



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

October 24, 2006

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

Alternate

Member Absent: Linda Stotts-Burnett, Alternate Retiree Representative

Members Absent: Steve Yauch

Others Present: Keith Bruch-LSV Asset Management, Kelly Cerny, Natalie Elliott,
Paul Harte-Strategic Investment Solutions (SIS),
Ben Lazarus-The Clifton Group, Deirdre McGrath,
Andrew Paulden-Brown & Armstrong, Chris Steward-Pyramis
Global Advisors, and Hank Skau

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

2. **Announcements**

None.

3. **Public Comment**

None.

4. **Consent Items**

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

Motion carried.

a. Approval of the October 11, 2006 Minutes

5. **Presentation of the Stanislaus County Employees' Retirement Association
June 30, 2006, Audit Results by Brown Armstrong Accountancy Corporation**

Andrew Paulden, Certified Public Accountant, gave a brief outline of StanCERA's draft annual audit results including the audit process, significant audit areas and audit reports. Andrew thanked staff for providing thorough information to complete the audit.

Andrew also discussed the draft of StanCERA's Comprehensive Annual Financial

5. **Presentation of the Stanislaus County Employees' Retirement Association June 30, 2006, Audit Results by Brown Armstrong Accountancy Corporation (cont.)**

Report (CAFR) for fiscal years ending June 30, 2006 and 2005 that Board members had received. Andrew mentioned the report was being submitted again to the Government Financial Officers Association (GFOA) Award program for Excellence in Financial Reporting. Andrew and board members expressed their appreciation to Natalie Elliott, StanCERA's Accountant, for her diligence and dedication in producing the CAFR and receiving the GFOA award last year. Again, the current CAFR will also be submitted to GFOA this year.

6. **LSV Asset Management's Semi-Annual Investment Performance Report**

Keith Bruch, Director, Client Portfolio Services, distributed the semi-annual report to board members and gave a presentation of StanCERA's international value equity investment performance for the period ending September 30, 2006. The annual return rate for the one-year return was 20.7% (net of fees), above the benchmark Morgan Stanley Capital International (MSCI) and All Countries World Index excluding the United States (ACWI ex US) that had an 18.9% return for the same period. The period of January 1, 2006 through September 30, 2006 saw a return of 18.2%. Wes Hall, Trustee, noted the investment performance was good.

7. **Pyramis Global Advisors' Investment Performance Report**

Chris Steward, Institutional Portfolio Manager, gave the first semi-annual presentation of StanCERA's international equity (growth style) performance. Chris mentioned Pyramis Global Advisors is one of several divisions of Fidelity Management Trust, one of the largest privately held investment organizations founded in 1946. He gave a brief overview of the Pyramis investment team, research resources and investment process that is driven by fundamental bottom-up research. The cumulative return for the fiscal year three-month period July through September 2006 is 2.88%, 1.05% below the policy index.

8. **The Clifton Group – Cash Overlay Strategy Presentation**

Ben Lazarus, Director of Sales and Marketing, provided written material and gave an educational presentation about cash securitization. Cash securitization is used by some systems as an option to enhance a system's returns. Wes Hall inquired as to which systems currently use this option. Currently Kern, Marin and San Joaquin counties use this as an option.

The program proposed by The Clifton Group will use futures contracts proposed by our indices to approximate the market return of assets (such as the type of stocks) for the cash portion in the portfolio. For example, if the small cap growth equity portfolio has \$5 million in cash, The Clifton Group will use a futures contract on the Russell 2000 growth index to derive a yield for the cash that approximates the yield on small cap growth equity securities.

9. **Strategic Investment Solutions, Inc. (SIS) Presentations and Recommendations**

9b. Heard out of Order

b. Report on the Due Diligence September 2006 Visits to Investment Managers

Paul Harte gave a brief overview of his written report that Board members had received regarding the Due Diligence Committee's September 2006 visits to Delaware Investments, Loomis Sayles & Company and Pyramis Global Advisors. Overall the visit was useful and informative.

9c. Heard out of Order

c. The Monthly Performance Review for Month Ending September 30, 2006

Paul Harte distributed the four (4) Request for Information (RFI) reports requested previously by the Board for small cap value equity managers. These include: AQR Capital Management; ICM Investment Counselors of Maryland, LLC; Opus Capital Management; and WCM Investment Management. Paul asked the Board to review the reports and be able to discuss potential selections for further consideration at the November 28, 2006 Board meeting.

Paul presented the monthly performance review for the period ending September 30, 2006. StanCERA's portfolio is \$1.3 billion, an increase of 1.62% for the month. The fiscal year to date return is 3.76%, below StanCERA's policy index of 3.92%, but above the fiscal year to date actuarial assumed rate of 2.00%. Large caps are now outperforming the small caps.

Mike Fisher left at 3:30 p.m.

Mike Fisher returned at 3:33 p.m.

9a. Heard out of Order

a. Discussion and Action on StanCERA's Proposed Special Situations Fund

Paul Harte presented a written discussion of the three options on the proposed special situations fund. This fund would use 5% of StanCERA's portfolio to be invested in alternative investments that have not been tried. Option 1 would allow for looking at several types of potential investments including ones that are currently prohibited by StanCERA's investment policy; Option 2 would allow only those potential investments not prohibited by the investment policy; Option 3 does not have a special situations fund. Board members asked various questions and discussed the three options.

Motion was made by Mike Fisher and seconded by Ron Martin to accept option 2 of the special situations fund as presented and direct the consultant to bring research of special situation funds and alternatives as it relates to other 1937 Act Counties.

Motion carried.

10. **Closed Session**

Motion was made by Ron Martin and seconded by Wes Hall to adjourn to Closed Session at 3:50 p.m.

Motion carried.

Motion was made Wes Hall and seconded by Mike Fisher to return to Regular Session at 4:03 p.m.

Motion carried

11. **Administrator**

a. StanCERA Complaint Log of July 1 – September 30, 2006

Hank Skau, Operations Manager gave a brief update to the Board on StanCERA's complaint log for the third quarter of 2006. 11 complaints were logged for this quarter. Board members said they appreciate the professional manner in which staff document and respond to each situation. The Board encourages staff to defer health insurance questions and issues to StanCERA's insurance consultant when possible.

b. BMTI Complaint/Contact Log of July 1 – September 30, 2006

Hank Skau gave a brief summary of the written updated the Board received on StanCERA's insurance consultant's complaint/contact log for the third quarter of 2006.

12. **Correspondence**

a. Charlotte Capital Letter Dated September 15, 2006

Board members received a copy of a letter from Charlotte Capital dated September 15, 2006. The letter was in response to StanCERA's letter dated August 25, 2006 inquiring as to Charlotte's recent performance.

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

STANDING COMMITTEES

a. Strategic Plan – Alternative Investments – Gordon Ford, Chair

i. Discussion and Action on Dissolving the Strategic Plan-Alternative Investments Committee

Gordon Ford, Chair, said the Committee is looking for direction from the Board to continue as a Committee.

13. **Committee Reports & Recommendations for Action (cont.)**

STANDING COMMITTEES (cont.)

a. Strategic Plan – Alternative Investments – Gordon Ford, Chair (cont.)

i. Discussion and Action on Dissolving the Strategic Plan-Alternative Investments Committee

Motion was made by Ron Martin and seconded by Jim DeMartini to dissolve the Strategic Plan-Alternative Investments Committee based upon recommendations at the September 26, 2006 Board of Retirement Investment meeting as presented and alternative investments will continue under the purview of the entire Board of Retirement for future alternative investment direction.

Motion carried.

b. Education Committee – Maria De Anda, Chair

i. Discussion and Action on Attendance, Travel, and Costs for The Institute for International Research's (IIR) Public Fund Boards Forum, December 9-12, 2006, San Francisco, California

Maria De Anda, Chair, expressed to board members the value of the 15th annual IIR Public Fund Boards Forum pointing out the comprehensive topics offered such as the state of health benefits for public pension funds in an health benefits summit and networking with fiduciaries.

Motion was made by Gordon Ford and seconded by Ron Martin to approve the attendance, travel and costs for the Institute for International Research's (IIR) Public Fund Boards Forum, December 9-12, 2006, San Francisco, California

Motion carried.

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

Deirdre McGrath said Board members received a news article published October 23, 2006, entitled, "*San Diego Calls Lawyers, Parts with Rocaton,*" Written by Raquel Pichardo.

Maria De Anda said she had received good feedback about the Opinion-Editorial piece written by Tom Watson, Administrator, that appeared in **The Modesto Bee**, October 20, 2006.

Kelly Cerny asked that Board members attending the upcoming State Association of County Retirement Systems' (SACRS) Fall Conference submit any additional information to her by October 27, 2006. The Conference will be held in San Diego November 14 through November 17, 2006. Kelly also asked Board members interested in attending the Public Funds Summit

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

in Scottsdale, Arizona, January 10-12, 2007 to respond as soon as possible so she may make registration and lodging arrangements prior to the registration deadline.

Darin Gharat said the Opinion-Editorial piece appearing in **The Modesto Bee** was good.

15. **Adjournment**

Meeting adjourned at 4:27 p.m.

Respectfully submitted,

Hank Skau, Operations Manager

APPROVED AS TO FORM:
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: _____
Deirdre McGrath, Deputy County Counsel