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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

December 12, 2007

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

**Alternate Member Present:** Linda Stotts-Burnett (Alternate Retiree Representative)

**Members Absent:** Mike Lynch

**Others Present:** Steve Brink & Amanda Meyer-Mazama Capital Management, Inc., Kelly Cerny, Natalie Elliott, Paul Harte-SIS, Inc., Kathy Herman, Deirdre McGrath, Hank Skau, Bob Thompson-Dodge & Cox, and Tom Watson

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

2. **Announcements**

Tom Watson, Retirement Administrator, thanked Board members and staff in surprising Wes Hall, Chair, with the dedication of the Board Room as the Wesley W. Hall Board Room, preceding the Board meeting. He announced the Board Room had been painted and artwork added from a local artist.

Wes Hall, Chair, expressed his surprise and amazement at the Board Room dedication ceremony in his name.

Mr. Hall asked Board members if they were receiving the Retired Employees of Stanislaus County's (RESKO) newsletter. Board members responded they were not receiving the newsletter. Mr. Hall said Board members would be added to the RESKO newsletter mailing list.

3. **Public Comment**

None.

4. **Consent Items**

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

Motion carried.

- a. Approval of the November 27, 2007, Meeting Minutes
- b. Approval of the 2008 Calendar of Board of Retirement Meetings Including Investment Managers' Reporting Schedule
- c. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
  1. Judith Bournival, HSA, Effective 12-29-07
  2. Susan Wollesen Foster, BHRS, Effective 12-08-07
  3. Ronnie Graham, Planning, Effective 12-01-07
  4. Helen Hopkins, CSA, Effective 12-30-07
  5. Bounthiene Inthavong, HSA, Effective 12-01-07
  6. Archie McDowell, CSA, Effective 12-04-07
  7. Laurence Pollard, Public Works, Effective 12-29-07
  8. Mark Ray, Juvenile Hall, Effective 12-28-07
  9. Veronica Smith, Superior Court, Effective 12-04-07
  10. Miling Vasquez, HSA, Effective 12-29-07
- d. Approval of Deferred Retirement(s) – **Section 31700**
  1. Frank Bowerman, BHRS, Effective 11-01-07
  2. Christine Nelson, Probation, Effective 11/17/07
  3. Shamy Pius, BHRS, Effective 11-03-07
  4. Alice Sorensen, BHRS, Effective 11/01/07
  5. Paul Vanderhorst, Agricultural Commissioner, Effective 11/17/07
- e. Approval of Disability Retirements – Section 31724

Donald Paso, Service-Connected, DER, Effective 02-03-07
- f. Approval of Death Benefits
  1. Lorena J. Perry, Deceased November 20, 2007, Active Member, Option Pursuant to Government Code Section 31781

5. **Educational Presentation on Structured Investment Vehicles (SIVs) by Dodge & Cox**

Bob Thompson, Vice President and Fixed Income Portfolio Manager, Dodge & Cox, gave an overview of SIVs as previously requested by the Board. Mr. Thompson distributed written materials to Board members that showed the framework of SIVs; a detailed chronology of the 2007 credit crunch that led to the recent attention SIVs have received; and an October 2007 *"The Wall Street Journal"* article depicting the history of SIVs. Mr. Thompson mentioned the SIVs drive the credit crunch well beyond the subprime mortgage problems arising in the housing market. A SIV is a fund that borrows

5. **Educational Presentation on Structured Investment Vehicles (SIVs) by Dodge & Cox (cont.)**

money by issuing short-term securities at low interest and then lends the money by buying long-term securities at higher interest, making a profit for investors from the difference. SIVs are used to invest in a range of asset-backed securities, as well as some financial corporate bonds. It is an open-ended structure that plans to stay in business indefinitely by buying new assets as the old ones mature, which allows the exchange of investments without providing investors the transparency to look through to the structure. The risks arise from the solvency of the SIV if the value of the long term security that the SIV has bought falls below the short-term securities that the SIV has sold; and, the liquidity risk as the SIV borrows short term and invests long term, i.e., the outpayments become due before the inpayments are due. Unless a borrower can refinance the short-term at favorable rates, he may be forced to sell the asset into a depressed market. This has resulted in commercial paper investors' reluctance to invest in SIVs.

Mr. Thompson mentioned treasury bonds are all that investors are interested in currently, due to the security of these bonds. He said StanCERA does not have any SIVs in the fixed income portfolio managed by Dodge & Cox.

6. **Semi-Annual Performance Report by Mazama Capital Management**

Amanda Meyer, Marketing and Client Service Associate, and Steve Brink, Senior Vice President, Director of Research, gave the semi-annual presentation of StanCERA's small-mid cap growth equity portfolio. Ms. Meyer mentioned Mazama has added an equity research analyst specializing in technology, energy, and basic industry sectors, with an emphasis in researching United States companies with significant growth opportunities overseas.

Mr. Brink gave an overview of StanCERA's portfolio. It has been a difficult and disappointing performance year for pure growth stocks outside of basic industries and energy. StanCERA's market value as of September 30, 2007, is \$68,897,762. StanCERA's quarter-to-date, one year, and since inception (11/23/04) return percentages, net of fees as of September 30, 2007, are -2.92%, 10.33%, and 11.83%, respectively. Mr. Brink answered questions from Board members and Paul Harte, of Strategic Investment Solutions, Inc.

Mr. Brink mentioned neither Mazama's philosophy nor discipline has changed. While Mazama continues to have a very high success rate at picking companies that have strong fundamental performance, they are not being rewarded in pure small cap growth companies as they are with their mid and large cap growth companies. Mazama is confident the small to mid cap companies with strong international business plans will outperform in the next quarter.

7. **Strategic Investments Solutions' (SIS), Inc. StanCERA's Managers Under Review List - Performance Through September 30, 2007**

Paul Harte provided an overview of the StanCERA Manager Review List for performance through September 30, 2007. All managers appear to be in good standing for this time period. With a one and two year return below the benchmark, Mazama Capital Management, Inc., will be placed on under review status.

8. **Closed Session**

Motion was made by Darin Gharat and seconded by Maria De Anda to commence to Closed Session at 2:56 p.m.

Upon returning to Regular Session at 3:08 p.m., Wes Hall, Chair, read the findings of the Closed Session.

Motion was made by Maria De Anda and seconded by Darin Gharat to accept the Retirement Administrator's performance evaluation with a 5% wage increase and a one-time bonus of 2.5%; effective January 1, 2008.

Motion carried.

9. **County Counsel**

- a. Report on the National Association of Public Pension Attorneys (NAPPA) Winter Section Meetings – February 7 – 9, 2007

Deirdre McGrath, Deputy County Counsel, noted that Board members had previously received her written report of her attendance at the NAPPA Winter Section Meetings in Washington D.C. Ms. McGrath said points of interest at the meetings was the information presented on hedge funds, and the \$3,000 health benefit exclusion for public safety officers.

- b. Educational Presentation on Conflict of Interest, Ethics, and the Brown Act

Ms. McGrath gave a brief overview of written material distributed to Board members. Informational topics included the Brown Act, with examples of rules of public meetings, audio/video taping, a public meeting agenda, and penalties for the violation of the Brown Act; Ethics and Conflict of Interest, including the training requirements set forth in Assembly Bill 1234 and the Decisions or Influence on Your Financial Interests.

- c. Update on the *Lexin vs. Superior Court* Review by the State Supreme Court

Ms. McGrath informed the Board that the State Supreme Court accepted the *Lexin vs. Superior Court* case for review. This results in vacating the 4<sup>th</sup> District Court of Appeal decision, making the Court of Appeal decision depublished, or, not citeable, until the review by the Supreme Court.

10. **Administrator**

- a. Presentation of Service History

Mr. Watson presented each Board member with a plaque depicting his or her terms of service on the Board of Retirement. The plaques will be displayed in the StanCERA lobby for members to view. As Board members' terms increase, the additional terms will be added to the plaques.

10. **Administrator (cont.)**

- b. Discussion and Action on the Retiree Supplemental Cost of Living Increase Paid Pursuant to Government Code Section 31874.3(b)

Mr. Watson gave a summary of his Memorandum to the Board dated December 5, 2007, regarding a recommendation on the retiree supplemental cost of living adjustment (COLA) with an example of an individual calculation of this one-time adjustment. The memorandum detailed the parameters for the system to pay the supplemental cost of living adjustment to members who are receiving a monthly allowance and whose cost-of-living accumulations equal or exceed 20%.

Motion was made by Steve Yauch and seconded by Ron Martin to approve the one-time special COLA with a maximum of \$2,400 per retiree pursuant to Government Code section 31874.3(b) to be paid on the January 2, 2008 payroll.

Motion carried.

- c. Memorandum on the State Association of County Retirements Systems' (SACRS) Public Fund Universe Analysis Report by RVKuhns & Associates, Inc. For The Period Ending June 30, 2007 (Information Only)

Mr. Watson informed Board members they had received the SACRS' Public Fund Universe Analysis Report for the period ending June 30, 2007. This report is a summary of statistical investment data collected by RVKuhns & Associates from 80 public retirement systems. Mr. Watson provided a written summary of some of the key aspects of the report as it relates to StanCERA.

**ITEM TOO LATE FOR THE AGENDA**

**d. INVESCO Agreement**

Ms. McGrath distributed to Board members a Memorandum dated December 12, 2007, regarding the proposed investment agreement with INVESCO. Ms. McGrath explained that pursuant to Government Code section 54954.2(b)(2), to consider an item too late for a posted Agenda, the item requires a 2/3 vote of the Board, or, if less than 2/3 of the members are present, a unanimous vote for the issues in subsections i. an ii. listed below. If the Board determines these requirements have been met, action on the item requires a simple majority (see subsection iii. below).

- i. Staff considers there to be a need for immediate action due to the anticipated entering into an agreement with INVESCO for investment in global real estate securities approved at the October 23, 2007, Board of Retirement meeting. To date, the parties have not been able to reach an agreement. Need for immediate action is due to the fact staff cannot proceed without further direction from the Board regarding the agreement, and that the next Board meeting is January 9, 2008.

10. **Administrator (cont.)**

**ITEM TOO LATE FOR THE AGENDA (cont.)**

**d. INVESCO Agreement (cont.)**

i. (cont.)

Motion was made by Ron Martin and seconded by Steve Yauch for immediate action from the Board on the investment agreement with INVESCO, prior to the next Board meeting of January 9, 2008.

Motion carried.

- ii. The Board's decision at the October 23, 2007, meeting, to enter into an investment agreement with INVESCO to manage the global real estate securities account, allowed staff to communicate with INVESCO about the terms of the investment manager's agreement. A draft side letter was sent to INVESCO on November 20, 2007. The Agenda for the December 12, 2007, Board meeting was timely posted on December 6, 2007. On December 11, 2007, Deputy County Counsel received INVESCO's initial e-mail response to StanCERA's proposed terms for the side letter agreement. It was too late to amend and post this item on the December 12, 2007, Board of Retirement Agenda.

Motion was made by Maria De Anda and seconded by Mike Fisher to accept this item because this item met the requirement of being received too late to amend and to post on the December 12, 2007, Agenda.

Motion carried.

- iii. The parties have negotiated the fees for the investment agreement yet INVESCO has indicated that certain specific terms requested by StanCERA were not acceptable and that any changes to the investment agreement would be problematic. Ms. McGrath recommends the Board may want to further evaluate StanCERA's options. The Board discussed and reviewed the information presented.

Motion was made by Ron Martin and seconded by Steve Yauch to direct staff to suspend entering into an agreement with INVESCO, yet remain in communication with INVESCO, until after the January 22, 2008, Board of Retirement investment meeting.

Motion carried.

11. **Committee Reports and Recommendations for Action**

**STANDING COMMITTEES**

a. Education Committee – Gordon Ford, Chair

i. Discussion and Action on the 2008 Calendar of Educational Opportunities

Gordon Ford, Chair, informed Board members they had received the 2008 Calendar of Educational Opportunities for review and approval.

Motion was made by Ron Martin and seconded by Mike Fisher to approve the 2008 Calendar of Educational Opportunities as presented.

Motion carried.

ii. Presentation of Material For Future Educational Opportunities

Mr. Ford presented Board members with soft-sided briefcases with the StanCERA logo and vision statement imprinted on them. Mr. Watson explained these would be used by Board members when attending conferences and seminars on behalf of StanCERA.

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

Mr. Ford mentioned there was some interesting information in the November 2007 "PlanSponsor" magazine about Exchange Traded Funds (ETFs).

Mr. Ford thanked staff for providing the educational presentation on SIVs.

Michele Silva, Benefits Manager mentioned staff had received Certificates of Excellence from the Retirement Administrator.

Steve Yauch congratulated Mr. Hall on all his years of service to the Board of Retirement.

Mr. Hall again thanked everyone for the surprise Board Room dedication and reception.

13. **Adjournment**

Meeting adjourned at 4:13 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK, COUNTY COUNSEL

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Deirdre McGrath, Deputy County Counsel