



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

SEPTEMBER 24, 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, Victoria Halliday, Karen Gonzales, John Gobel, Paul Harte and Patrick Thomas from Strategic Investment Solutions, Delia Roges and Doug Foreman from Trust Company of the West

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

2. **ANNOUNCEMENTS**

Robert Harmon informed the board that he had passed out a copy of the Board of Supervisors agenda item regarding the Westland Building project. He stated that this agenda item had been processed prior to our last meeting and that he will continue to explore options with the County to obtain the sixth floor of the building.

Robert Harmon noted a correction on the minutes for the meeting of September 11, 2002.

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 correction made.

Motion carried.

a. Approval of the September 11, 2002 Regular Session Minutes.

5. **SEMI-ANNUAL REPORT BY TCW**

Delia Roges and Doug Foreman gave the semi-annual report for TCW ending June 30, 2002. Delia stated that there were no new updates at TCW and no personnel changes within our product. There have been good cash inflows even with the overall depreciation in the market. There has also been a lot of growth in fixed income products. TCW currently has \$89 billion in assets under management.

Doug Foreman went over the small cap growth product performance. Doug stated that one year performance was down about 40% at the end of August. Information Technology has been hit hard and there is currently a lack of business spending. The large companies are dominated by smaller companies. Doug stated that the investment objective has not changed and that TCW's philosophy is sound. TCW is looking for good businesses and are trying to buy small stocks where low valuations and high expectations intersect. Doug stated that the sector weightings as of August 31, 2002 are over-weighted in technology. The portfolio characteristics as of June 30, 2002 were very high in the revenue growth rate with a 47% change in the last twelve months.

Doug stated that we typically have a 3 to 5 year business cycle and that StanCERA is at the end of the third year of that cycle. The current economic environment may extend that cycle somewhat. Currently growth stocks are severely out of favor but should come back into favor as the cycle continues. TCW historically outperforms over the entire business cycle.

Doug feels that about 35% of the 1,800 "tech" sector companies are essentially "out of business" but haven't hung up their sign yet. These are typically companies trading at or under \$2 per share. They have little or no profits and no ability to raise cash. They are merely operating on current cash reserves. We have never seen a "down market" in the NASDAQ like this before. In 1973-1974, the NASDAQ was down 55% over a 24-month period, which was the worst performance for the NASDAQ up until now. Currently the NASDAQ is down 74% over a 28-month period.

When asked about losing accounts in this product, Doug responded that they have lost a few accounts but that others are giving them new funds. They currently have about \$2 billion under management in this product, which is down from a high of about \$6 billion, mostly due to depreciation in the market.

Doug's optimism on the market remains guarded for the foreseeable future.

6. **Staff Report of Investment Performance for period ending August 31, 2002**

Robert Harmon reported that at the end of August 2002 the association was at \$876 million, which was up 1% from the prior month. Returns for the entire portfolio as of August 31, 2002 were 1.23%, -6.73%, -5.22%, 2.52% and 5.83% for the one month, three months, one, three and five years respectively.

Due to our consultants being present, the closed session was moved to the end of the meeting.

7. **Closed Session**

Motion was made by Kent Crawford and seconded by Al Sarina to adjourn into closed session at 3:41 p.m.

A short recess was taken at this time. Meeting resumed at 3:45 p.m.

Motion carried.

Closed Session Findings:

After returning to regular session at 4:15 p.m., Robert Harmon, Administrator, read the findings of the closed session:

After discussion on the attorney fee's in the Carroll Burdick (Ventura) matter, it was the decision of the board to join in with the County to appeal the decision of the attorney fee finding provided the County agrees to paying the attorneys fees if the appeal fails.

After discussion regarding eligibility for disability retirement on Karen Mathews, it was the decision of the board to follow the attorney's advice and require that Ms. Mathews must first restore her lapse in service before considering any matters based on that same time period.

8. **Administrator**

- a. Discussion and action on recommendation for SIS to re-negotiate fee structure with under performing managers.

Paul Harte recommended that the association save the plan some money and renegotiate fees with TCW since they have under performed in the last couple of years. Paul stated that performance-based fees could be negotiated. Paul passed out a proposed fee schedule to the board, Delia Roges and Doug Foreman of TCW, which would set the performance-based fee at 30 basis points until certain milestones are met.

8. **Administrator**

- Continued -

- a. Discussion and action on recommendation for SIS to re-negotiate fee structure with under performing managers.

Doug Foreman requested to have some time to review the proposal and possibly come up with an alternate plan. Doug Foreman will notify Paul Harte and Robert Harmon by the end of October.

Motion was made by Al Sarina and seconded by Kent Crawford to authorize SIS to negotiate a performance-based fee with TCW.

Motion carried.

- b. Discussion and Approval of Executing Funding for Rebalancing.

Paul Harte passed out information on the Associations balance as of August 31, 2002. Paul recommends that the funding and rebalancing be done all at once and by the end of the current year. Paul requested direction to rebalance to the new targets approved in July once the contracts for the new managers are completed. Paul also recommends funding MFS and TCW pending the renegotiation of performance fees with TCW.

Motion was made by Virgil Thompson and seconded by Al Sarina to authorize the Administrator to rebalance the portfolio to the new policy targets upon completion and signing of the contracts and completion of the renegotiated performance-based fees with TCW.

Motion carried.

9. **Correspondence**

None

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

Robert Harmon inquired about a possible future agenda item in regards to considering a new proposal from Westland Development for funding the private portion of the County building project. After discussion the board indicated they would be open to revisiting this issue, should it be necessary.

11. **ADJOURNMENT**

Meeting adjourned at 4:27 p.m.

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Respectfully submitted,

Robert Harmon, Administrator

APPROVED AS TO FORM:
MICHAEL KRAUSNICK
County Counsel

Victoria Halliday, Deputy County Counsel