



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

August 23, 2005

Members Present: Maria DeAnda, Jim DeMartini, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, Ron Martin, and Steve Yauch

Alternate Members

Present: Linda Stotts-Burnett, Alternate Retiree Representative

Members Absent: None

Others Present: Kelly Cerny, Paul Harte-Strategic Investment Solutions, Deirdre McGrath, Hank Skau, Horton A. Shapiro and Wendell Birkhofer- Dodge & Cox, and Tom Watson

1. Meeting called to order at 2:01 p.m. by Chair Steve Yauch.

2. **Announcements**

Kelly Cerny reminded members to return the Strategic Planning Sessions sign-up sheets for the three session dates of September 15, September 28, and October 14, 2005.

Kelly Cerny informed Board members she distributed to them a copy of the State Association of County Retirement Systems (SACRS) Fall 2005 Conference brochure. The conference is scheduled for November 8-11, 2005, in Costa Mesa, California. Kelly asked that those interested in attending should let her know by September 19, 2005, in order to make the registration by the due date.

Tom Watson announced that Board members had received the GlobalPensions Currency Management Forum London July 2005 booklet. A similar forum will be held at The Fairmont Hotel in San Francisco on September 8, 2005.

Tom Watson announced that Board members received a copy of BMTI Insurance Services' letter to insured retirees regarding the August 7th burglary of computers from their office. Tom said he received a telephone message from The Modesto

2. **Announcements (cont.)**

Bee regarding the burglary and returned the call. To date, The Bee had not responded. Jim DeMartini said The Bee also contacted him and he told them safeguards were in place and that he had received no complaints. Steve Yauch and Linda Stotts-Burnett each also received an inquiry.

3. **Public Comment**

None.

4. **Consent Items**

Motion was made by Wes Hall and seconded by Maria DeAnda to approve the following item as listed.

Motion carried.

a. Approval of the August 10, 2005 Minutes

5. **Semi-Annual Performance Report by Dodge & Cox**

Horton Shapiro, Senior Vice President, and Wendell Birkhofer, Vice President, Dodge & Cox, presented StanCERA's fixed income and equity portfolios performance through June 30, 2005. The fixed income portfolio for the period ending June 30, 2005 was over \$404 million with an estimated annual income of over \$20 million. The rates of return for the fixed income securities were 2.4%, 6.3%, 6.4% and 8.3% for the three-months, one, three and five years, respectively. The return on the fixed income portfolio for the calendar year was 2.1%. The rate of return for the fixed income securities for the month ending July 31, 2005 was -0.2%. Inflation was 2.5% for the year ending June 30, 2005.

Wendell Birkhofer showed the portfolio summary for stocks for the period ending June 30, 2005, was over \$215 million with an estimated annual income of almost \$4 million. The total rates of return for the stock portfolio for the period ending June 30, 2005 were 0.7%, 13.9%, 14.2% and 13.8% compounding for the three-months, one, three and five years respectively. The calendar year to date return was 0.9%. The rate of return for the stock portfolio for the month ending July 31, 2005 was 4.0%.

Mike Fisher left at 2:41 p.m.

5. **Semi-Annual Performance Report by Dodge & Cox (cont.)**

Dodge & Cox's performance for StanCERA has been outstanding over many years and StanCERA has remained a client since 1968. Horton stated Dodge & Cox investment funds are closed to new investors except for fixed income investments. Dodge & Cox is maintaining their defensive posture adding incremental yield to StanCERA's conservative portfolio due to anticipated prospective increases in inflation and interest rates. They are trimming corporate holdings and obtaining more Treasury and agency paper. Horton reminded the Board that he would be retiring in June 2006. Wendell Birkhofer and Bob Thompson will be StanCERA's senior portfolio managers going forward.

Wes Hall shared that Dodge & Cox was ranked 41st in a recent Institutional Investor magazine's list of hundreds of top investment managers.

Mike Fisher returned at 2:44 p.m.

6. **Strategic Investment Solutions, Inc. (SIS) Monthly Performance Review**

Paul Harte presented the monthly performance review for the period ending July 31, 2005. As of July 31, 2005, StanCERA's portfolio was \$1.20 billion, a 2.57% increase for the month. Asset allocation continues on target. The fiscal year to date return is 2.84%. This figure is gross of fees and much higher than the actuarially assumed rate of 0.66%.

Mike Fisher left at 3:16 p.m.

7. **Strategic Investment Solutions, Inc. (SIS) Second Quarter Investment Performance Analysis Ending June 30, 2005**

Paul Harte presented the second quarter investment performance analysis and the Manager Review List of performance through June 30, 2005. The composite fund returned 1.7% in the second quarter of 2005 and ranked in the 85th percentile among other public funds greater than \$100 million. The median fund returned 2.2%. The fund trailed its policy index (2.4%) during this time period. Longer term, the three and five year returns of 10.1% and 7.9% respectively, were well above the median among public plans (9.5% and 3.7%).

Paul mentioned he is looking forward to the Retirement Board's strategic planning session on investments at the end of September.

Mike Fisher returned at 3:21 p.m.

8. **Discussion & Approval of Retiree Health Insurance Plans/Rates & Stipend Amount – Retiree Benefits Committee Annual Review and Recommendations**

Wes Hall shared the Retiree Benefits Committee's annual review and recommendations dated August 16, 2005, for the 2006 retiree health insurance plans and rates proposed by Patrick McTighe of BMTI Insurance Services, StanCERA's health insurance consultant.

Motion was made by Maria DeAnda and seconded by Ron Martin to adopt the retiree health insurance plans and rates for 2006 as proposed by the health insurance consultant, Patrick McTighe of BMTI Insurance Services.

Motion carried.

Board members discussed the monthly maximum retiree health insurance stipend for 2006. Looking at the 10-year projections, Board members are concerned that recent low market returns and increasing expenses may cause a need to alter the benefit. To be ready for this year's open enrollment in October, Board members suggested maintaining the \$370 stipend, and requested the Retiree Benefits Committee to complete further research on the retiree health insurance payment structure. Steve Yauch, Chair, asked for an actuarial study to be included. The Retiree Benefits Committee will bring suggestions back to the Board by April 2006, prior to the open enrollment for calendar year 2007.

Motion was made by Darin Gharat and seconded by Ron Martin to maintain the maximum insurance stipend rate of \$370 per month for a member with 20 years of StanCERA service, effective January 1, 2006. The Board instructs the Retiree Benefits Committee to further research the retiree health insurance payment structure and bring back recommendations to the Retirement Board by April 2006.

Gordon Ford opposed.
Jim DeMartini opposed.

Motion carried.

9. **Administrator**

a. Discussion & Approval of the Contingency Reserve for Fiscal Year Ending June 30, 2005

Tom Watson, Administrator announced that for the past five years the contingency reserve rate used by our actuary is 3%. However, for the past two years, during budget preparation the County has requested that the Retirement Board lower the contingency reserve rate to 2% due to budget constraints. The 2% allows for a slight reduction (estimated at 0.50% of payroll) in the Employer

9. **Administrator (cont.)**

- a. Discussion & Approval of the Contingency Reserve for Fiscal Year Ending June 30, 2005 (cont.)

Retirement Contribution Rate. Tom inquired if the Board would like to use the 2% rate for the next actuarial study for the fiscal year ending June 2005, or continue with the 3% rate.

Motion was made by Darin Gharat and seconded by Mike Fisher to approve the 3% contingency reserve for the fiscal year ending June 30, 2005, to be used in both the accounting records and for the actuarial study to determine employer contribution rates.

Motion carried.

10. **Correspondence**

None.

Gordon Ford left at 4:04 p.m.

Mike Fisher left at 4:05 p.m.

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

Gordon Ford returned at 4:07 p.m.

Mike Fisher returned at 4:08 p.m.

Ron Martin would like to see a more proactive stance in the manner in which the Board as a unit handles the delinquency in performance of investment managers. He requests an item of discussion be placed on the agenda regarding a timeline to change managers. Tom Watson stated there is no specific policy in place to remove managers quickly. Paul Harte of Strategic Investment Solutions, Inc. (SIS), said the Manager Review List provided by SIS, Inc. is the guideline currently used to determine who is in good standing or under review.

Gordon Ford requested staff to send letters to those investment managers who are currently under review to inform them of their status.

12. **Adjournment**

Meeting adjourned at 4:16 p.m.

Respectfully submitted,

Tom Watson, Administrator

APPROVED AS TO FORM:
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: _____,
Edward R. Burroughs, Deputy County Counsel

For: Deidre McGrath, Deputy County Counsel