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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

August 28, 2007

**Members Present:** Maria De Anda, Jim DeMartini, Gordon Ford, Mike Fisher, Wes Hall, Mike Lynch, and Steve Yauch

**Members Absent:** *Darin Gharat, and Ron Martin*

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

**Others Present:** Kelly Cerny, Wendell Birkhofer and Bob Thompson-Dodge & Cox; Natalie Elliott, Paul Harte-Strategic Investment Solutions (SIS), Mark Loeser-Chief Executive Office; Deirdre McGrath, Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Wes Hall, Chair.

2. **Announcements**

Hank Skau, Operations Manager, announced that the second quarter investment managers' stock voting proxies, April through June 30, 2007, are available for review.

Wes Hall, Chair, announced the California Retired County Employees Association (CRCEA) will be holding the Fall 2007 Conference in Stockton, California. Board members who may be interested in attending may contact the Board Secretary.

3. **Public Comment**

None.

4. **Consent Items**

Motion was made by Maria De Anda and seconded by Steve Yauch to approve the following item as listed.

Motion carried.

a. Approval of the August 8, 2007, Minutes

5. **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, distributed the semi-annual report for the period January 1, 2007, through July 31, 2007. Mr. Birkhofer mentioned he just reached 20 years with Dodge & Cox. Wes Hall, Chair, said Dodge & Cox was StanCERA's first investment manager. Tom Watson, Administrator, stated Dodge & Cox first began with StanCERA in 1968, managing the stock portfolio; and was hired as a fixed income portfolio manager in 1983.

Mike Lynch arrived at 2:11 p.m.

Mr. Birkhofer presented StanCERA's equity portfolio performance summary for the period ending June 30, 2007. Stocks were valued at about \$260 million, with an estimated annual income of over \$4 million. The total rates of return for the stock portfolio for the period ending June 30, 2007, were 5.8%, 20.8%, 17.0%, and 15.9% compounded for the three-months, one, three and five years, respectively. The total rates of return for the stock portfolio for the period ending July 31, 2007, were -3.6%, -1.7%, 15.5%, 16.8%, and 17.3%, for the one-month, three-months, one, three, and five years, respectively.

Mr. Thompson presented StanCERA's fixed income portfolio for the period ending July 31, 2007. Assets totaled about \$449 million with an estimated annual income of \$26 million. The rates of return for fixed income securities for the period ending June 30, 2007, were -0.11%, 6.94%, 4.61%, and 5.35% for the three-months, one, three, and five years, respectively. The return on the fixed income portfolio for the calendar year was 1.51%. The rate of return for the fixed income securities for the month ending July 31, 2007, was 0.16%.

Mr. Birkhofer and Mr. Thompson answered questions from staff and board members. Mr. Thompson explained the subprime mortgage and subprime loan sector in relation to the financial market. Mr. Thompson assured the Board again that the fixed income portfolio did not contain investment in subprime mortgages.

Mr. Birkhofer presented a letter to the Retirement Administrator, dated August 27, 2007, regarding a request to amend StanCERA's current equity guidelines for Dodge & Cox for consideration at a future board meeting.

6. **Strategic Investment Solutions, Inc. (SIS) Investment Performance Analysis for the Second Quarter Ending June 30, 2007**

Paul Harte presented the second quarter investment performance analysis through June 30, 2007. The composite fund returned 4.4% and ranked in the 43<sup>rd</sup> percentile among other public funds greater than \$100 million. The median return was 4.3%. Longer term, the three, and five year returns of 11.8% and 11.5%, were slightly under and above the median among total public plans, 12.2% and 11.2%, respectively. Mr. Harte said it was a great fiscal year and all investment managers are performing up to expectations.

7. **Strategic Investment Solutions, Inc. (SIS) Monthly Performance Review for the Month Ending July 31, 2007**

Paul Harte, presented the monthly performance review for the period ending July 31, 2007. As of July 31, 2007, StanCERA's portfolio is \$ 1.42 billion, a -1.82% decrease from the prior month. The fiscal year to date return is -1.62%, below StanCERA's policy index of -1.56% and the 0.66% needed to meet the actuarial assumed rate of return of 8.16% for the year.

8. **Discussion and Action on the Small Cap Value Equity Portfolio Investment Manager Candidates**

Mr. Harte gave a brief summary of the statistical spreadsheet of the possible small cap value equity investment management candidates. The Board discussed the information presented. No action was taken.

Deirdre McGrath out at 3:40 p.m.

9. **Administrator**

- a. Discussion and Action on Extending the Condominium Interest to 99 Years From 66 Years for the 832 12<sup>th</sup> Street Building

Deirdre McGrath returned at 3:42 p.m.

Mr. Watson gave an overview of his memorandum dated August 21, 2007, to extend StanCERA's condominium interest at 832 12<sup>th</sup> Street, 6<sup>th</sup> Floor, from the current 66 years to 99 years – an increase of 33 years. StanCERA would pay Stanislaus County \$420,000 for one condominium unit, one-half of what Westland Development will pay Stanislaus County for two condominium units, or, \$840,000.

The Board discussed the memorandum. Steve Yauch, Trustee, inquired as to how the amount of \$840,000 was determined for the price of the condominium units, and whether an appraisal or documentation was available. Mr. Watson said he was unaware of any written information regarding how the amount was determined. Mark Loeser, Chief Executive Office, offered to take the question back to the Chief Executive Office for a written response. Mr. Yauch pointed out if StanCERA is to pay one-half of the amount of its condominium unit, there should be documentation as to how the cost of the condominium units was determined.

Motion was made by Steve Yauch and seconded by Jim DeMartini to direct staff to obtain written information of how the amount of the condominium units was determined for the additional payment for the extension of the condominium interest.

Motion carried.

9. **Administrator (cont.)**

- b. Discussion and Action on Proposed Legislation to the State Association of County Retirement Systems' (SACRS) to Amend Government Code Section 31808.6 – Safety Member Integration with Social Security

Mr. Watson gave a summary of his memorandum dated August 14, 2007, of proposed legislation material to send to SACRS by August 31, 2007, for inclusion in the SACRS 2008 legislative platform.

The proposed legislation material is a request to add uniform language to the 1937 Act, Article 13, "Integration with Old Age and Survivors Insurance," Government Code Section 31808.6, "retirement allowance for safety members in certain counties; computation."

The proposed legislation material will affect at least two 1937 Act retirement systems, Merced and Stanislaus; and will allow other systems to review the language to ensure it does not adversely affect their system's operations in maintaining the Social Security integration formula for safety members.

Board members and staff discussed the proposed legislative language. Deirdre McGrath, Deputy County Counsel, recommended incorporating her legislative research with the Retirement Administrator's material as one document to send to SACRS by August 31, 2007.

Motion was made by Steve Yauch and seconded by Mike Lynch to direct the Retirement Administrator and Deputy County Counsel to design language for proposed legislation to send to SACRS by August 31, 2007.

Motion carried.

- c. Discussion of Buck Consultants' Retiree Health Benefit Studies of January 2006 and March 2007

Mr. Watson noted the Board had received for review Buck Consultant's comparison of the retiree health allowance studies conducted in January 2006 and March 2007. Mr. Watson asked if the Board would like a presentation from the actuary.

Mr. Yauch expressed concern regarding the differences in the numbers cited in the two studies and the difference in the actuarial formulas used. Mr. Yauch explained the January 2006 study reflects costs associated solely with retirees; while the second study includes all members, active, inactive and retired, which makes for an inaccurate comparison and study. Mr. Yauch would like to see a more true comparison than what was given to the Board.

10. **Correspondence**

- a. Mazama Capital Management's Personnel News Releases Dated July 1, 2007

Board members had no questions or comments on the news releases.

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

Wes Hall, Chair, reported that board members had received the Congressional Research Service's (CRS) Report for Congress, entitled, "*Pension Funds Investing in Hedge Funds*," dated June 15, 2007. Mr. Hall thanked the Retirement Administrator for obtaining the report for the board members and staff.

12. **Adjournment**

Meeting adjourned at 4:33 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: \_\_\_\_\_  
Deirdre McGrath, Deputy County Counsel