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BOARD OF RETIREMENT MINUTES

June 24, 2008

Members Present: Maria De Anda, Jim DeMartini, Mike Fisher, Gordon Ford, Wes Hall, Mike Lynch, Ron Martin, and Steve Yauch

Members Absent: *Darin Gharat*

Alternate Member Present: Linda Stotts-Burnett, Alternate Retiree Representative

Others Present: Ed Burroughs, Kelly Cerny, Jack Doering, Natalie Elliott, Paul Harte-Strategic Investment Solutions Inc. (SIS), Derek Ebel and Joel Rubenstein-Mazama Capital Management; Hank Skau, Tom Watson, and Clarence Willmon

1. Meeting called to order at 2:00 p.m. by Mike Fisher, Chair.

2. **Announcements**

Gordon Ford, Vice-Chair, read a comment from an article in the June 24, 2008, The Wall Street Journal, entitled, "GM Slates Sweeping Rebates, 0% Financing To Fight Toyota." Mr. Ford stated from the article, "Based on market prices, debt investors currently see more than a 70% chance that GM [General Motors] will default on its obligations sometime in the next five years."

Tom Watson, Retirement Administrator, extended congratulations to Mike Lynch, and Mike Fisher, for their reappointments by the Board of Supervisors, as Trustees to the Board of Retirement. Mr. Lynch and Mr. Fisher will each serve a three-year term.

Mr. Watson also congratulated Clarence Willmon, the newly elected Trustee for Seat #3, General Members Representative, on the Board of Retirement.

3. **Public Comment**

None.

4. **Consent Items**

Motion was made by Ron Martin and seconded by Steve Yauch to approve the following items as listed.

Motion carried.

- a. Approval of the June 11, 2008, Administrative Meeting Minutes
- b. Purchasing Card Audit Memorandum Dated June 10, 2008

Maria De Anda arrived at 2:02 p.m.

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

Joel Rubenstein, Associate Portfolio Manager, and Derek Ebel, Vice President, Marketing & Client Service, gave the semi-annual presentation of StanCERA's small-mid cap growth equity portfolio.

Mr. Ebel stated Mazama is a pure growth manager and will continue using the the process for which it was hired. He said Mazama's fundamental approach remains strong. He gave an overview of Mazama's current situation and outlook, citing the fact that while the past year has been an extremely difficult and challenging market environment for investment managers, Mazama remains confident that its portfolio of high quality growth companies will be rewarded for their success.

StanCERA's small-mid cap growth market value as of May 31, 2008, is \$56,272,227. StanCERA's quarter-to-date, one year, three year, and since inception (11/23/04) return percentages, net of fees as of March 31, 2008, are -18.78%, -23.60%, 0.70%, and 0.21%, respectively. The report mentioned that Mazama's stock choices continue to be strong and consistent in this overall down market. Mazama's portfolio returns have outperformed the median manager 77% of the time, while the Russell 2000 benchmark has outperformed only 36% of the time.

Mr. Rubenstein and Mr. Ebel answered several questions from Board members. Mr. Fisher inquired as to why the report did not contain the list of the top ten contributors and detractors to StanCERA's portfolio, as it usually does. Mr. Ebel said this was an oversight and would ensure this information is sent electronically.

Item #7 Heard Out of Order

7. **County Counsel**

- a. County Counsel's Response to the Board's Inquiry on the Legal Costs and Services Derivation for Fiscal Year (FY) 2008-2009 Budgeted Cost of \$159,980.

Jack Doering, County Counsel, distributed a memorandum dated June 23, 2008, entitled, "Fiscal Year 2008-2009 County Counsel Budget Projections for StanCERA." He gave a brief summary of how Counsel determines the projected cost for Deputy County Counsel services to StanCERA for the FY 2008-2009.

Item #7 Heard Out of Order (cont.)

7. County Counsel (cont.)

- a. County Counsel's Response to the Board's Inquiry on the Legal Costs and Services Derivation for Fiscal Year (FY) 2008-2009 Budgeted Cost of \$159,980 (cont.)

Mr. Doering informed the Board that the initial estimate of \$159,981, which was based on 60% of a Deputy County Counsel's time, was given to StanCERA using the weighted labor rate of \$128.19 per hour for a Deputy County Counsel as of February 2008. A later, more comprehensive breakdown of actual time devoted to StanCERA revealed that a Deputy County Counsel devoted 52% of time to StanCERA matters for 2007-2008. Additionally, the weighted labor rate for a Deputy County Counsel increased to \$134.54 per hour due to the annual 5% rate increase. Thus, the new projection for legal costs and services for StanCERA for FY 2008-2009 is \$145,519. Mr. Doering's memorandum also included the increases for the past three fiscal years.

Mr. Fisher inquired about ways to reduce Counsel costs, such as limiting education and travel. Mr. Doering stated that he was not qualified to speak on what specific topics that the Retirement Association attorney should be addressing. He said that for all attorneys education is vital in order to keep abreast of current issues. Mr. Doering said that the Deputy County Counsel assigned to work on StanCERA matters works for the Retirement Board and it would be at the Board's discretion as to what education and/or travel in which the Deputy County Counsel would participate. Board members asked if it was standard for attorneys to spend time reviewing issues that may not have an impact on a retirement system. Mr. Doering replied that the currently assigned Deputy County Counsel is an eminently qualified attorney on retirement law. He stated that any attorney is duty bound to find out what a potential impact could have on the system. He said attorneys should investigate, and at the point that it appears unlikely to have an impact, present their conclusions to the Administrator and/or the Board for further direction.

Maria De Anda stated that she felt that the currently assigned Deputy County Counsel was doing a good job and that the Deputy County Counsel should be allowed to attend training and to research issues that she felt were necessary to protect StanCERA. Mr. Doering said that the Retirement Board should discuss with the Deputy County Counsel how background information is obtained to make informed decisions.

Mr. Doering concluded by saying that the Deputy County Counsel assigned to StanCERA works for the Retirement Board, just as the Administrator works for the Retirement Board. He explained that the Deputy County Counsel does not work for the Administrator. Ideally, Mr. Doering said, the Deputy County Counsel and the Administrator would work together and be in agreement when matters are brought to the Retirement Board. However, he said, there may be cases where the two come to the Board with a difference of opinion and it would then be up to the Retirement Board to address such matters.

6. **Strategic Investment Solutions, Inc. (SIS) – Investment Manager Consultant**

- a. SIS, Inc.'s Monthly Performance Review for The Month Ending May 31, 2008

Paul Harte presented the monthly performance review for the period ending May 31, 2008. StanCERA's portfolio is \$ 1.39 billion, a 1.05% increase from the prior month. The overall rate of return for this fiscal year to date is -1.79%. This return is lower than the 0.53% return of StanCERA's policy index. This return is considerably under the fiscal year to date assumed rate of 7.50%. Mr. Harte said it was a decent month, and the investment managers remain close to their targets.

Maria De Anda left at 3:18 p.m.

- b. SIS, Inc.'s Manager Review List – Performance Through March 31, 2008

Ed Burroughs left at 3:22 p.m.

Mr. Harte provided an overview of the StanCERA Manager Review List for performance through March 31, 2008. All managers except Mazama Capital Management remain in good standing for this time period. Mazama Capital Management Inc. remains on under review status, with a one and two year return below the benchmark.

Ed Burroughs returned at 3:25 p.m.

Item #7 Heard Out of Order

8. **Administrator**

- a. Staff's Response to the Board's Inquiry on Specific FY 2008-2009 Administrative Budget Line-Items

Mr. Watson introduced Hank Skau, Operations Manager, who presented the additional budget information the Board had requested at the June 11, 2008 meeting. Mr. Skau explained that StanCERA is in the process of changing its budget process from the County's budget system so the budget is more straightforward. Board members were appreciative of the additional information they received.

- b. Discussion and Action FY 2008-2009 Administrative Budget

- i. Pending motion from the June 11, 2008, Board of Retirement meeting "to approve the FY 2008-2009 Administrative budget of \$2,097,829 that includes the addition of \$4,500 to fund the CEO-Risk Management JTA Update"

Mr. Watson explained that per Deputy County Counsel, a second motion involving the approval of the FY 2008-2009 budget had not been completed at the June 11, 2008 meeting. Therefore the motion must be completed here. At the June 11, 2008,

8. **Administrator (cont.)**

b. Discussion and Action FY 2008-2009 Administrative Budget (cont.)

- i. Pending motion from the June 11, 2008, Board of Retirement meeting “to approve the FY 2008-2009 Administrative budget of \$2,097,829 that includes the addition of \$4,500 to fund the CEO-Risk Management JTA Update” (cont.)

Board meeting, the motion had been made to approve the budget, and then motioned to reconsider.

Mr. Watson reiterated that due to StanCERA’s budget constraints, due to the down market, part-time staff was reduced and staff travel curtailed. Funding the CEO-Risk Management Disability Management Program at a cost of \$60,000 was not a core responsibility for StanCERA to fund this year. Mr. Watson reminded the Board that the possibility of funding the program was going to be revisited each year, and dependent on StanCERA’s budget, may be funded some time in the future.

Wes Hall, Trustee, noted that other 1937 Act retirement systems do not partner with their counties in a Disability Management Program. Steve Yauch, Trustee, said it would be prudent on the part of the County to support the CEO-Risk Management’s Disability Management Program this year.

Motion was made by Darin Gharat (on June 11, 2008) and seconded by Ron Martin (on June 24, 2008) to approve the FY 2008-2009 Administrative budget of \$2,097,829 that includes the addition of \$4,500 to fund the CEO-Risk Management JTA Update.

Motion carried.

Jim DeMartini opposed.
Gordon Ford opposed.
Mike Lynch opposed.

9. **Committee Reports & Recommendations for Action**

STANDING COMMITTEES

a. Due Diligence Committee – Gordon Ford, Chair

- i. Due Diligence Committee’s Memorandum, Dated June 24, 2008, “Due Diligence: BNY Mellon Corp., Dodge & Cox, and SIS, Inc.”

Mr. Ford informed Board members they had received his memorandum outlining the recent Due Diligence trip. He mentioned that the firms visited distributed more written material, in addition to the questionnaires they sent previously to the Committee. He noted with the June 24, 2008, Agenda, all Board members had received the written questionnaires from each

9. **Committee Reports & Recommendations for Action (cont.)**

STANDING COMMITTEES (cont.)

a. Due Diligence Committee – Gordon Ford, Chair (cont.)

- i. Due Diligence Committee’s Memorandum, Dated June 24, 2008,
“Due Diligence: BNY Mellon Corp., Dodge & Cox, and SIS, Inc.” (cont.)

firm for their perusal. Mr. Ford said he would answer any questions Board members may have regarding the memorandum.

Mr. Martin asked for clarification on the third paragraph of Mr. Ford’s memorandum. Mr. Ford explained that StanCERA has the right to request additional analyses and or economic forecasts from its investment managers. Mr. Harte said that SIS, Inc., could provide this to StanCERA on a quarter to quarter basis, along with the tracking errors report that is done. Board members discussed the memorandum and heard input about the Due Diligence visit from other Committee members that were present.

Mr. Martin also noted the memorandum states that the Retirement Board did not receive any education on Structured Investment Vehicles (SIVs). He thought the Retirement Board received education on this. Mr. Watson stated that Bob Thompson, Dodge & Cox, made a SIVs educational presentation at the December 12, 2007, Board of Retirement meeting. He said the Minutes of that meeting reflect the Board was given the history, structure, and many attributes of SIVs, along with the fact that StanCERA did not hold any SIVs in its investments. The Minutes of the December 12, 2007, Board meeting also reflect that Mr. Ford appreciated the information presented on SIVs.

- ii. SIS, Inc.’s Memorandum Dated June 6, 2008 – Dodge & Cox Due Diligence On-Site Visit June 6, 2008

Mr. Harte offered to answer any questions Board members may have regarding his memorandum. There were no questions.

- iii. The Bank of New York Mellon Corporation’s Due Diligence Questionnaire Response

Board members reviewed the response and had no further questions.

- iv. Dodge & Cox’s Due Diligence Questionnaire Response

Board members reviewed the response and had no further questions.

- v. SIS, Inc.’s Due Diligence Questionnaire Response

Board members reviewed the response and had no further questions.

9. **Committee Reports & Recommendations for Action (cont.)**

STANDING COMMITTEES (cont.)

b. Internal Governance Committee – Ron Martin, Chair

i. Discussion and Action on the Draft StanCERA Audit Committee Charter

Mr. Watson distributed a revised draft of the Audit Committee Charter to Board members. He explained this recent draft contained revisions by Deputy County Counsel, Ms. McGrath as of June 20, 2008. Ms. McGrath's suggestions were to alter the draft charter language to reflect the language used in Bylaw 1.7 Committees.

The Board discussed and reviewed the latest draft of the Audit Committee Charter.

Motion was made by Ron Martin and seconded by Mike Fisher to approve the Audit Committee Charter with the revisions as presented.

Motion carried.

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

Mr. Yauch said farewell to Board members, and welcomed Clarence Willmon. Mr. Yauch mentioned that Mr. Willmon would be a good replacement for him on the Internal Governance Committee. Mr. Fisher, Chair, said he appointed Mr. Willmon to the Committee.

Mr. DeMartini mentioned there have been recent newspaper articles about the deteriorating United States automotive market, in particular relating to General Motors (GM) and Ford Motor Company. He questioned why the Statement of Investment Policy was changed to allow investment managers to buy GM or Ford stock.

Mr. Hall said Steve Yauch will be missed. He welcomed Clarence Willmon.

Linda Stotts-Burnett said it was good working with Mr. Yauch on the Board over the past 13 years.

Mr. Skau informed the Board that the quote for the fiduciary liability insurance had been received at a cost of \$33,000. This is a savings of \$3,500.

Mr. Watson also welcomed Clarence Willmon to the Board.

10. **Adjournment**

Meeting adjourned at 4:22 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
JOHN P. DOERING, COUNTY COUNSEL

By: _____
Edward R. Burroughs, Assistant County Counsel