



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

September 27, 2005

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

Alternate Members

Absent: Linda Stotts-Burnett, Alternate Retiree Representative

Members Absent: Maria DeAnda, Mike Fisher

Others Present: Kelly Cerny, Jill Collins–Mazama Management, Inc.,
Paul Harte-Strategic Investment Solutions, Deirdre McGrath,
Steve Ng & Paul Garbe-MFS Institutional Advisors,
Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Chair Steve Yauch.

2. **Announcements**

Steve Yauch, Chair, and board members welcomed newly appointed board member Mike Lynch. Steve announced Mike would also fill the vacancy on the Retirement Board's Retiree Benefits Committee.

Tom Watson, Administrator, reminded board members tomorrow was the next strategic planning session involving investments. The session would be at the DoubleTree Hotel's San Jose Room, from 9:00 a.m. to 3:00 p.m. The final strategic planning session "Goals & Priorities," would take place on Friday, October 14, 2005, from 10:00 a.m. to 2:00 p.m., at Tenth Street Place, Room 2008.

Tom Watson announced that board members had received copies of the San Diego County Employees' Retirement Association (SCDERA) Special Newsletter and information from Hank Skau, Operations Manager, pertaining to retiree benefits funded by excess earnings, and retiree ad hoc benefits (health insurance and STAR COLA).

Tom Watson announced the Due Diligence Committee's Triennial Visit to Charlotte Capital, Charlotte, North Carolina would be on Wednesday, October 5 through Friday, October 7, 2005.

3. **Public Comment**

None.

4. **Consent Items**

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

Motion carried.

a. Approval of the September 14, 2005 Minutes

5. **Semi-Annual Performance Report by MFS Institutional Advisors, Inc.**

Steve Ng and Paul Garbe, Vice Presidents/Relationship Managers gave the semi-annual review of StanCERA's large cap growth equity portfolio. The portfolio StanCERA's market value as of June 30, 2005, was \$172,515,473. Value and small-cap equities continue to outperform large cap and growth equities. Going from a single portfolio manager portfolio to a team approach appeared to add value to the portfolio. Underperformance was due to stock selection prior to 2004, and the overweight to traditional growth sectors -- such as technology stocks -- hindered performance. The portfolio has outperformed the index in five out of six quarters since 2004. The one-year, three-year and five-year return percentages, gross of fees, as of June 30, 2005 were 14.3%, 9.5% and -6.8%, respectively.

Darin Gharat left at 2:24 p.m.

Jim DeMartini requested the investment managers to send their presentation material to StanCERA staff prior to mailing the Agenda, so Board members may review the report prior to the meeting.

Darin Gharat returned at 2:27 p.m.

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

Jill Collins, Marketing & Client Service, gave the semi-annual review of StanCERA's small-mid cap growth portfolio. Mazama began managing StanCERA's assets on November 23, 2004. StanCERA's market value as of June 30, 2005 is \$50,594,794.45. Small cap value continued to outperform small cap growth during the six months ending June 30, 2005. The second quarter 2005, six-months, and since inception (11/23/04), return percentages, gross of fees, as of June 30, 2005 were 4.40%, -2.01% and 3.05%, respectively.

In March 2005 Mazama reached its goal of \$3.5-\$4 billion in small mid-cap product and closed to new investors.

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

Paul Harte presented the monthly performance review for the period ending August 30, 2005. As of August 30, 2005, StanCERA's portfolio was \$1.20 billion, a 0.50% increase for the month. Asset allocation continues on target. Overall performance was slightly down. The fiscal year to date return is 3.35%. This figure is gross of fees and much higher than the actuarially assumed rate of 1.32%.

Paul shared a report of StanCERA Investment Manager Fees for Fiscal Year 2005. \$2.85 million for the plan is low, at approximately 25 basis points. Compared to other funds, StanCERA is very active but maintains low investment manager fees due to proactively negotiating fees and the long-term relationship with Dodge & Cox. Paul asked to renegotiate at SIS's discretion, more performance-based fees with managers. Steve Yauch, Chair, gave direction to do so.

8. **Discussion & Action on SIS's Memorandum of Recommendations for the June 30, 2005, Quarterly Investment Performance Manager Review List**

Paul Harte gave a brief summary of the recommendations for StanCERA's manager review list, including the letters of response from the three managers under review.

MFS Institutional Advisors – Had some poorer performance in years past, however 2005 has been good, with the highest alpha performance to date. Paul attributes this to a change from a single manager to a multi-manager team approach. SIS recommends MFS remain under review with no further action at this time.

Charlotte Capital - had a strong month in August 2005. Although underperformance occurred in the benchmark in a one-year period, they have narrowed the gap from 810 basis points to 300 basis points. SIS recommends the Due Diligence Committee discuss with Charlotte Capital their performance for StanCERA during the Committee's triennial visit to Charlotte Capital on October 6, 2005.

Putnam Investments – The split portfolio has shown better performance in the last three months and the letter of response provided more in-depth information as to the changes the firm has made. SIS recommends Putnam remain under review with no further action at this time.

9. **Administrator**

“Currency Management Forum” Report - San Francisco, September 8, 2005

Tom Watson informed the Board they had received this report at the September 14th meeting and asked if there were any questions. Paul Harte of Strategic Investment Solutions, Inc. also attended the forum. Wes Hall stated Tom’s report was good and detailed. The forum provided an overview of currency management services such as hedging, currency overlay, and alpha generating investment. Paul Harte mentioned the forum was particularly relevant for the Board’s upcoming strategic planning session for possible future investment alternatives.

10. **Correspondence**

Tom Watson, Administrator informed Board members they had copies of the letters of response from investment managers who were under review and Board members could refer to SIS’s above recommendations

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

Board members and staff individually introduced themselves to new trustee Mike Lynch.

Mike Lynch shared with the Board that he is currently the Chief Operating Officer of the Great Valley Center, had owned his own consulting firm before that, and previously was Congressman Condit’s Chief of Staff.

12. **Adjournment**

Meeting adjourned at 3:31 p.m.

Respectfully submitted,

Tom Watson, Administrator

APPROVED AS TO FORM:
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: _____,
Deirdre McGrath, Deputy County Counsel