

# BOARD OF INVESTMENTS MINUTES 1-13-10

## PRESENT

- Herman Santos, Chair
- John M. Barger, Vice Chair
- Diane Sandoval, Secretary
- William Pryor
- Simon S. Russin
- Mark J. Saladino
- Michael Schneider
- Leonard Unger
- Estevan Valenzuela

## STAFF, ADVISORS, PARTICIPANTS

- Gregg Rademacher, Chief Executive Officer
- Robert Hill, Assistant Executive Officer
- Janice Golden, Assistant Executive Officer
- Lisa Mazzocco, Chief Investment Officer
- John McClelland, CRE, Principal Investment Officer, Real Estate
- Vache Mahseredjian, CFA, Principal Investment Officer
- Christopher J. Wagner, Senior Investment Officer, Private Equity
- June H. Kim, Senior Investment Officer, Equities
- Robert Z. Santos, Investment Officer, Fixed Income
- Gerald P. Flintoft, CAIA, Investment Officer, Private Equity
- Esmeralda Vita del Bosque, Senior Investment Analyst, Equities
- Dale Johnson, Senior Investment Analyst
- Robb Van Der Volgen, Chief Counsel
- Earl W. Buehner, Senior Staff Counsel
- Michael D. Herrera, Senior Staff Counsel
- Christine Roseland, Staff Counsel
- Cynthia Lau, Legislative Affairs Officer

### 1. ELECTION OF OFFICERS

(Election of Chair, Vice Chair, Secretary, and Audit Committee Member)

The gavel was turned over to Secretary Sandoval to conduct the election of officer:

#### 1. Chair of the Board

Mr. Santos was nominated to the position of Chair of the Board of Investments by Mr. Pryor.

Mr. Schneider was nominated to the position of Chair of the Board of Investment by Mr. Russin.

Hearing no other nominations the nominations were closed on a motion by Mr. Valenzuela.

A roll call vote was taken for the position of Chair of the board of Investment with the following results:

Votes cast for Mr. Santos:

Mr. Unger

Mr. Santos  
Mr. Valenzuela  
Mr. Pryor Votes cast for Mr. Schneider:  
Mr. Russin  
Mr. Schneider  
Ms. Sandoval  
Mr. Barger.

Due to the tie vote Secretary Sandoval announced she would continue with the [remainder of the nominations](#) and upon completion and revisit the Chair nominations.

Mr. Santos was nominated to the position of Chair of the Board of Investments by Mr. Pryor.

Mr. Schneider was nominated to the position of Chair of the Board of Investment by Mr. Russin.

Hearing no other nominations the nominations were closed on a motion by Mr. Valenzuela.

A roll call vote was taken for the position of Chair of the board of Investment with the following results:

Votes cast for Mr. Santos:

Mr. Unger  
Mr. Santos  
Mr. Valenzuela  
Ms. Sandoval  
Mr. Barger  
Mr. Pryor

Votes cast for Mr. Schneider:

Mr. Russin  
Mr. Schneider

Mr. Santos was elected to the position of Chair of the Board of Investments.

## 2. Vice Chair of the Board

Mr. Barger was nominated to the position of Vice Chair of the Board of Investments by Mr. Schneider.

Hearing no other nominations the nominations were closed on a motion by Mr. Pryor.

Mr. Barger was elected to the position of Vice Chair of the Board of Investments.

## 3. Secretary of the Board

Ms. Sandoval was nominated to the position of Secretary of the Board of Investments by Mr. Schneider.

Hearing no other nominations the nominations were closed on a motion by Mr. Pryor.

Ms. Sandoval was elected to the position of Secretary of the Board of Investments.

## 4. Audit Committee Member

Mr. Valenzuela was nominated to the position of Audit Committee member by Mr. Russin.

Hearing no other nominations the nominations were closed on a motion by Mr. Pryor.

Mr. Valenzuela was elected to the position of Audit Committee Member of the Board of Investments.

Secretary Sandoval announced the [nomination for Chair](#) of the Board of Investments would be handled at this time.

## 2. APPROVAL OF THE MINUTES

1. Approval of the minutes of the regular meeting of the board of investments of December 9, 2009.

A motion was made by Mr. Unger, seconded by Mr. Pryor to approve the Minutes of the regular meeting of the Board of Investments of December 9, 2009.

The motion carried with Mr. Valenzuela abstaining.

## 3. PUBLIC COMMENT

None.

## 4. REPORT ON CLOSED SESSION ITEMS

None.

## 5. ACTION ITEMS

1. Recommendation as submitted by Robert Hill, Assistant Executive Officer and Janice Golden, Assistant Executive Officer:
  1. Approve the following new LACERA non-represented Classifications and proposed salary recommendations: Senior Quality Auditor, LACERA, 97B Quality Auditor II, LACERA, 91L Quality Auditor I, LACERA, 86J
  2. Approve the eligibility of the above new LACERA classifications for the Certified Employee Benefits Specialist (CEBS) certification bonus. (Memo dated January 5, 2010.)

Mr. Hill and Ms. Golden provided a brief summary on the new classification and salary recommendation for the Quality Assurance Division, and provided a report on the criteria and steps taken in the creation of these unique LACERA classifications.

A brief discussion followed on the proposed salary recommendations.

A motion to approve the recommendation was made by Mr. Valenzuela, seconded by Mr. Pryor.

The motion carried with Messrs. Russin and Santos voting no.

2. Recommendation as submitted by June Kim, Senior Investment Officer, Equities and Esmeralda del Bosque, Senior Investment Analyst, Equities:
  1. Establish the following risk/return ranges for LACERA's domestic equity composite:
    - Expected Excess Return: 10-20 basis points (Annualized, Net-of-Fees)
    - Expected Tracking Error: 0.5%-2.0%
    - Time Frame: Full Market Cycle
  2. Terminate the Goldman Sachs Asset Management Equity Enhanced Index mandate.
  3. Terminate the BlackRock U.S. Equity Alpha Tilts mandate. (Memo dated January 4, 2010.)

Ms. Kim provided an executive summary on staff's U.S. Equity Structure review. The review helped ensure that the composite is meeting LACERA's policy objectives, which are to exhibit fundamental and market capitalization characteristics similar to that of the benchmark and to maintain allocation ranges to passive and active mandates. Staff's review also showed that the current U.S. composite's

fundamental characteristics are closely in line with the benchmark. Mr. Benzur of Wilshire Associates, LACERA's consultant participated via teleconferencing and he reported that Wilshire had also conducted a review of the U.S. equity structure and confirmed the composite's overall profile was very tied to the characteristics of the U.S. equity market. As a result of the structure review, staff is presenting three recommendations. The first is Policy-related, and it formalizes the expected risk/return ranges for the U.S. equity composite over a full market cycle. The remaining two are related to the implementation of the new global equity structure: terminate the Goldman Sachs Asset Management Equity Enhanced Index and BlackRock U.S. Equity Alpha Tilts mandates. Ms. Kim also reported that terminating the two portfolios will enable the composite to remain within the Board approved policy ranges under the new global structure, as well as prune out underperforming managers that are not providing unique diversification characteristics to the composite.

A brief discussion followed with emphasis on transaction cost concerns.

A motion was made by Mr. Saladino, seconded by Ms. Sandoval to approve all three recommendations made by staff.

The motion carried by unanimous vote.

3. Recommendation as submitted by June Kim, Senior Investment Officer, Equities: Provide staff with direction regarding the U.S. equity 130/30 mandate. (Memo dated January 5, 2010.)

Ms. Kim provided an update on the U.S. Equity 130/30 mandate. She reported that this update was prompted by the Board's direction to re-visit its decision in 2009 not to fund the mandate. That decision was made based on external custody concerns and other considerations. Staff now seeks new direction from the Board regarding the funding of the U.S. equity 130/30 mandate. Ms. Kim reported that Analytic Investors (Analytic) had no changes to its investment team, investment process, or organization.

The strategy's 12-month rolling return has remained within the performance bands staff established. Further, the strategy outperformed in the first and second quarter of 2009, but underperformed significantly in the third quarter, which caused the year-to-date 2009 returns to fall below the benchmark. Mr. Benzur of Wilshire Associates told the Board that Wilshire's prior recommendation that LACERA not fund the mandate remained unchanged.

A brief discussion followed.

A motion was made by Mr. Barger, seconded by Mr. Pryor to rescind the 130/30 mandate.

The motion carried by unanimous vote.

## 6. REPORTS

1. Wells Capital Management — Manager Update

Robert Z. Santos, Investment Officer, Fixed Income (Memo dated January 5, 2010.)

Mr. Robert Santos gave a brief overview of Wells Capital Management (Wells Capital) and reported that the Policy stipulates that investment managers must conduct formal presentations when their one-year rolling excess returns are outside pre-determined performance bands for three consecutive quarters. He introduced the principals of Wells Capital, who followed with a presentation on the fund's performance. They reported that Wells Capital is based in Walnut Creek, California and began managing a core fixed income mandate for LACERA in March 2004. Wells Capital's investment process focuses on bottom-up quantitative and qualitative security selection and comprehensive risk management. They identify sectors that offer the greatest value, while

recognizing the economic factors that influence the fixed income market. As of November 30, 2009, Wells Capital outpaced the BC Aggregate benchmark of 6.1% and 6.4%, for calendar year-to-date and one-year periods, respectively, net-of-fees. Since the account's inception, the portfolio has outperformed the benchmark by 107 bps annualized, net-of-fees. Wells Capital outperformed its benchmark by 14 bps during the calendar year 2007, underperformed its benchmark by 70 bps during calendar year 2008, and outperformed its benchmark the first three quarters of calendar year 2009. Year-to-date, Wells Capital has added 619 bps, gross-of-fees.

A brief discussion followed and the report was received and filed.

## 2. U.S. Equity Activist Corporate Governance Managers Review

June Kim, Senior Investment Officer, Equities

Dale Johnson, Senior Investment Analyst, Equities (Memo dated January 6, 2010.) (For information only.)

The U.S. Equity Activist Corporate Governance Managers Review is for information only and is received and filed.

## 3. Goldman Sachs Asset Management Quantitative Team Update

Dale Johnson, Senior Investment Analyst, Equities (Memo dated January 5, 2010.) (For information only.)

The Goldman Sachs Asset Management Quantitative Team Update is for information only and is received and filed.

## 7. EXECUTIVE SESSION

### 1. CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION (Subdivision (b) of California Government Code Section 54956.9).

#### 1. One case.

The Board met in Executive Session pursuant to Government Code Section 54956.9 to discuss proposed anticipated litigation and there was nothing to report at this time.

## 8. GOOD OF THE ORDER

(For discussion purposes only.)

The Board congratulated the newly elected officers and offered a warm welcome to Mr. Valenzuela on his appointment to the Board.

## Green Folder Items

1. Chief Executive Officer's Report dated January 7, 2010.

2. Memo dated January 12, 2010, from Gregg Rademacher, Chief Executive Officer, regarding the Board Offsite Agenda.

3. Conference brochure from the Pacific Pension Institute regarding the 2010 Winter Roundtable.

## 9. ADJOURNMENT

 PROTECT | We continue to employ solid investment and business strategies designed to serve the best interests of our members and their beneficiaries.