



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

**AUGUST 27, 2002**

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

**Members Absent:** John Hallford

**Others Present:** Robert Harmon, Victoria Halliday, Karen Gonzales, John Gobel, Paul Harte from Strategic Investment Solutions, John Mathai and Rob Saba from Charlotte Capital Management, Ozo Jaculewicz and Len Corton from Strong Capital Management, Delia Roges and Nick Galluccio from Trust Company of the West, Horton Shapiro of Dodge and Cox, Paul Garbe of MFS Institutional Advisors, John Hinchey of JBH Real Estate and Development, Niniv Tamimi of Westland Development, Adrienne Granger of Jones Lang LaSalle, Donald Phemister from CEO-Capital Projects, Tim Fedorchak from CEO- Capital Projects and Stan Risen of CEO's Office.

1. Meeting called to order at 10:00 a.m. by Chair Wes Hall

2. **ANNOUNCEMENTS**

Karen advised the board that John Hallford contacted her this morning and advised that he will be unable to attend the board meeting. He also informed her that he has an intention of resigning from the board due to his obligations with the Sheriff's department.

Karen informed the board members that SACRS registration forms with a cover letter had been given to the them and requested those attending have the forms returned to her no later than September 13, 2002.

3. **PUBLIC COMMENT**

None

4. **CONSENT ITEMS**

Motion was made by Tom Watson and seconded by Al Sarina to approve the following items as listed.

Motion carried.

- a. Approval of the August 14, 2002 Regular and Closed Session Minutes.
- b. Approval of Bylaws Amendments to Article IV through VIII as previously presented to Board.

Nick Blom arrived at 10:03 a.m.

Paul Harte gave a brief description about the important decision on choosing a small cap manager for this type of diversified fund. He stated that due diligence visits have been done on the three candidates. Paul stated that the board will notice the differences in the three firms after their presentations.

5. **SMALL CAP VALUE MANAGER PRESENTATIONS**

a. Charlotte Capital Management Presentation

John Mathai and Ron Saba of Charlotte Capital Management gave a presentation on their small cap value product. John stated that they focus only on small cap value. They currently have eight employees in the shop and feel they are very competitive in the small cap value market. They feel their competitiveness is a great tool for attracting and retaining clients. They state that they manage investment products today just as they will tomorrow. Their capacity limit is \$750 million and then they just close. John stated that Charlotte Capital buys stocks very early. They purchase before Wall Street even knows about them. They operate under a radar screen. John stated that if they buy a stock today, they want to see positive movement within 12-18 months and when they buy stocks they are looking for smaller growth that do not capture huge gains. They establish a price target which is an important concept for them to start low and move up gradually. John stated that they own 70-100 names in the portfolio. Their rule for risk control is if they see a stock go down 30% they throw out all research they have done and start over. This raises a red flag. Ron feels they are very focused on trading. They have no directed brokerage. They feel it is not an efficient way of trading. Their average is \$.02 cents per share trading costs, which is well below the average trading costs. Ron summarized why they purchase low stocks. Ron stated that they do not currently manage any public funds at this time. Their performance year to date is 12 or 13 basis points below benchmark of the Russell 2000 value. Ron thanked the board for allowing them to come in and make a presentation.

b. Strong Capital Management Presentation

Len Corton and Ozo Jaculewicz of Strong Capital Management gave a presentation on their small cap value product. Ozo reviewed their assets under management as of June 30, 2002. Strong Capital Management was established in 1974 with over \$43.1 billion in total assets. They have over 95 investment professionals and have offices in Milwaukee, Chicago, Indianapolis, New York, San Francisco and Tokyo. Len stated that they have over 1000 associates with a diversified product mix of value & growth. They manage both small and large cap products. They feel their key to

5. **SMALL CAP VALUE MANAGER PRESENTATIONS**

b. Strong Capital Management Presentation  
- Continued -

success is people and they do not serve Wall Street. They are very optimistic on this asset class and their team averages over 15 years of experience. Their portfolio manager, Charles Rinaldi has over 31 years of investment experience. Len stated that Strong Capital Management's investment philosophy is that they believe the small cap market is largely inefficient. They add value by seeking to exploit those inefficiencies through bottom-up security selection and to invest in under-valued, under-followed companies with an unrecognized positive dynamic for change. They believe in investing in companies that have a modest valuation which will limit downside risk while providing the opportunity for significant portfolio out performance. Strong's small cap value investment process combines both quantitative analysis and fundamental research. They feel the true small cap universe of stocks is under \$2 billion in market cap and are domestically listed stocks. Their security selection has a three step process which begins with a quantitative analysis, a proprietary dynamic screening and then a fundamental research. Strong Capital Management year to date performance is up over 300 basis points over the benchmark.

Tom Watson left the meeting at 11:50 a.m.  
A five minute break was taken at 11:50 a.m.  
The meeting resumed at 11:55 a.m.

c. Trust Company of the West Presentation

Delia Roges and Nicholas Galluccio of Trust Company of the West gave a presentation on their small cap value product. Delia began by giving a brief overview. TCW was established in 1971, is 70% owned by the TCW Group and 30% is owned by the subsidiary of Societe Generale. TCW has over \$88.6 Billion under management as of June 30, 2002. They have specialized investment professional in all asset classes. Their philosophy is to hire and retain talented individuals. They have more than 325 investment professional on staff. Their headquarters are in Los Angeles. TCW specializes in both Mid-Cap and Small Cap with an average market cap of \$4.5 billion. They utilize a day to day management and have an impressive client list. Nicholas stated that their SMID (Small cap with Mid-cap) averages \$3.5 billion market cap. Nicholas is based in New York and since inception of the value opportunities strategy in 1996 they have assets under management of \$1.7 billion with 27 clients. Nicholas stated that TCW value opportunities builds upon the 18 year old TCW value added strategy, employing the same investment philosophy and process.

5. **SMALL CAP VALUE MANAGER PRESENTATIONS**

- Continued -

c. Trust Company of the West Presentation

They have a diversified portfolio with long term continuity. They have a traditional value approach with limited growth. Their strategy and investment discipline seeks inefficiently priced securities through bottom-up, fundamental research. They generally invest in companies with small and medium market cap. Their typical stock characteristics are low P/E based on "normalized" earnings, price at the low end of the historical range, a strong balance sheet, excess cash flow, stock selling at a discount to company's break-up value and price to sales. TCW year to date performance is 16% to 18% below the benchmark.

d. Discussion of Small Cap Value Presentations and Selection of Manager

Paul Harte reviewed the differences of the three small cap value candidates with the board. During this review, the board had discussed over lunch each candidate. Paul stated that there were two routes the board may take in making a selection of a small cap manager. The board members could individually write down their selection or discuss it openly. The board decided to write down their selection by choosing their first choice, second choice and third choice. Once it was completed, Paul Harte tallied the votes up on the chalk board. Strong Capital came in first, Charlotte Capital came in second and TCW came in third.

Motion was made by Nick Blom to select Strong Capital Management for the Small Cap Value Manager. Motion failed for lack of second.

Tom Watson returned at 1:35 p.m.

The board decided to have further discussion and a second vote on the top two candidates, Strong and Charlotte Capital Management.

After further discussions, motion was made by Virgil Thompson and seconded by Al Sarina to select Charlotte Capital Management for the Small Cap Manager.

Motion carried.

A break was taken at 1:43 p.m.

Meeting resumed at 1:50 p.m.

6. **Quarterly Review by Dodge & Cox**

Horton Shapiro presented the Quarterly report for Dodge & Cox as of June 30, 2002. Horton stated that the fixed income portfolio had a market value of \$392,364,930. The portfolio had an estimated annual income of about \$25 million with a realized net gain of \$30 million and unrealized net gain of about \$15 million. The fixed income returns were 0.5%, 7.8%, 9.2% and 7.7% for one month, one year, three years and five years respectively. Horton stated that there had been a significant drop in the market. The biggest drop was short-term rates due to US Treasury Yield Curves declining. Horton stated that inflation is coming down. Horton stated that there has been a big change in the Corporate Bonds sector and as of December 31, 2001 the portfolio was under 40% in corporate bonds and as of June 30, 2002 it was at 45%.

The equity portfolio as of June 30, 2002 had a market value of \$277,185,100 with an estimated annual income of \$5.6 million. As of today the market value was \$247 million due to withdrawals. The quarterly return as of June 30, 2002 was -6.3%. The one, three and five year returns are -0.4%, +7.4% and +11.7% respectively.

7. **Semi-Annual Review by MFS Institutional Investors**

Paul Garbe of MFS gave the semi-annual review for the period ending June 30, 2002 on our Large Cap Growth Portfolio. Paul stated that the economic recovery through June has had a sharp rebound however it is still very stagnate. Market volatility was up/down 2% which was less than last year. Year to date growth style under performs value. The year to date portfolio performance was -17.4% which is below the Russell 1000 Growth. Paul stated the market value at initial funding on August 1, 2000 was \$50 million. There has been \$127 million in contributions with no withdrawals. The market value as of July 31, 2002 was over \$117 million. The market value as of August 23, 2002 was \$124 million.

Paul stated that the total performance as of July 31, 2002 was -7.01% which under performed the Russell 1000 Growth Index. Performance as of June 30, 2002, was -15.56%, -23.15% and -27.22% for the quarter, year and since inception respectively. The benchmark returns were -18.67%, -25.13% and -31.98% for the same time periods.

8. **Quarterly Review by Strategic Investment Solutions**

Paul Harte gave the quarterly review for SIS. Paul stated that the economy has entered a recession. Value outperformed growth. The U.S. Dollar is sliding more rapidly than expected. The manager allocation analysis as of June 30, 2002 was \$917,140,868 in current dollars. The total fund for the past quarter was -4.5%. MFS was -15.5% in the last quarter but had earned their fees for the year. Dodge & Cox was -6.3%, TCW was -21.6% and had under performed given their high

8. **Quarterly Review by Strategic Investment Solutions**

- Continued -

BETA. Paul requested the board entertain thoughts for the next board meeting for TCW to share fee's due to their under performance. Kent Crawford requested Paul include how to come up with a plan as to how long the association retain a manager that under performs. Paul stated that the International Equity Manager, Putnam was -4.4% in the first quarter. He stated U.S. Income Manager Dodge & Cox was still quite strong at 3.7%.

9. **Administrator**

- a. Adoption of Resolution Authorizing Administrator to Conduct Association Business with Bank of New York.

Robert presented the board with a Resolution that authorizes him and Tom Watson to conduct association business with Bank of New York. After discussion it was decided that a limit policy should be in place and additional persons should be authorized to conduct business with Bank of New York.

Motion was made by Virgil Thompson and seconded by Al Sarina to table this issue and come back with recommendations, restrictions and a policy as to transferring funds between banks.

Motion carried.

A break was taken at 3:15 p.m.  
The meeting resumed at 3:34 p.m.

At this time Robert Harmon gave a presentation regarding future facilities for StanCERA. The report was on downtown vs. non-downtown locations. Robert requested the board make a decision on where the new facility should be located. Robert also presented cost comparisons on the various locations.

Representatives from Valley Towers, the County/Westland Project, Jones Lang LaSalle, and the Chief Executive office were present and participated in the discussions.

Don Phemister of CEO-Capital Projects gave a brief description on the County/Westland project. He stated that the plans are for a six story building to be built. The top three floors would be owned by the County for the District Attorney's office. The developer would purchase two floors leaving one floor for StanCERA. There would be a parking garage adjacent to the building that would be completed prior to the completion of the Gallo Arts Performing Center. StanCERA would have the option to lease or buy a floor in the building. This would be a joint venture with the county.

John Hinchey of JBH Real Estate and Development gave a brief description of the Valley Towers building. Mr. Hinchey stated that this building would be nine floors upon completion with underground parking.

Virgil Thompson requested that the records show that there is no conflict of interest on his behalf regarding Valley Towers. Al Sarina stated he has a conflict of interest with Valley Towers so he will not be voting.

After a lengthy discussion, Virgil Thompson motioned and Nick Blom seconded to enter into a discussion with Valley Towers to move ahead with negotiations with the intent to purchase (not a commitment) the Valley Towers building.

Motion failed.

Al Sarina and Wes Hall Abstained

Nick Blom and Maria DeAnda Approved

Virgil Thompson, Gary Dial, Tom Watson and Kent Crawford Opposed

Nick Blom motioned and Kent Crawford seconded to table agenda items 10(b) through 10(e) to a special meeting.

After discussion, Robert Harmon was allowed to give a brief description on item 10(e) so that the board members would have some knowledge of that issue prior to the special meeting. No action was taken on this item.

Special meeting set for September 3, 2002 at 2:00 p.m.

Virgil Thompson Opposed

Motion carried.

10. **Correspondence**

None

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

Nick Blom raised questions regarding the status of the MFS Investment and the loss of \$60 million dollars that was funded by Dodge & Cox.

12. **ADJOURNMENT**

Meeting adjourned at 5:50 p.m.

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Respectfully submitted,

Robert Harmon, Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK  
County Counsel

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Victoria Halliday, Deputy County Counsel