

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

September 17, 2008

Trustees Present:

Alan Cade, Jr.
Michael Cardenas
Nick Cornacchia
Vicki Crow
Eulalio Gomez
James E. Hackett
Steven J. Jolly
John Souza

Trustees Absent:

Phil Larson

Others Present:

Ronald S. Frye, Alternate Trustee
Rich White, President of the SACRS Board of Directors
Tom Lightvoet, Mercer Investment Consulting
Susan Dalton, Mercer Investment Consulting
Troy Saharic, Mercer Investment Consulting
Allan Martin, New England Pensions Consultants
Jeffrey MacLean, Wurts & Associates
Eric Petroff, Wurts & Associates
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 8:38 AM and noted that Alternate Trustee Frye was sitting for Trustee Souza at this time.

2. Pledge of Allegiance

Recited.

3. Public Presentations

Rich White, President of the SACRS Board of Directors, expressed his appreciation for the Board's support and stated the following:

As a member of the Board of Directors, I want to span a channel of communication and an opportunity for feedback between the Board of Directors and the Board of Retirement.

SACRS is first and foremost an Association of 20 county retirement systems that represents and reflects the diverse nature of our State. SACRS has been and will continue to be an effective voice when we unite to tackle an issue that is important to us and to provide a service to our membership.

An over-arching goal is promote the good governance of our retirement systems. And that requires trustees, administrators, staff and affiliates to be informed and educated on the various components of our fiduciary responsibilities.

The analysis and advocacy of legislation is also an important mission of SACRS and is most effective when all 20 systems can agree to support or oppose legislation.

The SACRS Board of Directors wants to encourage membership involvement and we feel that it is important to hear the concerns that you have as well as the opportunities you would like SACRS to pursue.

Please allow this visit to be an invitation to call upon me as we work together on the important mission of our Association.

I want to thank you for your time and I want to encourage your Board to let us know how we, as a Board of Directors, can help you. That in turn will help all of us who serve on retirement boards or those who lead and staff our systems to be more effective and efficient in our roles stewards of public pension trusts.

Trustee Crow thanked Mr. White for his time and expressed the importance of the Trustees volunteering their time and services to SACRS.

Chair Jolly noted that Trustee Larson was absent and Alternate Trustee Frye was sitting in the absence of Trustee Souza.

Consent Agenda

A motion was made by Trustee Crow, seconded by Trustee Gomez, to Approve Consent Agenda Items 4-10. VOTE: Unanimous (Absent – Larson)

***4. Approve the September 3, 2008 Retirement Board Regular Meeting Minutes**

RECEIVED AND FILED; APPROVED

***5. 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 August 2008**

RECEIVED AND FILED

***6. Public Records Requests and/or Retirement Related Information Requests from Cassandra Kifer, SEIU Local 521; Bob Solis, FCERA Member; Stephen Gyorgy, Sand Stone Consulting; Nancy Gordon, Reuters Media; and Marc Sorondo, Investment Management Weekly**

RECEIVED AND FILED

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

RECEIVED AND FILED

***8. Board of Retirement Safety Election notice**

RECEIVED AND FILED

***9. Request to Rescind Deferred Retirement**

RECEIVED AND FILED; APPROVED

Luciano Baltierra

Probation

9.60

***10. Approve recommendation to place Western Asset Management Company (WAMCO) on probationary “watch” status**

RECEIVED AND FILED; APPROVED

11. Discussion and appropriate action selection of General Investment Consulting Services

Roberto L. Peña, Retirement Administrator, opened discussions by reminding the Board that Administration issued a Request for Proposal for General Investment Consultant Services on May 26, 2008. FCERA received, accepted and reviewed six proposals.

The proposals were evaluated and ranked individually by Mr. Peña, and Becky Van Wyk, Assistant Retirement Administrator. The responses were evaluated using a weighted scale that assigned greater weight to the areas believed to be most important for the services required.

Based on the results of the reviews and recommendations on August 20, 2008 the Board chose three finalists for General Investment Consultant services. The finalists included Mercer Investment Consulting, New England Pensions Consultants (NEPC) and Wurts & Associates.

Mercer Investment Consulting

Tom Lightvoet, Lead Investment Consultant, began the presentation with an observation of FCERA's investment program and a brief overview of Mercer's approach to providing investment consultant services.

Mr. Lightvoet noted the highlights of FCERA's current investment program as follows:

- FCERA's investment savvy has grown remarkably over the past several years
- FCERA has developed very good counsel and consulting relationships
- The new Asset Allocation is moving in the right direction
- Investment manager structure is sound
- Manager performance through June 30, 2008 for most firms has been good
- Watch Listed managers are on notice for good reasons
- The Board has shown wisdom by being patient with underperforming managers

Mr. Lightvoet noted areas of caution as follows:

- Adding international small cap, opportunistic fixed income, venture capital and doubling the allocation to real estate will require highly specialized expertise and counsel
- Having too many fixed income managers has increased the fees and the firms collectively are so diversified they create an index in the 62nd percentile
- The U.S. large cap stock market is highly efficient and has proven to be very difficult for active managers to add value
- The Asset Liability Modeling (ALM) recommendation to cut emerging market exposure by 50% would be a short-term tactical decision
- The ALM recommendation to cut global fixed income by 70%
- The optimistic ALM investment return assumptions built into the latest study could create unexpected contribution spikes

Troy Saharic, Business Leader, briefly reviewed Mercer's background and capabilities and acknowledged their fiduciary role and commitment to helping FCERA make the best investment decisions by using their global presence and experience.

Discussions ensued regarding potential conflicts of interest. Mercer offers investment management services through a separate division and its parent company, Marsh & McLennan Companies, Inc., owns a broker-dealer which claims it does not trade in securities purchased by their clients' investment managers. Mr. Saharic noted that, because the consulting and managing portions of Mercer are separate businesses, there is no conflict.

Susan Dalton, Lead Investment Consultant, reviewed the challenges and issues facing the Trustees such as the alternative investments, real assets, and opportunistic investments requiring global expertise. Attention to detail is essential when conducting due diligence in these asset classes. Ms. Dalton reviewed the manager research staff, coverage, and strategies of these asset classes.

At the request of Chair Jolly, Mr. Saharic reviewed the investment manager search, selection, and rating process. It was noted that once an investment manager is selected the investment choices are solely those of the manager and the investment consultant provider updates the Board with any pertinent investment information related to the results of those decisions.

Detailed discussions ensued regarding the experience and deep specialist resources available through Mercer. It was noted that Mercer services 48 public sector clients with 22 having assets in excess of \$1 billion.

In response to a question from Chair Jolly regarding manager fees, Mr. Saharic noted that Mercer will negotiate to reduce manager fees on FCERA's behalf. Discussions ensued regarding available resources used to negotiate manager fees.

Mr. Lightvoet reviewed the proposed fee schedule and noted that the annual fees are all inclusive at \$300,000 for the first three years. It was unclear, at this time, as to how many manager searches are included in the annual fee.

At the request of Mr. Peña, discussions ensued regarding the current financial crisis as it relates to "timing the market" and FCERA's new asset allocation. It was noted that diversification is key in the current market condition. It was noted that whether the current bear market has reached the bottom is unclear. It is known that market gains have more than made up for losses for those investors who stayed invested over the long term. The market has always recovered but by trying to predict the best time to buy and sell, investors may miss the market's biggest gains.

New England Pension Consultants (NEPC)

Allan Martin, Managing Partner, began the presentation with an overview of NEPC's background, capabilities and approach to providing investment consultant services and briefly reviewed the current financial crisis.

In response to a question from Chair Jolly regarding Mr. Martin's current relationships, Mr. Martin stated that he currently has four relationships and will not exceed six.

Mr. Martin reviewed NEPC's staff structure noting that they employ 52 consultants, 23 consultant analysts, 16 research analysts, 34 portfolio analysts and 27 systems and administrative staff with offices in Cambridge, Charlotte, Detroit, Las Vegas, and Redwood City.

Mr. Martin gave a brief overview of client results and noted that NEPC's clients as a group have consistently performed well over a variety of markets, economic environments, and time periods. The collective client base has outperformed in 19 of their 22 years versus the national peer group.

NEPC's investment philosophy was noted as follows:

- Focus of NEPC's consulting approach
 - o Building diversified portfolios
 - o Asset allocation increasingly based on liabilities and spending needs
 - o Prudent use of active, passive, and alternative strategies
 - o Pursuit of higher risk-adjusted returns
- Blend of strategic and tactical strategies
 - o Long term strategic policy is the cornerstone
 - o Opportunistically adjust the portfolio as conditions warrant
- Client attributes require different solutions
 - o Required return and risk tolerance
 - o Staffing and resource levels
 - o Investment acumen of staff and committee members
 - o Desired level of investment complexity
- Continuously enhancing processes
 - o Evaluating new ideas
 - o Challenging established approaches
 - o Anticipating changes in the marketplace
- Examples of NEPC's Forward thinking
 - o Consulting on alternative asset classes for over fifteen years
 - o Utilization of global asset allocation strategies
 - o Early proponent of portable alpha
 - o Opportunistic use of credit strategies
 - o Liability-Driven Investments (LDI) positions in place

- Unmistakable trends
 - o Less reliance on traditional long-only managers
 - o Increased use of diversifying strategies, both traditional and alternative
 - o Increased emphasis on asset-liability management
 - o Focus on portfolio construction enhancements

Discussions ensued regarding various asset allocation strategies as they relate to opportunistic and risk exposure. It was noted that strategies fit in the context of an organization.

Mr. Martin discussed the success that NEPC has had with San Bernardino County Employees' Retirement Association (SBCERA) and noted that they now have 5 employees dedicated to investment issues.

Mr. Martin reviewed the current financial crisis as it relates to implementing FCERA's new asset allocation. It was noted that NEPC has the ability to implement FCERA's investment strategy in a way that is unique to FCERA. Mr. Martin expressed the importance of Board education and input.

Mr. Martin discussed FCERA's current investment allocation and suggested the following:

- Additional education and reaffirmation of FCERA's new target asset mix
- Review and assess current investment managers
- Plan and prioritize new allocations
 - o Reduce domestic equities and domestic core fixed income
 - o Establish an allocation for opportunistic fixed income, liquid alternatives/hedge funds and real estate
 - o Restructure international equity allocation by adding small cap
 - o Private Equity plan development

Mr. Martin reviewed the fee proposal and noted that the fee for these financial asset services is \$325,000 per year with inflation adjusted on an annual basis. Alternative asset services are asset-based at ten basis points on all newly committed alternative assets. Travel and related expenses are billed back at cost.

Discussions ensued regarding the fee proposal and Mr. Martin explained the concept of the alternative asset services fee. It was noted that the alternative asset services fee could, over time, translate to double the annual fee of \$325,000.

At the request of Mr. Pena, Mr. Martin outlined his career path for the next 5 years. Mr. Martin noted that he has no plans to retire in the immediate future.

Wurts & Associates

Jeffrey MacLean, Wurts & Associates (Wurts), began the presentation with an overview of the firm. Mr. MacLean noted the following about Wurts:

- Boutique firm founded in Seattle in 1986
- Opened its Los Angeles office 1990
- 100% employee-owned firm
- Exclusively focused on investment consulting
- Firm-wide code of ethics
- \$37 billion in client assets
- Diversified client base
- 9 Consultants / 35 employees
- Team based, client focused service

Eric Petroff, Director of Research, gave a brief overview of the current market environment as it relates to market timing and FCERA's new asset allocation. It was noted that diversification is key in the current market conditions.

Discussions, questions, and comments followed regarding the firm's available resources and structure. Mr. MacLean noted that he currently serves as lead consultant for 7 firms and through independent, conflict-free advice and investment expertise, the Wurts professionals strive to be the driving force that empowers clients to achieve their investment objectives.

Mr. MacLean reviewed their consulting objectives as follows:

- Improve investment performance
- Minimize investment risk
- Fulfill fiduciary responsibility
- Improve investment knowledge
- Manage plan expenses
- Extend staff resources

The firm's consulting philosophy was reviewed as follows:

- Asset allocation policy is the most important determinant of overall portfolio results
- Diversification outside of traditional US stocks will improve the risk-adjusted returns of investment portfolios
- Diversifying active manager alpha produces tangible return benefits
- Market inefficiencies and bubbles create opportunities to benefit from mean reversion

- Opportunistic and innovative strategies provide excess returns to early adopters
- Liabilities should be considered when developing an overall asset allocation strategy
- Minimizing investment portfolio expenses through indexing, securities lending, brokerage recapture, performance-based fees, and transition management produce meaningful results

Discussions, questions, and comments followed regarding the framework for maximizing the Plan's returns as it relates to the new asset allocation and the performance as of June 30, 2008. It was noted that long-term results have been consistent and strong with FCERA ranking in the 19th and 12th against other public funds over the last three and five years respectively.

Mr. MacLean noted that Wurts will continue to deliver the exceptional client service expected from a boutique firm, combined with the capabilities and sophistication of a nationally branded consulting firm.

Mr. MacLean noted reasons for the Board to continue its relationship with Wurts as follows:

- Effective Investment Leadership
 - o Make complex investment concepts easy to understand
 - o Provide proactive recommendations to frame decisions
 - o Established record of prudent stewardship and good judgment
 - o Best suited to implement the recently adopted asset liability study
- Boutique is Better
 - o No conflict of interest
 - o Primary consultant is the majority owner of the firm
 - o Consultant stability is assured
 - o Superior service since FCERA represents important client to Wurts
 - o Wurts ranks in the top quartile in overall quality

In response to a question from Trustee Gomez regarding Wurts providing educational seminars, Mr. MacLean stated that education is a top priority for the trustees as well as for members of the system and is willing to provide these services at no charge to the system. Discussions ensued.

Mr. MacLean reviewed the fee proposal and noted that the fee for these financial asset services is \$315,000 per year with inflation adjusted on an annual basis with travel and related expenses billed back at cost. Discussions ensued.

In response to a question from Chair Jolly regarding the travel expenses, Mr. MacLean stated that he would consider including the travel expenses in an all inclusive fee.

General discussions ensued regarding the dynamics of the employee structure of Wurts and the career paths that potentially will be taken in the next 5 years. It was noted that Mr. MacLean plans to continue to grow the firm in a measured approach. Discussions ensued regarding the capabilities of Wurts to continue to provide services that will grow with FCERA's needs.

Detailed discussions ensued regarding the pros and cons of each firm. Trustees Crow, Jolly, Cade, and Cardenas spoke in support of continuing the relationship with Wurts based on their responsiveness, investment returns over the last 3-5 year period, and FCERA's future needs. It was noted that both the Mercer and NEPC representative were positive about FCERA's recently adopted Asset Liability Study.

A motion was made by Chair Jolly, seconded by Trustee Hackett, to direct Administration to retain Wurts and to work on a contract that excludes travel expenses. VOTE: Unanimous (Abstain – Crow) (Absent – Larson)

Trustee Souza joined the Board at this time.

Roberto L. Peña, Retirement Administrator pulled Closed Session Agenda Item 12.B. as there was nothing to discuss.

12. Closed Session:

A. Conference with Legal Counsel – Actual Litigation - pursuant to G.C. §54956.9(a)

1. *Fresno County Employees' Retirement Association v. Public Pension Professionals*
2. *North Central Fire Protection District v. Fresno County Employees' Retirement Association*
3. *Marsha Stillman v. Fresno County Employees' Retirement Association*

B. Conference with Real Property Negotiators – pursuant to G.C. §54956.8

Property: 1713 Tulare Street, Fresno, CA 93721
 Agency Negotiators: Brian Decker of Colliers Tingey
 Negotiating Party: Any potential qualified buyer
 Under Negotiation: Price and terms of sale

13. Report from Closed Session

- 12.A.1. Nothing to Report.
- 12.A.2. Nothing to Report.
- 12.A.3. Nothing to Report.
- 12.B. Pulled.

14. Report from FCERA Administration

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

- 1. Mr. Peña has been in contact with Jeffrey MacLean and the investment managers regarding FCERA's direct exposure to Lehmann Brothers and AIG. It was noted that the exposure is limited.
- 2. Mr. Peña reminded the Board of the upcoming Safety Election

15. Report from County Counsel

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

16. Board Member Announcements or Reports

The Trustees had nothing to report.

There being no further business, the meeting adjourned at 1:30 PM.

Roberto L. Peña
Secretary to the Board