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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

August 22, 2006

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

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

**Members Absent:** None

**Others Present:** Kelly Cerny, Paul Harte-Strategic Investment Solutions (SIS),  
Wendell Birkhofer & Robert Thompson-Dodge & Cox,  
Deirdre McGrath, Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Chair Darin Gharat

2. **Announcements**

Tom Watson, Administrator, announced he was distributing to Board members a copy of The Bank of New York's Transition Recap and Trading Cost Analysis as of August 2006. Tom said as of August 17, 2006, the transition from large cap growth investment manager MFS Institutional Advisors to Delaware Investment Advisers (60%) and Loomis Sayles & Company (40%) was complete.

Tom also announced he was distributing a copy of the National Conference on Public Employee Retirement Systems' (NCPERS) August 2006 newsletter, The Monitor. Tom mentioned it contained an article the Board members may find of interest about changes in federal laws relating to private and public pension plans.

3. **Public Comment**

None.

4. **Consent Items**

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

Motion carried.

a. Approval of the August 9, 2006 Minutes

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

b. Approval of Death Benefits

1. Ronald R. Beltrami, Deceased August 2, 2006, Deferred Member, Options Pursuant to Government Code Section 31781

Gordon Ford arrived at 2:02 p.m.

5. **Dodge & Cox Semi-Annual Report**

Wendell Birkhofer, Vice President, and Robert Thompson, Vice President, Dodge & Cox, presented StanCERA's large cap value equity and fixed income portfolios performances through June 30, 2006. Wendell mentioned that Horton Shapiro retired from Dodge & Cox after 37 years with the firm. Board members received a letter dated July 25, 2006, from Dodge & Cox detailing the changes occurring.

Wendell presented StanCERA's large cap value equity portfolio summary for the period ending June 30, 2006. Assets exceeded \$239 million with an estimated annual income of over \$4 million. The total rates of return for the period ending June 30, 2006, were 0.8%, 16.3%, 20.1%, 11.4%, compounding for the three-months, one, three and five years, respectively. The calendar year to date return was 6.6%. The rate of return for the stock portfolio for the month ending July 31, 2006, was 0.8%.

Bob Thompson presented the fixed income portfolio for the period ending June 30, 2006. Assets exceeded \$432 million with an estimated annual income of over \$25 million. The rates of return for the fixed income securities were 0.24%, 0.75%, 2.91% and 5.9% for the three-months, one, three and five years, respectively. The return on the fixed income portfolio for the calendar year was 0.39%. The rate of return for the fixed income securities for the month ending July 31, 2006, was 1.11%.

Board members inquired about a substantial political contribution made by an employee of Dodge & Cox to the "Citizens to Save California" group supporting defined contribution plans. Wendell said an employee did make a personal contribution to the group, not from Dodge & Cox funds. Bob said he thought there was a letter prepared by Dodge & Cox to address the concerns of their clients. Board members asked to receive a copy of the letter. Wendell said they would provide a letter.

6. **Strategic Investment Solutions (SIS) Investment Performance Analysis For Second Quarter Ending June 30, 2006**

Paul Harte presented the second quarter investment performance analysis through June 30, 2006. The composite fund returned -1.5% and ranked in the 83<sup>rd</sup> percentile among other public funds greater than \$100 million. The median return was -0.8%. Longer term, the three and five-year returns of 11.7% and 7.1% were slightly under and above the median among total public plans, 11.8% and 6.5% respectively.

7. **Discussion and Action on Investment Managers Quarterly Review**

Paul Harte presented the StanCERA investment manager review list performance through June 30, 2006. Of the eight managers, seven are in good standing, with a transition of the large cap growth manager (MFS Institutional Advisors) to Delaware Investments [60%] and Loomis Sayles & Co [40%]. The small cap value manager remains on under review status. Paul asked the Board what direction it would like to take regarding the small cap value manager under review. The Board directed SIS to bring back alternatives for the small cap value stock portfolio.

8. **Discussion and Action on Strategic Investment Solutions (SIS) Asset Allocation Recommendation**

Paul Harte presented a summary of StanCERA's asset projections, market projections, and optimization results using StanCERA's target portfolio and three different mixes. The Board discussed the asset mixes. General consensus was Mix 2, as presented, appeared to increase the expected return with the least amount of additional risk.

Motion was made by Steve Yauch and seconded by Ron Martin to accept SIS's recommendation to add Mix 2, including a 5% increase to the international equity allocation (to 20%), and a 5% Special Situations Fund.

Motion carried.

Gordon Ford opposed.

9. **Strategic Investment Solutions, Inc. (SIS) Monthly Performance Review for the Month Ending July 31, 2006**

Paul Harte presented the monthly performance review for the period ending July 31, 2006. As of July 31, 2006, StanCERA's portfolio was \$1.25 billion, a decrease of 0.42% for the month. Asset allocation remains on target. The fiscal year return is -0.06% below StanCERA's policy index of 0.36% and the 0.66% needed to meet the actuarial assumed rate of return of 8.16%. Paul said the month was flat.

10. **Administrator**

a. Review of Investment Managers' Proxy Voting for Fiscal Year 2005-2006

Hank Skau, Operations Manager, showed the Board the investment managers' proxy voting information as requested by the Board at the July 25, 2006 meeting. Hank said the information is kept on file for review. As demonstrated, the information is voluminous. The large file was passed around to Board members for their perusal. Board members were told they could look at the information at any time. Hank said he would prepare an annual list for the Board's review.

10. **Administrator (cont.)**

- b. Discussion & Action on Consent to Assignment of Fidelity Management Trust Company Duties to Pyramis Global Advisors Trust Company

Tom Watson informed the Board that Fidelity Management Trust Company established a separate subsidiary in 2005. The subsidiary focuses exclusively on delivering investment products to institutional clients and institutional investment management clients. Deirdre McGrath, Deputy County Counsel informed the Board that Fidelity had created a new subsidiary named Pyramis Global Advisors Trust Company. Deirdre explained the importance of the Board's approval to the consent of the assignment of Fidelity Management Trust Company duties to Pyramis.

Motion was made by Steve Yauch and seconded by Ron Martin to approve the Consent to Assignment of Fidelity Management Trust Company Duties To Pyramis Global Advisors Trust Company.

Motion carried.

11. **Correspondence**

- a. Dodge & Cox Letter Dated July 25, 2006

The letter contained personnel changes due to retirements at Dodge & Cox. The letter is also addressed in Item #5.

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

**STANDING COMMITTEES**

- a. Education Committee – Maria DeAnda, Chair

- i. Discussion and Action on Attendance and Costs for Financial Research Associates, LLC's High-Performance Real Estate Investments Summit, September 11-12, 2006, Las Vegas, Nevada

Maria DeAnda, Chair, shared with Board members another educational opportunity that may be of interest to the Board.

Motion was made by Wes Hall and seconded by Mike Lynch to approve Attendance and Costs for the Financial Research Associates, LLC's High Performance Real Estate Investments Summit, September 11-12, 2006, Las Vegas, Nevada.

Motion carried.

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

Kelly Cerny reminded the Board of the Webinar, "DC Plans – Missing the Forest for the Trees?" scheduled at StanCERA's office for 9:00 a.m. Wednesday, August 23, 2006. Those interested in attending should arrive prior to 9:00 a.m.

Tom Watson informed the Board that he had met with a representative from the Clifton Group regarding an investment strategy that overlays cash balances with derivative investments to keep StanCERA's overall allocation in better balance. This was a good education session.

Paul Harte, SIS also agreed this was a way to potentially garner a marginal rate of return of 0.10% to 0.20% similar to securities lending and commission recapture programs. Paul Harte will discuss this strategy in October.

Wes Hall thanked staff for the directory of vendors.

Maria DeAnda requested a calendar for the Board Room wall.

14. **Adjournment**

Meeting adjourned at 4:12 p.m.

Respectfully submitted,

Tom Watson, Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: \_\_\_\_\_  
Edward R. Burroughs, Deputy County Counsel