



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

August 25, 2009

Members Present: Maria De Anda, Jim DeMartini, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, Mike Lynch, and Clarence Willmon

Members Absent: Ron Martin

Alternate Member Present: Linda Stotts-Burnett, Alternate Retiree Representative

Staff Present: Tom Watson, Retirement Administrator
Kelly Cerny, Executive Secretary
Hank Skau, Operations Manager
Natalie Elliott, Accountant
Joyce Parker, I.T. Coordinator

Others Present: Wendell Birkhofer and Bob Thompson, Dodge & Cox
Paul Harte, Strategic Investment Solutions, Inc. (SIS)
Deirdre McGrath, Deputy County Counsel
Doris Foster and Monica Nino, Chief Executive Office

1. Meeting called to order at 2:00 p.m. by Gordon Ford, Chair.

2. **Roll Call**

3. **Announcements**

Mr. Watson announced that the County Chief Executive Officer, County Board of Supervisors' Chair, the Board of Retirement Chair, and the Retirement Administrator will be meeting at Noon on Thursday, August 27, 2009. Topics of discussion will be any County concerns and retirement issues.

Mr. Skau announced that the 2009 second quarter investment managers stock voting proxies are available for review.

4. **Public Comment**

None.

5. **Consent Items**

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

Motion carried.

- a. Approval of the August 12, 2009, Administrative Meeting Minutes
- b. Total Fund and Investment Managers Ranking as of 2006 through 2009
- c. Report on Vacant Space Leasing Activity and Market Conditions

6. **Semi-Annual Performance Report by Dodge & Cox**

Wendell Birkhofer, Vice President and Portfolio Manager-Equity, and Bob Thompson, Vice President and Portfolio Manager-Fixed Income, presented the semi-annual report for the period January 1, 2009 through June 30, 2009.

Mr. Birkhofer presented StanCERA's equity portfolio performance summary for the period ending June 30, 2009. Stocks were valued at \$147 million, with an estimated annual income of about \$3 million. The rates of return for the stock portfolio (net of fees) for the period ending June 30, 2009, were 21.5%, -27.4%, -11.5%, and -2.0%, compounded for the three-months, one, three, and five years, respectively. The rates of return for the stock portfolio (net of fees) for the period ending July 31, 2009, were 9.2%, 16.7%, -21.7%, -9.1%, and 0.5%, for the one-month, three-months, one, three, and five years, respectively. Rates are annual rates for periods of one year or longer.

Mr. Thompson presented StanCERA's fixed income portfolio for the period ending June 30, 2009. Assets totaled about \$344 million with an estimated annual income of \$21 million. The rates of return for fixed income securities (net of fees) were 7.93%, 7.36%, 6.15%, and 5.05%, for the three-months, one, three and five years, respectively. The return on the fixed income portfolio for the calendar year to date was 7.86%. The rates of return for the fixed income securities (net of fees) for the month ending July 31, 2009, were 2.72%, 7.15%, 10.76%, 6.72%, and 5.46%, for the one-month, three-months, one, three, five years, respectively. Rates of return are annual rates for periods of one year or longer.

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

a. Investment Performance Analysis for the Quarter Ending June 30, 2009

The composite fund returned 16.0% in the second quarter of 2009 and ranked in the 7th percentile among other public funds greater than \$100 million. The median return was 11.1%. The fund led its policy index (15.0%) during this time period. Longer term, the three and five year returns of -3.6% and 1.4% ranked below the median among total public plans (-2.8% and 2.1%, respectively).

b. Monthly Performance Review for the Month Ending July 31, 2009

Mr. Harte presented the monthly performance review for the period ending July 31, 2009. As of July 31, 2009, StanCERA's portfolio is \$1.11 billion, a 6.05% increase from the prior month. The fiscal year to date return is 6.36%, on target with StanCERA's policy index of 6.36%, and above the actuarial assumed rate of return by 5.70% and 6.03% above the rate of inflation. Mr. Harte noted this is a good start for the fiscal year, and the month of August appears to be doing well. The Board directed SIS, Inc., to explore other large cap growth managers and to possibly add a second fixed income equity manager to StanCERA's portfolio.

c. StanCERA Investment Managers Review List for Quarter Ending June 30, 2009

Mr. Harte noted that there are no changes in the investment managers' status as of August 25, 2009. Loomis Sayles & Company remains on under review status. The Board directed staff to request a written response from Loomis Sayles & Company regarding their underperformance and bring it back to the Board. The Board will continue to review manager performance on a monthly and quarterly basis.

Mr. Lynch mentioned he found SIS Inc.'s managers review list and StanCERA's staff's investment performance analysis reports, Item #5b, to be very useful.

d. Update on StanCERA's Security Lending with Bank of New York Mellon

Mr. Harte gave an overview of SIS, Inc.'s written update on Bank of New York (BNY) Mellon's current position on its security lendings program. StanCERA staff and SIS, Inc. held a teleconference on August 6, 2009, with BNY Mellon staff. StanCERA staff and SIS, Inc., will continue to monitor the security lendings program with monthly teleconferences with BNY Mellon.

8. **Correspondence**

- a. Announcement of Lincoln Financial Group's Sale of Delaware Investments to the Macquarie Group

Mr. Harte gave a brief summary of Delaware Investments' press release and informational documents received on August 19, 2009. Lincoln Financial Group announced the sale of Delaware Investments to the Macquarie Group by the end of 2009. SIS Inc., will continue to monitor the progress of the acquisition.

9. **Committee Reports & Recommendations for Action**

STANDING COMMITTEES

- a. Due Diligence Committee – Maria De Anda, Chair
- i. SIS, Inc.'s Memorandum Dated July 29, 2009 – Legato Capital Management LLC's Due Diligence On-Site Visit July 22, 2009
 - ii. Legato Capital Management's Due Diligence Questionnaire Response Dated July 22, 2009, Key Professionals, and Code of Ethics

Ms. De Anda gave an overview of the due diligence visit written information provided by SIS, Inc. She reiterated the Committee's new cost savings process of having SIS, Inc. meet with local firms, and the Due Diligence Committee to video conference with the investment managers that require more extensive travel.

Ms. De Anda informed Board members the Due Diligence Committee will be meeting with Pyramis Global Advisors, Capital Prospects, LLC, and Loomis Sayles & Company, via video conferences on Tuesday, September 22, 2009. The video conferences will begin at 10:00 a.m. PDT and conclude by Noon PDT at StanCERA.

- b. Strategic Planning Objectives Committee – Mike Lynch, Chair
- i. Discussion and Action on Approval of a Fall Educational Session for Stakeholders on November 17, 2009

Motion was made by Wes Hall and seconded by Mike Fisher to approve a Fall educational session for StanCERA stakeholders on Tuesday, November 17, 2009, 9:00 a.m. to Noon, in the Board of Supervisors' Chambers, Tenth Street Place.

Motion carried.

9. **Committee Reports & Recommendations for Action (Cont.)**

STANDING COMMITTEES (Cont.)

b. Strategic Planning Objectives Committee – Mike Lynch, Chair

- ii. Report on the Annual Review of the Actuarial Assumed Rate of Return (AAROR)

Mr. Lynch gave a brief summary of the Committee's report of the AAROR. He commended staff on a tremendous job of producing the comprehensive information compiled for the report. The Committee concludes the 8.16% annual rate of return falls within the range of "reasonable," and is parallel with the Board's action of May 26, 2009 to retain the 8.16% rate of return to be used for the basis of calculating accrued liabilities for the June 30, 2009 valuation report. The June 30, 2009 valuation report is being compiled and should be provided to the Board in January 2010.

10. **Closed Session**

Ms. McGrath informed the Board that the Closed Session is authorized under Government Code Section 54956.9 Subdivision (b)(1)(B). The Board will consider the Stanislaus Taxpayers Association's public records act request to disclose the names and amounts of members who receive annual benefits in excess of \$99,999.99 annually during the fiscal year.

Motion was made by Darin Gharat and seconded by Clarence Willmon to commence to Closed Session at 3:53 p.m.

- a. Conference with Legal Counsel – Anticipated Litigation
Significant Exposure to Litigation Pursuant to Subdivision (b)
of Section 54956.9: One Case

Motion was made by Maria De Anda and seconded by Mike Fisher to return to Open Session at 4:08 p.m. Mr. Ford read the findings of the Closed Session:

Motion was made by Mike Fisher and seconded by Maria De Anda to deny the Stanislaus Taxpayers Association's request for the names of members whose annual benefits are in excess of \$99,999.99 during the most recent fiscal year, and the amounts.

Roll Call Yes: M. Fisher, M. De Anda, C. Willmon, D. Gharat, and W. Hall

Roll Call No: G. Ford, M. Lynch, and J. De Martini

Motion carried by a 5-3 vote.

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

Ms. De Anda thanked Mr. Lynch for sharing with Board members the various informational articles he finds of interest to the Board.

Ms. De Anda expressed her satisfaction at utilizing a laptop at the Board meeting to view the Agenda and agenda items. She suggested this format to other Board members. This is the first time this technology is available. She requested that no more hard copies of Board packets be mailed to her. This will be a cost savings in Board packet production such as reducing the paper and postal costs.

Mr. Gharat thanked Mr. Harte, and staff for the continuous job well done especially in these hard economic times. He thanked Wes Hall and past Board members for placing StanCERA in its current investment asset allocation.

Mr. Fisher concurred with Mr. Gharat.

10. **Adjournment**

Meeting adjourned at 4:13 p.m.

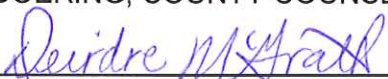
Respectfully submitted,



Tom Watson, Retirement Administrator

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

By:



Deirdre McGrath, Deputy County Counsel