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## PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

FEBRUARY 22, 2005

**Members Present:** Nick Blom, Maria DeAnda, Jim DeMartini, Gary Dial, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, and Ron Martin

**Members Absent:** Linda Stotts-Burnett

**Others Present:** Ed Burroughs, Kelly Cerny, Paul Harte-Strategic Investment Solutions, Ed Schwartz-Opportunity Real Estate Group, Horton Shapiro-Dodge & Cox, Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Chair Gary Dial.

2. **Announcements**

Tom Watson, Administrator discussed and made available for reading, an article from the Institutional Investor, Inc. money management letter, February 14, 2005. The article discussed net new defined benefit asset management for 2004 gained (or lost). "2004 Manager Ranking by Assets Gained," Page 22, shows that MFS Institutional Advisors lost \$1 billion in business and Putnam Investments ranked last with a \$4 billion loss in business.

Tom Watson, Administrator announced that Wes Hall and he would be attending the SACRS Education Symposium, Wednesday, February 23, 2005, in Sacramento. It is to be an informative discussion relating to defined benefit and defined contribution retirement plans.

Tom Watson, Administrator announced that Richard Harris and John Bonaparte of Putnam Investments have invited Board members to lunch on March 8, 2005, at the Doubletree. Those interested in attending should notify Kelly Cerny, Administrative Assistant.

Tom Watson, Administrator, announced the CALAPRS "Principles of Pension Management" course at Stanford Law School, March 22-25, 2005, still has spaces available. Those interested in attending should notify Kelly Cerny by Friday, February 25, 2005.

2. **Announcements (Continued)**

Tom Watson, Administrator announced the Due Diligence Committee members are asked to remain after the Board meeting to discuss due diligence visit dates for 2005.

Jim DeMartini arrived at 2:03 p.m.

3. **Public Comment**

None.

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. **Consent Items**

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

Motion carried.

a. Approval of the February 9, 2005 Regular Session Minutes

5. **SIS Monthly Performance Review**

Paul Harte of Strategic Investment Solutions (SIS) distributed the preliminary monthly performance review for the period ending January 31, 2005. Paul stated as of January 31, 2005, StanCERA's portfolio was \$1.162 billion, a -2.05% change.

6. **SIS Investment Performance Analysis Fourth Quarter Ending December 31, 2004**

Paul Harte discussed the quarter ending December 31, 2004 performance analysis. It was a good decision to stay with MFS Institutional Advisors. The plan is on its target asset allocation and all managers are performing close to the benchmarks with the whole portfolio considerably surpassing the policy benchmark. Gordon Ford asked if SIS would add a list of the 10 top stocks in the international equity portfolio in the next report.

Gary Dial questioned Mazama's 11.01 Capital Price to Earnings (P/E) ratio vs. Russell 2500 P/E of 22.85. A lower P/E ratio would indicate a value style tilt, however Mazama's mandate is to be growth-oriented. Paul Harte will review the numbers to ascertain if the report is in error or, why the P/E appears small. The total fund returned 8.5%, 8.1%, 11.4%, 17.5%, 8.6% and 7.7% for the three-months, six months, one, two, three and five years (annualized). The five year annual return of 7.7%, -- while lower than the actuarially assumed 8% earnings rate -- is more than 400 basis points higher than the weighted benchmark return of 3.1% over the same period.

7. **Trustee Educational Topic – Institutional Real Estate Seminar**

Ed Schwartz of Opportunity Real Estate Group (ORG) made an institutional real estate presentation.

Mr. Schwartz reported real estate historically performs well as a hedge against inflation. Lease agreements typically include inflationary adjustments protecting properties from decreasing values during inflationary periods. In addition, material and labor cost increases during times of inflation increase the replacement cost for competitive properties and correspondingly increase the value of existing properties. Office, retail, industrial, apartments and hotels are good investment sectors.

Asset allocation models support the inclusion of real estate in a multi-asset portfolio due to its risk and return characteristics relative to other asset classes.

Real estate values constitute approximately 11% as of year-end 2002 of the total capitalization of the U.S. investment universe. It can be cyclic. Income returns historically have ranged between 6.5-9.0%. Members asked if it was good to diversify into real estate. Mr. Schwartz stated 5% of total assets is a good start. He cited San Joaquin County Employees' Retirement System has 7% of their asset class in real estate.

8. **Semi-Annual Portfolio Report by Dodge & Cox**

Horton Shapiro of Dodge & Cox presented the semi-annual report for the period ending December 31, 2004.

Mr. Shapiro stated our fixed income portfolio for the period ending December 31, 2004, was over \$404 million with an estimated income of over \$22 million. Our total rates for the fixed income securities for the period ending December 31, 2004 were 1.3%, 4.3%, 7.2% and 8.6% for three-months, one, three and five years, respectively. Our total rates of return for the fixed-income securities for the period ending January 31, 2005 was 0.5%, 1.1%, 3.9%, 7.2% and 8.8%, for the one-month, three-months, one, three, and five years respectively. Inflation was 3.3% through December 2004 compared to 1.9% a year ago.

Mr. Shapiro stated our portfolio summary for stocks for the period ending December 31, 2004 was over \$222 million with an estimated annual income of almost \$4 million. Our total rates of return for the stock portfolio for the period ending December 31, 2004 was 13.4%, 20.8%, 13.2% and 13.1% compounding for the three-months, one, three and five years respectively. Our total rates of return for the stock portfolio for the period ending January 31, 2005, was -2.1%, 8.2%, 13.2%, 12.4% and 13.8%, for the one-month, three-months, one, three, and five years respectively. Overall, a defensive posture was taken and this was positive for StanCERA.

8. **Semi-Annual Portfolio Report by Dodge & Cox (Continued)**

Mr. Shapiro announced that in 2006 he will retire after 37 years. Wendell Birkhofer of Dodge & Cox's Investment Policy Committee, and Bob Thompson, Fixed Income Strategy and Research, will assume his duties for StanCERA. They have a combined 29 years of experience with Dodge & Cox.

9. **Approval of the Revised Statement of Investment Policy Dated February 2005**

After discussion of the most recent revisions to the Statement of Investment Policy, the Board will postpone final approval until input is received from all investment managers. The Administrator will send copies of the February 2005 draft to all investment managers.

10. **Administrator**

- a. The Retirement Board reviewed the 2004-2005 Mid-Year Administrative Budget. This included the projected administrative expenditures for the fiscal year based on mid-year (December 31, 2004) actual expenditures. The budget is 89% of the maximum allowable and the year-end expenditures are projected to be less than 90% of budgeted figures.
- b. The Administrative Staff Organizational Chart was reviewed. This includes all currently filled positions and a vacant position of "General Counsel." The consensus is to continue using County Counsel and outside counsel for administrative purposes and disability hearings.

Motion was made by Wes Hall and seconded by Ron Martin to approve the Organizational Chart dated January 3, 2005.

Motion carried.

11. **Correspondence**

- a. Tom Watson announced the Board received a letter from Stanislaus County Chief Executive Officer Richard Robinson. The letter expressed appreciation to the Retirement Board for their accommodation in lowering employer contribution rates by maintaining a 2% contingency reserve, instead of a 3% contingency reserve for the upcoming fiscal year.

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

Wes Hall reported the Retiree Benefits Committee met and is exploring ideas on providing tax-exempt retiree health insurance coverage. San Diego County's Employees' Retirement Association utilizes a system each year to have the County pay the anticipated cost of retiree health insurance, and the Retirement Board offsets the County's employer contribution dollar for dollar. In this method, the County does not pay more than it would otherwise for retirement contributions and the funds can then be used to provide health insurance on a tax-exempt basis to retirees. The Committee is exploring the possibility to use attorney Bob Blum as a consultant for mapping the processes and details to enable this benefit to be tax exempt.

The Due Diligence Committee gathered and did not have specific dates. They will look at June and October 2005 "end of week" dates for each Committee member. The Administrator will coordinate this effort so dates may soon be finalized.

13. **Adjournment**

Meeting adjourned at 4:05 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK, COUNTY COUNSEL

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Edward R. Burroughs, Deputy County Counsel