



STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
832 12th Street, Suite 600
Modesto, CA 95354
MAIL: P.O Box 3150, Modesto 95353-3150

Phone (209) 525-6393
Fax (209) 558-4976
www.stancera.org
e-mail: retirement@stancera.org

PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

November 25, 2008

Members Present: Maria De Anda, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, Mike Lynch, Ron Martin, and Clarence Willmon

Alternate Member Present: Linda Stotts-Burnett (Alternate Retiree Representative)

Members Absent: *Jim DeMartini*

Others Present: Kelly Cerny, Natalie Elliott, Graham Schmidt and Bob McCrory-EFI Actuaries; Nick Collier and Karen Steffen-Milliman, Inc.; Greg White-Prima Capital Advisors; Paul Harte-SIS, Inc., Doris Foster and Monica Nino-Chief Executive Office, Deirdre McGrath, Michele Silva, Hank Skau, and Tom Watson

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

2. **Announcements**

Gordon Ford, Ex-Officio, informed the Board of a few recent articles in The Wall Street Journal. The first article, entitled, "*Structured Investment Products*," (11/05/08) provided tools for investors to help manage volatility in today's market. The second article entitled, "*Citi Weighs Its Options, Including Selling the Firm*," (11/21/08), introduced Citigroup's attempt to reduce uncertainty regarding their exposure by announcing their plan to purchase \$17.4 billion in assets from its structured investment vehicles (SIVs). The article further stated that these were the complex investment tools that first encountered trouble last year due to their mortgage-related holdings. The final article, entitled "*Rescue Talks Accelerate for Battered Citigroup*," (11/24/08), explains that Citigroup states two days later that the SIVs to be purchased faced a \$1.1 billion loss due to their diminished values.

Kelly Cerny, Board Secretary, announced she was trying out a new pen that can record audio (speakers, Board member discussions, etc.) to aid with taking meeting minutes.

3. **Public Comment**

None.

4. **Consent Items**

Ms. Cerny informed the Board there were two amendments to the October 28, 2008, Investment meeting Minutes. The amendments are as follows:

1. Item #9 should read:

“Motion was made by Maria De Anda and seconded by Mike Lynch to select Capital Prospects, LLC, as StanCERA’s emerging multiple manager of a small cap value equity portfolio, effective January 1, 2009. This will replace the current investment in the Russell 2000 Value Index Exchange Traded Fund (ETF) i-shares.

Motion carried.

Jim De Martini, Mike Fisher, Gordon Ford, and Clarence Willmon opposed.”

2. Item #10c. should read:

“Motion was made by Mike Lynch and seconded by Darin Gharat to terminate StanCERA’s small cap growth equity portfolio investment management services agreement with Mazama Capital Management Inc., in accordance with the agreement, and select Legato Capital Management LLC, as StanCERA’s emerging multiple manager of a small cap growth portfolio, effective January 1, 2009.

Motion carried.

Mike Fisher opposed.”

Motion was made by Wes Hall and seconded by Clarence Willmon to approve the following items as listed and amended here.

Motion carried.

- a. Approval of the October 28, 2008, Investment Meeting Minutes as Amended Above
- b. Approval of Don Erwin – Retiree Request for Refund of Member’s Contributions Deposited in the Current Pension Reserve Fund Pursuant to Government Code Sections 31628 and 31629
- c. Receipt of November 13, 2008 Update on 832 12th St., Sixth Floor Vacant Space Leasing
- d. Approval of Revised StanCERA Conflict of Interest Code
- e. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 1. Carrie Esau, Fire Warden, Effective 10-20-08
 2. Martietta E. Kummerle, City of Ceres, Effective 10-18-08
 3. Timothy Nessel, Sheriff, Effective 11-25-08
 4. Mary Ann Nickles, Superior Court, Effective 11-18-08
 5. Mickey Peabody, Board of Supervisors, Effective 10-17-08
 6. La Vonne Rodriguez, CSA, Effective 09-12-08
 7. Charlotte Van Buskirk, HSA, 04-28-08

4. **Consent Items (cont.)**

f. Approval of Deferred Retirement(s) – **Section 31700**

1. Bruce Abanathie, Public Defender, Effective 07-30-07
2. Karen Camper, Superior Court, Effective 08-29-08
3. Salud Cobarruvias-Soto, CSA, Effective 09-02-08
4. Anna B. Diaz, CSA, Effective 09-12-08
5. Sharon Jones, BHRS, Effective 08-28-08
6. Kellee Malone, Public Defender, Effective 06-27-08
7. Mason Mineni, Sheriff, Effective 08-09-08
8. Valeria Reynoso, CSA, Effective 08-07-08
9. Kimberly Ridenour, Emergency Dispatch, Effective 07-02-05
10. Ana Rocha, Planning, Effective 04-30-08
11. Vicki L. Ross, General Services Agency, Effective 09-26-08

Maria DeAnda questioned the lateness of some of the dates for the members requesting deferred retirements (2007 and 2005). Staff responded these were recently received however, the member may have terminated and never completed the paperwork upon leaving. Staff commented the law provides that members who leave and do not take any action automatically default to deferred retirement status. It is important for staff to know if the member went to another California public agency so that reciprocity can be established.

g. Approval of Death Benefit – **Section 31781**

1. Karin M. Nash, Deceased December 14, 2007, Active Member, Option Pursuant to Government Code Section 31781 and 31781.1

5. **Presentation of the Actuarial Audit of the June 30, 2006 Valuation and 2003-2006 Experience Study Prepared by Milliman, Inc., Actuarial Audit Services**

Karen I. Steffen and Nick J. Collier, Consulting Actuaries for Milliman, presented the findings and recommendations for changes resulting from the Actuarial Audit of the June 30, 2006 Actuarial Valuation and the 2006 Experience Study originally completed by Buck Consultants (Buck). The Milliman actuaries introduced four (4) levels of recommendations, Level 1 being the strongest recommendation (where they strongly recommend changes be made) and Level 4 being a level where they believe a change could be made but would not expect the impact to be material. There were four (4) Level 1 recommendations which consist of:

1. Shutting off the termination assumption at service retirement eligibility
2. Base termination assumption on service not age
3. Increase service retirement rates to reflect correction to experience study
4. Revise treatment of non-valuation reserves in actuarial asset valuation.

It was noted that the basic, necessary changes would result in a material increase for the employer contribution rate from the current 9% to 15% or, even 17% of covered payroll. If one included all recommendations, the rate could go as high as 22% of payroll (2.5 times the current rate). Some of the changes are necessary to reflect current methods of handling estimated service retirements, elimination of withdrawals upon eligibility for service retirement, and basing the termination pattern on length of service versus age.

5. **Presentation of the Actuarial Audit of the June 30, 2006 Valuation and 2003-2006 Experience Study Prepared by Milliman, Inc., Actuarial Audit Services (cont.)**

These methods are widely accepted by the actuarial community. Other items (mortality tables used, inflation/wage index assumptions, earnings assumption, etc.) are more judgmental in nature and would be recommended for change, but not "essential" to the funding of the system.

D. Gharat left at 3:03 p.m.

D. Gharat returned at 3:08 p.m.

6. **Presentation by EFI Actuaries of the Current Economic Environment Effects On Actuarial Valuations and Experience Studies**

EFI Actuaries, Graham Schmidt and Bob McCrory, followed up with a presentation noting agreement with the above most highly recommended changes by Milliman. They cautioned that other changes were more judgmental in nature and were not as critical at this point to make changes immediately. EFI Actuaries confirmed the employer contribution rate increases noted in Milliman's presentation.

D. Gharat left at 3:13 p.m.

D. Gharat returned at 3:16 p.m.

7. **Discussion and Action on the Milliman Inc., Actuarial Audit Services' Recommendations on the June 30, 2006 Valuation and 2003-2006 Experience Study**

Recessed at 3:20 p.m.

Reconvened at 3:27 p.m.

The Retirement Board discussed ways of proceeding and decided to have EFI model the various changes with each change effect on the employer contribution rates within the upcoming June 30, 2008 valuation report.

Motion was made by Wes Hall and seconded by Ron Martin to authorize EFI Actuaries to model the four (4) Level 1 Milliman recommendations and impacts on the employer contribution rates.

Motion carried.

8. **Educational Presentation by Prima Capital Advisors LLC on Commercial Mortgage Investments**

Gregory White of Prima Capital Advisors, LLC presented his firm's investment management history, capabilities and experience in investments in Commercial Mortgages and Commercial Mortgage Backed Securities (CMBS).

8. **Educational Presentation by Prima Capital Advisors LLC on Commercial Mortgage Investments (cont.)**

With about \$3 billion in management of these fixed income securities, they have only experienced a \$2 million loss. Clients include San Joaquin CERA, San Francisco City and County ERS, as well as other private and public pension trusts.

M. Lynch left at 4:34 p.m.

9. **Strategic Investments Solutions (SIS), Inc.**

a. Investment Performance Analysis for the Third Quarter Ending September 30, 2008

Due to the length of the meeting devoted to the actuarial audit and CMBS investment presentations; actions already undertaken by the Retirement Board in changing the portfolio management; and the dramatic movement in the markets during the month of October, Paul Harte, SIS skipped going over the written quarterly report for the quarter ending September 30, 2008 and went over the October 2008 monthly investment report.

b. Monthly Performance Review for the Month Ending October 31, 2008

Due to the continued downward trend in the equity markets, the fixed income portion of the portfolio is beyond the normal asset allocation range. Taking the monthly cash (about \$3 million) needed for benefits and expenses will not correct the imbalance. Paul Harte stated that he would come up with some options for re-balancing the portfolio for the Board's consideration at its December 10, 2008 meeting. As far as performance goes, the total Fund is down -22.54% fiscal year to date which is -1.29% below the Policy index return of -21.25%; -25.21% lower than the actuarial assumed rate fiscal year to date of 2.67% and -23.87% lower than the assumed inflation rate fiscal year to date of 1.33%. In addition to re-balancing options, Paul Harte will return to the Board on December 10, 2008 with Investment Guidelines related to the Manager of Emerging Managers' program.

10. **Closed Session**

a. Discussion and Action on the Administrative Recommendation on the Application for Service-Connected Disability Retirement by StanCERA Retired Member Arthur Voortman

M. Silva, H. Skau and N. Elliott left the meeting at 5:00 p.m.

Motion was made by Maria DeAnda and seconded by Wes Hall to commence to Closed Session at 5:02 p.m.

Upon returning to Regular Session at 5:16 p.m., Tom Watson, Retirement Administrator, read the findings of the Closed Session:

The Board remands the matter back to staff for further investigation as directed by Counsel, and to bring the results back to the Board.

11. **Correspondence**

- a. National Conference on Public Employee Retirement Systems' (NCPERS) November 2008 Research Series Publication, "*The Advantages of Using Conventional Actuarial Approaches for Valuing Public Pension Plans.*"

The Board noted receipt of the correspondence from NCPERS of its research paper entitled, "*The Advantages of Using Conventional Actuarial Approaches for Valuing Public Pension Plans.*"

12. **Committee Reports and Recommendations for Action**

STANDING COMMITTEES

W. Hall left at 5:17 p.m.

- a. Internal Governance Audit Committee – Ron Martin, Chair
- i. Discussion and Action on Acceptance of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30 2007, and June 30, 2008

Ron Martin, Chair of the Internal Governance Committee (also the Audit Committee) noted that the Committee had met in October to review the draft of the Comprehensive Annual Financial Report with the CPA firm. He noted that the final CAFR had been electronically sent to all Retirement Board members for their review. He recommended its adoption.

Motion was made by Clarence Willmon and seconded by Maria DeAnda to accept the CAFR as presented for the Fiscal Years Ended June 30, 2007, and June 30, 2008.

Motion carried.

W. Hall returned at 5:20 p.m.

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

Deirdre McGrath noted the unfinished SACRS business on the legislation for the retiree alternate member. The SACRS Legislative Committee is still working on language and will request SACRS' member systems' input in January after distributing the revised language.

Counsel and staff are continuing to investigate whether StanCERA will submit a request for an IRS determination letter of tax compliance.

Board members may want to consider joining with other SACRS systems in a two-step process for submitting retirement plan documentation to the IRS for its determination as to the appropriateness to qualify for tax exemption. The two step process is: 1) Submit the 1937 Act to IRS for review (perhaps in 2009); 2) Submit local ordinances and policies (perhaps in 2010 or 2011).

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

Staff noted one proposal for the Operational Audit was received from Macias Consulting Group. The Audit Committee will meet to decide if this proposal is sufficient or if another Request for Proposal (RFP) process should be done to obtain additional proposals. The Audit Committee members said they will hold a committee meeting directly after the December 10, 2008, Retirement Board meeting.

14. **Adjournment**

Meeting adjourned at 5:28 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

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

Deirdre McGrath, Deputy County Counsel