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BOARD OF RETIREMENT MINUTES

March 25, 2008

Members Present: Maria De Anda, Jim DeMartini, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, Mike Lynch, Ron Martin and Steve Yauch

Alternate Member Absent: *Linda Stotts-Burnett, Alternate Retiree Representative*

Others Present: Kim Aspenleider and Kevin Brown-Delaware Investments, Kelly Cerny, Natalie Elliott, Paul Harte-Strategic Investment Solutions, (SIS) Inc., Deirdre McGrath, Douglas Richardson-Loomis Sayles & Company, Hank Skau, and Tom Watson

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

2. **Announcements**

Tom Watson, Retirement Administrator, announced the Request for Proposal (RFP) for the actuarial audit and actuarial consulting services has been sent out, with responses due April 8, 2008. Mr. Watson asked if two or three board members would be available to be part of the RFP evaluating committee. The evaluation of the responses can be done separately at the board member's convenience. The evaluation would be between April 9 through April 15, 2008. Mr. Watson asked that interested board members may contact him via email.

3. **Public Comment**

None.

4. **Consent Items**

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

Motion carried.

a. Approval of the March 12, 2008, Administrative Meeting Minutes

5. **Semi-Annual Performance Report by Delaware Investments**

Kim Aspenleider, Vice President, Client Services, and Kevin Brown, Vice President, Senior Investment Specialist, gave the semi-annual presentation on StanCERA's large cap growth portfolio.

5. **Semi-Annual Performance Report by Delaware Investments (cont.)**

Mr. Brown shared that as of December 31, 2007, net returns were 13.10%, or, 1.29% higher than the Russell 1000 Growth benchmark of 11.81%. As of February 29, 2008, StanCERA's portfolio saw net gains of only \$9.4 million, with the portfolio's value at \$113.5 million, down \$8.5 million from August 31, 2007. Year to date net returns as of March 25, 2008, are at -8.7%, compared to the Russell 1000 Growth benchmark of -8.2%.

Mr. Brown answered Board members' questions. He emphasized that Delaware's philosophy as growth investors is that superior returns may be realized through holding a concentrated portfolio of companies with superior business models. Delaware seeks opportunities to generate consistent, long-term growth of intrinsic business value. Historically, Delaware outperforms the relative performance with their stock selections. Paul Harte, Investment Consultant, Strategic Investment Solutions, (SIS), Inc., inquired if the current credit crisis and possible transition to a recession will effect StanCERA's portfolio. Mr. Brown said Delaware Investments does not own traditional financial stocks which is positive. However, the overall downturn in the market will and has had an effect. Delaware's position is to remain cautious and look at each individual stock's value in the portfolio as the economy and consumer spending slows.

6. **Semi-Annual Performance Report by Loomis Sayles & Company, LP**

Douglas Richardson, Vice President, Large Cap Growth Product Manager, gave the semi-annual presentation of StanCERA's large cap growth portfolio. Mr. Richardson gave an overview of the portfolio's large cap growth sector outlook. As of December 31, 2007, StanCERA's portfolio net return was 22.39%, above the Russell 1000 Growth benchmark of 11.81%.

As of March 13, 2008, StanCERA's portfolio year to date net return was -17.64%, -7.09% lower than the Russell 1000 Growth benchmark of -10.55%. Mr. Richardson reiterated that the market downturn is a factor for the negative performance of the portfolio. He mentioned stocks that performed well in the final quarter of 2007 did not perform well in the first quarter of 2008. Loomis Sayles & Company is hopeful that the second quarter of 2008 will have better returns for the portfolio.

7. **Strategic Investment Solutions, (SIS) Inc.**

a. Monthly Performance Review for the Month Ending February 29, 2008

Paul Harte, SIS, presented the monthly performance review for the period ending February 29, 2008. StanCERA's portfolio is \$1.35 billion, a -1.41% decrease from the prior month. The overall rate of return for this fiscal year to date is -5.92%. This return is below the policy index of -3.45% and the assumed rate of 5.44%. Investment managers remain within the target for the asset allocations. Growth outperformed value and large cap outperformed small cap. The market is beginning to see some stabilization.

7. **Strategic Investment Solutions, (SIS) Inc. (cont.)**

- b. StanCERA U.S. Equity Small Cap Presentation

Heard Out of Order

- d. Review of the Russell 2000 Value Index Exchange Traded Fund (ETF)

Mr. Harte gave a presentation on StanCERA's U.S. Equity small cap equity allocations, along with a review of the ETF. As of December 31, 2007, Mazama Capital Management, Inc. and the i-Shares net returns fiscal year to date are -12.1% and -13.2%, respectively. Manager specific risk seems to be higher in the U.S. small cap asset class, with higher tracking errors for managers; greater range of returns from the top quartile to bottom quartile within the peer group, and styles tend to go in and out of favor.

Mr. Harte proposed that a potential solution could be a multiple manager program. He explained that this type of program selects a group of managers representing a variety of approaches to small cap (value, core, and/or growth) that in a group offers more exposure, as represented by the Russell 2000 index. A range of approaches should be considered that are complementary to one another, and focus should be on selecting managers with distinctive investment processes. There is less manager specific risk in this type of program, and allows for more assets with more managers. Mr. Harte addressed questions from Board members.

The Board requested an educational session on multiple manager programs for U.S. small cap equities at the next Board of Retirement Investment meeting, Tuesday, April 22, 2008.

- c. Discussion and Action on Proposed Revisions to the Statement of Investment Policy

Mr. Harte gave a summary of the various revisions to the Statement of Investment Policy, as previously requested at the February 26, 2008 Board of Retirement meeting. Most notably was an increase in investment in any one economic sector from 20% to 25%.

Motion was made by Ron Martin and seconded by Steve Yauch to approve the revisions to the Statement of Investment Policy as presented.

Motion carried.

Jim DeMartini opposed.

Gordon Ford opposed.

8. **Administrator**

- a. Report on The Bank of New York (BNY) Mellon Corporation's Transition of the Management of the S&P 500 Index Fund to the EB Daily Valued Stock Index Fund

Mr. Watson gave a brief summary of his memorandum to the Board dated March 18, 2008. StanCERA received a letter from BNY Mellon on February 26, 2008, stating it is closing its current S&P 500 Index fund in which StanCERA invests. The target closure date is March 31, 2008. The funds may be transferred to the EB Daily Valued Stock Index Fund of the Mellon Bank North America Employee Benefit Collective Investment Fund Plan. This fund tracks the performance of the S&P 500 Index and is similar to the BNY fund that StanCERA currently has. BNY's letter stated if no decision was made by March 10, 2008, the funds would be left unmanaged after March 31, 2008.

After discussion with StanCERA's investment consultant and deputy county counsel regarding the new fees and agreement, Mr. Watson stated it was determined to make the transition to the Mellon Capital Asset Management Fund that tracks the S&P 500 Index. StanCERA can continue to look at alternatives in the future for this passive investment as necessary.

9. **Correspondence**

- a. Benefit Management Technologies, Inc.'s (BMTI) Letter of Response Dated February 25, 2008 - Mr. Ralph Saxton – Corporate Enrollment/Disenrollment

Mr. Watson informed Board members they had received Patrick McTighe's response to a retiree member's insurance broker regarding retiree health insurance. Darin Gharat, Trustee, commented the response was well done.

- b. Dodge & Cox Letter Dated February 2008 – Announcement of Their Fifth Mutual Fund and Changes to the Fixed Income Investment Policy Committee (FIIPC)

Mr. Watson mentioned Board members received the announcement from Dodge & Cox that a fifth mutual fund, Dodge & Cox Global Stock Fund, will be available May 1, 2008, for investment purposes. The announcement also shared that Dodge & Cox will be making certain changes to the Dodge & Cox Fixed Income Investment Policy Committee. The Board had no questions or comments.

9. **Correspondence (cont.)**

- c. Pyramis Global Advisors–Fidelity Investments’ Letter Dated March 6, 2008 - Statement Regarding the Securities Exchange Commission (SEC) Settlement

Mr. Watson informed Board members they had received the Pyramis Global Advisors’ letter regarding Fidelity Investments settlement with the U.S. Securities and Exchange Commission (SEC). The settlement brought to conclusion the regulatory investigations arising from the acceptance of gifts, gratuities and business entertainment by certain individuals on Fidelity’s Boston domestic equity trading desk from January 2002 through October 2004. Mr. Watson informed Board members this did not involve StanCERA’s portfolio managers. The Board had no questions or comments.

10. **Members’ Forum (Information and Future Agenda Requests Only)**

Gordon Ford said he is attending the SACRS’ Economic Impact Report Education Training on Wednesday, March 26, 2008, at the Fresno County Employees’ Retirement Association office.

Kelly Cerny, Board Secretary, mentioned that the deadline for registration for attendance at the National Conference on Public Employee Retirement Systems (NCPERS) Annual Conference is April 22, 2008. The conference is in New Orleans, Louisiana, May 18-22, 2008. Anyone interested in attending should contact Ms. Cerny prior to April 22, 2008.

11. **Adjournment**

Meeting adjourned at 3:43 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
JACK DOERING, COUNTY COUNSEL

By: _____
Deirdre McGrath, Deputy County Counsel