



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

December 10, 2008

Members Present: Jim De Martini, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, Mike Lynch, Ron Martin, and Clarence Willmon

Alternate Member Present: Linda Stotts-Burnett (Alternate Retiree Representative)

Members Absent: *Maria De Anda*

Others Present: Kelly Cerny, Natalie Elliott, Doris Foster-CEO, Paul Harte-SIS, Inc., Deirdre McGrath, Monica Nino-CEO, Michele Silva, Judy Sly-The Modesto Bee, Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Mike Fisher, Chair

2. **Announcements**

Darin Gharat, Trustee, asked for a moment of silence for the December 9, 2008 passing of Supervisor Tom Mayfield. The Board expressed their condolences for the Mayfield family.

Gordon Ford, Vice-Chair, mentioned two newspaper articles. One from the December 10, 2008, The Wall Street Journal, entitled, "Safety Trumps Yield in Bill Sales." Mr. Ford noted the article said nervous investors were snapping up three-month Treasury bills, pushing their prices up and yield down below zero for a brief period, with some investors buying three-month Treasury bills with negative yields of 0.01% to 0.02%. Mr. Ford also mentioned that The Modesto Bee article dated December 10, 2008, entitled, "Pension Fund Pinched," was accurate.

3. **Public Comment**

None.

4. **Consent Items**

Motion was made by Wes Hall and seconded by Clarence Willmon to approve the following items as listed.

Motion carried.

4. **Consent Items (cont.)**

- a. Approval of the November 25, 2008, Meeting Minutes
- b. Approval of the 2009 Calendar of Board of Retirement Meetings Including Investment Managers' Reporting Schedule
- c. Approval of StanCERA Staff Holiday Office Closure December 26, 2008 and January 2, 2009
- d. Approval of 2009 Calendar Year Educational Opportunities
- e. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 - 1. Jennifer Avila, Probation, Effective 12-01-08
 - 2. Kathleen Buddington, HSA, Effective 12-13-08
 - 3. Tina Foster, Treasurer-Tax Collector 12-22-08
 - 4. Lucian Khan, District Attorney, Effective 12-30-08
 - 5. Laurel Mahaney, CSA, Effective 12-20-08
 - 6. Penny Seymoure, Stanislaus Regional 911, Effective 12-1-08
 - 7. Robert Sellman, Planning, Effective 12-27-08
 - 8. Greg Spencer, BHRS, Effective 11-10-08
- f. Approval of Deferred Retirement(s) – **Section 31700**
 - 1. Bettina A. Barter, DCSS, Effective 11-06-08
 - 2. Regina Lynne Coffee, Probation, Effective 11-03-08
 - 3. Edward B. Judy, Probation, Effective 11-03-08
- g. Approval of Death Benefit – **Section 31781**
 - 1. Samuel Kimberling, Deceased November 25, 2008, Active Member, Option Pursuant to Government Code Section 31781 and 31781.1 and 31781.3.
 - 2. Yvette F. Ladnier-De Vera, Deceased November 25, 2008, Active Member, Option Pursuant to Government Code Section 31781, 31781.1 and 31781.3.

5. **Strategic Investments Solutions, Inc.**

- a. SIS Inc.'s Monthly Investment Performance Review for the Month Ending November 30, 2008

Paul Harte stated he had not yet received all of StanCERA's investment managers' returns information, due to the Board's early meeting date this month. He gave an overview of the market for November through December 9, 2008, announcing November was another negative month

5. **Strategic Investments Solutions, Inc. (cont.)**

a. SIS Inc.'s Monthly Investment Performance Review for the Month
Ending November 30, 2008 (cont.)

even though there was a brief rally in the last week of November. Value is still outperforming growth. Mr. Harte said in the U.S. equity indices, particularly the Russell 3000 index has now been negative for the past 10 years at -0.37%. Mr. Ford inquired about the US REIT Index. Mr. Harte responded it was a very negative month for REITs, although global REITs were off more sharply than U.S. REITs. He mentioned that in the Non-U.S. indices, the MSCI ACWI Ex-US index was down 6% for the month. The U.S. Fixed Income indices, other than the high yield bonds, had some positive returns for the month, with a 10-year annualized yield on U.S. Treasury bills at 3.41% and corporate bonds at 4.25%.

Mr. Harte also shared with Board members a Russell U.S. Indexes daily total returns informational sheet for the period ending November 30, 2008. It showed an overview of daily returns for the broad-market, large-cap, mid-cap, and small-cap indexes.

b. Discussion and Action on StanCERA's Asset Allocation Potential
Rebalancing Options

Board members discussed and reviewed the summary of proposed rebalancing options provided by SIS, Inc.

Motion was made by Ron Martin and seconded by Jim DeMartini to rebalance StanCERA's asset allocations: 1) move \$45 million from fixed income and allocate to the U.S. equities - \$6 million to the S&P 500 Index, \$7 million to Delaware Investments, and \$5 million to Loomis Sayles & Company; 2) move \$27 million into the international equity portfolios with \$17 million to LSV Asset Management, and \$10 million to Pyramis Global Advisors; effective December 31, 2008 with the rebalancing in place as of January 1, 2009.

Motion carried.

Gordon Ford opposed.

c. Discussion and Action on Prima Capital Advisors, LLC's, Commercial
Mortgage Investment Services

The Board discussed and reviewed correspondence dated December 10, 2008, from Prima Capital Advisors, LLC, as well as Prima's recent educational presentation on commercial mortgages that was given at the November 25, 2008 Board of Retirement meeting. The Board requested SIS, Inc. to continue monitoring this investment potential.

No action taken.

5. **Strategic Investments Solutions, Inc. (cont.)**

d. Discussion and Action on Investment Guidelines and Policies for the Emerging Investment Manager – Manager of Managers Program

Mr. Harte gave an overview of proposed additional language in the StanCERA Statement of Investment Policy to include the Manager of Managers program for the small cap value and small cap growth portfolios. The Board reviewed and discussed the additional language and clerical revisions.

Tom Watson, Retirement Administrator, gave an overview of the draft Emerging Investment Manager Policy that was also prepared to supplement the language in the Statement of Investment Policy. He mentioned that both the investment managers had received copies of the draft policy for their input and review. Deirdre McGrath, Deputy County Counsel informed the Board the Emerging Investment Manager Policy sets forth the duties and responsibilities for both the investment manager and their sub-managers.

Motion was made by Ron Martin and seconded by Darin Gharat to approve the additional language and revisions to the StanCERA Statement of Investment Policy effective December 10, 2008, and the StanCERA Emerging Investment Manager Policy effective December 10, 2008.

Motion carried.

6. **Administrator**

a. Recommendation to Adopt a 0% (Zero Percent) Interest Rate Posting for the Regular December 31, 2008, Interest Posting

Mr. Watson gave a summary of the written recommendation to post no (0%) interest to all reserve accounts which includes members' contributions, the employer advance, retiree vested, retiree ad hoc and others for the December 31, 2008, regular interest posting.

Mr. Watson cited the recent downward trends in equity markets question whether the current excess earnings reserves are sufficient to continue this practice of interest posting for fiscal year 2008-2009. Government Code Section 31453 states that the Board may in its discretion, recommend an interest rate higher or lower than the interest assumption rate established by the actuarial survey. As of June 30, 2008, there was over \$176 million in undistributed losses, due to the downward market trend and the posting of the actuarial assumed interest rate of 8.16% to the vested benefit reserves. The recommendation noted the investment returns will be monitored and if the financial markets appear to return to regular positive earnings then the Board could review the interest rate every six months before it is posted.

Board members reviewed and discussed the information provided in the recommendation.

6. **Administrator (cont.)**

- a. Recommendation to Adopt a 0% (Zero Percent) Interest Rate Posting for the Regular December 31, 2008, Interest Posting (cont.)

Motion was made by Darin Gharat and seconded by Ron Martin to adopt a 0% (zero percent) interest rate posting for the regular December 31, 2008, interest posting to all reserve accounts which includes members' contributions, employer advance, retiree vested, retiree ad hoc and others.

Motion carried.

- b. Distribution of Calendar Year 2008 StanCERA Policies & Guidelines Replacements

Mr. Watson distributed the most current StanCERA Policies and Guidelines for inclusion in the Board members' 1937 Act binders. He reiterated that the policies are also always posted on the website with the most updated version. He mentioned that the revised Statement of Investment Policy approved earlier today, would be sent electronically to the Board. Jim DeMartini, Trustee, inquired about the Mass Media Policy. He stated he does not agree with this policy and will speak when he is asked questions as a Retirement Board member. The Policy states the general spokesperson for the Board of Retirement and the Association is the Retirement Administrator. Board members indicated the purpose of the Mass Media Policy is to ensure the policies of the Board of Retirement are accurately explained and reported during inquiries made by representatives of the mass media, and not projections of personal opinions. The guidelines are not meant to restrict the freedom of speech of staff and Board members.

Judy Sly, Opinions Page Editor, The Modesto Bee, introduced herself and asked to address the Board. Ms. Sly mentioned she had not seen this policy, however, the transparency as a public entity involved in decisions about public money is important. She mentioned she discourages passing a policy that discourages individuals on a Board to speak, or, that limits who can speak to the public, so that the openness in government may be maintained. Mr. Fisher, Chair, responded that the policy is meant to ensure there is one voice for the collective Board. Board members mentioned the policy was previously approved June 11, 2008, and only distribution of the current updated policies was occurring today.

Ms. McGrath stated the Board is open and transparent and that the Mass Media Policy is on the StanCERA website. She stated that if individual board members are contacted by someone and asked about topics that may be decided by the Board of Retirement, depending on the content of the conversations and the number of members surveyed by that individual, this may be construed as gathering consensus outside a public meeting and could be an alleged Brown Act violation.

Mike Lynch asked staff to survey other 1937 Act systems as well as local boards and commissions to determine what those entities may do in regards to a media policy and any comparisons there may be.

6. **Administrator (cont.)**

- c. Direction to Staff on Information Dissemination on Retiree AdHoc Benefits for Calendar Year 2010

Mr. Watson asked for the Board's direction to disseminate information to members regarding the retiree adhoc benefits for calendar year 2010. With the dramatic downturn in the equity markets globally, and a general economic slowing around the world, the probability is low that StanCERA's assets will show any accumulated excess earnings as of June 30, 2009.

The Board reviewed and discussed options as to notify retirees. The Board directed staff that with respect to ad hoc benefits, the Board of Retirement will make its continuous and annual reviews and will update members accordingly.

7. **Correspondence**

- a. Letter Dated November 18, 2008 (received November 24, 2008) from Retiree Paul Gieke

Board members reviewed Mr. Gieke's letter.

8. **Committee Reports and Recommendations for Action**

STANDING COMMITTEES

- a. Retiree Benefits Committee – Wes Hall, Chair
- i. Discussion and Action on the Retiree Supplemental Cost of Living Increase Paid Pursuant to Government Code Section 31874.3(b)

Wes Hall, Chair, gave a summary of the Retiree Benefits Committee's memorandum to the Board dated December 3, 2008. Michele Silva noted that the correct Committee meeting date is November 25, 2008 and not November 17, 2008, as the memorandum stated. The Board reviewed and discussed the various options the Committee presented and its recommendation to pay the supplemental cost of living increase.

Motion was made by Gordon Ford and seconded by Mike Lynch to defer a decision to pay the supplemental cost of living increase until after the actuary report is received in the first quarter of 2009.

Motion carried.

Wes Hall opposed.

9. **Members' Forum (Information and Future Agenda Requests Only)**

Mr. Lynch requested a response from the prior actuary, Buck Consultants as to why the actuary study they performed had the assumption rates so understated.

Jim DeMartini reiterated a request to staff to survey other counties' media policies, along with other 1937 Act systems. Mr. Lynch added to this request that staff also survey other local boards/commissions' media policies as well. Ms. McGrath stated some 1937 Act systems actually have marketing departments to address the media.

Mr. Hall said the RESCO newsletter will continue to keep retirees informed of the negative economic times as they occur.

Mr. Gharat expressed that the Board has some tough challenges ahead and it is the Board's long-term fiduciary responsibility to look at all options available to the Board.

Mr. Fisher mentioned this was his last meeting as Chair for the year.

10. **Adjournment**

Meeting adjourned at 3:52 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
JOHN P. DOERING, COUNTY COUNSEL

Deirdre McGrath, Deputy County Counsel