



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
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## **BOARD OF RETIREMENT MINUTES**

**JUNE 25, 2002**

**Members Present:** Kent Crawford, Maria DeAnda, Gary Dial, Wes Hall, Al Sarina, Virgil Thompson and Tom Watson

**Members Absent:** Nick Blom and John Hallford

**Others Present:** Robert Harmon, John Doering, Karen Gonzales, John Gobel, Patrick Thomas of Strategic Investment Solutions, Inc., Alexander Matturri, Jr and Joel Whidden of Deutsche Asset Management, Kurt Zyla, Art Londos and Chris Shirley of Bank of New York.

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

### **2. ANNOUNCEMENTS**

Robert Harmon announced the election results and congratulated Gary Dial as the winner for the general member election. Wes Hall was unanimously elected as the retired representative. The general member vote count was as follows: Merry Baker, 116 votes, Gary Dial, 426 votes, Lynda Perino, 87 votes and Steve Yauch, 421 votes.

Tom Watson informed the board that Virgil Thompson was re-appointed by the Board of Supervisors for another three year term.

### **3. PUBLIC COMMENT**

None

### **4. CONSENT ITEMS**

Motion was made by Virgil Thompson and seconded by Al Sarina to approve the following items as listed with noted corrections made.

Motion carried.

a. Approval of the June 12, 2002 Regular and Closed Session Minutes.

At this time, the board moved into Closed Session. See item 7 for information.

Before the following presentations, Patrick Thomas from Strategic Investment Solutions, Inc., gave a quick review of why they recommended the hiring of an S&P 500 passive index manager.

5. **Presentations by S&P 500 Passive Index Finalists**

a. Deutsche Asset Management

Alexander Maturri and Joe Whidden of Deutsche Asset Management first thanked the board, Robert Harmon and Paul Harte for inviting them to give a presentation.

Joel Whidden gave an overall review on the Deutsche Asset Management organization. Joel stated that Deutsche Bank is a pretty sizeable bank and that they have a double A rating. Joel stated that Deutsche Bank was realigned a year ago and hired a new chairman, Dr. Ackerman. They have global capabilities with local expertise. They currently have two main offices, in New York and London. Joel stated Deutsche's total assets globally are \$794.4 billion and currently have five California based retirement systems on their client list.

Alexander Maturri stated that Deutsche Asset Management has over 50 index strategies across core and customized portfolios. Their general process and approach is the same. Deutsche passive assets managed are currently at \$135 billion and their S&P is about 56% or \$76.1 billion. Alexander stated that part of their distinguishing features on how they add value is with the people they have and the process they take. They have experienced people working with a disciplined process and consistent performance.

Deutsche reports that for one, three and five years, they have produced returns of .28%, -2.48% and 10.24% respectively, outperforming the market by 3 basis points, 5 basis points and 6 basis points.

Alexander and Joel both responded to the question raised regarding the potential sale of Deutsche Asset Management as reported in the press. They advised the board that Deutsche recently got a new CEO and he is reviewing all aspects of Deutsche's operations in an effort to increase shareholder value. As far as they know, no specific decision has been made regarding the sale of Deutsche Asset Management.

5. **Presentations by S&P 500 Passive Index Finalists**

- Continued -

b. Bank of New York

Chris Shirley of Bank of New York gave an overview of BNY Asset management. Chris stated that BNY is one of the largest investment managers in the United States with over \$70 billion of assets under management and extensive in-house equity and fixed-income research capabilities. BNY has a team of over 200 professionals, including some of the most experienced and respected portfolio managers and analysts in the industry. Chris notes some of the highlights on BNY with the acquisition of Estabrook Capital management, Ivy Asset Management, and Gannett Welsh and Kotler as well as acquiring 361 full time employees with those acquisitions.

Kurt Zyla reviewed BNY assets currently under management and how they have grown since 1997 with the purchase of new business and acquisitions. BNY currently has over \$75 billion of assets under management. Public Funds are 14% of their institutional clients. Kurt stated that BNY is the Core Product Line for BNY Asset Management. They have a broad range of index offerings for domestic and international equity and fixed income. They have collective trusts, mutual funds and individually managed accounts. They have a dedicated team of portfolio managers, administrators and block equity trading desks. They also have equitization, hedging and transition services available. They have a fairly robust index management team. Kurt stated that BNY indexed assets are not the largest fund out there. Kurt stated that the advantages of BNY asset management for indexing are that they have a management approach with a full index replication. They have state of the art systems that provide continuous monitoring and tight tracking. Their securities lending program is consistent with custody and has a proven long term track record of performance. They have separate accounts tailored to customized benchmarks with the flexibility to meet client specific investment guidelines. Kurt stated the specific advantages to StanCERA: commonality of systems minimizes reconciliation errors and allows for transferring of funds rather than wiring, commonality of administration expedites the investment process for our staff. Choosing a growing indexer where the size of your account is meaningful typically results in a higher level of service and choosing an indexer with a demonstrated commitment to the business will prove less disruptive for the Association.

BNY reports that for one, three and five years, they have produced returns of .30 %, -2.50 % and 10.21% respectively, outperforming the market by 6 basis points, 3 basis points and 3 basis points.

6. **Staff Report of Monthly Performance for Period Ending May 31, 2002**

Robert Harmon reported that at the end of May 2002 the association was at \$946 million which was slightly up from the prior month. Robert stated that the manager allocation is within target for most of the managers. Returns for the entire portfolio as of May 31, 2002 were 0.28%, 1.19%, -2.16%, 5.20% and 8.83% for the one month, three months, one, three and five years respectively. Robert stated that as of July 1, 2002 the policy targets will be updated.

7. **Closed Session**

Motion was made by Virgil Thompson and seconded by Tom Watson to adjourn into closed session at 2:04 p.m.

Motion carried.

Closed Session Findings:

After returning to regular session at 2:06 p.m., Robert Harmon, Administrator, read the findings of the closed session:

The fitness for duty report of Jimmie Anderson was reviewed, and Mr. Anderson's Service Connected Disability Retirement benefit was discontinued effective June 23, 2002.

8. **Administrator**

a. Discussion of Deutsche Asset Management and BNY Presentations.

Robert Harmon advised the board that the due diligence committee will be making a visit to both Deutsche Asset Management and Bank of New York in a couple of weeks.

Patrick Thomas of Strategic Investment Solutions, Inc., made an observation that hopefully we would find out more about the uncertainty of Deutsche Asset Management Bank prior to the final negotiations. Patrick stated that there is a lot to like in both of the candidates that gave a presentation.

b. Discussion and Approval of "Administrative Designation" Reserve.

Robert Harmon explained that at a previous meeting, the board voted to eliminate the "Administrative Designation" Reserve. At that time, no decision was made as where to put the approximately \$2.6 million currently in that account. Robert suggested that this be placed into the legal contingency

8. **Administrator**

- Continued -

b. Discussion and Approval of "Administrative Designation" Reserve.

reserve. If the County is successful in negotiating a settlement in the Ventura Case, this amount, in combination with the remaining reserves could then be used to pay any unfunded liability created. This would be at the board's discretion.

Motion was made by Virgil Thompson and seconded by Al Sarina to remove the Administrative Designation reserve and transfer the funds into the legal contingency reserve.

Motion carried.

9. **Correspondence**

None

10. **MEMBERS FORUM (Information and Future Agenda Requests Only)**

Maria DeAnda, Chair, of the Accountability Committee, stated that the committee had met and no current evaluations had been received. Maria requested an agenda item for the next meeting regarding incentives to complete evaluations.

Kent Crawford informed the board that he would not be present at the July 23, 2002 meeting.

Karen Gonzales took a count from the board on who would be present at the July 10, 2002 meeting and advised the board of the possibility of no quorum and that the meeting may need to be canceled. Karen will contact all board members next week and then contact the Chair for a cancellation decision.

Robert Harmon informed the board that he attended a CALAPRS Administrators round table and one of the topic's was security and how one system was looking into fingerprint security access. Robert also stated they were working on a theme for the CALAPRS General Assembly.

Wes Hall congratulated Gary Dial on his graduation through Stanford. Wes also requested updates on any strategic planning dates. Robert advised the board that no dates have been set and won't be for the next couple of months.

11. **ADJOURNMENT**

Meeting adjourned at 4:24 p.m.

Respectfully submitted,

Robert Harmon, Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK  
County Counsel

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John Doering, Assistant County Counsel