



MINUTES
RETIREMENT BOARD
CITY AND COUNTY OF SAN FRANCISCO
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

MEETING
TUESDAY, JANUARY 11, 2011
8:30 AM

MISSION STATEMENT

San Francisco City and County Employees' Retirement System is Dedicated to Securing, Protecting and Prudently Investing the Pension Trust Assets, Administering Mandated Benefit Programs, and Providing Promised Benefits.

RETIREMENT BOARD MEMBERS

Commissioner Al Casciato President

Commissioner Brenda Wright Vice President

Commissioner Joseph Driscoll

Commissioner Sean Elsbernd

Commissioner Victor Makras

Commissioner Herb Meiberger

Commissioner Wendy Paskin-Jordan

Gary A. Amelio

Executive Director

Pledge of Allegiance

Roll Call:

Commissioner Al Casciato	8:30
Commissioner Joseph D. Driscoll	8:30
Commissioner Sean Elsbernd	8:30
Commissioner Wendy Paskin-Jordan	8:30
Commissioner Victor Makras	8:30
Commissioner Herb Meiberger	8:30
Commissioner Brenda Wright	8:30

Public Comment

Commissioner Casciato reviewed the procedures for public comment. There were no comments from the public.

REGULAR CALENDAR

1. Approval of Minutes of the December 14, 2010 Board Meeting

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Approve the Minutes of the December 14, 2010 Board Meeting.

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

2. Governance Committee Report

Sean Elsbernd, Chair of the Governance Committee, presented an oral and written report on this item.

Commissioner Elsbernd reported that at their meeting of December 21, 2010 the Governance Committee:

- Approved the Minutes of the June 15, 2010 Governance Committee meeting; and,
- Reviewed and Recommended for Full Board Approval a number of revised Governance policies.

The Board engaged in a question and answer session.

This was a discussion only item.

3. Review and Approval of Revised Governance Policies

Sean Elsbernd, Chair of the Governance Committee, presented an oral and written report on this item.

At their meeting of December 21, 2010, the Governance Committee reviewed and recommended for full Board approval the following policies:

3a. Review and Approval of Proposed Revisions to Terms of Reference for the Executive Director.

3b. Review and Approval of Proposed Revisions to Terms of Reference for the Finance Committee.

- 3c. Review and Approval of Proposed Revisions to Terms of Reference for the Governance Committee.
- 3d. Review and Approval of Proposed Revisions to Terms of Reference for the Investment Committee.
- 3e. Review and Approval of Proposed Revisions to Terms of Reference for the Personnel Committee.
- 3f. Review and Approval of Proposed Revisions to Terms of Reference for the Deferred Compensation Committee.
- 3g. Review and Approval of Proposed Revisions to the Monitoring and Reporting Policy.
- 3h. Review and Approval of Proposed Revisions to the Service Provider Selection Policy.
- 3i. Review and Approval of Proposed Strategic Planning Policy.
- 3j. Review and Approval of Proposed Board Operations Policy.

The Board engaged in a question and answer session.

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Approve the revised Governance Policies (3a – 3j).

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

4. Finance Committee Report

Herb Meiberger, Chair of the Finance Committee, presented an oral and written report on this item.

Commissioner Meiberger reported that at their meeting of December 21, 2010 the Finance Committee:

- Approved the Minutes of the January 19, 2010 Finance Committee meeting;
- Reviewed the Fiscal Year 2009 – 2010 Expenditure Report for the San Francisco Employees' Retirement System;
- Reviewed the Fiscal Year 2009 – 2010 Draft Audited Financial Statement for the San Francisco Employees' Retirement System; and,
- Reviewed the Fiscal Year 2009 – 2010 Recaptured Commissions Report for the San Francisco Employees' Retirement System.

The Board engaged in a question and answer session.

This was a discussion only item.

5. Review and Acceptance of Actuarial Valuation as of July 1, 2010

Gary Amelio, Executive Director, Jay Huish, Deputy Director, Gene Kalwarski and Bill Hallmark, Cheiron (Consulting Actuary) presented an oral and written report on this item.

Mr. Kalwarski reported that:

- SFERS' Unfunded Actuarial Liability (UAL) has increased by \$1,080.4 million. The primary cause of this increase is the investment experience during the 12 months ended June 30, 2009 that is being recognized over five years, but assumption changes also added to the UAL.
- The funding ratio of the actuarial value of assets to actuarial liabilities declined since the last valuation from 97.0% to 91.1%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to actuarial liabilities increased from 72.3% to 74.5% reflecting the greater than expected investment return on a market value basis during the 12 months ended June 30, 2010.
- The recommended employer contribution rate increased by 4.53% of payroll from 13.56% to 18.09%. This increase is primarily attributable to the investment experience during the 12 months ended June 30, 2009, but the assumption changes also increased the contribution rate. Because assets are smoothed and the investment losses from 2008-09 have not been fully recognized yet, the contribution rate is expected to increase for the next three years assuming investment returns are 7.75% per year and all other actuarial assumptions are met.

The Board engaged in a question and answer session.

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Accept the Actuarial Valuation as of July 1, 2010.

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

6. Adoption of Employer Contribution Rates for Fiscal Year 2011-2012

Gary Amelio, Executive Director, Jay Huish, Deputy Director, Gene Kalwarski and Bill Hallmark, Cheiron (Consulting Actuary) presented an oral and written report on this item.

The Board engaged in a question and answer session.

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Adopt the Recommended Employer Contribution Rates for Fiscal Year 2011 – 2012.

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

7. Determination and Approval of Credited Interest Rate for Fiscal Year 2011-2012

Gary Amelio, Executive Director, Jay Huish, Deputy Director, Gene Kalwarski and Bill Hallmark, Cheiron (Consulting Actuary) presented an oral and written report on this item.

The Board engaged in a question and answer session.

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Approve the Credited Interest Rates for Fiscal Year 2011 – 2012.

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

8. Review and Approval of Proposed Board Regulations

Gary Amelio, Executive Director, Jay Huish, Deputy Director, Caryn Bortnick, Deputy City Attorney, presented an oral and written report on this item.

Ms. Bortnick noted that SFERS has applied with the Internal Revenue Service to receive a determination letter. A determination letter signifies that the IRS has concluded the plan operates in compliance with relevant tax laws. As one condition to receiving a determination letter, the IRS requires the plan's documents to include certain specific language.

SFERS staff and the Office of the City Attorney have prepared draft regulations with conforming language for review and approval by the Board:

- 8a. Board Regulation 1.00 Outlining Procedures to Implement Internal Revenue Code Section 401(a)(17)
- 8b. Board Regulation 1.01 Outlining Procedures to Implement Internal Revenue Code Section 415
- 8c. Board Regulation 1.02 Defining the Plan Year
- 8d. Board Regulation 1.03 Outlining Procedures to Implement Internal Revenue Code Sections 414(d) - Governmental Plan Status, 401(a)(7) - Vesting Requirements, 401(a)(8) - Forfeitures, and 401(a)(24) - Group Trusts
- 8e. Board Regulation 1.04 Outlining Procedures to Implement Internal Revenue Code Section 401(a)(9) for Required Minimum Distributions
- 8f. Board Regulation 1.05 Outlining Procedures to Implement Internal Revenue Code Sections 401(a)(31) and 402(c) for Direct Rollovers
- 8g. Board Regulation 1.06 Outlining Procedures to Implement Internal Revenue Code Section 503(b) related to Prohibited Transactions
- 8h. Board Regulation 1.07 Outlining Procedures to Implement Internal Revenue Code Section 414(u), Uniformed Services Employment and Reemployment Rights Act of 1994, and Heroes Earnings Assistance and Relief Tax Act of 2008 related to Members in the Uniformed Services
- 8i. Board Regulation 1.08 Outlining Procedures to Implement Internal Revenue Code Section 414(p) for requirements related to Qualified Domestic Relations Orders

The Board engaged in a question and answer session.

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Approve the Board Regulations (8a – i).

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

9. Presentation of Preliminary Department Budget for 2011-2012

Gary Amelio, Executive Director, and Jay Huish, Deputy Director, presented an oral and written report on this item.

The Board engaged in a question and answer session.

The budget will be presented for final adoption at the February Board meeting.

This was a discussion only item.

10. Retirement System Travel Expense Report for the Period Ending December 31, 2010

Gary Amelio, Executive Director, presented an oral and written report on this item.

The Board engaged in a question and answer session.

This was a discussion only item.

11. Approval of Pension Adjustment to 69% for Dean Litchfield (SFFD)

Action: Approved by Ballot Vote

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

12. Approval of Pension Adjustment to 58% for James P. McCoy (SFPD)

Action: Approved by Ballot Vote

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

13. CONSENT CALENDAR

All matters listed hereunder constitute a Consent Calendar, are considered to be routine by the Retirement Board and will be acted upon by a single vote of the Board. There will be no separate discussion of these items unless a member of the Board so requests, in which event the matter shall be removed from the Consent Calendar and considered as a separate item.

13a. Voluntary Retirement Board List No. 07-11

13b. Decision of Hearing Officers

Eva C. Aguas
Effective Date: 10/1/09

2320 Registered Nurse
DPH-LHH

Ordinary Disability Retirement/Stip
Granted

Leonard C. Bell
Effective Date: 3/21/09

0382 Inspector III
Police

Industrial Disability Retirement/Stip
Denied

Carmen M. Berrios Effective Date: PERS	8322 Sr. Counselor Juvenile Probation	CAL-PERS - Disability Retirement Granted
Terry K. Dailey Effective Date: 6/28/08	H-2 Firefighter Fire	Industrial Disability Retirement/Stip Granted
Julian M. Low Effective Date: 12/11/10	0904 Mayoral Staff XVI Mayor	Ordinary Disability Retirement Granted
Joel B. Paige Effective Date: 11/6/08	H-2 Firefighter Fire	Industrial Disability Retirement/Stip Granted
Cheryl R. Phillips Effective Date: 10/1/09	2716 Custodial Assistant Supervisor Airport	Ordinary Disability Retirement/Stip Granted
Gerald A. Ramirez Effective Date: 1/1/09	Q-4 Police Officer III Police	Industrial Disability Retirement/Stip Granted
Bradley L. Rey Effective Date: 4/18/09	H-2 Firefighter Fire	Industrial Disability Retirement/Stip Granted
Gary D. Saballos Effective Date: 8/1/09	7540 Track Maintenance Worker MTA	Ordinary Disability Retirement Granted
Rolando M. Vengco Effective Date: 3/1/07	7410 Automotive Service Worker MTA	Ordinary Disability Retirement/Stip Denied
Anthony L. Williams Effective Date: 7/17/09	9163 Transit Operator MTA	Ordinary Disability Retirement/Stip Granted

13c. Petition for Rehearing

Leonard C. Bell Effective Date: 3/21/09	0382 Inspector III Police	Industrial Disability Retirement/Stip Denied
Rolando M. Vengco Effective Date: 3/1/07	7410 Automotive Service Worker MTA	Ordinary Disability Retirement/Stip Denied

13d. Dismissal of Disability Retirement Applications

13e. Request Approval for Caryn Bortnick, Deputy City Attorney, to attend the National Association of Public Pension Attorneys (NAPPA), to be held on February 2-4, 2011 in Washington, D.C.

13f. Request Approval for Commissioner Al Casciato to attend the Harvard Law School Labor and Worklife Program, to be held on March 16-18, 2011 in Cambridge, MA.

13g. Request Approval for Commissioner Al Casciato to attend the 23rd Annual Police, Fire EMS & Municipal Employee Pension & Benefit Seminar, to be held on February 6 - 7, 2011 in Las Vegas, NV.

13h. Request Approval for Commissioner Herb Meiberger, and all interested Commissioners, to attend Pensions & Investments 401(k) Investment Lineup Summit, to be held on April 5, 2011 in San Francisco, CA.

Moved by Commissioner Makras, Seconded by Commissioner Meiberger to Approve the Consent Calendar, with the exception of 13b and 13c items related to the disability application of Leonard Bell and item 13h.

Action: Approved by the following vote:

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

Mr. Bell reviewed the history of his application and communications with SFERS staff, directed a number of procedural questions to the Board and the City Attorney regarding his application, and requested that the Board join with him in appealing the denial of his application. Caryn Bortnick, Deputy City Attorney, noted that her office does not recommend that the Board appeal the decision of the hearing officer denying Mr. Bell's application for disability retirement, and further noted that Mr. Bell has the right to file a writ in Superior Court.

Jay Huish, Deputy Director, noted that the Board had delegated review of disability applications to hearing officers, and the Retirement Board only has the authority to accept the decision or authorize the filing of a writ.

Moved by Commissioner Driscoll, Seconded by Commissioner Makras to Accept the hearing officer decisions (items 13b and 13c) related to the disability application of Leonard Bell.

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

Moved by Commissioner Meiberger, Seconded by Commissioner Makras to Approve item 13h, travel to the Pensions & Investments 401(k) Investment Lineup Summit, to be held on April 5, 2011 in San Francisco, CA.

Commissioner Driscoll moved, and Commissioner Wright Seconded to table the vote on Commissioner Meiberger's motion on this item until item 19, Board member comments, is heard.

Action: Approved

Ayes: Casciato, Driscoll, Elsbernd, Makras, Paskin-Jordan, Wright

Noes: Meiberger

14. Executive Director's Report

Gary Amelio, Executive Director, presented an oral and written report on this item.

Attachments for informational purposes

- Educational Opportunities List
- Forward Calendar

- Request for Proposal in Progress - Blackout Period List
- 2010 and 2011 Board and Committee Schedules
- Senior Staff Meeting Calendar

This was a discussion only item.

SAN FRANCISCO DEFERRED COMPENSATION PLAN CALENDAR

15. Deferred Compensation Manager Report

Gary Amelio, Executive Director, presented an oral and written report on this item.

The Board engaged in a question and answer session.

This was a discussion only item.

INVESTMENT CALENDAR

16. Weathergage Venture Capital II

16a. Approval to Commit up to \$20 million to Weathergage Venture Capital II

16b. Approval to Commit up to \$20 million to Weathergage Micro – Venture Capital Fund

16c. Approval to Commit up to \$50 million to Weathergage Project A

David Kushner, Deputy Director for Investments, Bret Jepson, Securities Analyst, Brian Murphy and Ken Wisdom, Portfolio Advisors, presented an oral and written report on this item.

Mr. Kushner noted that the proposed investment would increase access to micro-venture funds, and provide greater flexibility for access.

Mr. Murphy noted the Board has previous investments with Weathergage. Mr. Jepson noted that the proposed investment provides a unique opportunity to collaborate with Weathergage in gaining access to early stage venture funds and micro-funds.

Leslie Kautz, Angeles Investment Advisors, spoke in support of the proposed investment.

The Board engaged in a question and answer session.

Commissioner Wright noted that the proposed investment was larger than those generally considered by the Board. Mr. Jepson noted that the proposed investment was consistent with the existing investment target in early stage alternative investments, and would provide significantly greater access and capacity to SFERS through a firm that has an over ten year record with SFERS. Mr. Murphy noted that the proposed investment would be part of a multi-year investment strategy.

Caryn Bortnick, Deputy City Attorney, confirmed that she had reviewed the proposed investment.

Moved by Commissioner Makras, Seconded by Commissioner Paskin-Jordan to Commit up to \$90 million to Weathergage Venture Capital II, Weathergage Micro – Venture Capital Fund, and Weathergage Project A.

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

17. Recommendation to Commit up to \$20 million to GTCR X, L.P.

David Kushner, Deputy Director for Investments, Bret Jepson, Securities Analyst, Brian Murphy and Ken Wisdom, Portfolio Advisors, presented an oral and written report on this item.

The Board engaged in a question and answer session.

Moved by Commissioner Meiberger, Seconded by Commissioner Elsbernd to Commit up to \$20 million to GTCR X, L.P.

Action: Approved

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

18. Deputy Director for Investments Report

The DDI reported:

- As of December 31, 2010, the fund was valued at approximately \$14.9 billion dollars. The DDI provided the Board with reports detailing movement of funds between sub-asset classes for the month ended December 31, 2010, as well as current asset and sub-asset class allocation information. The DDI cautioned that these are preliminary estimates of return and valuation.
- The DDI informed the Board of the following compliance issues:
 - Aberdeen/Western/Prima/Artio/Oaktree/Pyramis/Stone Harbor each have holdings in securities violating credit quality guidelines due to downgrades by ratings agencies. All these securities were in compliance at time of purchase. Staff has approved continued retention at discretion of manager, with monthly reporting requirements.
 - Real Estate is below the allowed target range. Staff continues to evaluate selective opportunities and expects to make recommendations for additional investments in the near future.
- The DDI reiterated to the Board that the Fund remains solid, and sufficient liquidity exists to meet the Fund's needs for the foreseeable future.

RETIREMENT BOARD MEMBER'S REPORT

19. Board Member's Report

Commissioner Meiberger reported on his attendance at the Public Funds Board Forum Conference.

Commissioner Driscoll addressed item 13h from the Consent Calendar. He noted that a Board member had recently submitted a letter for publication in the December 27, 2010, edition of Pensions & Investments regarding the Board's consideration of adopting a commodity overlay strategy in order to mitigate risk. Mr. Driscoll noted that staff had followed appropriate due diligence procedures

in regard to this potential strategy. He apologized for any impact on the System's ability to enter into new investment strategies.

Commissioner Meiberger noted that he was exercising his First Amendment rights in his individual capacity in submitting the letter for publication. He further noted that an RFP had not been conducted in regard to the proposed investment strategy and expressed his concern that other potential managers were not considered.

Commissioner Paskin-Jordan requested that the Office of the City Attorney provide additional guidance to the Board regarding communications with the media.

Commissioner Wright addressed the issue of professional courtesy among members of the Board and appropriate procedures for resolving disagreements, and joined in seeking further guidance from the City Attorney.

Jean Thomas, retiree, noted that the Board had not voted on continuing to research the proposed investment strategy at the December meeting.

Moved by Commissioner Driscoll, Seconded by Commissioner Elsbernd, to Approve item 13h from the Consent Calendar.

Action: Approved

Ayes: Casciato, Driscoll, Elsbernd, Makras, Meiberger, Paskin-Jordan, Wright

CLOSED SESSION

20. The Closed Session was not held.

21. **Adjournment**

There being no further business, the Board adjourned its meeting at 10:55 AM.

Respectfully submitted,

Gary A. Amelio
Executive Director