



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
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## AGENDA

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

April 11, 2012  
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](http://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 March 27, 2012 Investment Meeting Minutes [View](#)
  - b. Receipt of the Executive Director's 2012 1<sup>st</sup> Quarter Update of Goals and 2010-2012 Strategic Action Plan [View](#)

5. Consent Items (Cont.)

c. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

1. Deborah Brasher, Superior Courts, 03-31-12
2. Debra Bush, CSA, Effective 04-25-12
3. Mary Green, CSA, Effective 03-30-12
4. Kirk Gustafson, CEO, 03-31-12
5. Leticia Huntley, CSA Effective 03-31-12
6. James Hurley, BHRS, Effective 03-31-12
7. Darlene Keuning, HSA, Effective 03-13-12
8. Undine Larson, Sheriff, Effective 03-31-12
9. Laurie Sergent Luna, Probation, Effective 03-30-12
10. Donald Oppman, Assessor, Effective 03-31-12
11. Wayne Staylon, Regional 911, Effective 03-21-12
12. John Webb, Probation, Effective 03-24-12

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

1. Suzanne Yarberry, CSA, Effective 03-03-12

e. Approval of Disability Retirement – **Section 31724**

1. James Stephens, City of Ceres, Service-Connected, Effective 08-20-11

6. Executive Director

- a. Discussion and Action on the State Association of County Retirement Systems' (SACRS) Nominating Committee's Final Recommended Ballot for the 2012-2013 SACRS Board of Directors at the May 11, 2012 Annual SACRS' Business Meeting [View](#)
- b. Board Study Session – The Discount Rate [View](#)

7. Closed Session

Pursuant to Government Code Section 54956.9(a) regarding litigation, the following matter(s) will be heard in closed session.

- a. Conference with Legal Counsel – Pending Litigation – One Case:  
In Re Bank of New York Mellon Corporation False Claims Act Foreign  
Exchange Litigation, Ex rel. FX Analytics v. The Bank of New York Mellon  
Corporation  
U. S. District Court, Northern District, Case No. 3:11-cv-05683-JCS
- b. Conference with Legal Counsel – Pending Litigation – One Case:  
Nasrawi et al v. Buck Consultants, LLC, Santa Clara County  
Superior Court Case No. 1-11-CV202224
- c. Conference with Legal Counsel – Pending Litigation – One Case:  
O’Neal et al v. Stanislaus County Employees’ Retirement Association  
Court of Appeal of the State of California Fifth Appellate District  
Case No. F061439

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

9. Adjournment



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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

March 27, 2012

**Members Present:** Maria De Anda, Jim DeMartini, Darin Gharat, Jeff Grover,  
Ron Martin, Michael O'Neal, Jegan Raja\*, and Donna Riley

\*Jegan Raja, Assistant Treasurer- Tax Collector representing G. Ford, Treasurer-Tax Collector

**Members Absent:** *Mike Lynch and Gordon Ford\**

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

**Staff Present:** Rick Santos, Executive Director  
Kelly Cerny, Executive Secretary  
Kathy Herman, Operations Manager  
Dawn Lea, Benefits Manager  
Kathy Johnson, Accountant  
Joyce Parker, I.T. Coordinator

**Others Present:** Fred Silva, General Legal Counsel  
Kevin Brown, Delaware Investments  
Drew Stepanek & Manoj Patel, RREEF Real Estate  
Paul Harte & Nathan Pratt, Strategic Investment  
Solutions (SIS), Inc.  
Doris Foster & Stan Risen, Chief Executive Office

1. Meeting called to order at 2:00 p.m. by Jim DeMartini, Chair

2. **Roll Call**

3. **Announcements**

None.

4. **Public Comment**

None.

5. **Consent Items**

Ms. Cerny announced that on the March 14, 2012 Minutes, under Consent Items, Item #5b, Linda Carter revoked her retirement date of 03-30-12.

Motion was made by Maria De Anda and seconded by Jeff Grover to approve the following items as listed and amended.

Motion carried.

- a. Approval of the March 14, 2012, Administrative Meeting Minutes as listed and amended.

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

Mr. Kevin Brown, Vice President, Senior Investment Specialist, gave the semi-annual presentation on StanCERA's large cap growth portfolio. As of December 31, 2011, net returns were 11.80%, while the Russell 1000 Growth index benchmark was 10.61%. As of February 29, 2012, the portfolio value is \$116.6 million. The portfolio returned 13.56%, 29.91%, and 4.58% for the periods of one year, three years, and five years, respectively.

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

- a. Educational Presentation – An Introduction to Infrastructure by RREEF Infrastructure

Drew Stepanek, Client Relations, and Manoj Patel, Portfolio Manager and Co-Head of Global Infrastructure Securities, of RREEF Infrastructure gave an educational presentation to the Board on an introduction to infrastructure.

- b. Monthly Investment Performance Review for the Month Ending February 29, 2012

Mr. Harte presented the monthly performance review for the period ending February 29, 2012. StanCERA's portfolio is \$1.41 billion, an increase of 3.15% from the prior month. The overall rate of return for this fiscal year to date is 1.78%, below the policy index of 3.17% and the assumed rate rate of 5.38%.

- c. Report on "Top 10 Holdings" of StanCERA Investment Managers
- d. Research Affiliates Response to StanCERA's Questions Re: Enhanced RAFI Long Short Strategy
- e. Discussion and Action on the Implementation of a Stop Loss on the RAFI Long Short Fund

Motion was made by Jeff Grover and seconded by Maria De Anda to implement a stop loss of \$10,000,000 on the RAFI fund and create a standing agenda item each month allowing the Board to take action regarding the disposition of the RAFI fund.

Motion carried.

8. **Executive Director Report**

- a. Discussion and Action on Potential Acquisition of a Board Portal System for Board of Retirement Meetings

Motion was made by Darin Gharat and seconded by Jim DeMartini to approve the proposed goals and requirements as stated.

Roll Call Yes: J. DeMartini, D. Gharat, J. Grover, J. Raja and D. Riley

Roll Call No: M. De Anda and M. O'Neal

R. Martin abstained.

Vote: 5-2; 1 abstention.

Motion carried.

- b. Discussion and Action on a Potential Change of Custodial Bank

No action taken.

- c. Discussion and Action Regarding an Update on the Vacant Office Space at 832 12<sup>th</sup> St., 6<sup>th</sup> Floor

Motion was made by Darin Gharat and seconded by Michael O'Neal to authorize the Executive Director to finalize the lease agreement and execute it accordingly.

Motion carried.

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

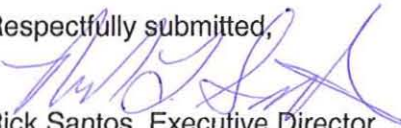
Vice-Chair Gharat thanked staff for their diligence in processing an extraordinary number of retirement applications this month.

Trustee Grover requested a Due Diligence Committee meeting be held to set the schedule for this year's due diligence visits.

10. **Adjournment**


Meeting adjourned at 4:03 p.m.

Respectfully submitted,

  
Rick Santos, Executive Director

APPROVED AS TO FORM:  
FRED A. SILVA, GENERAL LEGAL COUNSEL

By:

  
Fred A. Silva, General Legal Counsel



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Retirement Board Meeting  
April 11, 2012

04/11/12  
Item #5b

TO: Retirement Board

FROM: Rick Santos, Executive Director

**SUBJECT: 2012 1<sup>st</sup> Quarter Update on Executive Director's Goals & Strategic Action Plan**

- I. RECOMMENDATION: Approve Progress on Director's Goals and Strategic Action Plan
- II. ANALYSIS: This is the first quarter update on the Director's Goals for 2012 and an update on the progress for the Organizational Strategic Action Plan for 2010-2012. The information is being presented as one item since the Director's Goals are explicitly tied to the Strategic Action Plan. As such, the documents share similar information. The link between the Director's Goals and the Strategic Action Plan is noted in Attachment 2.

Both documents use color coding to quickly discriminate between tasks that have either been completed or have had progress made (**green**), and those that have seen no progress or have not yet been completed (**red**).

#### Strategic Action Plan (Attachment 1)

This document is divided into two sections; tasks that are ongoing in nature, and those that have a specific resolution. Only tasks that are ongoing or have not been completed are part of this document. Many of the tasks in the Strategic Action Plan have been completed and as such, are not a part of this document. Tasks that are ongoing will simply list the action taken during the previous quarter. This information will then be updated each subsequent quarter and the prior quarter's action removed. Those tasks that have a specific resolution will list whether the item has been completed and if so, it will be removed in subsequent quarters.

#### Executive Director's Goals (Attachment 2)

This document lists the goals set forth by the Executive Director in January 2012. As with the Strategic Action Plan document, it currently lists progress made in the previous quarter. However, unlike the Strategic Plan document, since most of the goals have specific resolutions that will take until the end of the year to complete, this document's action list will continue to grow.

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Rick Santos, Executive Director

Attachments

# Attachment 1 - 2012 Strategic Action Plan (SAP) Quarter 1 Progress Update

## SAP Tasks on going in nature

- 1) Periodically review and revise the investment policy as needed
  - No further progress to report
- 2) Periodically review and revise assumptions as needed
  - No further progress to report
- 3) Conduct regular discussions with Strategic Investment Solutions (SIS)
  - ✓ Monthly Investment Meetings
  - ✓ Staff consults with SIS on a regular basis
    - Investment fees
    - Return calculations
    - Asset allocation
    - Capital market expectations
- 4) Periodically discuss key investment decisions with experts as needed
  - ✓ Monthly SIS reports
  - ✓ Monthly Investment Manager reports
- 5) Maintain current information on website
  - ✓ Current quarter information
    - COLA Reporting
    - Actuarial information
    - Board Agenda information
    - Board minutes
    - Board audio
- 6) Maintain educational sessions for interested stakeholders
  - ✓ Board study sessions
    - Maturity risk
    - Contribution and funding risk
  - ✓ Staff educational sessions
    - Various training opportunities (internal and external)
  - ✓ Stakeholder visits
    - County Executive Staff
    - County Board of Supervisors
    - City of Ceres and Special District's decision makers
- 7) Explore other sources of communication with Plan Sponsors and Members
  - ✓ Regular emails regarding upcoming Board Agenda items
- 8) Gather and report benchmarking data against other Systems
  - ✓ Report out discount rate information
  - ✓ Gather contingency reserve information
  - ✓ Gather tier 2 information



## SAP Tasks on going in nature – cont.

- 9) Analyze benchmarking data
  - No further progress to report
- 10) Communicate with peers in other pension Systems
  - ✓ Staff attendance at CALAPRS seminars
  - ✓ Director attendance at CALAPRS round table
  - ✓ Director ongoing email and telephone communication with other System Leaders
- 11) Continue to contract with established knowledgeable attorneys
  - ✓ Contract with Terry Rein, Real Estate Attorney
- 12) Explore opportunities to offer educational sessions at StanCERA
  - ✓ Director continually working with SIS and Investment strategists for sessions on risk mitigation
- 13) Identify high quality educational opportunities and inform Board Members
  - ✓ Deliverance of the 2012 Master Calendar of Educational Opportunities
  - ✓ Information presented on NCPERS Annual Conference
- 14) Ensure that StanCERA processes are completed on time and to standards
  - ✓ All major processes completed on time
    - Board agenda and minute production
    - 1<sup>st</sup> quarter retiree payrolls
    - 1<sup>st</sup> quarter member refunds
    - Disability retirement applications (10 outstanding)
- 15) Staff and Board to attend approved educational opportunities
  - ✓ Staff
    - CALAPRS sponsored events
    - CFA events
    - Internal Strategic Planning Offsite
  - ✓ Board
    - Public Funds Summit
    - LaCERA Trustees' Roundup
    - CALAPRS General Assembly
- 16) Search out other System's websites for best practices and ideas for the future
  - No further progress to report
- 17) Enhance website based on research of other System's websites
  - No further progress to report
- 18) Track and resolve post-implementation Tyler issues as needed
  - No further progress to report

## SAP Tasks with a specific resolution

- 1) Conduct due diligence
  - Incomplete; Due diligence Committee Meeting scheduled for May 22
- 2) Complete action items within Operational Audit
  - ✓ Complete; Items completed and approved by Governance Committee on March 27
- 3) Archive BOR agendas and minutes
  - Incomplete; Completed through 1992
- 4) Explore and make recommendations regarding document imaging
  - Incomplete
- 5) Develop and implement a system for reporting Strategic Action quarterly updates
  - ✓ Complete; System implemented with this quarterly report

## Attachment 2 – 2012 Executive Director Goals Quarter 1 Progress Update

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts, employee groups and RESCO (SAP Goal 2, Strategy A)
  - ✓ Relayed information about actuarial valuation and Board Study sessions to stakeholders
  - ✓ Met with County Executive Staff, County BOS, Staff from Ceres and Special Districts
  - ✓ Presentation on pension risk
  - ✓ Presentation on contribution and funding risk
  - ✓ New Employee Orientation completed in February 2012
2. Complete internal staffing and reorganization (SAP Goal 3, Strategy B)
  - ✓ Acquired new CAIV position January
  - ✓ Hired Benefit Specialist in February
3. Complete policy and procedural requirements recommended by Operational Auditor (SAP Goal 3, Strategy C)
  - ✓ IT Risk Audit completed and approved by the IG Committee on March 27
4. Complete Organizational understanding of pension risk and the potential development and implementation of new funding strategies and philosophies (SAP Goal 1, Strategies A, B & C; Goal 2, Strategy B; Goal 3, Strategy A)
  - ✓ Completed study session on plan maturity risk
  - ✓ Completed study session on contribution and funding risk
5. Complete ongoing educational opportunities for Staff (SAP Goal 3, Strategy B)
  - ✓ Completed staff educational sessions on pension risk and maturity risk
  - ✓ Staff Event: CALAPARS Benefit Roundtable – February 3
  - ✓ Staff Event: CSDA Board Secretary Training
  - ✓ Staff Event: GFOA Staff Curriculum Training
6. Continue ongoing development and understanding of Organizational processes and procedures (SAP Goal 3, Strategy B)
  - ✓ Ongoing work with general disability counsel on routine organization issues that involve 1937 Act Law
  - ✓ Face-to-face networking with other 37 Act System CEO's
  - ✓ Involved with updates and revisions of internal processes
7. Complete Cost/Benefit analysis on document imaging system (SAP Goal 4, Strategy B)
  - No progress to report
8. Explore and potentially execute “paperless” Board meetings (SAP Goal 4, Strategy C)
  - ✓ Brought agenda item to the Board on March 27 regarding “paperless” option

9. Director Professional Development (SAP Goal 3, Strategy B)

- ✓ CFA Economic Forecast January 25, 2012
- ✓ Administrator's Roundtable January 27, 2012

10. Oversee administrative functions

- ✓ All Board agenda and minute production complete for 1<sup>st</sup> quarter
- ✓ All Committee agenda production complete for 1<sup>st</sup> quarter
- ✓ Board and Staff travel arrangements complete
- ✓ Completion of Winter newsletter
- ✓ Complete 1<sup>st</sup> quarter update on Executive Director goals
- ✓ Complete 1<sup>st</sup> quarter retiree payrolls on time
- ✓ 1<sup>st</sup> quarter member refunds current
- ✓ 10 outstanding disability retirement applications as of March 31

04/11/12  
Item #6a



## SACRS MEMORANDUM

**April 1, 2012**

**Attn: SACRS Administrators**

**From: Raymond McCray, SACRS Nominating Committee Chair  
SACRS Nominating Committee**

**Re: SACRS Board of Director Elections 2012-2013 – Final Ballot**

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### **Per SACRS Bylaws, Article VI ~ Section 2 – Election, Qualification and Term of Office**

*“The officers of SACRS shall be regular members of SACRS. The officers shall be elected by majority vote of the quorum of delegates and alternate delegates present at the first meeting in each calendar year and shall hold office for one (1) year and until a successor is elected.”*

### **Per SACRS Bylaws, Article VI ~Section 4 - Officer Elections**

*“...The Board of any regular member County Retirement System may submit write-in candidates to be included in the Nominating Committee’s final ballot provided the Nominating Committee receives those write-in candidates prior to March 25<sup>th</sup>.*

*The Nominating Committee will report a final ballot to each regular member County Retirement System prior to April 1.*

*The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee’s recommended ballot and final ballot to each trustee and placing the election of SACRS Officers on his or her Board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee...”*

Below is the final ballot/slate – As in the past, a voting delegate may entertain a motion to vote by individual officer positions or by complete ballot/slate. Please be sure to authorize your voting delegate to vote either way.

*Continued*



The elections will be held at the upcoming SACRS Spring Conference May 8 – 11, 2012 at the Squaw Creek Resort in Olympic Valley, CA. Elections will be held during the Annual Business meeting on Friday, May 11<sup>th</sup>, 2012 at 9:15 a.m.

Please distribute the ballot/slate to all standing/eligible board members for approval and authorization for your voting delegate. As stated above, Administrators are required to send acknowledgement of completion to our office at [sulema@sacrs.org](mailto:sulema@sacrs.org) .

**SACRS Nominating Committee Recommended 2012-2013 Nominees/Candidates:**

<b>President</b>	<b>Doug Rose, San Diego CERA</b>
<b>Vice President</b>	<b>Yves Chery, Los Angeles CERA</b>
<b>Treasurer</b>	<b>Tom Ford, Sonoma CERA</b>
<b>Secretary</b>	<b>John Kelly, Sacramento CERS</b>

If you have any questions or require assistance, please contact me directly at 209-468-2163 or [raym1@sbcglobal.net](mailto:raym1@sbcglobal.net) . Thank you for your prompt attention to this timely matter.

Sincerely,

*Raymond McCray*

Raymond McCray, San Joaquin County  
SACRS Nominating Committee Chair

CC: SACRS Board of Directors  
SACRS Nominating Committee Members  
Sulema H. Peterson, SACRS Administrator

Attachment

RMC:shp

# The Discount Rate

StanCERA Study Session #3

April 11, 2012

# What is a Discount Rate?

- Rate of interest used to determine the value or cost today of a payment made tomorrow
- Definition of Cost
  1. “an amount paid”
  2. “an outlay or expenditure”
- Definition of Value
  1. “relative worth of some good”
  2. “the monetary worth of something”



# Two Basic Perspectives

## 1. Financial Economics

- Value based calculation
- Liability driven
- Uses interest rates (yield curve)

## 2. Funding

- Cost based calculation
- Contribution driven
- Uses expected return on portfolio

# Financial Economics

## ● Premise

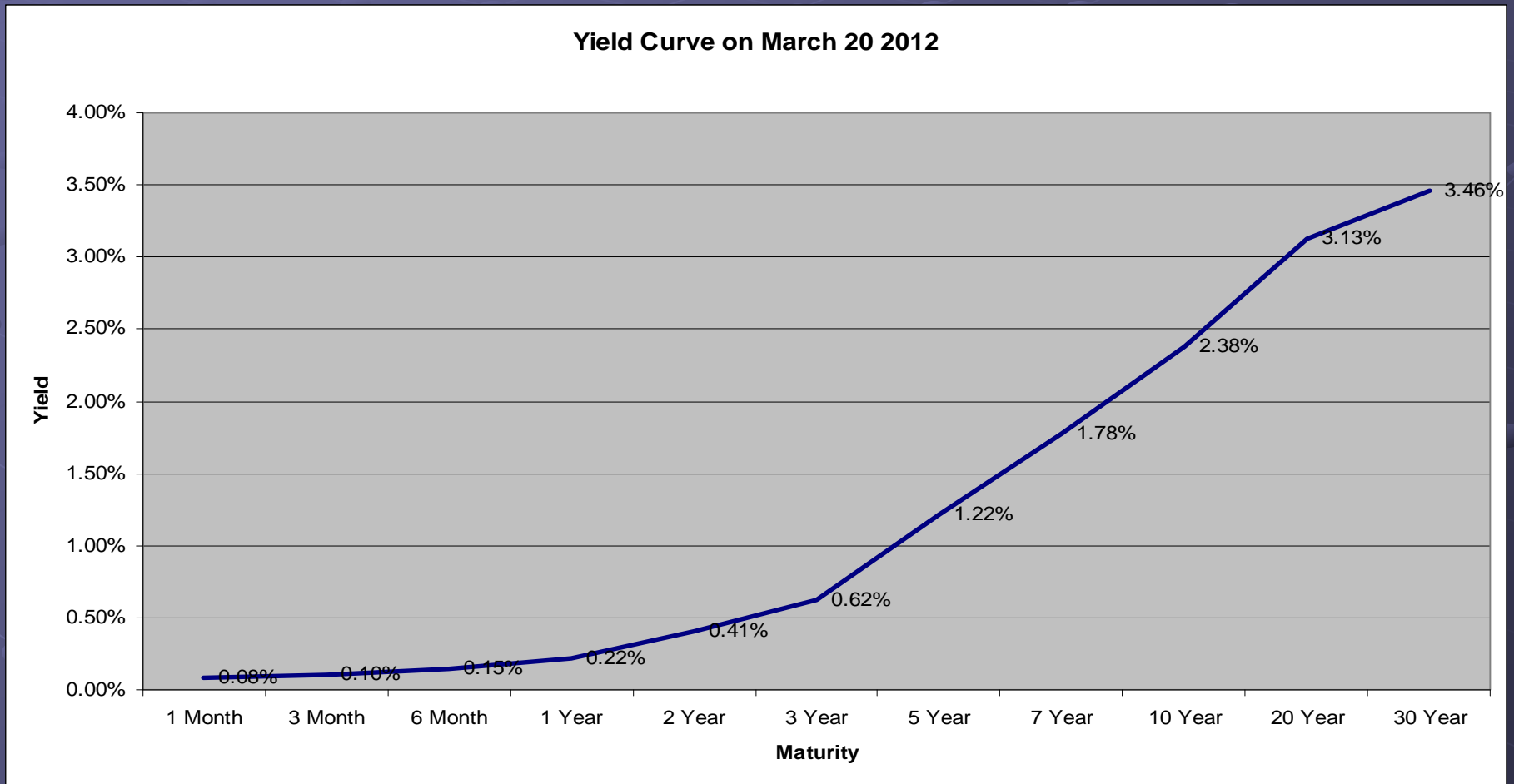
- Government pensions are a “sure thing”
- Value should be based on a similar asset
- Government bonds are a similar asset
  1. Timing
  2. Amount
  3. Strength of promise (“sure thing”)

## ● Conclusion

- Use the yield curve to value the liabilities

# The Treasury Yield Curve

- Trade off between yield and maturity



# Financial Economics - Problems

- Proponents doing a poor job of explaining the concept

- FE's aren't saying traditional portfolios can't earn the equity risk premium
- Just report the economic value of liabilities

- They've not addressed the liquidity issue

- Pension benefits can't be sold
- Government bonds can
- Interest rate is lower because of liquidity

# Funding

## ● Premise

- Asset returns are predictable over long periods
- Sponsor will be able to make contributions

## ● Conclusion

- Use expected return to set contributions
- Contributions + “Returns” = Benefits
- Contributions = Benefits – “Returns”

# Funding – Problems

- Liability number fails to capture price of risk
  - Employees would pay much more privately
  - Sponsor not compensated for insuring benefits
- Assets may not earn what's expected
  - Then liabilities are being understated
  - Contributions are too low

# Financial Economics Versus Funding

- Consider a \$1,000 liability due in 1 year
  - How much should I set aside today?
  - Depends on my appetite and capacity for risk

<u>Asset</u>	<u>Return</u>	<u>Investment Today</u>
Equity	10%	\$909
Bond	1%	\$990

- Price to eliminate risk = \$81
  - Can I make up the difference if equity underperforms?

# Which Measure is Right?

- It depends on your perspective
- Financial Economics
  - Report the risk adjusted value of liabilities
  - Comparing pension systems
  - Bargaining purposes
- Funding
  - Calculation of contributions (ARC) IF assets earn what's expected



# Why Change the Discount Rate?

## ● Financial Economics

- Change in interest rates – as interest rates go, so goes your liabilities

## ● Funding

- Capital market outlook has changed
  1. Inflation
  2. Equity risk premium
  3. Prospects for economic growth
- Plan sponsor wishes to change risk profile