



STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
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BOARD OF RETIREMENT MINUTES

October 25, 2005

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

Alternate

Members Present: Linda Stotts-Burnett, Alternate Retiree Representative

Members Absent: Maria DeAnda and Darin Gharat

Others Present: Keith Bruch-LSV Asset Management, Ed Burroughs, Kelly Cerny,
Natalie Elliott, Richard Harris and Sean Howley-Putnam
Investments, Paul Harte-Strategic Investment Solutions, Andrew
Paulden-Brown Armstrong Accountancy Corporation,
Hank Skau, and Tom Watson

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

2. **Announcements**

None.

3. **Public Comment**

None

4. **Consent Items**

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

Motion carried.

a. Approval of the October 12, 2005 Minutes

5. **Presentation of the Stanislaus County Employees' Retirement Association June 30, 2005 Audit Results by Brown Armstrong Accountancy Corporation**

Andrew Paulden, Certified Public Accountant, gave a brief overview of the annual audit process, significant audit areas, and audit reports. Mr. Paulden said he was impressed with the information StanCERA staff produced to complete the audit. No instances of non-compliance or material weaknesses were found in the audit, and StanCERA received a "clean" opinion from Brown Armstrong – the highest standard given. Mr. Paulden recommended that if not already doing so, to evaluate the actuary every three years to ensure an accurate audit. Tom Watson, Administrator, said that StanCERA has examined the actuarial valuation process through an audit by a different actuarial firm.

Board members received a draft of StanCERA's Comprehensive Annual Financial Report (CAFR) for fiscal years ending June 30, 2005 and 2004. Mr. Paulden said the significant improvement over the past three years of StanCERA staff's CAFR made it ready for its submission to the Government Financial Officers Association's (GFOA) Award program for Excellence in Financial Reporting.

Wes Hall asked how many 1937 Act counties Brown Armstrong currently audited. Mr. Paulden answered the firm now audits 14 of the 20 California 1937 Act counties.

6. **Semi-Annual Performance Report by LSV Asset Management**

Keith Bruch, Director, Client Portfolio Services, gave the semi-annual presentation of StanCERA's international value equity investment performance for the period ending September 30, 2005. Since LSV Asset Management was hired in August 2004, the longest annual return available was the one-year return of 29.5% (net of fees). This was 100 basis points above the benchmark Morgan Stanley Capital International (MSCI) and All Countries World Index excluding the United States (ACWI ex US) that had a 28.5% return for the same period. The period of January 1, 2005 through September 30, 2005 saw a return of 12.8%.

7. **Semi-Annual Performance Report by Putnam Investments**

Richard Harris, Managing Director, introduced Sean Howley, Senior Vice President, who gave the semi-annual presentation of StanCERA's international equity (growth style) performance. Mr. Howley has been with Putnam since 2001.

Mike Fisher left at 3:02 p.m.

7. **Semi-Annual Performance Report by Putnam Investments (cont.)**

Mr. Harris said four changes had occurred that should assist Putnam in being removed from being under review. Putnam reduced the bureaucracy within the organization thereby utilizing more of a team approach; Mark Pollard returned who was an architect of some of the first processes used by Putnam's international investments; the addition of more quantitative inputs; and equal compensation for global equity research, analysts, and portfolio managers, making it more of a team effort.

Mike Fisher returned at 3:05 p.m.

Board members said they would like to see better returns. Mr. Howley said returns are trending lower – high single digit to low double digits – and will most likely continue to do so. Two of the last three quarters were good. Returns as of September 30, 2005 were 28.2%, 22.3%, 2.59% for the one-year, three year and five-year periods respectively. This places the portfolio below the Europe Australia, and Far East (EAFE), MSCI ACWI mixed benchmark return of 3.75% for the five-year period, by 116 basis points.

Break began at 3:33 p.m.

Break ended at 3:38 p.m.

8. **Strategic Investment Solutions, Inc. (SIS) Monthly Performance Review for the Month Ending September 30, 2005**

Paul Harte presented the monthly performance review for the period ending September 30, 2005. As of September 30, 2005, StanCERA's portfolio was \$1.21 billion, a 0.82% increase for the month. The first three months of this fiscal year shows a return of 4.20%. This figure is gross of fees and much higher than the actuarially assumed rate of 2.04% for three months. The 4.20% return is also 68 basis points above the Policy Index return of 3.52% for the same period.

Paul summarized the Due Diligence Trip to Charlotte Capital in October. He discussed the new performance based fee presented to Charlotte Capital. It was determined to review Charlotte Capital again in December. Steve Yauch, Chair, requested the performance based fee and discussion of a possible search for a new money manager be placed on the agenda for the November 22, 2005 meeting.

9. **Administrator**

No Report.

10. **Correspondence**

- a. State Association Of County Retirement Systems (SACRS)
Constitution/Bylaw Amendments Language Memorandum

The Board discussed SACRS Executive Committee's October 3, 2005 memorandum about two proposed Constitution and By-law amendments, and a resolution to increase annual regular member dues.

Tom Watson, Administrator, explained that at the SACRS Fall Conference in November, each system's delegate would be asked to submit a vote on the amendments and the resolution.

Board members expressed concern regarding the resolution to increase annual regular system dues from \$2,500 to \$6,000 for systems with more than \$4 billion in assets, and from \$1,500 to \$4,000 for systems with less than \$4 billion in assets. Tom Watson stated SACRS had not raised dues since 1994 and the costs of the SACRS lobbyist and legislative analyst exceed what the current dues generate. The dues from all 20 1937 Act systems are \$37,000 each year, whereas the cost of the lobbyist and legislative analyst exceeds \$82,000 each year.

Motion was made by Wes Hall and seconded by Steve Yauch to authorize StanCERA's voting delegate – the Chair or Vice-Chair -- to approve the SACRS' resolution to increase annual regular system dues at the SACRS Fall Conference in November 2005, as proposed.

Jim DeMartini opposed.

Motion carried.

Motion was made by Wes Hall and seconded by Mike Fisher to authorize StanCERA's voting delegate to approve the SACRS' Constitutional and By-Law amendments at the SACRS Fall Conference in November 2005, as proposed.

Motion carried.

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

- a. Education Committee-Maria DeAnda, Chair
- i. Discussion & Action on Attendance of the January 19 – 20, 2006,
First Annual Steefel Public Pension Fund Fiduciary Symposium,
San Francisco, California

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

a. Education Committee-Maria DeAnda, Chair

Motion was made by Gordon Ford and seconded by Jim DeMartini to approve attendance at the Steefel Public Pension Fund Fiduciary Symposium, in San Francisco, January 19-20, 2006.

Motion carried.

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

Wes Hall and Linda Stotts-Burnett said the California Retired County Employees Association (CRCEA) Fall Conference sponsored by the Retired Employees of Stanislaus County (RESCO) at the DoubleTree Hotel had good attendance and received good comments.

Wes Hall thanked staff for a great job done on the Comprehensive Annual Financial Report (CAFR).

13. **Adjournment**

Meeting adjourned at 4:33 p.m.

Respectfully submitted,

Tom Watson, Administrator

APPROVED AS TO FORM:
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: _____,
Deirdre McGrath, Deputy County Counsel

For: Edward R. Burroughs, Deputy County Counsel