

MCERA RETIREMENT BOARD MINUTES

Thursday, July 9, 2009

Roll Call: 8:15 AM

Board Members Present:

Dwayne McCoy, Alfonse Peterson, Mike Rhodes, Karen Adams, Sandy Teague, Deidre Kelsey, Karen Rodriguez, Mark Bodley, Tom Mackenzie and David Ness. **Counsel:** Fernanda Saude. **Staff:** Maria L. Arevalo, Gale Garcia. **Also present:** Bill Cottle, Timothy Price, Lucinda Smith and George Brown

Approval of Minutes:

**Motion to approve minutes of the June 11, 2009 Board Meeting
Rodriguez/Bodley U/A**

Public Opportunity: None

Closed Session:

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.

Four (4) Disability Retirement Cases – Frances Miller, Patricia Rosa Ramirez, Anna Partida and Leroy Alford.

Informal Hearing: None

Formal Hearing: None

Report Out Of Closed Session:

None to report

Board Action/Discussion

1. Asset Allocation Study

Mr. Cottle and Mr. Price reviewed their memorandums dated June 30, July 1 and July 8, 2009. They reviewed past asset allocation study methodologies for measuring projected liabilities and their correlation to the asset classes under consideration. They then explained their revised process for estimating the liability correlations by using the Citigroup Pension Discount Curve and Liability Index. Mr. Cottle noted that the new process is a more accurate and detailed measurement process and when using the new methodology, the correlation of the Merced liabilities to all asset classes fell considerably from the values in their prior study with the exception of the fixed income correlation. Mr. Price noted that much of this change was specific to the events of late 2008 where liabilities spiked up when most other asset classes fell considerably.

Mr. Price noted that since the correlations fell in the current study he felt that it would be prudent to apply the new methodology to MCERA's 2007 study to see what the impact would have been from using the new methodology to determine all correlation figures. It was determined most of

all these correlations fell considerably. They then generated efficient asset mixes using the new correlation figures and sought out efficient mixes with expected rate of return per year. They saw that the overall changes were relatively modest.

Mr. Cottle provided the Board with additional supplemental material regarding the 2009 asset allocation discussion that included the asset allocation of other public funds, background on factors driving an increase in the expected liability volatility and additional detail on the inflation levels projected by Millimam versus those used by the actuary.

Mr. Cottle and Mr. Price explained the efficient frontier of broad range of asset mixes and provided two asset mixes for comparison; the public fund average and the SACRS average asset mix. He then reviewed the narrow range of efficient asset mixes that had expected returns between the actuarial interest rate of 8.16% and the expected return on the current asset mix of 8.78%.

Mr. Cottle noted that while this was a lot of information he felt that it was important that the Board understand the reasoning behind changing their methodology. Mr. Cottle noted his recommendation of the asset mix alternative takes into consideration the given return objectives, the risk tolerance implied by the Association's current (actual) asset mix, and the risk/return posture of the current asset mix of the Association.

Mr. Ness addressed the Board with questions and possible concerns regarding the recommended asset allocation and noted that all members should review these memorandums and be prepared for further discussion and possible action at the July 23rd Board meeting.

2. Update on Actuarial Services RFP: Appointment of Review Committee

Ms. Arevalo noted that the RFP for actuarial services was issued on July 1, 2009 with responses due August 15, 2009. The ad hoc actuarial committee has met to discuss what recommendations will be made to the full Board relating to how to deal with employer contribution volatility. Chairman Ness asked Trustee Rhodes and Trustee Bodley to replace Ron Kinchloe and Karen Admas on the ad hoc actuarial committee. Mr. Ness will remain a chair of this committee.

Ms. Arevalo informed the Board that Staff, and Chairman Ness met with Jim Brown, assistant county CEO, to discuss the possibility of mitigating the cost of contributions to the County for fiscal year 10/11. Trustee Ness expressed to Mr. Brown that the Board was very cognizant of the Plan Sponsor's concerns and the ad hoc committee will meet further to discuss this issue as well as to serve as evaluators for the Actuarial RFP.

3. Litigation Monitoring Services Firm Selection

Ms. Arevalo reported that five law firms responded to MCERA's RFI for securities monitoring services. Ms. Arevalo discussed the Board memo summarizing the respondents' services, capabilities and staff.

Motion to contract with Bernstein, Litowitz, Berger & Grossman for securities monitoring services.

Adams/Peterson U/A

4. Securities Lending Program

Lucinda Smith, Goerge Brown as well as Renee Rawls and Mike McDermott via phone conference from BNY Mellon Bank were present and available to review MCERA's securities lending program with the Board. Ms. Smith introduced Mr. Brown as MCERA's new relationship manager and informed the Board of her retirement in July. Mr. McDermott gave a brief history of MCERA's relationship with the program, how the securities lending program works and further explained the factors that have impacted the program since the collapse of Lehman Brothers, the overall illiquidity in the market and new guidelines that were implemented in order to efficiently operate the EB Temporary Investment Fund. Mr. McDermott explained the insolvency of Sigma Financial and how this security impacted MCERA's portfolio. As a result of this loss to MCERA and other clients, BNY Mellon implemented a bifurcation account (Liquidating Fund) to accommodate clients who were interested in terminating this program so the collateral pool would not be impacted.

Mr. Ness requested that Mr. Brown contact MCERA within six months to review this process, any changes to the implementations, and to further discuss MCERA's participation in this program.

INFORMATION ONLY: Future Meetings, Conferences, Direction for Future Agenda Items

1. Update on PAS RFP

Ms. Arevalo noted that MCERA received three vendor responses and the evaluation committee is in the last stages of reviewing the documentation from the three firms. Ms. Arevalo noted that staff will have a recommendation for the Board no later than the first Board meeting in August.

2. Preliminary Monthly Performance Report

Ms. Arevalo noted that the report was in the Board packets.

3. Election Results

Ms. Arevalo reported that 200 votes were cast in the July 7, 2009 election for the Retirement Board miscellaneous member seat number 2. Ms. Arevalo noted that Michael Rhodes won the election with 93 votes; Shari Hosemann received 74 votes, Tina Ogden 68 votes and Emma Loethen 21 votes. Mr. Rhodes replaces Ron Kinchloe on the Board. Trustee Kinchloe served for one term on the Board and the Board expressed their appreciation for his service. Ms. Arevalo reminded the Board that at the July 23rd meeting there will be an election of Retirement Board officers.

ADJOURNMENT 11:10 AM

Respectfully Submitted,

David Ness, Chairman

Dwayne McCoy, Secretary

Date