

**SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

3916 State Street Suite 210
Santa Barbara, CA 93105

Phone (805) 568-2940
Fax (805) 560-1086

Vincent P. Brown
Chief Executive Officer



BOARD OF RETIREMENT

Chair – Shawn Terris
Vice Chair – Joni Gray
Secretary - Vanessa Patterson
Zandra Cholmondeley
Bernice James
Donald Kendig
Julie McCammon
Ward Rafferty
Al Rotella
Gail Marshall
Frederick Tan

MINUTES OF THE BOARD OF RETIREMENT

July 22, 2009

**Wisteria Room at Casa Nueva
260 N. San Antonio Rd.
Santa Barbara, California**

ROLL CALL 9:03 a.m.

Members Present: Cholmondeley, Gray, James, McCammon, Rafferty,
Rotella, Terris
Members Absent: Kendig, Patterson
Alternates Present: Marshall
Alternates Absent: Tan
Counsel: Blakeboro
Clerk: Bignell

Chair Terris announced that Trustee Kendig would not be present for the meeting. Trustee Patterson arrived at 9:15 a.m., and was absent from 12:00 p.m. to 2:22 p.m. Trustee Tan arrived at 9:29 a.m. Chair Terris was absent from 1:39 p.m. to 1:58 p.m. Trustee Marshall left at 4:45 p.m.

PUBLIC COMMENT

Kristen Harper, Director of Public Fund Services, introduced herself and Fiona Gibbons, Client Portfolio Manger, for the benefit of new Trustees and offered the resources of Lord Abbett, and thanked the Board for their business.

MINUTES

1. Approve Minutes:

	Patrick Quintana	Public Defender	17.43787	0.07045	
D	Lori Spire	Social Services	12.62022	0.02842	
	Wonda Strand	Courts	11.47022	0.14335	
	Timothy Sutcliffe	Sheriff	22.59488	0.77197	1.58333

D=Deferred
R=Reciprocal
Pend=Disability Pending

MOTION: Approve Consent Agenda.

James/Gray Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammom, Rafferty,
Rotella, Terris
Absent: Kendig, Patterson

BOARD

- 2. Receive and consider presentation from Milliman regarding pension funding options, with corresponding advice from Fiduciary Counsel.

Daniel Wade, Consulting Actuary, and Craig Glyde, Actuary, presented for Milliman, and addressed issues raised by the Board.

At Chair Terris’ request, the following guests introduced themselves to the Board: Fletcher Phillips, Santa Barbara County Grand Jury; Michael Cervantes, Santa Barbara County Retiree; Harry Hagen, Assistant Treasurer-Tax Collector; Susan Paul, Assistant CEO/Human Resources Director; Robert MacLeod, Chief of Employee Relations; Ramon Rubalcava, SEIU Local 721; and John Jayasinghe, Fiscal and Policy Analyst for the County Executive Office

Fiduciary Counsel Harvey Leiderman, Partner, ReedSmith, presented a Framework for Considering in Actuarial Funding Methodologies, and addressed issues raised by the Board.

Additionally, Vince Brown and Lila Deeds addressed issues raised by the Board.

Chair Terris and Trustee James made, seconded and amended a motion to move to a 30-year closed amortization period (becoming 15-year open, or rolling, amortization period after 15 years), while maintaining 5-year asset smoothing and an 80% to 120% asset corridor (Scenario 3).

MOTION: Forward to all Plan Sponsors the following options (all to utilize 5-year asset smoothing and 80% - 120% asset corridor):
Option 1, (Scenario 1), 20-year open/rolling amortization period;
Option 2, 17-year open/rolling amortization period;

Option 3, (Scenario 3), 30-year closed amortization period, becomes 15-year open/rolling after 15 years;

Option 4, Maintain the current funding policy, using a 15-year layered amortization of UAAL, while treating fiscal year 2008-2009, separately, with a 30-year closed amortization period; or

Option 5, Maintain the current funding policy, using a 15-year layered amortization of UAAL.

Terris/James

Approved by roll call vote.

Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

3. Receive presentation from Milliman regarding proposed reporting of market value of liabilities.

MOTION: Receive presentation from Milliman regarding proposed reporting of market value of liabilities and request that Milliman remain during all future discussions of actuarial items.

James/Patterson

Approved by unanimous voice vote of all present.

Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

INVESTMENTS

9. Receive and file report from Steptoe & Johnson regarding IRS requirements for Foreign Bank and Financial Accounts Reporting (FBAR).

Donald E. Wellington, Partner, presented for Steptoe & Johnson and addressed issues raised by the Board.

Vince Brown addressed issues raised by the Board.

MOTION: Receive and file report from Steptoe & Johnson regarding IRS requirements for Foreign Bank and Financial Accounts Reporting (FBAR).

McCammon/James

Approved by unanimous voice vote of all present.

Yes: Cholmondeley, Gray, James,
McCammon, Rafferty,
Rotella, Tan, Terris
Absent: Kendig, Patterson

4. Receive and approve recommendations from PCA regarding proposed search for Large Cap Value manager.

Sarah Brown, Principal, presented for PCA and addressed issues by the Board.

Trustee Cholmondeley requested that PCA determine which 1937 Act Systems have a relationship with any of proposed Large Cap Value Equity candidates.

Fiduciary Counsel, Harvey Leiderman addressed issues raised by the Board.

MOTION: Receive and approve recommendations from PCA regarding proposed search for Large Cap Value manager, with additional questions regarding current 1937 Act relationships.

McCammon/Rotella	Approved by unanimous voice vote of all present.
Yes:	Cholmondeley, Gray, James, McCammon, Rafferty, Rotella, Tan, Terris
Absent:	Kendig, Patterson

5. Receive and approve recommendations from PCA regarding proposed search for Small Cap Growth manager.

Sarah Bernstein and Eli Martinez presented item and addressed issues raised by the Board.

Trustee Rafferty expressed a preference that Wells Capital Management be left off the short list of Small Cap Growth Equity candidates.

Fiduciary Counsel, Harvey Leiderman addressed issues raised by the Board.
Trustee Cholmondeley requested that PCA determine which 1937 Act Systems have a relationship with any of proposed Small Cap Growth Equity candidates.

MOTION: Receive and approve recommendations from PCA regarding proposed search for Small Cap Growth manager with changes.

Cholmondeley/James	Approved by unanimous voice vote of all present.
Yes:	Cholmondeley, Gray, James, McCammon, Rafferty, Rotella, Terris, Tan
Absent:	Kendig, Patterson

6. Receive and approve PCA's recommendation that Arden continue on Watch Status for organizational issues for six to nine months.

David Sancewich, Vice President, presented for PCA and, along with Sarah Bernstein, addressed issues raised by the Board.

MOTION: Receive and approve PCA's recommendation that Arden continue on Watch Status for organizational issues for six to nine months.

Absent: Rafferty, Rotella, Tan, Terris
Kendig

17. Receive and file Disability Status Report.

MOTION: Receive and file Disability Status Report.

Patterson/James Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

OPEN MEETING

Counsel Blakeboro summarized the Closed Session actions taken on Disability Items 13, 14, 15, 16 and 17 as listed above.

INVESTMENTS (Cont'd.)

7. Approve revision of contract with Pension Consulting Alliance as recommended by ReedSmith.

Sarah Bernstein, Vince Brown and Harvey Leiderman addressed issues raised by the Board.

MOTION: Approve revision of contract with Pension Consulting Alliance as recommended by ReedSmith.

McCammon/Rotella Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

8. Approve updated Rebalancing Policy as recommended by PCA and staff.

Sarah Bernstein and Vince Brown addressed issues raised by the Board.

MOTION: Approve updated Rebalancing Policy as recommended by PCA and staff.

McCammon/Gray Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

MOTION: Refer the issue of trigger points to the Investment Risk Advisory Committee.

Gray/James Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James, McCammon, Patterson, Rafferty, Rotella, Tan, Terris
Absent: Kendig

10. Receive presentation from RiskMetrics Group regarding the potential impact of adopting The United Nations Principles of Responsible Investing on proxy voting, and approve staff recommendation.

Brian Parrish, Director for U.S. Public Funds, introduced Ryan Myers, Account Manager; Fassil Michael, Head of Custom Guideline Group; and Edward Kamonjoh, Senior Analyst; who presented for RiskMetrics Group.

Vince Brown and Harvey Leiderman addressed issues raised by the Board.

Trustee James asked for clarification that RiskMetrics Group was coming back to the Board with a study showing the differences that support for the UN PRI would make to the existing approach to proxy voting.

Sarah Bernstein added that the Investment Risk Advisory Committee had directed PCA to bring education material on UN PRI to the Board.

MOTION: Adopt Option 2, supporting UN PRI by creating customized guidelines specifically constructed to meet SBCERS' proxy voting needs.

Terris/James Approved by roll call vote.
Yes: Cholmondeley, Gray, James, McCammon, Rafferty, Rotella, Tan, Terris
No: Patterson
Absent: Kendig

11. Receive and file Portfolio Status Report.

Eli Martinez and Sarah Bernstein addressed issues raised by the Board.

MOTION: Bring item back to consider terminating First Republic Investment Management, taking a look at the factors of performance, management style and volatility.

Patterson/Tan Approved by roll call vote.
Yes: Cholmondeley, Gray, James, McCammon, Patterson, Rafferty, Rotella, Tan

No: Terris
Absent: Kendig

MOTION: Receive and file Portfolio Status Report.

Rotella/McCammon Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

BOARD (Cont'd.)

18. Review and approve budget for Fiscal Year 2009-10, and adopt the enabling resolutions.

Vince Brown presented item and addressed issues raised by the Board.

Trustee James requested that the Budget Authorization Resolution be corrected to reflect the final recommended amount.

Fiduciary Counsel, Harvey Leiderman, Counsel Blakeboro and Lila Deeds addressed issues raised by the Board.

MOTION: Approve budget for Fiscal Year 2009-10, and adopt the enabling resolutions.

James/Gray Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

RESOLUTIONS 2009-02 and 2009-03

MOTION: Set May 31 as the date for determining the Total Market Value of the System's portfolio for purposes of calculating an annual budget limit, and change the Budget Policy to reflect this decision.

James/Patterson Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

MOTION: Retain Status Quo (non-funding) for staff attorney.

Patterson/Gray Approved by roll call vote.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan

No: Terris
Absent: Kendig

MOTION: Create a Chief Investment Officer position and direct staff to report back to Board with job and pay parameters.

Cholmondeley/Rafferty Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

19. Receive presentation from ReedSmith regarding fiduciary liability, indemnity and insurance.

Fiduciary Counsel, Harvey Leiderman, presented item and addressed issues raised by the Board.

Counsel Blakeboro addressed issues raised by the Board.

Trustee Gray, with Chair Terris' concurrence, requested that staff to provide an isolated compact disc recording of Mr. Leiderman's presentation for the purpose of future training.

MOTION: Receive presentation from ReedSmith regarding fiduciary liability, indemnity and insurance.

McCammon/James Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

CHIEF EXECUTIVE OFFICER

20. Receive and file Chief Executive's Department Operations Report.

Vince Brown presented item and addressed issues raised by the Board.

MOTION: Receive and file Chief Executive's Department Operations Report.

McCammon/Tan Approved by unanimous voice vote of all present.
Yes: Cholmondeley, Gray, James,
McCammon, Patterson,
Rafferty, Rotella, Tan, Terris
Absent: Kendig

21. Board Presentations for next month:
a. Artio Global, Reams, STW and DFA

- b. PCA Real Estate and RREEF
- c. PCA Fixed Income Review
- d. Actuarial Funding Options

Chair Terris directed staff to meet with PCA and develop a series of questions that the Board might like to ask the money managers scheduled to make presentations in August.

Chair Terris reminded the Board that the August 26, meeting would be in the Board of Supervisors' Hearing Room in Santa Barbara.

CLOSED SESSION
(5:38 p.m. – 5:52 p.m.)

CONFERENCE WITH LEGAL COUNSEL -- ANTICIPATED LITIGATION Significant exposure to litigation pursuant to Government Code Section 54956.9 (b)(1)

OPEN MEETING

Mr. Blakeboro announced that the Board had met in Closed Session to have a conference with legal counsel to discuss anticipated litigation pursuant to Government Code Section 54956.9 (b)(1), and that no reportable action was taken.

The meeting adjourned at 5:53 p.m.

ATTEST:

Clerk

Chair

Secretary