



**STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

March 22, 2001

Members Present: Kent Crawford, Maria DeAnda, Wes Hall, Al Sarina, Virgil Thompson, Steve Yauch, and Tom Watson

Members Absent: Lyn Bettencourt, Nick Blom

Others Present: Michael Krausnick, Robert Harmon, Lois Ertel, Janice Robinson; Jennifer Cooper, Kim Navarro, and Mike Robbie of Cooper Consultants, Inc.; Thomas M. Richards & Ann Posey of Richards & Tierney, Inc.(R&T); Kevin Lanier, David Brief, & John McLaughlin of Capital Resource Advisors (CRA); David Russell & Kevin Vandolder of EnnisKnupp; Paul Harte & Patrick Thomas of Strategic Investment Solutions, Inc. (SIS); Bob Helliesen, Bill Cottle & Cary Hally of Dorn, Helliesen & Cottle, Inc.

1. Meeting called to order at 9:02 a.m. by Vice-Chairman Wesley Hall

2. **ANNOUNCEMENTS**

Mick Krausnick explained the law relevant to the March 27, 2001 agenda and how certain items should be listed. He provided hi-lighted copies of relevant portions.

Tom Watson announced that Irma Perrone, Retirement Specialist, had terminated her employment with us to accept a position at Stanislaus State which will provide experience in her chosen career field. Lois Ertel will assume the Retirement Specialist position, which is a promotion for her, and Karen Valdez will assume the secretarial responsibilities.

Janice Robinson will be the time keeper today for the purpose of keeping us on schedule and assuring each firm has an equal amount of time.

3. **PUBLIC COMMENT**

None

4. **COOPER CONSULTANTS PRESENTATION.**

Jennifer Cooper introduced Kim Navarro and Mike Robbie of Cooper Consultants, Inc., an independent firm that specializes in investment consultant searches. A summary of those firms to be interviewed today had been prepared and furnished to Board members to assist in comparisons. She explained her independent rating system which is based on information the firms file periodically with the US Securities and Exchange Commission. Those firms to be present today are representative of the preferences the Board indicated they would like

4. **COOPER CONSULTANTS PRESENTATION-Continued**

in an Investment Consultant. She emphasized the importance of looking for the “best fit” for the Board of Retirement and not allow fees to be the determining factor. Some of the important items to consider are the people, their process, and analytical tools used. She suggested the Board request a disclosure statement from time to time from the firm which is hired. A watch should be kept for conflict of interest areas and personnel changes. 5 to 1 is the lowest and best ratio of a consultant to clients. Jennifer Cooper also explained the relevance and importance of the information provided in the recap of each potential consultant in her summary.

5. **PRESENTATIONS BY CONSULTANT FIRMS**

Richards & Tierney, Inc.

Thomas Richards and Ann Posey shared in the presentation of information about their firm. Dave Tierney and Thomas Richards were the co-founders in 1984 of this organization which is now owned by six Principals. Although their headquarters is in Chicago, they have a California office. They believe in a close working relationship with clients, provide “high quality innovative products”, and are sensitive to each clients particular needs. They would monitor for quality and risk control. R & T is an independent organization that believes their products and services would add value to the Retirement Association.

Each consultant firm was asked to explain the MSCI (Morgan Stanley Capital Index) Rule changes to EAFE (European, Asian, and Far East Index) in a ten minute time frame. A very brief explanation (a detailed, comprehensive, two page explanation is available in the retirement office) as provided by Thomas Richards was the intent to implement two different changes in the international equity indices; 1) method by which stocks are weighted in the indices and 2) the number of stocks that comprise the indices. Currently, stocks in the MSCI indices are market capitalization weighted (stock price times the number of shares outstanding) and the number of stocks for the market representation will be increased from approximately 930 companies to approximately 1800. The definition of “float weighting” as an alternative, the effect on portfolios, and measures an investor in the International Market should take were covered.

Questions answered as follows: If hired, this company would first look at where we are, look at our investment policy for inconsistencies, and then advise. They believe using the same money manager for multiple types of investments should be considered carefully. They think less is better in the number of managers retained and would help to minimize fees and costs. The “firing” of a manager is a very expensive process that should not be done without carefully considering qualitative issues.

A five minute break was taken at this time.

5. **PRESENTATIONS BY CONSULTANT FIRMS-Continued**

Capital Resource Advisors

Kevin Lanier, David Brief and John McLaughlin were present to represent their organization. A review of their background, their philosophy, their services, resources and capabilities was presented. John McLaughlin believes the depth and breadth of this organization distinguishes it. Kevin Lanier emphasized the separation within the company of types of service to avoid conflict of interest. David Brief believes active management adds value and reported the current risk factor for StanCERA is 4%. A brief explanation was given of the MSCI EAFE Index and the major changes that will be happening. These changes in the indices would not have a major impact on our portfolio.

Questions answered indicate that active versus passive investing is irrelevant and would be better answered with a determination of what StanCERA wants. What are our goals, what do we want to achieve, and how many risk dollars would be allocated are all questions which would better answer what type of investing should be done. Kevin Lanier explained the decline in staff was a part of trimming for more efficiency. CRA would add value in a review process which would also be educational.

A short break was taken at this time.

EnnisKnupp & Associates

David Russell and Kevin Vandolder, as representatives of EnnisKnupp, gave an overview of their organization which is committed to the use of technology to enhance and provide better service to their clients. Their investment philosophy is a pyramid which starts with an investment policy to determine the program structure. Manager selections are the result of research and should add value while seeking above average market returns. Reviews should be done to make sure policies are followed, and are necessary for risk control as well. "EnnisKnupp is a recognized leader in investment research" which would add value to the services they provide. Feedback and surveys of their clients have indicated they are doing a good job. David Russell and Kevin Vandolder would service our account with back up from two others in their office.

Answers to questions indicated our meeting dates would pose no problem. They have not really had experience with the independence issue. Before the recommendation of an asset class, they would first provide education in this area and determine our experience. A second consideration would be to determine if value would be added versus the cost and risk. Payment in advance would not be necessary even though their RFP indicated this was the preferred method. Their CEO left some time back for a position that better suited his capabilities and offered the challenge he desired. He came back because EnnisKnupp needed the good administrative leadership which he could provide.

A lunch break was taken from 12:30 to 1:45 p.m.

Michael Krausnick was not present for the afternoon session of this meeting.

5. **PRESENTATIONS BY CONSULTANT FIRMS-Continued**

Strategic Investment Solutions, Inc.

Paul Harte and Patrick Thomas provided information on their organization which is based in San Francisco. They adhere to a strict independence to eliminate all conflicts of interest. By remaining “out of the game” in not attending conventions, speaking and advertising, they are able to stay unbiased. They work with local charities on a pro bono basis and they plan to keep retainer clients from 30 to 40 maximum. They believe advancing technology should be utilized and would only develop their own if they could do it better. Some of their consulting philosophies are that discipline separates winners from losers, risks should be understood and managed, fees saved are dollars earned, and communications prevent problems. An answer to the MSCI EAFE question was given with the suggestion investors be pro-active and make decisions based on educated recommendations.

In response to a question about their selectiveness, the Board was told that part of their reason for responding to our RFP was that we were local (so to speak), San Joaquin County had recommended us, our structure is pretty congruent with their philosophy, and the use of Cooper Consultants for advice in the process added credibility to our search. In response to some inquiries, the Board was told some of their first recommendations would be to look at asset allocations and consider passive core investing, large cap value, small cap value manager, and speed up the movement of funds from Dodge and Cox to fund MFS fully. Explanations were given for their recommendation of small cap value investments, solutions for negative cash flow, willingness to educate the Board on any topics of their interest, and advise understanding risks.

Dorn, Helliesen & Cottle, Inc.

Bob Helliesen, Bill Cottle and Cary Hally shared in the presentation of information about their organization. They wanted the Board to know that one of the owners of the company, Doug Dorn, is cutting back due to age and health, but did not feel this would in any way affect the service they could provide. They have done independent investment consulting since 1982 with a staff of well qualified professionals. They are not marketing people, just “investment folks”. Contra Costa County Employees’ Retirement Association has been a client since 1985, and other similar California public fund clients out of 13 are Merced County ERA, San Luis Obispo Pension Trust, and City of Fresno Retirement System. They have an educational conference for clients once a year. The proposed team for StanCERA is Bob Helliesen and Cary Hally as co-lead consultants (they have worked together for over 7 years) and Bill Cottle as back-up with Kimberly Tuason as support consultant. DH & C’s full-service investment consulting services include: investment object & policy statement development, asset/liability research & asset allocation analysis, investment structure and portfolio rebalancing techniques, performance measurement,

5. **PRESENTATIONS BY CONSULTANT FIRMS-Continued**

Dorn, Helliesen & Cottle, Inc.-Continued

investment manager evaluation & selection, trading cost analysis, and any other projects as desired by the client. When asked, Bob Helliesen stated that the company plans to buy out Mr. Dorn and distribute to employees. They have no experience with the independence issue, but know Fresno has been working on this for seven years and some of Merced County ERA's recent experiences were related. Personnel is an important part of a manager's performance and advise a watch of the ownership and strongly advise due diligence visits. Passive management, when properly done, will out perform active. DH & C have set up a rebalancing program with Contra Costa and believe they could advise us on how to implement a withdrawal system for cash flow.

6. **DISCUSSION/SELECTION OF FINALIST FOR COMMITTEE REVIEW**

After some time spent in discussion of each Board member's opinion of each company, a poll was taken to select preferred firms for due diligence visits.

Motion was made by Virgil Thompson and seconded by Maria De Anda to authorize the Due Diligence Committee to visit Strategic Investment Solutions, Inc. and Dorn, Helliesen & Cottle, Inc., with a report of visits to be brought back to the Board.

Motion carried.

Cooper Consultants, Inc. will notify the firms making presentations today of this decision. Any questions received should be referred to Cooper Consultants.

7. **MEMBERS FORUM (Information and Future Agenda Requests Only)**

Al Sarina may not be available for the next Board meeting on March 27, 2001.

Kent Crawford will be at Stanford for the CALAPRS trustee training on March 27, 2001.

Steve Yauch thanked Cooper Consultants, Inc. for a job well done in their advisory capacity to the Board in their search for consulting firms to meet a specified criteria.

(Copies are available in the retirement office for anyone interested in the RFPs submitted by each firm interviewed at today's meeting.)

8. **ADJOURNMENT**

Meeting adjourned at 4:40 p.m.

Respectfully submitted,

Tom Watson, Secretary
Board of Retirement

APPROVED AS TO FORM:
MICHAEL KRAUSNICK
County Counsel
