Large Cap Growth search

A motion was made by Trustee Souza, seconded by Trustee Criego, to Table Item 17 (Large Cap Growth search) until a time a decision is made on whether to terminate the current Large Cap Growth manager. VOTE: Unanimous

TABLED

18. Discussion and appropriate action on INTECH Large Cap Growth mandate

Please see discussion immediately following Agenda Item 16.

19. Discussion and appropriate action on Small Cap Value search
Jeffrey MacLean, Wurts & Associates (Wurts), opened discussions by reminding the Board of its decision to select Lord Abbett and Systematic Financial Management (Systematic) for further review through on-site due diligence visits for the Small Cap Value mandate.

Mr. MacLean stated that Systematic Financial Management (Systematic) and Lord Abbett have all the qualities Wurts seeks in fulfilling the small cap value mandate. Both firms have excellent track records, and exceptional intellectual framework, and have passed the due diligence rigor of Wurts’ Manager Research. Nothing was uncovered during the on-site visits which should prevent either firm from employment by FCERA.

Mr. MacLean noted that, while both firms are worthy of selection, Wurts was more impressed with Systematic’s on-site interview. Ron Mushock and Kevin McCreesh, the senior investment professionals responsible for managing the SMID value strategy, have successfully worked together for 13 years. This longevity coupled with their respective ownership and the firm’s well defined investment philosophy and process makes Systematic a preferred choice in Wurts’ opinion.

While Lord Abbett offers a more diversified portfolio and a longer track record of outperformance, Gerald Heffernan was recently promoted as portfolio manager responsible for the small cap value strategy. Mr. Heffernan previously served under Robert Fetch on the strategy and assumed the lead role when Mr. Fetch was promoted to Director of Domestic Equity. During the on-site visit, Wurts was not able to fully assess Mr. Heffernan, as Mr. Fetch dominated most of the discussion. While Wurts is confident that Mr. Heffernan is up to the task of managing the strategy, there is concern that Mr. Fetch’s departure from the day to day responsibilities of managing the small cap value strategy leaves a void.

For the record, Mr. MacLean noted that Scott Garrett of Systematic has previously been employed by Wurts & Associates.

Roberto L. Peña, Retirement Administrator, noted that he, Trustees Nick Cornacchia and Franz Criego, and Investment Consultant Jeffrey J. MacLean traveled to both locations and met with staff of the Investment Managers.

The main purpose of these visits were to meet key investment staff such as portfolio managers and investment analysts, gain a better understanding of their investment philosophy, style, process, ownership structure, client base, products, and the level of commitment to the investment mandate in which FCERA is considering investing.

Mr. Peña stated that, in general, he concurs with Mr. MacLean’s observations and recommendations included in his memorandum. However, he gives a very slight edge to Lord Abbett on the strength of a longer track record of outperformance, a more diversified portfolio, a better performance in weak economic and down market environments due to their focus on quality companies and resources available due to their considerable larger size. On the other hand, Systematic has an edge on their portfolio “team” managers’ longevity and performance in strong economic and stable market environment.

Trustee Criego agreed that each firm is very capable of managing the Small Cap Value mandate. However, he gives an edge to Systematic.

Trustee Cornacchia supports Lord Abbett because of their available resources.
The Board engaged in detailed discussions regarding the firm’s various strategies, track records, processes, fees, and risk controls.

A motion was made by Trustee Souza, seconded by Vice Chair Hackett, to direct Administration to work with Wurts to begin contract negotiations with Systematic Financial Management. VOTE: Yes – Cardenas, Criego, Gomez, Hackett, Jolly, Larson, Souza. No – Cornacchia. (Absent – Crow)

RECEIVED AND FILED; APPROVED

20. Discussion and appropriate action on revised Board of Retirement Committee Charters and Governance Policies

Roberto L. Peña, Retirement Administrator, opened discussions by reminding the Board that the Board Governance Policy adopted by the Board on April 4, 2007 states that the Board shall review the Governance Policies and Charters at least every three years to ensure that they remain relevant and appropriate.

Attorney Jeffrey Rieger, Reed Smith, stated the he assisted Administration in revising the Board Governance Policies and Charters and developing the Board Consultants Evaluation Committee Charter as appropriate noting that revisions are minor and in compliance with the law.

Becky Van Wyk, Assistant Retirement Administrator, informed the Board of Administration plans to “reformat” the policies and charters once they are approved.

A motion was made by Vice Chair Hackett, seconded by Trustee Souza, to Adopt the revised Board of Retirement Committee Charters and Governance Policies as presented. VOTE: Unanimous (Absent – Crow)

RECEIVED AND FILED; APPROVED

21. Discussion and appropriate action on presentations by respondents to the Request for Proposal for Actuarial Audit Services

Roberto L. Peña, Retirement Administrator, opened discussions by noting that FCERA received three responses to its Request for Proposals (RFP) for Actuarial Audit Services. All three firms are represented by outstanding individuals with excellent Actuarial Audit Services. The basic valuation methods are the same, demographic, economic and complying with GASB 25. Two firms use the same third-party valuation software system, while the third uses an in-house valuation software system. None of the firms have a business relationship with The Segal Company, our current actuary.

The proposed evaluation plan was that FCERA Administration would review and evaluate the proposals and submit a recommendation of two or three firms to make presentations to the Board for final selection. However, since only three responses were received, Administration is recommending that all three firms be invited to present to the Board.
Becky Van Wyk, Assistant Retirement Administrator, stated that, based on the information submitted in the RFP’s, Staff concluded that EFI Actuaries (EFI) is geared toward larger retirement systems whereas Bartel Associates, LLC (Bartel) and Cheiron, Inc. are more suited for a mid-sized plan such as FCERA and recommended them for further consideration.

Mr. Peña recommended that the Board select Cheiron and EFI for further consideration because each experience with 1937 Act systems.

A motion was made by Trustee Cardenas, seconded by Vice Chair Hackett, to invite the three firms to present to the Board at the August 18, 2010 Regular Board Meeting. VOTE: Unanimous (Absent – Crow)

RECEIVED AND FILED; APPROVED

22. Discussion and appropriate action on Linea Solutions Consulting Services Contract

Becky Van Wyk, Assistant Retirement Administrator, opened discussions by reminding the Board that at a recent Board meeting, the Board selected Linea Solutions as the vendor to work with FCERA in the implementation of the remaining items on the IT Roadmap.

Ms. Van Wyk noted that Administration has successfully negotiated a contract with Linea Solutions with a not to exceed amount of $3,107,898 which includes a 12% travel surcharge.

In reviewing the materials submitted by Linea Solutions, Roberto L. Peña, Retirement Administrator, noticed a discrepancy in the exhibit outlining the consulting services cost and assured the Board that a corrected exhibit would be requested from Linea.

A motion was made by Trustee Jolly, seconded by Vice Chair Hackett, to Approve the Information Technology Consultant Contract with Linea Solutions with the noted changes to the exhibit. VOTE: Unanimous (Absent – Cardenas, Crow)

RECEIVED AND FILED; APPROVED

23. 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. Anna B. Lund Living Trust of July 17, 2009, Fresno Superior Court Case No. 10CEPR00282

B. Conference with Legal Counsel – Potential Litigation – pursuant to G.C. §54956.9(c) – possible initiation of litigation (two cases)

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

1. James Bernabe
2. David Moore

24. Report from Closed Session


23.D.2. David Moore – Decision – Approve and adopt the referee’s Proposed Decision as supplemented by the additional Findings of Fact and Decision that the Applicant is not disabled and deny the application for a service-connected retirement. M – Souza. S – Hackett. VOTE: Unanimous (Absent – Cardenas, Crow, Jolly) MOTION PASSED.

Trustee Cardenas departed at 11:18 AM.
Trustee Jolly departed at 11:24 AM.

25. Report from FCERA Administration

Becky Van Wyk, Assistant Retirement Administrator, reported on the following:

1. Update on the Records Retention Policy and Schedule, noting that 160 boxes of no longer needed items have been destroyed.
2. The new General Ledger system is in production.

26. Report from County Counsel

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

27. Board Member Announcements or Reports

In response to a question from Trustee Souza regarding whether Administration is planning to schedule the annual Board Retreat, Roberto L. Peña, Retirement Administrator, noted that the issue will be agendized for discussion at the August 18, 2010 Regular Board Meeting.

There being no further business the meeting adjourned at 11:50 AM.

Roberto L. Peña
Secretary to the Board