

**MCERA RETIREMENT BOARD  
GENERAL AND INVESTMENT MEETING MINUTES  
Thursday May 27, 2010**

**Roll Call: 8:15 AM**

**Board Members Present:**

Sandy Teague, Mark Bodley, Al Peterson, Michael Rhodes, Karen Adams, Tom Mackenzie, Deidre Kelsey, Ron Kinchloe, Karen Rodriguez, Dwayne McCoy and David Ness. **Counsel:** Michael Calabrese  
**Staff:** Maria L. Arevalo, Gale Garcia and David Liu. **Also present:** Bill Cottle, John Carlisle, Phil Bennett and Tom Rosalanko

**Absent:** None

**Approval of Minutes: Motion to approve the minutes of April 22, 2010 and April 29, 2010**

Ms. Rodriguez presented a correction of the date in item 6 of the April 22, 2010 minutes. The correct date should be 4/29/2010 instead of 5/29/2010

**Rodriguez/Teague. U/A**

**PUBLIC COMMENT**

Mr. Carlisle noted that members of REMCO will like to see MCERA to look at possible legal actions against Buck Consultant to help the retirement system to recover some of the losses from the errors made by Buck Consultant in prior year's actuarial report

**CLOSED SESSION—CONFERENCE WITH LEGAL COUNSEL—SIGNIFICANT EXPOSURE TO LITIGATION:** Government Code section 54956.9

It is the intention of the Retirement Board to meet in Closed Session pursuant to Government Code Section 31532 regarding the confidentiality of member records. Update on the status of or deliberation and action on the application of disability retirement for:

1. Frances Miller
2. Anna Partida
3. Leroy Alford
4. Doug Jensen
5. Rosie Robles
6. Susan Cummings

Informal Hearing: None

Formal Hearing: None

**RETURN TO OPEN SESSION**

- **REPORT ON CLOSED SESSION-None**

**BOARD ACTION/DISCUSSION**

1. **Board Chair remarks on Sun Star Article of May 18, 2010**

Mr. Ness presented the memo on the Merced Sun-Star article and discussed with Board members. Mr. Ness noted the headline of the article is inaccurate. There were no “accounting errors”. The errors are actuarial errors by Buck Consultants. Also, Buck was not fired after an audit of the annual report. The Board became aware of errors in other systems’ actuary report and contacted Buck and inquired whether the error also exist in MCERA’s 2008 report, Buck assured MCERA that the errors were isolated only to the other system. But the Board decided to hire a replacement for Buck for 2009 and hired EFI Actuaries. Mr. Ness also noted the meeting between the Board and the County was not to negotiate a payment; the intent of the meeting was to facilitate open communication between County Administration and the Retirement Board.

**2. Presentation on International Equity Portfolio: Phillip Bennet, GMO**

Mr. Bennet and Mr. Rosalanko both presented to the Board. Mr. Bennet presented MCERA’s performance net of fees and expenses for period ending April 30, 2010 and noted for the return for the month is -1.63%, YTD is at 0.15% and the 1 year return is 31.71%. The investment objectives is to outperform it’s benchmark by 3% to 4% net of fees, expected tracking error of 5% to 7% and have a portfolio absolute risk lower than the benchmark. Mr. Bennet also noted that in 2009, GMO had added 19 new employees across the firm. Mr. Rosalanko presented GMO’s investment process to the Board and noted the international equity strategy for stock selection look at value, momentum and quality.

**3. Investment Reports Bill Cottle: review of portfolio performance from January 1, 2010 to March 31, 2010 including recommendations on manager status**

Mr. Cottle presented the performance analysis report for period ending March 31, 2010 to the Board and noted, domestic equities continue the rally, S&P 500 was up another 5.4% and the Russell 2000® index gained 8.9%. International equity returned 0.9%; fixed income returned 1.8% and Real Estate market posted a preliminary return of 0.8%. Mr. Cottle also noted MCERA had a return of 3.3% during the quarter, over the past year, MCERA’s return of 34.5% underperformed the 36.5% return of the benchmark and rank in the 26<sup>th</sup> percentile.

Mr. Cottle also presented the Transaction cost report to the Board. Mr. Cottle noted, equity trading for MCERA increased 69.1% from 2.3 million shares to 3.8 million shares. Northpointe Capital was terminated, and assets were redirected primarily to fixed income investments. Total trading costs increased 46.5% from \$128,317 to \$188,040. Total average commission cost decreased from 3 to 2 cents per share.

**4. Request of the Joint Powers Authority to join MCERA as a new district**

Ms. Arevalo presented the memo and RESOLUTION NUMBER 2010-04 to the Board. Ms. Arevalo noted, on April 15, 2010, the Board of Directors of the Transit Joint Powers Authority for Merced County adopted Resolution Number 2010/4/15 to which it requested that MCERA consent to the inclusion of the Authority and continuing retirement coverage for currently covered County employees as transitions to become employees of the Transit Joint Powers Authority.

**Motion to approve Resolution of Consent  
Rodriguez/Teague. UA**

**5. Discussion with regards to meeting the Administrative limit on Budget for FY 2010/2011**

Ms. Arevalo presented the memo on Administrative Costs to the Board for discussion. Ms. Arevalo noted, in February 2010, the Board approved a proposed budget for FY 2010/2011; the budget includes amounts for expenditures that are higher than what may actually be spent. The

determination of whether the administrative expenses meet the limit is monitored throughout the fiscal year by staff. Now staff has been notified that although the total assets can only be estimated, any proposed budget must meet the requirement of Code section 31580.3 at the time of approval by the Board.

Ms. Arevalo presented a revised budget to the Board and noted staff estimates that the administrative limit will be met. Ms. Arevalo also noted, the Board could look at the possibility of staff employ salary allocations to investment and actuarial work, which a number of 37 Act Systems do allocation to some extent. Ms. Arevalo noted that the Board of Supervisors had no authority to adopt or approve MCERA's budget. MCERA is a qualified trust fund under IRC §401(a) and operates under §31450, et seq. of the California Government Code. The Board of Retirement is the governing board of MCERA and has discretion and final authority over the operating budget. Staff recommends that staff present a revised budget to the Board at the June 10, 2010 meeting. Discussion among trustees directed staff to present a revise budget for Fiscal Year 2010/2011 to the Board for approval.

**INFORMATION ONLY**

1. Update on VSP Insurance:  
Ms. Arevalo updated the Board of the VSP Insurance to retirees and noted the enrollment process has ended and plan will start in July 1, 2010.
  
2. Report from SACRS Conference: Trustees Bodley, Ness, Kelsey and Staff  
Mr. Bodley noted the presentation by PIMCO in the general section was very interesting. Mr. Ness noted the breakout sections on actuaries, administrative expenses were very informative. Ms. Arevalo noted the presentation on the number of people getting older and how are the younger generations going to pay for the older generation's retirement was very interesting.
  
3. Update on Election of Third Member of The Board of Retirement: July 20, 2010  
Ms. Arevalo noted the election for Trustee Rodriguez's seat is on July 20, 2010

**REFUND OF SERVICE PURCHASE: NONE**

**DEATH BENEFIT: NONE**

**CORRESPONDENCE: N/A**

**OTHER BUSINESS: Future Meetings, Conferences, Direction for Future Agenda Items**

Pantheon will attend the June 24, 2010 Investment Board Meeting

BNY Mellon Custodial Bank will attend the July 22, 2010 Investment Board Meeting

**ADJOURNMENT 11:35 AM**

**Respectfully Submitted,**

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David Ness, Chairman

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Al Peterson, Secretary

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Date