



**STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION**
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AGENDA

BOARD OF RETIREMENT
832 12th Street, Suite 600 – Wesley W. Hall Board Room
Modesto, CA 95354

October 12, 2011
2:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

PUBLIC COMMENT: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

BOARD AGENDAS & MINUTES: Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items
 - a. Approval of the September 27, 2011, Investment Meeting Minutes [View](#)
 - b. Receipt of the 2010-2012 Action Plan Quarterly Update [View](#)

5. Consent Items (Cont.)
 - c. Report of Retirement Administrator's 2011 Goals as of September 30, 2011 [View](#)
 - d. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 1. Thomas Bazan Jr., Public Defender, Effective 07-25-11
 2. Andrea Baker, CEO-Personnel, Effective 10-22-11
 3. Judith Brannan, DCSS, Effective 10-04-11
 4. Dorothy Elder, Assessor, Effective 10-01-11
 5. Phoebe Leung, HSA, Effective 10-22-11
 6. John Mataka, BHRS, Effective 10-08-11
 7. Sharon Minor, HSA, Effective 10-23-11
 8. Phyllis Mourer, HSA, Effective 10-04-11
 9. Michael Owen, HSA, Effective 09-29-11
 10. Carol Pestana, CSA, Effective 10-01-11
 11. Steven Pestana, Alliance Worknet, Effective 10-29-11
 12. Anthony Villarreal, Public Works, Effective 07-22-11
 - e. Approval of Deferred Retirement(s) – **Section 31700**
 1. Bernard Fairfield, Public Defender, Effective 09-02-11
 2. Stefanie Voortman, Env. Resources, Effective 07-02-11
 - f. Approval of Disability Retirements – **Section 31724**
 1. Bryan Markum, Sheriff, Service-Connected, Effective 11-24-10
6. Administrator
 - a. Staff Demonstration of Tablet Computer Equipment for Board Members
7. Closed Session
 - a. Conference with Legal Counsel – Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Subdivision (c) of section 54956.9:
One Matter
8. Members' Forum (Information and Future Agenda Requests Only)
9. Adjournment



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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

September 27, 2011

Members Present: Maria De Anda, Jim DeMartini, Gordon Ford,
Darin Gharat, Mike Lynch, Ron Martin, Michael O'Neal,
and Donna Riley

Members Absent: *Jeff Grover*

Alternate Member Absent: *Joan Clendenin, Alternate Retiree Representative*

Staff Present: Tom Watson, Retirement Administrator
Kelly Cerny, Executive Secretary
Kathy Herman, Operations Manager
Kathy Johnson, Accountant
Rick Santos, Incoming Executive Director

Others Present: Kirin Virk, General Legal Counsel
Kimberly Aspenleider & Kevin Brown, Delaware Investments
Paul Harte & Nathan Pratt, Strategic Investment Solutions
(SIS), Inc.
Doris Foster & Stan Risen, Chief Executive Office

1. Meeting called to order at 1:59 p.m. by Mike Lynch, Chair.

2. **Roll Call**

3. **Announcements**

None.

4. **Public Comment**

None.

5. **Consent Items**

Motion was made by Maria De Anda and seconded by Darin Gharat to approve the following items as listed.

Motion carried.

- a. Approval of the September 14, 2011 Administrative Meeting Minutes

6. **Semi-Annual Performance Report by Delaware Investments**

Kim Aspenleider, Vice President, Client Services, and Kevin Brown, Vice President Senior Investment Specialist gave the semi-annual presentation on StanCERA's large cap growth portfolio.

As of June 30, 2011, the six months, one year, and inception to date net returns are 1.80%, 35.45%, and 4.26%, respectively.

As of August 31, 2011, the year to date, one year, and inception to date net returns are 4.56%, 27.31%, and 3.44%, respectively.

Mr. Lynch requested the peer rankings for Delaware. Ms. Aspenleider said she would provide the information to SIS, Inc. for the Board members.

7. **Strategic Investment Solutions (SIS), Inc.**

- a. Monthly Performance Review for the Month Ending August 31, 2011

Mr. Harte presented the monthly performance review for the period ending August 31, 2011. As of August 31, 2011, StanCERA's portfolio is \$1.33 billion. The fiscal year to date return is -5.28%, below StanCERA's policy index of -4.02%, and lower than the actuarial assumption of 1.32% year to date.

- b. Report on "Top 10 Holdings" by StanCERA Investment Managers as of August 31, 2011

Mr. Lynch requested to have Research Affiliates, the investment firm that recently became part of StanCERA's portfolio, added to the next report. Mr. Santos asked that the benchmarks also be added to the report.

- c. Discussion and Action for Direction to the Investment Consultant on StanCERA's Securities Lending Program Cash Collateral Investment Pool Options

Mr. Harte will return to the Board with rewritten guidelines for the cash collateral investments.

7. **Strategic Investment Solutions (SIS), Inc. [Cont.]**

d. Verbal Update on RBC Diversified Infrastructure Fund Termination by RBC

Mr. Harte informed the Board that RBC has decided to dissolve the fund and has sent StanCERA legal paperwork that is being reviewed by legal counsel. RBC has verbally stated it will reimburse StanCERA its legal and other expenses in reaching and signing the agreement.

8. **Administrator**

a. Discussion and Action on StanCERA as a Signatory on the National Conference on Public Employee Retirement Systems' (NCPERS) Response to the Government Accounting Standards Board's (GASB) Statements 25 and 27 Exposure Draft

Motion was made by Darin Gharat and seconded by Michael O'Neal to approve to support the joint response and become a signatory to this response, and send a reply email to NCPERS with the name of Mike Lynch as the Board of Retirement Chair of the Stanislaus County Employees' Retirement Association (StanCERA).

Motion carried.

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

STANDING COMMITTEES

a. Due Diligence Committee – Jim DeMartini, Chair

i. Update on Calendar Year 2011 Due Diligence Visits

10. **Closed Session**

a. Conference with Legal Counsel – Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Subdivision (c) of section 54956.9: One Matter

No Closed Session.

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

Mr. Ford requested that the new StanCERA Executive Director meet with the new County Chief Executive Officer when the position is filled.

Mr. Ford distributed an excerpt from an appellate court decision regarding the consideration of current active members' employment in the scope of duties of a retirement board.

12. **Adjournment**

Meeting adjourned at 3:15 p.m.

Respectfully submitted,



Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
KIRIN K. VIRK, GENERAL LEGAL COUNSEL

By: 
Kirin K. Virk, General Legal Counsel

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan

10/12/11
Item #5b

2011 Revisions & Additions Highlighted in Yellow

Goal 1. Funding and Excess Earnings. StanCERA will be fully funded according to accepted actuarial standards and will thoroughly review its excess earnings policy.

Strategy A: Diversification. Explore options for a more flexible investment policy with greater diversification.

Task A1. Discuss and adopt a revised investment policy. - *Complete*
Task A2. Periodically review and revise the investment policy as needed.

Responsible	Target Date
Board	May-10
Board	Ongoing

Outcome:
09/30/11 Nothing to report

Strategy B: Achievable Assumptions. Continually refine the expected rate of return and other actuarial assumptions to ensure that they are realistic and achievable.

Task B1. Discuss and adopt assumptions for 2010. - *Complete*
Task B2. Periodically review and revise assumptions as needed.

Responsible	Target Date
Board	Aug-10
Board	Ongoing

Outcome:
09/30/11 B2- Data has been forwarded to EFI actuaries for the 6/30/11 Valuation

Strategy C: Investment Information. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.

Task C1- Conduct regular discussions with StanCERA's investment consultant Strategic Investment Solutions.
Task C2 - Periodically discuss in greater detail key investment decisions, with experts present as needed, at Board meetings.
Task C3 – Conduct Due Diligence Video or teleconference or visits to San Francisco service provider EFI Actuaries; LSV Asset Management (Chicago), Invesco Global REITs (Dallas) and Potential New Fixed Income Manager.

Responsible	Target Date
Board	Ongoing
Board	Ongoing
Board/Staff	Dec-10
Board	Ongoing

See Goal 3-C (continuous organizational improvement) for revision of all policies, including the excess earning policy.

C3- Cont. Due Diligence visits to San Francisco providers Dodge and Cox, SIS, Blackrock and Delaware Investments.

Board/Staff Dec-11

TaskC4 - Work in collaboration with other 1937 Act retirement systems to prepare and file a letter of request for the IRS to make a tax qualification determination of the system - *Completed*

Staff Jan-11

Task C5 - Have the following educational sessions by SIS and EFI Actuaries
SIS– Investment Consultant

High Yield/Oppportunistic Fixed Income- *Completed*

Long/Short Strategies - *Completed*

Infrastructure - *Completed*

Hedge Funds

Alternatives

Board/Staff Dec-11

EFI Actuaries- (To Be Determined)

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C5 - During the quarter ending September 30, 2011 final legal work was done and the Retirement Board approved a \$40 million commitment of capital for the RBC Diversified Infrastructure Fund. After all documents were signed, RBC determined to close the Fund due to not enough total capital commitment having been received and sent an amendment and letter language for StanCERA to approve dissolving the fund. The papers were submitted to legal counsel for review and any potential amendment. RBC verbally committed to reimburse StanCERA's its legal and other out of pocket costs in getting to the stage of committing funds and signing the Agreement and other legal documents.

Outcome:
09/30/11

Goal 2. Member and External Communications. StanCERA will maintain excellent communication with members, the plan sponsors, and other key stakeholders.

Strategy A: Partnering. Explore additional ways to partner with the Plan sponsors and members.

	Responsible	Target Date
Task A1. Maintain current information on the website, in printed materials, and in electronically disseminated messages to Plan sponsors and members.	Staff	Ongoing
Task A2. Maintain Educational Sessions for members at VFCU, Member Services, County New Employee Orientation, Districts and Departments as requested, Pre-retirement seminars.	Staff	Ongoing
Task A3. Explore additional media and venues for communication with Plan sponsors, and /or members.	Staff	Ongoing
Task A4 - Meet with RESCO Board of Directors to discuss potential changes in retiree health insurance administration for calendar year 2012. Complete	Staff	May-11

Outcome: The Fall newsletter is at the printers. Active and Deferred Retirement members received their semi-annual member statements in July.
09/30/11

A2- StanCERA staff attended Stanislaus County's county-wide payroll ("Pay Dirt") meeting and conducted two meetings with Superior Court employees explaining retirement benefits to those close to retirement who were eligible for the Court's Retirement Incentive Program. There were 152 personal counseling sessions during the quarter.

A3 - There were two special group sessions held for Superior Court employees on retirement benefits for employees eligible to retire under the provisions of the Court's Retirement Incentive program.

A4 - The StanCERA-SML Insurance Agreement was terminated effective July 31, 2011. StanCERA staff continue to take retiree health insurance deductions and refer retirees to SML Insurance for the retirees' health insurance questions/needs.

Strategy B: Other Systems. Exchange information with other systems to benchmark StanCERA's performance and keep abreast of best practices.

	Responsible	Target Date
Task B1. Establish a set of data to be benchmarked, and confer with other pension systems regarding the availability of that data.	Staff	Dec-10
Task B2. Gather benchmarking data and report to the Board on a quarterly basis. (Alameda CERA is surveying Admin Best practices with 1937 Act retirement systems)	Staff	Ongoing

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Task B3. Analyze data to identify “best performers” and contact them to identify best practices that have supported their accomplishments. Staff Ongoing

Task B4. Communicate with peers in other pension systems on a regular basis regarding new tools and practices, lessons learned, and systemic improvements they have made; Adapt tools and practices to use at StanCERA if appropriate. (This includes SACRS conferences, CALAPRS Round tables as well as system specific contact with phones, email or personal visits. Each Dept. Function Ongoing

Outcome: B4 - The Retirement Administrator attended the annual CALAPRS Administrators' Institute with 09/30/11 incoming Executive Director Rick Santos. Staff attended the annual benefits and I.T. roundtables.

Strategy C: Legal Issues. Continue to diligently pursue resolution of legal issues.

	Responsible	Target Date
Task C1. Continue to contract with established knowledgeable attorneys,	Staff/Board	Ongoing

Outcome: C1 -On July 28, 2011 a Respondent's Brief was filed by Reed Smith 09/30/11 LLP for the O'neal case.

Goal 3. Board and Staff Development. StanCERA will maintain excellence in governance and customer service through continuous organizational improvement.

Strategy A: Board Leadership. Maintain excellence in governance through orientation of new members and high-quality educational activities for Board members.

	Responsible	Target Date
Task A1. Revise Board Orientation materials and orientation session agenda for new Board members.	Staff	Dec-10
Task A2. Explore opportunities to offer educational sessions at StanCERA conducted by experts who are not currently providing ongoing services nor are marketing their services to the organization.	Board Committee/ Staff	Ongoing
Task A3. Continually identify high-quality educational opportunities for Board members and inform the Board at regular meetings and electronically.	Staff	Ongoing
Task A4. Conduct 3 Retirement Board member elections. - <i>Completed</i>	Staff	Dec-10
A3-Cont. Educational session by Fred Silva on Fiduciary Responsibilities of Retirement Board members at the 1/25/11 meeting	Board	Jan-11
Task A5. Conduct two Retirement Board member elections - <i>Completed</i>	Staff	Dec-11
Task A6. Draft of potential changes to retiree health insurance administration is brought to the BOR by 6/8/11. Meeting and notification of final changes are sent to retirees on or before 9/30/11	Staff/Board	Sept-11

Outcome: A2 - On August 23, 2011 the Internal Governance Committee met as the Audit Committee for the audit entrance conference with the financial statement auditors of MGO. Also on August 23, 2011 the Due Diligence Committee met to plan its 2011 Due Diligence visits to three investment management firms and its investment consultant – all in San Francisco.

A3 - Due to the absence of some Trustees and other legal work priorities, General Legal Counsel has not had an opportunity for this training session

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Strategy B: Staff Development. Maintain high standards for StanCERA staff and provide ongoing training and development opportunities.

Responsible	Target Date
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Task B1. Ensure that key StanCERA processes and functions are completed on time and to standards: - *See Day-to-Day Functions attached.* Staff Ongoing

Task B2. – StanCERA staff (including administrator) attend Board approved educational opportunities. (SACRS, CALAPRS, NCPERS and others) Staff Ongoing

Task B3. Develop a 3-year strategic plan, and a process for annual updating of the strategic plans. *Completed* Staff /Board Jul-10

Outcome: B2 - Three staff members and the two administrators attended Board approved educational session 09/30/11 between 7/1 and 9/30

Strategy C: Systems and Policies. Regularly update policies, procedures, and systems to ensure organizational effectiveness and consistency.

Responsible	Target Date
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Task C1. Receive an Operational Audit Report - *Completed* Staff/Board Jul-10

Task C2. Adopt Fraud Prevention Policy. - *Completed* Staff/Board Feb-10

Task C3. Adopt a Placement Agent Policy in accordance with AB 1584. - *Completed* Staff/Board Apr-10

Task C4. Revise the Excess Earnings Policy linking retiree ad hoc benefits to StanCERA's actuarial funded status. - *Completed* Board May-10

Task C5. Revocable Health Benefits Subsidy Annual Review along with any other review of ad hoc benefits reported to the Retirement Board - *Completed, Excess Earnings Policy change implemented* Staff/Board Jun-10

Task C6. Review and revise the organization's Bylaws, in particular articles 9 and 10 (Disability Retirement) and Article 10 (Claims for Benefits Other than Disability Retirement). *Completed* Staff/Board Oct-10

Task C7. Finalize review and preparations for parallel effort with other 1937 Act retirement systems in submitting information for an IRS Tax Determination Letter. - *Completed* Staff/Board Dec-10

C1 - Cont. The Audit Committee provides an updated Operational Audit Report to the Retirement Board on or before the 8/23/11 meeting. Staff/Board Aug-11

Task C8 A letter will be filed with the IRS for a tax qualification review of StanCERA administered retirement plans by 1/31/11, around the same time as other similar letters are filed by other 1937 Act retirement systems - *Completed* Staff Jan-11

Task C9. Report on Outcomes of the Placement Agent Policy and review of Investment Manager responses is received by the BOR on or before 6/28/11 - *Completed* Staff/Board Jun-11

Outcome: C1 - VTD would like to have more investigation into the Information Technology security and processes to insure that the technology system is not at risk for loss of or corruption of information or assets. Staff are working with VTD and another audit person on this issue. VTD is in the process of completing an updated report on issues that were provided to the Audit Committee last year.

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Strategy D: Succession Planning . Plan and prepare for the retirement of key StanCERA staff over the next 3-5 years.

	Responsible	Target Date
Task D1. Develop a potential timeline of staff retirements. <i>Completed</i>	Staff	Dec-10
Task D2. Form BOR Ad hoc Committee - <i>Completed</i>	BOR	Jul-10
Task D3. Develop a succession plan for each position that addresses knowledge documentation and transfer beginning at least 6 months prior to a likely retirement date. <i>Completed</i>	Staff	Dec-10
Task D4. Refine timeline and provide information to the Succession Planning Committee on upcoming senior management retirements	Staff/ Committee	<i>Apr-11</i>
Task D5. Begin recruitment at least three months prior to the manager's effective date of retirement.	Staff/ Committee	<i>May-11</i>
Task D6. Develop a plan to train the Administrator's successor so that a smoother transition can be successfully implemented.	Staff/ Committee	<i>Nov-11</i>

Outcome:
09/30/11

At its meeting held on July 25, 2011, the Retirement Board selected Rick Santos as the new Executive Director for StanCERA to assume full time responsibilities upon the retirement of the incumbent Retirement Administrator, Tom Watson. A Personal Services Contract was completed and signed. A schedule of twenty-three days for training was developed including Retirement Board meeting days, staff meeting days, CALAPRS Administrators' Institute, Due Diligence visits and SACRS Fall 2011 Conference as well as other days. Rick Santos is being trained in the 1937 Act and StanCERA policies and practices. He is meeting one-on-one with Retirement Board members and staff and has scheduled introductory meetings with individual members of the Stanislaus County Board of Supervisors. Rick Santos attended and was introduced at the September 7, 2011 meeting of Stanislaus County management and confidential employees. Kelly Cerny, the Executive Secretary and Tom Watson, Retirement Administrator met with Stanislaus County human resource personnel and initiated the recruitment for the Benefits Manager position. The closing for receipt of applications f

Goal 4. Technology. StanCERA will maximize its efficiency and customer service through the implementation of current technology.

Strategy A: Website. Expand StanCERA's website to maximize the information available and options for members to conduct business electronically.

	Responsible	Target Date
Task A1. Continue to search out best practice websites, for review and ideas for the future.	Staff	Ongoing
Task A2. Enhance website by optimizing research already completed by other 37 Act Systems.	Staff	Ongoing

Outcome:
09/30/11

The web site updates include Retirement Board meeting agendas (with document links), minutes and audio (new audio recording system in place); investment performance reports both monthly and quarterly are posted along with individual security holdings quarterly; estimators now include retirement and member contribution estimators; links include State law, other 1937 Act retirement systems, RESCO, SML Insurance and other helpful links; recent and past actuarial reports and audit reports (CAFR) are on line as well.

Strategy B: Paperless Systems. Utilize automation to minimize the need for paper copies, including archiving documents and records.

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Responsible	Target Date
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Task B1. Develop project team for needs assessment and initial project plan.
Completed

Staff Dec-10

Task B2. Archive BOR minutes and agenda - *Completed*

Staff Jun-11

Task B3. Explore and make recommendations regarding additional ways to improve storage of archived paper and digital documents.

Staff Jun-11

Outcome: B3 - Standards and indexing which can be used with our current software and hardware has been established. 09/30/11

Strategy C: Office Technology. Implement current technology to ensure organizational efficiency.

Responsible	Target Date
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Task C1. Complete implementation of the Tyler Technology System, including System Access Security System. – *Complete*

Staff May-10

Task C2. Track and resolve post implementation issues as they are identified.

Staff Ongoing

Outcome: C2 As with any software product, upgrades and new releases are done periodically and each requires a new round of testing. As part of our ongoing process, the I.T. staff works with the vendor as issues are identified and gets them corrected. 09/30/11

The Administrator's annual goals approved by the Board of Retirement are monitored quarterly. These goals will be incorporated and aligned with the new Strategic Goals. For areas not included already in the administrator's annual goals, action plans will be created and added to the Administrators goals to be monitored on a quarterly basis.

Responsible	Target Date
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Task 1. Develop a 2010 annual action plan. *Completed*

Staff Jun-10

Task 2. Develop and implement a system of monitoring progress and reporting to the Board on a regular basis, at least quarterly, the status of items in the Annual Action Plan.

Staff Ongoing

Task 3. Develop or revise action plan for 2011 - *Completed*

Task 4. Develop or revise action plan for 2012 -

Staff Jan-12

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Day-to-day functions

Strategic Action Plan and Quarterly Update

Goal 3 Board and Staff Development

StanCERA will maintain excellence in governance and customer service through continuous organizational improvement.

Strategy B: Staff Development. Maintain high standards for StanCERA staff and provide ongoing training and development opportunities.

Task B1

Oversee staffing for Board and Committee meetings facilitation; travel; elections; Operations; Benefits and Special Projects

a. Administration

i. Oversee Agenda and Minute production for all Board meetings

Outcome:

- * 9/30/11 - There were six Retirement Board meeting held in the quarter all with appropriate notice, agendas, minutes and audio record completed.

*

ii. Oversee Committee Meetings' Agenda and Minute production

Outcome:

*

9/30/11 - On August 23, 2011 the Internal Governance Committee met as the Audit Committee for the audit entrance conference with the financial statement auditors of MGO. Also on August 23, 2011 the Due Diligence Committee met to plan its 2011 Due Diligence visits to three investment management firms and its investment consultant – all in San Francisco.

iii. Oversee facilitation of Board and Staff Travel

Outcome:

- * 9/30/11 - Seven trip authorizations were approved for six different educational opportunities.

iv. Conduct two Retirement Board member elections

Outcome:

- * 9/30/11 - nothing to report

b. Operations

i. The FY 2011-2012 Administrative Budget draft is presented to the Retirement Board at its April 26, 2011 meeting with a final budget for approval no later than the June 8, 2011 Retirement Board meeting

Outcome:

- * 9/30/11 - Nothing to report

ii. Due Diligence visits to San Francisco service providers Dodge and Cox, SIS, Blackrock and Delaware Investments

- iii. The June 30, 2011 Audit Report is Checked Against the Financial Statement Disclosure Checklist and then presented to the Audit Committee in October 2011 and accepted at the November 22, 2011 Retirement Board meeting

Outcome:

- * 9/30/11 On August 23, 2011 the Due Diligence Committee met and chose the dates of October 5 – 6, 2011 to visit three investment management firms and the investment consultant (all in San Francisco) to perform Due Diligence for calendar year 2011

- iv. Monthly and quarterly Reconciliations are prepared and reviewed by Separate Employees;

- a. Cash and Investment Reconciliations
- b. Subsidiary and General Ledger Reconciliations
- c. Cash, Investments and Investment-Related Accounts Reconciliations between the General Ledger, Custodian and Investment Managers' Records
- d. Nonstandard Journal Entries

- * 9/30/11 - All investment manager / custodial reports and other reconciliations are completed through June 30, 2011. The financial statement audit field work was completed and a draft CAFR was sent electronically to the MGO auditors.

c. Benefits

- i. 12 retiree payrolls paid on time

Outcome:

- * 9/30/11 - Three retiree payrolls completed

- ii. Member Contribution Refunds up to date

Outcome:

- * 9/30/11 - 39 refunds were issued

- iii. 18 or less outstanding Disability Retirement Applications

Outcome:

- * 9/30/11 - Seven applications are outstanding with the oldest application about 21 months old.

*

Retirement Administrator's Goals for 2011 – Approved by the Retirement Board at its meeting on January 12, 2011 – REPORT AS OF SEPTEMBER 30, 2011

1. Work in collaboration with other 1937 Act retirement systems to prepare and file a letter of request for the IRS to make a tax qualification determination of the StanCERA administered retirement plans (Goal 1 Funding and Goal 3 Governance)

Outcome: A letter is filed with the IRS for a tax qualification review of StanCERA administered retirement plans by January 31, 2011 around the same time that other similar letters are filed by other 1937 Act retirement systems.

March 31, 2011 Update: Law firm Hanson Bridgett coordinated the filing of numerous 1937 Act retirement systems' requests to the IRS for a letter determination of tax qualification status and voluntary compliance plan (VCP) including materials for StanCERA (a 7-inch binder!). Materials for StanCERA were shipped to Washington D.C. on January 27, 2011. The cost to file for the determination letter was \$1,000 and the cost for the VCP was \$20,000.

2. Communicate with Employers, Employee Organizations and RESCO so that StanCERA information about the administration of their 1937 Act defined retirement benefits plan is widely disseminated (Goal 2 Communications)

Outcome: Through the web site, newsletters, mass mailings, group and personal meetings Employers, Employee Organizations and RESCO are kept informed and educated on actuarial, investment and other StanCERA information to insure that information is communicated and widely disseminated throughout 2011

March 31, 2011 Update: StanCERA's web site is up to date with Retirement Board meeting agendas and audio. The minutes of the Board meetings are posted on the web site after approval by the Retirement Board. Financial information on the web site includes actuarial reports as received and approved by the Retirement Board, quarterly holdings of all individual fixed income (bond) and equity (stock) securities sorted by investment manager, monthly and quarterly investment performance reports by SIS, audited financial statements, Statement of Investment Policy and employee contribution rates. The StanCERA Bylaws and Policies (Emerging Manager, Excess Earnings, Mass Media Guidelines, Fraud Prevention, Wire Transfer and others) are also found on the web site. The Modesto Bee, the RESCO Board of Directors, Employee and Employer Representatives along with other interested parties receive notice via e-mail with a link to upcoming Retirement Board meetings with agendas and public (non-confidential) information materials to support agenda items on the Friday afternoon before the meeting the following week. The Modesto Bee ran various articles about StanCERA including the actuarial funding and employer contributions discussions by the Retirement Board and the discontinuance of retiree health benefits subsidy in March 2011. The Winter Newsletter was distributed via U.S. postal service in late December/early January and is also

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on the web site. StanCERA members were sent their semi-annual statements in January 2011. Benefits staff presented at one session of “Retiring with Confidence” at VFCU, one session at the Agriculture Commissioner staff meeting and 98 personal counseling sessions for the quarter.

June 30, 2011 Update: The web site continues to be updated with Retirement Board meeting agendas, minutes and audio. Agendas include links to written materials. Staff researched improving the audio recording and infrastructure changes were begun in June. Financial information (including individual holdings of securities) was posted as received monthly or quarterly. The Summer Newsletter was put into the mail to members in late June. Stanislaus County employees who make member contributions received individualized statements in mid-June of the impact of increased member contribution rates to occur in late July to give these members time to prepare for the increased contributions. Employers received the annual rate changes in late May/early June for July 2011 rate changes. The changes to StanCERA Bylaws were approved by the Stanislaus County Board of Supervisors in May. Benefits staff held the annual Pre-Retirement Seminar on May 6 with over 200 members in attendance and made a presentation to StanCOG employees at a staff meeting, went twice to answer Court employees' questions during the lunch hour and provided Stanislaus County Human Resources managers with a general retirement benefits update including a review of the disability retirement application process. There were 139 personal counseling sessions for the quarter. The Benefits Manager and Administrator met with a special RESCO Health Insurance Committee to review what changes were needed for any transition upon StanCERA's termination of its Agreement with SML Insurance to insure as smooth a transition as possible.

September 30, 2011 Update: The web site updates include Retirement Board meeting agendas (with document links), minutes and audio (new audio recording system in place); investment performance reports both monthly and quarterly are posted along with individual security holdings quarterly; estimators now include retirement and member contribution estimators; links include State law, other 1937 Act retirement systems, RESCO, SML Insurance and other helpful links; recent and past actuarial reports and audit reports (CAFR) are on line as well. The Fall newsletter is at the printers. Active and Deferred Retirement members received their semi-annual member statements in July. StanCERA staff attended Stanislaus County's county-wide payroll (“Pay Dirt”) meeting and conducted two meetings with Superior Court employees explaining retirement benefits to those close to retirement who were eligible for the Court's Retirement Incentive Program. There were 152 personal counseling sessions during the quarter.

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3. Have StanCERA staff meet with the RESCO Board of Directors to discuss potential changes in retiree health insurance administration for calendar year 2012 (Goal 2 Communication and Goal 3 Governance)

Outcome: A draft of potential changes to retiree health insurance administration is brought to the Retirement Board by its June 8, 2011 Meeting and notification of final changes are sent to retirees on or before September 30, 2011

March 31, 2011 Update: On January 6, 2011 Michele Silva, Benefits Manager and Tom Watson, Retirement Administrator, met with the RESCO Board of Directors and Pat McTighe, Craig Lewis and Lorena Gardea of SMLins to convey the Retirement Board's desire to have RESCO take over the contracting for retiree health insurance coverage by 2012. Pat McTighe noted that July might be a better transition time and we noted that we would like to have a plan in place by the end of May to present to the Retirement Board at its June 8, 2011 meeting which could include a July 2011 transition. The RESCO Board of Directors formed a Health Insurance Committee which we believe has met at least once. We have been told that we will be invited to meet with this Health Insurance Committee.

June 30, 2011 Update: The Benefits Manager and the Administrator met with the special RESCO Health Insurance Committee on April 28, 2011. The Retirement Board received an agenda item at its June 8, 2011 meeting with background information of the meetings between staff and RESCO in the first half of 2011 and with final recommendations for approving staff functions for retiree health insurance deductions from payroll, room reservations and referral of retirees to SML Insurance as needed, in conjunction with approving the termination of the Agreement with SML Insurance.

September 30, 2011 Update: The StanCERA-SML Insurance Agreement was terminated effective July 31, 2011. StanCERA staff continue to take retiree health insurance deductions and refer retirees to SML Insurance for the retirees' health insurance questions/needs.

4. Report on Outcomes of the Placement Agent Policy (Goal 3 Governance)

Outcome: A report of the outcome of the Placement Agent Policy and review of Investment Manager responses is received by the Retirement Board on or before its June 28, 2011 meeting

March 31, 2011 Update: SACRS held a Symposium on March 16, 2011 about Placement Agents legislation, policies, etc. with various entities approaching this issue differently. Kathy Herman, Projects Manager attended and provided a report. There is nothing specific to report for StanCERA.

June 30, 2011 Update: The Retirement Board received the Placement Agent report at its April 13, 2011 showing that all StanCERA investment managers and the investment consultant did NOT use any placement agents or third party representatives. At its June 28, 2011 meeting, the Retirement Board received a report on the two newly hired investment managers also showing that neither investment manager used placement agents.

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5. Receive an Operational Audit Report (Goal 3 – Governance)

Outcome: The Audit Committee provides an updated Operational Audit Report to the Retirement Board on or before the Retirement Board's August 23, 2011 meeting

March 31, 2011 Update: Hank Skau, Operations Manager has communicated with the operational audit firm, VTD, with the goals of having documentation of Stanislaus County policies used and adopted by StanCERA and some information technology security review and update.

June 30, 2011 Update: The Operations Manager provided numerous written policies as noted in the Operational Audit Report (including personnel, purchasing, payroll etc.) to the Internal Governance Committee at its meeting on June 8, 2011 for the Committee's review and amendment as well as security documents for the information technology systems. The Committee then presented the final versions of these written policies and reports to the Retirement Board for the Retirement Board's review, amendment and adoption at its meeting on June 28, 2011.

September 30, 2011 Update: VTD would like to have more investigation into the Information Technology security and processes to insure that the technology system is not at risk for loss of or corruption of information or assets. Staff are working with VTD and another audit person on this issue. VTD is in the process of completing an updated report on issues that were provided to the Audit Committee last year.

6. Assist the Retirement Board in Staff Succession Planning and Execution (Goal 3 Governance)

Outcome: Provide timeline and information to the Retirement Board's Succession Planning Committee on upcoming senior management retirements and begin recruitments at least three months prior to the manager's effective retirement date as well as develop a plan to train the Administrator's successor so that a smoother transition can be successfully implemented by November 2011

March 31, 2011 Update: After producing a time line of events, an RFP was issued for an Executive Search firm and the Succession Planning Committee reviewed six responses. Three firms were invited to present to the Retirement Board but only two firms did present at the March 9, 2011 Retirement Board meeting. Avery Associates was hired by the Retirement Board and an Agreement approved as to form by legal counsel was transmitted to Avery Associates on March 18, 2011. Kelly Cerny, Executive Secretary and Tom Watson, Retirement Administrator, met with representatives of the Stanislaus County CEO/HR on March 24, 2011 to discuss and commence the recruitment for the Operations Manager position (incumbent Hank Skau who is retiring in September). The time line as approved by the Succession Planning Committee was conveyed to and seen as do-able by the CEO/HR representatives. A draft recruitment flyer was also given to the CEO/HR representatives.

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6. Assist the Retirement Board in Staff Succession Planning and Execution (Goal 3 Governance) – (continued)

June 30, 2011 Update: Recruitment for the Operations Manager successor to Hank Skau was held in May with candidate interviews held on May 20, 2011. Kathy Herman was selected as the successor to begin training immediately and fill the position on September 12, 2011 following Hank Skau's retirement. Avery Associates closed the Retirement Administrator/Executive Director recruitment in early June and announced 11 quality candidates had submitted applications for further review and screening. On June 28, 2011 the Succession Planning Committee met with Paul Kimura of Avery Associates to further review candidates and provided finalists for the Retirement Board to interview and make its selection at the July 13, 2011 Retirement Board meeting.

September 30, 2011 Update: At its meeting held on July 25, 2011, the Retirement Board selected Rick Santos as the new Executive Director for StanCERA to assume full time responsibilities upon the retirement of the incumbent Retirement Administrator, Tom Watson. A Personal Services Contract was completed and signed. A schedule of twenty-three days for training was developed including Retirement Board meeting days, staff meeting days, CALAPRS Administrators' Institute, Due Diligence visits and SACRS Fall 2011 Conference as well as other days. Rick Santos is being trained in the 1937 Act and StanCERA policies and practices. He is meeting one-on-one with Retirement Board members and staff and has scheduled introductory meetings with individual members of the Stanislaus County Board of Supervisors. Rick Santos attended and was introduced at the September 7, 2011 meeting of Stanislaus County management and confidential employees. Kelly Cerny, the Executive Secretary and Tom Watson, Retirement Administrator met with Stanislaus County human resource personnel and initiated the recruitment for the Benefits Manager position. The closing for receipt of applications for Benefits Manager was on September 21, 2011.

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7. Educational Sessions for Retirement Board Members (Goal 1 Funding and Goal 3 Governance)

Outcome: Have the following educational sessions in 2011:

a. By SIS– Investment Consultant (Goal 1)

i. High Yield/Oppportunistic Fixed Income

On February 22, 2011 the Retirement Board received education on high yield/opportunistic fixed income securities by PIMCO and at its March 22, 2011 determined to provide that PIMCO's Agreement could be amended to include investment in B- or higher fixed income investments with no more than 10% of the portfolio managed by PIMCO in non-investment grade securities.

ii. Long/Short Strategies

On April 26, 2011, the Retirement Board received a presentation and educational session on Research Affiliates Global Long/Short Equity strategy. On May 24, 2011 The Retirement Board determined to invest up to \$40 million in this strategy with an initial investment of \$20 million and the potential further investment of an additional \$20 million after further review of the strategy's performance.

iii. Infrastructure

On January 25, 2011 the Retirement Board reviewed the RBC Infrastructure Fund of Fund potential investment and determined on March 22, 2011 to have further legal analysis of this investment performed.

On May 24, 2011, the Retirement Board determined to invest \$40 million in the RBC Diversified Infrastructure Fund LLP.

During the quarter ending September 30, 2011 final legal work was done and the Retirement Board approved a \$40 million commitment of capital for the RBC Diversified Infrastructure Fund. After all documents were signed, RBC determined to close the Fund due to not enough total capital commitment having been received and sent an amendment and letter language for StanCERA to approve dissolving the fund. The papers were submitted to legal counsel for review and any potential amendment. RBC verbally committed to reimburse StanCERA's its legal and other out of pocket costs in getting to the stage of committing funds and signing the Agreement and other legal documents.

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7. Educational Sessions for Retirement Board Members (Goal 1 Funding and Goal 3 Governance) – (continued)

a. By SIS– Investment Consultant (Goal 1) – (continued)

i. Hedge Funds

ii. Alternatives

b. By EFI Actuaries- (To Be Determined) (Goal 1 Funding)

c. By Fred Silva, General Legal Counsel (Goal 3 Governance)

i. Fiduciary Responsibilities of Retirement Board members (January 25, 2011)

March 31, 2011 Update: The Retirement Board approved Fred Silva to attend a special educational class on fiduciary responsibility education to be held in March and incorporate this information in his presentation to the Retirement Board at a later meeting.

June 30, 2011 Update: With the potential for two or more new Trustees beginning in July, no session was held in this quarter.

September 30, 2011 Update: Due to the absence of some Trustees and other legal work priorities, General Legal Counsel has not had an opportunity for this training session

8. Oversee staffing for Board and Committee meetings facilitation; travel; elections; Operations; Benefits and Special Projects (Goal 3 Governance – mostly)

a. Administration

i. Oversee Agenda and Minute production for all Board meetings

March 31, 2011 Update: There were six Retirement Board meetings held in the quarter all with appropriate notice, agendas, minutes and audio record completed.

June 30, 2011 Update: There were five Retirement Board meeting held in the quarter all with appropriate notice, agendas, minutes and audio record completed.

September 30, 2011 Update: There were six Retirement Board meeting held in the quarter all with appropriate notice, agendas, minutes and audio record completed.

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8.Oversee staffing for Board and Committee meetings facilitation; travel; elections; Operations; Benefits and Special Projects (Goal 3 Governance – mostly) – (continued)

a.Administration – (continued)

ii. Oversee Committee Meetings' Agenda and Minute production

March 31, 2011 Update: The Succession Planning Committee met to review a time table of recruitments for the Retirement Administrator, the Operations Manager and the Benefits Manager. The Committee also reviewed six proposals by Executive Search firms and determined the top three for review by the full Retirement Board and final selection.

June 30, 2011 Update: On June 8, 2011, the Internal Governance Committee met to review numerous written policies (e.g. personnel, purchasing, payroll, etc.), the written security process for information technology systems and to approve a three year extension to the financial statements auditor's services. On June 28, 2011 the Succession Planning Committee met to review candidates for Retirement Administrator/Executive Director and determine finalists for interview and selection by the Retirement Board.

September 30, 2011: On August 23, 2011 the Internal Governance Committee met as the Audit Committee for the audit entrance conference with the financial statement auditors of MGO. Also on August 23, 2011 the Due Diligence Committee met to plan its 2011 Due Diligence visits to three investment management firms and its investment consultant – all in San Francisco.

iii. Oversee facilitation of Board and Staff Travel

March 31, 2011 Update: Ten trip authorizations were approved for seven different educational sessions.

June 30, 2011 Update: Seven trip authorizations were approved for two different educational opportunities.

September 30, 2011 Update: Seven trip authorizations were approved for six different educational opportunities.

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8. Oversee staffing for Board and Committee meetings facilitation; travel; elections; Operations; Benefits and Special Projects (Goal 3 Governance – mostly) – (continued)

a. Administration – (continued)

iv. Conduct two Retirement Board member elections

March 31, 2011 Update: The 2011 Calendar of Events was updated to include these two elections.

June 30, 2011 Update: The Retirement Board approved two time lines for elections at its April 13, 2011 meeting. Notices were mailed out to the member groups (Retired and General Members) in May and ballots received and then counted in late June according to the time lines. Joan Clendenin was elected unanimously as the Alternate Retiree Representative. Trustee Darin Gharat oversaw the Retired member ballot canvassing with Michael O'Neal as the newly elected Representative. Trustee Linda Stotts-Burnett oversaw the General Member ballot canvassing with Donna Riley as the newly elected General Member Seat #3 representative.

b. Operations

i. The FY 2011-2012 Administrative Budget draft is presented to the Retirement Board at its April 26, 2011 meeting with a final budget for approval no later than the June 8, 2011 Retirement Board meeting

The FY 2011-2012 Administrative Budget was presented to and approved by the Retirement Board at its May 24, 2011 meeting.

ii. Due Diligence visits to San Francisco service providers Dodge and Cox, SIS, Blackrock and Delaware Investments.

The Due Diligence Committee will wait and include the new Retirement Administrator/Executive Director in its planning of visits for 2011 and to include in those visits.

September 30, 2011 Update: On August 23, 2011 the Due Diligence Committee met and chose the dates of October 5 – 6, 2011 to visit three investment management firms and the investment consultant (all in San Francisco) to perform Due Diligence for calendar year 2011

iii. June 30, 2011 Audit Report is Checked Against the Financial Statement Disclosure Checklist and then presented to the Audit Committee in October 2011 and accepted at the November 22, 2011 Retirement Board meeting

September 30, 2011 Update: The financial statement audit field work was completed and a draft CAFR was sent electronically to the MGO auditors.

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8 b. Operations – (continued)

iv. Monthly and quarterly Reconciliations are prepared and reviewed by Separate Employees; Nonstandard Journal Entries are prepared and reviewed by separate employees

1. Cash and Investment Reconciliations
2. Subsidiary and General Ledger Reconciliations
3. Cash, Investments and Investment-Related Accounts Reconciliations between the General Ledger, Custodian and Investment Managers' Records
4. Nonstandard Journal Entries

March 31, 2011 Update: All investment manager/ custodial reports reconciliations are completed through November 2010. Members' contributions are reconciled through August 2010.

June 30, 2011 Update: All investment manager/custodial reports reconciliations are completed through April 2011. Members' contributions are reconciled through April 30, 2011.

September 30, 2011 Update: All investment manager/custodial reports and other reconciliations are completed through June 30, 2011.

c. Benefits

i. 12 retiree payrolls paid on time

March 31, 2011 Update: Three retiree payrolls completed.

June 30, 2011 Update: Three retiree payrolls completed.

September 30, 2011 Update: Three retiree payrolls completed.

ii. Member Contribution Refunds up to date

March 31, 2011 Update: 31 refunds were issued during the quarter; 2 are ready to be issued and 34 terminations are pending receipt of paperwork to finalize refunds.

June 30, 2011 Update: 28 refunds were issued during the quarter; 3 are ready to be issued and 33 terminations are pending receipt of paperwork to finalize refunds.

iii. 18 or less outstanding Disability Retirement Applications

March 31, 2011 Update: Nine applications are outstanding with the oldest application about 15.5 months old.

June 30, 2011 Update: Five applications are outstanding with the oldest application about 18.5 months old.

September 30, 2011 Update: Seven applications are outstanding with the oldest application about 21 months old.

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iv. Pre-Retirement Seminar held by May 31, 2011

March 31, 2011: The planning and set up for a May 6, 2011 Pre-Retirement Seminar has been accomplished by Michele Silva, Benefits Manager.

June 30, 2011: The Pre-Retirement Seminar was held on May 6, 2011 with over 200 members in attendance. The Retirement Board received the staff report on the Seminar at the Board's May 24, 2011 meeting.

v. Member Educational Sessions with VFCU-Member Services

March 31, 2011 Update: One session was held.

i. Member Educational Sessions with Stanislaus County New Employee Orientation

These have been discontinued due to hiring freezes in place.

ii. Member Educational Sessions for Districts/Departments as Requested

March 31, 2011 Update: One session was held for the Agriculture Commissioner's staff

June 30, 2011 Update: one StanCOG staff meeting presentation was held. Two lunch hour information sessions with Court employees were held. One presentation was given to Stanislaus County Human Resources managers about retirement benefits in general and the disability retirement application process.

September 30, 2011 Update: There were two special group sessions held for Superior Court employees on retirement benefits for employees eligible to retire under the provisions of the Court's Retirement Incentive program.

b. Special Projects/Communications

i. Four Newsletters are produced

The Winter Newsletter was distributed late Dec/early Jan.

The Spring Newsletter was distributed in late Mar/early Apr.

The Summer Newsletter was distributed in early July and the Fall Newsletter was finalized, printed and ready for distribution at the end of September.

ii. Updated Member Handbook 2011

The updated 2011 Member Handbook, including Tier 2 information was posted on the web site in January 2011.

iii. Updated Strategic Action Plan Reported to the Retirement Board quarterly

Kathy Herman, Projects Manager, provided a quarterly update of the Strategic Action Plan at the January 12, 2011, April 13, 2011 and July 13, 2011 Retirement Board meetings.

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iv. Electronic Document Management Systems
Project Up and Running

March 31, 2011 Update: Retirement Board meeting minutes from July 1948 through present have been archived and various cost/benefit analyses have been done.

June 30, 2011 Update: In collaboration with SBT and Tyler Technology, StanCERA staff are studying various indexing, standards and electronic storage options to better plan the overall structure of the system and not have to re-do work over (and over) again.

j. Professional Development (Goal 3 – Governance)

Outcome: Attend at least one continuing educational seminar/conference

March 31, 2011 Update: Nothing to report.

June 30, 2011 Update: The Retirement Administrator attended the May 10 – 13, 2011 (Spring 2011) SACRS Conference.

September 30, 2011: The Retirement Administrator attended the annual CALAPRS Administrators' Institute with incoming Executive Director Rick Santos.