



**STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION**
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Modesto, CA 95354
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AGENDA

Different Time

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

January 22, 2013
1:00 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.

AUDIO: All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at <http://www.stancera.org/sections/aboutus/agendas>.

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. Rotation of Officers
4. Announcements
5. Public Comment
6. Consent Items
 - a. Approval of the December 12, 2012, Administrative/Investment Meeting Minutes [View](#)

6. Consent Items (Cont.)

- b. Approval of the 2013 StanCERA's Anticipated Executive Master Calendar [View](#)
- c. Receipt of the 2013 Board of Retirement Standing Committee Assignments [View](#)
- d. Approval of the Continuing Education Calendar Record for 2012 [View](#)
- e. Receipt of the 2012 4th Quarter Update of the Executive Director's Goals and Strategic Action Plan [View](#)
- f. StanCERA Complaint Log of October 1, 2012 through January 15, 2013 [View](#)
- g. Receipt of Strategic Investment Solutions Inc.'s November 30, 2012 Monthly Performance Review for StanCERA [View](#)
- h. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 - 1. Karlyn Bernal, CSA, Effective 01-25-13
 - 2. Larry Burger, Library Effective 01-11-13
 - 3. Bonny Cambron, Courts, Effective 01-01-13
 - 4. Josefina Chan-Bravo, HSA, Effective 01-26-13
 - 5. Dolores Cisneros, HSA, Effective 01-31-13
 - 6. Steven Ferreira, Sheriff, Effective 12-29-12
 - 7. Gloria Garcia, HSA, Effective 12-29-12
 - 8. Lorraine Herod, CSA, Effective 01-03-13
 - 9. Nadya Ingle, HSA, Effective 01-26-13
 - 10. Zane Johnston, Clerk Recorder, Effective 01-31-13
 - 11. Elizabeth Kelso, Sheriff, Effective 01-31-13
 - 12. Roxana Killian, Area Agency on Aging, Effective 01-07-13
 - 13. Daphine Lamb-Perrilliat, BHRS, Effective 01-12-13
 - 14. Christine Lyon, DCSS, Effective 01-04-13
 - 15. Ray McDaniel, Sheriff, Effective 12-29-12
 - 16. Heidi McNally-Dial, City of Ceres, Effective 01-05-13
 - 17. Diane Miller, DCSS, Effective 01-04-13
 - 18. Victor Morrison, Public Works, Effective 01-04-13
 - 19. Sherry Schlegel, CSA, Effective 01-12-13
 - 20. Catherine Venicombe, DCSS, Effective 12-21-12

6. Consent Items (Cont.)

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

1. Kristina Alfaro, CEO, Effective 03-03-12
2. Veronica Briggs, City of Ceres, Effective 12-30-11
3. Forrest Bryant, Treasurer-Tax Collector, Effective 12-18-12
4. Eileen Emory, CSA, Effective 12-04-12.
5. Angela Ferreira, HSA, Effective 08-08-12
6. Carrie Higby, Courts, Effective 3-24-12
7. Luis Loera, Probation, Effective 08-10-12
8. Carolyn Matzger, DA, Effective 11-29-12
9. Dee Oaks, City of Ceres, Effective 08-03-12
10. Denise Olsen, HSA, Effective 10-13-12
11. Heather Stewart, DA, Effective 12-04-12
12. Zachary Stovall, Courts, Effective 12-08-12

j. Approval of Death Benefit – **Section 31781, 31781.1, or 31781.3**

1. Maria Teresa Countz, Deceased, December 30, 2012, Active Member,
Option Pursuant to Government Code Sections 31781, 31781.1, or 31781.3

7. Strategic Investment Solutions (SIS), Inc.

- a. Monthly Performance Review for the Month Ending December 31, 2012 [View](#)
- b. Report on “Top 10 Holdings” by StanCERA Investment Managers as
of December 31, 2012 [View](#)
- c. 2013 Manager Structure Timeline to Implement New Asset Allocation [View](#)
- d. Direct Lending Funds List for Review [View](#)

8. Discussion and Action on EFI Actuaries Presentation of the 2009-2012 Actuarial
Experience Study [View](#)

9. Executive Director

- a. Discussion and Action - California Public Employees' Pension Reform Act:
Inclusion of Employer Contributions to Deferred Compensation Plans or
Defined Contribution Plans in the Calculation of Pensionable Compensation for
New Members Hired on or After January 1, 2013 [View](#)
- b. New Legislation Update
- c. Active Vs. Passive Investments Educational Study Session [View](#)

10. Closed Session

- a. Public Employment:
Discussion and Action on the Executive Director's 2013 Goals
Government Code Section 54954.5
- b. Conference with Legal Counsel – Pending Litigation – One Case:
StanCERA v. Buck Consultants, LLC
Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152
Government Code Section 54956.9(a)

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

12. Adjournment



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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

December 12, 2012

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

Members Absent: Mike Lynch and Jeff Grover

Alternate Member Present: Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director
Luiana Irizarry, Interim Executive Assistant
Dawn Lea, Benefits Manager
Kathy Herman, Operations Manager
Kathy Johnson, Accountant

Others Present: Fred Silva, General Legal Counsel
Paul Harte, Strategic Investment Solutions (SIS), Inc.
Adam Lawlor & Douglas Porter, Legato Capital Management LLC
Marilyn Freeman & Elizabeth Knope, Capital Prospects LLC
Graham Schmidt, EFI Actuaries
Doris Foster & Stan Risen, County Chief Executive Office
Deirdre McGrath, County Counsel
Jeanine Bean, Superior Courts

1. Meeting called to order at 2:02 p.m. by Jim DeMartini, Chair.
2. **Roll Call**
3. **Announcements**

Ms. Lea announced that the December 3, 2012 Retiree Payroll had an issue with the print font. StanCERA reacted immediately on the same day, contacting each member who received a physical check and offered an alternate option.

Mr. Santos announced that a motion made at the November 27, 2012 meeting regarding employer contributions to deferred compensation plans included in pensionable compensation/compensation earnable will have to be revised at the January 2013 meeting.

4. **Public Comment**

None.

5. **Consent Items**

Motion was made by Maria De Anda and seconded by Donna Riley to approve Consent Items 5a, 5e, and 5f as written and Items 5b, 5c, and 5d as revised.

Motion carried.

- a. Approved as written: November 27, 2012, Administrative/Investment Meeting Minutes
- b. Approved with the following revision: Report on StanCERA Earnings Allocation as of June 30, 2012

The word “excess” was used incorrectly to describe the earnings that were allocated to the various valuation reserves. Since the earnings were below the actuarial return, yet still yielded a positive return (0.7%) after expenses, the earnings allocated should have been described as “earnings after administrative, investment and actuarial expenses”.

- c. Approved with the following revision: Resolution Regarding the California Public Employees’ Pension Reform Act (PEPRA) Allowable Pay Elements in the Calculation of Pensionable Compensation for Current Members and New StanCERA Members Hired after December 31, 2012
- d. Approved with the following revision: Leo Douglas Ott changed his date of retirement from December 30, 2012 to December 21, 2012.

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

- 1. Consuelo Alcala, BHRS, Effective 12-15-12
- 2. Tiny Benjamin, Sheriff, Effective 12-18-12
- 3. Catherine Borba, HSA, Effective 12-15-12
- 4. Cindy Borg, CSA, Effective 12-29-12
- 5. Kelly Cerny, StanCERA, Effective 12-05-12
- 6. Kelli Garcia, CSA, Effective 12-07-12
- 7. Denita Harris, Alliance Worknet, Effective 12-22-12
- 8. Ray Jackson, CEO/OES, Effective 12-22-12
- 9. Eddie Jones, Keyes Community Services, Effective 12-29-12
- 10. Hugo Martinez, CSA, Effective 12-15-12
- 11. Valeri Niskanen, County Counsel, Effective 12-29-12
- 12. Leo Douglas Ott, Fire Warden, Effective 12-21-12
- 13. Brenda Suarez, Sheriff, Effective 12-15-12
- 14. Carolyn Sullivan, CEO/OES, Effective 12-22-12

5. **Consent Items (Cont.)**

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

1. Eli Day, Public Works, Effective 10-09-12

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

1. Judith Escarcega, Sheriff, Service-Connected, Effective 09-02-12

6. **Semi-Annual Performance Report by Legato Capital Management LLC**

Presenters: Adam Lawlor, Senior Vice President
Douglas Porter, Senior Vice President,

Investment Style: U.S. Small Cap Growth Equity Portfolio
Legato Capital Management LLC is a Manager of Managers.

Inception: \$26 million Funded on December 22, 2008
Portfolio Assets: \$62 million as of September 30, 2012
Total Return: 18.01% gross of fees as of September 30, 2012
Benchmark: 14.08% - Russell 2000 growth index

7. **Semi-Annual Performance Report by Capital Prospects LLC**

Presenters: Marilyn Freeman Principal and Manager
Elizabeth Knope, Principal and Manager
(Via Teleconference)

Investment Style: U.S. Small Cap Value Equity Portfolio
Capital Prospects is a Manager of Managers

Inception: \$49.1 million funded on December 22, 2008
Portfolio Assets: \$68 million as of October 31, 2012
Total Return: 17.28% gross of fees as of October 31, 2012
Benchmark: 12.93% - Russell 2000 Value Index

8. **EFI Actuaries Presentation on Preliminary Results of the Actuarial Valuation as of June 30, 2012**

Graham Schmidt of EFI Actuaries presented information from the 2012 preliminary actuarial valuation and experience study. The report reflected very little change in demographic experience from the past several years and as a result, Mr. Schmidt recommended minor changes to the demographic assumptions.

Mr. Schmidt further explained a change in the economic assumptions resulting from the November 7, 2012 Asset Liability Study. Based on capital market expectations and portfolio changes directed by the Board, the inflation assumption was reduced from 3.5% to 3.25%, resulting in a nominal discount rate of 7.75% with an unchanged real return of 4.5%. This resulted in an increase in the total employer contribution rate of 1.77%.

8. **EFI Actuaries Presentation on Preliminary Results of the Actuarial Valuation as of June 30, 2012 (Cont.)**

The Board ~~also~~ accepted a recommendation to include an explicit line item increase to the employer contribution rate of 0.98% to account for GASB's recommended explicit reporting of System administration fees as a percent of payroll.

The Board rejected recommendation to migrate to the "funding to final decrement" and the individual entry age normal funding methods, with the acknowledgement that we may have to revisit this issue in the near future. This would have increased contribution rates by 2.12%.

The Board directed Mr. Schmidt to prepare the 2012 actuarial valuation and recent experience study for finalization with these assumptions. The resulting blended employer rate for 2013-2014 is expected to be approximately 20.91%.

9. **Executive Director**

- a. Discussion and Action Regarding New Employer and Employee Contribution Rates for the New Tier 6 (Public Employee Pension Reform Act – PEPR)

Motion was made by Michael O'Neal and seconded by Darin Gharat to adopt a flat rate schedule for all Tier 6 new members hired on or after January 1, 2013. Therefore, all new members will pay the same rate regardless of the age at which they are hired.

Motion carried unanimously.

Motion was made by Michael O'Neal and seconded by Darin Gharat to adopt both member and employer rates based on "funding to final decrement" presented by EFI Actuaries.

Motion carried unanimously.

- b. New Legislation Update

10. **Closed Session**

Motion was made by Darin Gharat and seconded by Michael O'Neal to move into Closed Session at 3:50 p.m.

Motion carried.

Motion was made by Darin Gharat and seconded by Ron Martin to return to Open Session at 3:52 p.m.

Motion carried.

Moved out of closed session prior to discussion of items per the request of Mr. Rakoncza. Mr. Rakoncza expressed his experience through the disability retirement process.

10. **Closed Session (Cont.)**

Motion was made by Darin Gharat and seconded by Michael O'Neal to move into Closed Session at 3:53 p.m.

Motion carried.

Motion was made by Michael O'Neal and seconded by Darin Gharat to return to Open Session at 4:05 p.m.

Motion carried.

Ms. Irizarry read the findings of the Closed Session:

- a. Discussion and Action on Administrative Recommendation on the Application for a Service-Connected Disability Retirement for Keith Rakoncza

Motion was made by Maria De Anda and seconded by Michael O'Neal to set the disability case regarding Keith Rakoncza for hearing.

- b. Conference with Legal Counsel - Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Government Code Section 54956.9(b); One Matter

No Report.

- c. Conference with Legal Counsel – Pending Litigation – One Case:
O'Neal et al v. Stanislaus County Employees' Retirement Association
Stanislaus County Superior Court Case No. 648469
Government Code Section 54956.9(a)

No Report.

- d. Conference with Legal Counsel – Pending Litigation – One Case:
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
Superior Court Case No. 1-11-CV202224
Government Code Section 54956.9(b)

No Report.

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

Mr. Santos requested that due to the Opal Public Funds Summit from January 8-10, 2013 in Phoenix, Arizona, the January meetings be combined and take place at 1:00 p.m. on January 22, 2013.

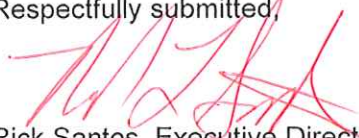
Mr. Santos reminded Board members to let staff know what committee assignments they would like for 2013. If no input is received, staff will consult with the new Chair for 2013. The general consensus is that if no input is received, current assignments will be kept intact with the knowledge that Trustee De Anda and Trustee Martin's seats expire on June 30, 2013. Staff also recommended maintaining the Strategic Planning Committee intact, since that function should be completed by June 30, 2013.

Mr. Gharat thanked Mr. Jim DeMartini for his services as Board Chair for 2012.

12. **Adjournment**

Meeting adjourned at 4:11 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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**For the Retirement Board meeting
Held on January 22, 2013**

TO: Retirement Board

1/22/13
Item #6b

FROM: Luiana Irizarry, Executive Board Secretary

- I. SUBJECT: StanCERA's Anticipated Executive Master Calendar
- II. RECOMMENDATION: None
- III. ANALYSIS: Please find attached StanCERA's Anticipated Executive Master Calendar for calendar year 2013. In the past, StanCERA put out an *Agenda Item Master Calendar*, an annual *Board Meeting Calendar* and an *Educational Opportunities Calendar*. This agenda item is a compilation of these calendars and will be displayed on StanCERA's website for reference.

This calendar is an anticipated list of StanCERA's executive events for calendar year 2013 and may be updated over the course of the year. Please refer to this calendar prior to each meeting in order to stay informed of events that may be of interest.

- IV. RISK: None
- V. STRATEGIC PLAN: Goal 3: 1.a. Maintain Excellence in governance through orientation of new members and high-quality educational activities for Board members.
- IV. BUDGET IMPACT: None

Luiana Irizarry, Executive Board Secretary

Rick Santos, Executive Director

StanCERA's Anticipated Executive Master Calendar **2013**

Revised 01/17/13

January

01/22 Administrative/ Investment Mtg.	Approve 2013 StanCERA Master Calendar Approve 2013 StanCERA Committee Assignments Approve 2012 StanCERA Continuing Education Record Rotation of Officers Strategic Action Plan Quarterly Update – Q4 Executive Director's 2012 Quarterly Goals Update – Q4 Executive Director's 2013 Annual Goals 2012-2013 FPPC 700 Forms EFI Actuaries Presentation 2009-2012 Actuarial Experience Study SIS – Direct Lending Funds List for Review StanCERA Quarterly Complaint Log 10/01/12 – 12/31/12 SIS Monthly Performance Review as of 11/30/12 & 12/31/12 SIS Monthly Report on “Top 10 Holdings” as of 12/31/12
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Education:

Opal Financial Group – Public Funds Summit	Tue.-Thur.	01/08 - 01/10	Scottsdale, AZ
CALAPRS – Administrators Roundtable	Friday	01/25	San Jose, CA
CALAPRS – Attorneys Roundtable	Friday	01/25	San Jose, CA
NCPERS – Legislative Conference	Sun.-Tues.	01/27 – 01/29	Washington, DC
CALAPRS – Board Leadership Institute	Tue.-Thur.	01/29-01/31	Los Angeles, CA

February

02/13 Administrative Mtg.	COLA Review as of 04/01/13 for Payment on 05/01/13
02/13 Strategic Planning Committee Mtg.	Interview Facilitators for 2013-2016 Organizational Strategic Plan
02/26 Investment Mtg.	EFI Actuaries Presentation Actuarial Valuation as of 06/30/12 Approve FY2013-2014 Employer/Employee Contribution Rates StanCERA Quarterly Inv. Mgrs. Peer Rankings as of 12/31/12 SIS –Direct Lending Fund Candidate Interviews SIS Semi-Annual Investment Managers Fees as of 12/31/12 SIS Quarterly Investment Performance Ending 12/31/12 SIS Monthly Performance Review as of 01/31/13 SIS Monthly Report on “Top 10 Holdings” as of 01/31/13 SIS Monthly Investment Manager Review List as of 01/31/13 Semi-Annual Report - Dodge & Cox Semi-Annual Report - PIMCO

Education:

NAPPA – Winter Seminar Meetings	Wed.-Fri.	02/06-02/08	Washington, DC
CALAPRS – Benefits Roundtable	Friday	02/08	San Jose, CA
CALAPRS – Investment Officers Roundtable	Friday	02/08	San Jose, CA
CALAPRS – Trustees Roundtable	Friday	02/08	San Jose, CA
PRJ – 23 rd Annual Public Ret. Seminar	Thursday	02/28	Lakewood, CA

StanCERA's Anticipated Executive Master Calendar

2013

Revised 01/17/13

March

- 03/13 Administrative Mtg. COLA Approval Effective 04/01/13, Paid 05/01/13
SACRS Spring Conference Voting Proxy
SACRS Nominating Committee Rec. Ballot for Board of Directors
- 03/26 Investment Mtg. SIS –Direct Lending Fund Candidate Legal Review
SIS Monthly Performance Review as of 02/28/13
SIS Monthly Report on “Top 10 Holdings” as of 02/28/13
Semi-Annual Report – Delaware Investments

Education:

CALAPRS – General Assembly	Sat.-Tues	03/02-03/05	San Francisco, CA
CALAPRS – Principles of Pension Mgmt.	Tue.-Fri.	03/26-03/29	Palo Alto, CA

April

- 04/10 Administrative Mtg. Strategic Action Plan Quarterly Update – Q1
Executive Director’s 2013 Goals Quarterly Update – Q1
SACRS Nominating Committee Final Ballot for Board of Directors
- TBA Strategic Planning Objectives Committee Mtg. Organizational Strategic Plan Workshop
- 04/23 Investment Mtg. StanCERA Quarterly Complaint Log 01/15/13 – 03/31/13
SIS – Manager Structure Review of Fixed Income
SIS Monthly Performance Review as of 03/31/13
SIS Monthly Report on “Top 10 Holdings” as of 03/31/13
SIS Monthly Investment Manager Review List as of 03/31/13
Semi-Annual Report – Pyramis Global Advisors
Semi-Annual Report – LSV Asset Management

Education:

CALAPRS – Accountants Roundtable	Friday	04/05	San Jose, CA
CALAPRS – Administrative Asst. Roundtable	Friday	04/05	San Jose, CA
CALAPRS – Information Tech. Roundtable	Friday	04/05	San Jose, CA
CALAPRS – Management Academy: Module 1	Mon.-Tue.	04/15-04/16	Burbank, CA

StanCERA's Anticipated Executive Master Calendar

2013

Revised 01/17/13

May

05/28	Administrative/ Investment Mtg.	Approve StanCERA FY2013-2014 Administrative Budget StanCERA Quarterly Inv. Mgrs. Peer Rankings as of 03/31/13 SIS – Potential New Fixed Income Manager Structure SIS Semi-Annual Investment Managers Fees as of 03/31/13 SIS Quarterly Investment Performance Ending 03/31/13 SIS Monthly Performance Review as of 04/30/13 SIS Monthly Report on “Top 10 Holdings” as of 04/30/13 SIS Monthly Investment Manager Review List as of 04/30/13
05/28	Due Diligence Committee Mtg.	Determine BOR 2013 Due Diligence Schedule

Education:

CALAPRS – Overview Staff Training	Friday	05/03	Burbank, CA
SACRS – Spring Conference	Tues.-Fri.	05/14-05/17	Napa, CA
NCPERS – Annual Conference	Sun.-Thur.	05/19-05/23	Honolulu, HI

June

06/12	Administrative Mtg.	No Scheduled Items
06/25	Investment Mtg.	SIS –Fixed Income Manager Assignments Review SIS Monthly Performance Review as of 05/31/13 SIS Monthly Report on “Top 10 Holdings” as of 05/31/13 SIS Monthly Investment Manager Review List as of 05/31/13 Semi-Annual Report – Capital Prospects LLC Semi-Annual Report – Legato Capital Management LLC

Education:

CALAPRS – Management Academy: Module 2	Mon.-Wed.	06/03-06/05	Burbank, CA
CALAPRS – Communications Roundtable	Thursday	06/13	Burbank, CA
CALAPRS – Attorneys Roundtable	Friday	06/14	Burbank, CA
CALAPRS – Benefits Roundtable	Friday	06/14	Burbank, CA
CALAPRS – Investment Officers Roundtable	Friday	06/14	Burbank, CA
CALAPRS – Trustees Round Table	Friday	06/14	Burbank, CA
CALAPRS – Administrators Roundtable	Friday	06/21	Burbank, CA
NAPPA – Legal Education Conference	Wed.-Fri.	06/26-06/28	Santa Fe, NM

July

- 07/10 Administrative Mtg. Seating of New Board Member(s)
Strategic Action Plan Quarterly Update – Q2
Executive Director's 2013 Goals Quarterly Update – Q2
- 07/23 Investment Mtg. StanCERA Quarterly Complaint Log 04/01/13 – 06/30/13
SIS – Manager Structure Review of US and International Equities
SIS Monthly Performance Review as of 06/30/13
SIS Monthly Report on "Top 10 Holdings" as of 06/30/13
SIS Monthly Investment Manager Review List as of 06/30/13

Education:

CALAPRS – Management Academy: Module 3	Mon.-Wed.	07/22-07/24	Burbank, CA
SACRS – Public Pension Investment Mgmt	Mon.-Wed.	07/29-07/31	Berkeley, CA

August

- 08/14 Administrative Mtg. No Scheduled Items
- 08/14 Internal Governance Committee Mtg. Annual Financial Audit Entrance Conference
- 08/27 Investment Mtg. StanCERA Quarterly Inv. Mgrs. Peer Rankings as of 06/30/13
SIS – Review Potential New & Existing Equity Manager Structures
SIS Semi-Annual Investment Managers Fees as of 06/30/13
SIS Quarterly Investment Performance Ending 06/30/13
SIS Monthly Performance Review as of 07/31/13
SIS Monthly Report on "Top 10 Holdings" as of 07/31/13
SIS Monthly Investment Manager Review List as of 07/31/13
Semi-Annual Report - Dodge & Cox
Semi-Annual Report - PIMCO

Education:

No Scheduled Educational Opportunities

StanCERA's Anticipated Executive Master Calendar

2013

Revised 01/17/13

September

09/11	Administrative Mtg.	SACRS Fall Conference Voting Proxy
09/24	Investment Mtg.	SIS – Review Potential Real Estate Fund Options SIS Monthly Performance Review as of 08/31/13 SIS Monthly Report on “Top 10 Holdings” as of 08/31/13 SIS Monthly Investment Manager Review List as of 08/31/13 Semi-Annual Report – Delaware Investments

Education:

CALAPRS – Disability Staff Training	Thursday	09/12	San Jose, CA
CALAPRS – Attorneys Roundtable	Friday	09/13	San Jose, CA
CALAPRS – Benefits Roundtable	Friday	09/13	San Jose, CA
CALAPRS – Trustees Round Table	Friday	09/13	San Jose, CA
CALAPRS – Administrators Institute	Wed.-Fri.	09/25-09/27	Northern, CA-TBA

October

10/09	Administrative Mtg.	Strategic Action Plan Quarterly Update – Q3 Executive Director’s 2013 Goals Quarterly Update – Q4
10/22	Internal Governance Committee Mtg.	Annual Financial Audit Meeting Review of Bylaws
10/22	Investment Mtg.	Capital Markets Review StanCERA Quarterly Complaint Log 07/01/13 – 09/30/13 SIS – Action on Chosen Real Estate Fund Option SIS Monthly Performance Review as of 09/30/13 SIS Monthly Report on “Top 10 Holdings” as of 09/30/13 SIS Monthly Investment Manager Review List as of 09/30/13 Semi-Annual Report – Pyramis Global Advisors Semi-Annual Report – LSV Asset Management

Education:

CALAPRS – Intermediate Staff Training	Wed.-Fri.	10/02-10/04	San Jose, CA
CALAPRS – Accountants Roundtable	Friday	10/18	Burbank, CA
CALAPRS – Administrative Asst. Roundtable	Friday	10/18	Burbank, CA
CALAPRS – Information Tech. Roundtable	Friday	10/18	Burbank, CA

November

11/26 Administrative/
Investment Mtg.

- Approval of FY 06/30/13 CAFR & Audited Financial Statements
- Approval of Bylaws Revision
- StanCERA Quarterly Inv. Mgrs. Peer Rankings as of 09/30/13
- SIS – Interview Potential Real Estate Fund Mgrs (if needed)
- SIS Quarterly Investment Performance Ending 09/30/13
- SIS Monthly Performance Review as of 10/31/13
- SIS Monthly Report on “Top 10 Holdings” as of 10/31/13
- SIS Monthly Investment Manager Review List as of 10/31/13

Education:

SACRS – Fall Conference	Tues.-Fri.	11/12-11/15	Monterey, CA
CALAPRS – Advanced Staff Training	Wed.-Fri.	11/20-11/22	San Jose, CA

December

12/11 Administrative/
Investment Mtg.

- Approval of Investment Policy Revisions
- Approve 2014 StanCERA Master Calendar
- Approve 2014 StanCERA Committee Assignments
- StanCERA Report on Earnings Allocation as of 06/30/13
- SIS – Review Infrastructure Asset Class Allocation
- Semi-Annual Report – Capital Prospects LLC
- Semi-Annual Report – Legato Capital Management LLC

Education:

CALAPRS Overview Staff Training	Friday	12/06	San Jose, CA
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EMPLOYEES' RETIREMENT ASSOCIATION
832 12th Street, Suite 600
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P.O. Box 3150 Modesto, CA 95353-3150

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

**For the Retirement Board meeting
Held on January 22, 2013**

TO: Retirement Board

1/22/13

Item #6c

FROM: Luiana Irizarry, Executive Board Secretary

- I. SUBJECT: 2013 Board of Retirement Committee Assignments
- II. RECOMMENDATION: None
- III. ANALYSIS: Please find attached the 2013 Board of Retirement Committee Assignments. In accordance to StanCERA Bylaws Article 1.7., regarding Committees, *"The Retirement Board Chair at his/her discretion may appoint Retirement Board members or staff to any standing or ad-hoc committee as the Chair deems necessary."*

The committee assignments have been reviewed and approved by StanCERA's Board Chair. Committee assignments may change mid-calendar year due to potential upcoming elections and/or Board member retirements.

- IV. RISK: None
- V. STRATEGIC PLAN: Goal 3: 3.a. Regularly update policies, procedures, and systems to ensure organizational effectiveness and consistency.
- IV. BUDGET IMPACT: None

Luiana Irizarry, Executive Board Secretary

Rick Santos, Executive Director

Standing Committees

Internal Governance Committee

Areas of Responsibility: *Audits, Bylaws Revisions, Policy Revisions, Board Member Education*

Maria De Anda, Chair

Michael O'Neal

Donna Riley

Staff: Rick Santos/Kathy Herman as needed)

Due Diligence Committee

Pursuant to Bylaw 1.7a the Board's Vice Chair is the Committee Chair on a rotating basis

Darin Gharat, Chair

Jim DeMartini

Ron Martin - through 6/30/13, BOS Appointed Successor TBA eff. 7/1/13

Jeff Grover

StanCERA Investment Consultant: Paul Harte, Strategic Investment Solutions, Inc.

Staff: Rick Santos/Kathy Herman as needed

Strategic Planning Objectives Committee

Areas of Responsibility: *May include Current Strategic Planning Objectives (Review of AAROR, Defined Benefit Plans and Alternatives; Improving Communications with BOS, CEO, Plan Sponsor Decision Makers and the Public), and Future Objectives*

Michael O'Neal, Chair, (Joan Clendenin, Alternate)

Mike Lynch

Gordon Ford

Staff: Rick Santos/Kathy Herman as needed



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**For the Retirement Board meeting
Held on January 22, 2013**

TO: Retirement Board

1/22/13
Item #6d

FROM: Luiana Irizarry, Executive Board Secretary

- I. SUBJECT: 2012 Board of Retirement Continuing Education Record
- II. RECOMMENDATION: None
- III. ANALYSIS: Please find attached the 2012 Board of Retirement Continuing Education Record. This information is typically presented every January upon completion of the prior year's educational events.

Beginning in 2013, in accordance to Assembly Bill 1519, approved on June 15, 2012; Government Code Section 31522.8, *a Board of Retirement shall present the Continuing Education Record on the Internet Web site of the retirement system.* Thus commencing in January 2013 the Board of Retirement Continuing Education Record will be posted on StanCERA's Web site, www.stancera.org.

- IV. RISK: None
- V. STRATEGIC PLAN: Goal 3: 1.a. Maintain Excellence in governance through orientation of new members and high-quality educational activities for Board members.
- IV. BUDGET IMPACT: None

Luiana Irizarry, Executive Board Secretary

Rick Santos, Executive Director

2012 STANCERA CONTINUING EDUCATION RECORD

2012 Education Credit Log															
Board Member	Ethics Training Completed	3-Year Rolling Total Education Credits	2010 Total Education Credits	2011 Total Education Credits	2012 Total Education Credits	Opal Financial Group's Public Funds Summit (January)	CALAPRS Trustees Round Table (February)	StanCERA Plan Maturity & Pension Risk (February)	LACERA 5th Annual Pension Trustees Round-Up (February)	CALAPRS General Assembly (March)	StanCERA Contribution Rates & Funded Ratios (March)	StanCERA Discount Rate (April)	SACRS Spring Conference (May)	StanCERA Cash Flow Management (August)	SACRS Fall Conference (November)
Gordon B. Ford	12/19/11	45.50	3.00	10.50	32.00	13.00		1.00			1.00		16.00	1.00	
Maria De Anda	12/30/12	117.25	59.75	24.50	33.00				14.00		1.00	1.00	16.00	1.00	
Donna Riley	05/07/12	21.00	0.00	1.00	20.00			1.00			1.00	1.00	16.00	1.00	
Ron Martin	10/18/12	26.00	20.00	2.00	4.00			1.00			1.00	1.00		1.00	
Mike Lynch	12/10/11	6.00	2.00	0.00	4.00			1.00			1.00	1.00		1.00	
Jim DeMartini	01/20/11	38.00	21.00	0.00	17.00	13.00		1.00			1.00	1.00		1.00	
Darin Gharat	09/22/11	143.00	58.00	40.50	44.50			1.00		8.50	1.00	1.00	16.00	1.00	16.00
Michael O'Neal	05/07/12	74.00	0.00	23.00	51.00		6.50	1.00		8.50	1.00	1.00	16.00	1.00	16.00
Joan Clendenin	02/02/12	54.50	0.00	23.50	31.00	13.00		1.00				1.00	16.00		
Jeff Grover	03/23/11	43.50	0.00	41.50	2.00						1.00	1.00			

StanCERA Bylaws:

Article 14.3 Educational Requirement

- A.) A Retirement Board member must attend at least two State Association of County Retirement System (SACRS) meetings during the members 3 year term;
- B.) The member must have 36 hours of continuing education during his/her term. SACRS conferences may be included in those hours;
- C.) The Internal Governance Committee will be responsible for monitoring the Retirement Board members educational hours earned and determining the allowable credit hours for all conferences or seminars attended.

Note:

- 1.) SACRS Maximum Credit - 16 (Per February 11, 1998 Board of Retirement Minutes).
- 2.) Ethics - AB 1234 requires that all members of a legislative body who receive compensation, salary, or stipend to, or reimburse the expenses of, must attend AB 1234 training every two years.
The term "legislative body includes commissions, committee, board, or other body of a local agency, whether permanent or temporary, decision making or advisory.
- 3.) Board of Retirement Continuing Education Record will be posted on StanCERA's Web site due to AB1519, Government Code Section 31522.8.
- 4.) Board terms listed on StanCERA's Web site.
- 5.) StanCERA's Web site: www.stancera.org



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For the Retirement Board Meeting

Held on January 22, 2013

TO: StanCERA Board of Retirement

1-22-13
Item #6e

FROM: Rick Santos, Executive Director

- I. SUBJECT: Quarter 4 2012 Update on Executive Director Goals and Strategic Action Plan
- II. RECOMMENDATION: Approve progress on Director Goals and Strategic Action Plan
- III. ANALYSIS: This is the fourth quarter and final update on the Executive Director Goals for 2012 and an update on the progress for the Organizational Strategic Action Plan for 2010-2012. As in the previous three quarters, this information is being presented as one item since Director Goals are explicitly linked to the Strategic Action Plan and 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 recent progress or have not yet been completed (red).

Strategic Action Plan (Attachment 1)

This document is divided into three sections; tasks that are on going in nature, those that have a specific resolution and incomplete ad hoc Board requests. Only tasks that are on going or have not been completed are part of this document. Many of the tasks in the original 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 quarter being reported out. 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 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 lists current progress made in the quarter being reported out. However, unlike the Strategic Action Plan document, since most of the goals have specific resolutions, those items will show the current quarter's progress and will be shown as "complete" when that specific task has reached its resolution.

Rick Santos, Executive Director

Dawn Lea, Benefits Manager

Attachment 1 - 2012 Strategic Action Plan (SAP) Quarter 4 Progress Update

SAP Tasks on going in nature

- 1) Periodically review and revise the investment policy as needed
 - ✓ Staff preparation for 2013 revision to accommodate the new strategic allocation approved by the Board in November 2012
- 2) Periodically review and revise assumptions as needed
 - ✓ EFI actuaries will be presenting new assumptions on January 22, 2013 for Board approval
 - ✓ Board also adopted new capital market and inflation assumptions in November 2012
- 3) Conduct regular discussions with Strategic Investment Solutions (SIS)
 - ✓ Monthly Investment Meetings
 - ✓ Preparation for asset liability study in November
 - ✓ Preparation for and accumulation of data for active/passive study
 - ✓ Discussion of custodial bank issues
 - ✓ Discussion of cash flow management implementation
- 4) Periodically discuss key investment decisions with experts as needed
 - ✓ Monthly SIS reports
 - ✓ Monthly Investment Manager reports
 - ✓ Ad hoc meetings with custodian and investment managers on inflation outlook and capital market expectations in preparation for asset liability study
- 5) Maintain current information on website
 - ✓ Current quarter information
 - Board Agenda information
 - Board minutes (December 2012, yet to be approved)
 - Board audio
 - Financial Reports
 - Pension reform information updates
- 6) Maintain educational sessions for interested stakeholders
 - ✓ Board study sessions
 - Asset liability optimization
 - Alternative Investments
 - ✓ Stakeholder visits
 - CRCEA presentation on pension risk
 - Several onsite meetings with all plan sponsors regarding PEPRA implementation
- 7) Explore other sources of communication with Plan Sponsors and Members
 - Nothing new to report out
- 8) Gather and report benchmarking data against other Systems
 - Nothing new to report out
- 9) Analyze benchmarking data
 - ✓ Nothing new to report out

Attachment 1 - 2012 Strategic Action Plan (SAP) Quarter 4 Progress Update

SAP Tasks on going in nature – cont.

- 10) Communicate with peers in other pension Systems
 - ✓ Staff attendance at CALAPRS seminars
 - ✓ Staff attendance at SACRS Pension reform
 - ✓ Director attendance at SACRS Pension reform
 - ✓ Director ongoing email and telephone communication with other System Leaders
- 11) Continue to contract with established knowledgeable attorneys
 - ✓ Current contracts
 - Hanson and Bridgett
 - Damrell, Nelson, Schrimp, Pallios, Pacher & Silva
 - Fletcher Alford
 - Reed Smith
 - Ted Cabral, Disability Attorney
- 12) Explore opportunities to offer educational sessions at StanCERA
 - ✓ Nothing new to report out
- 13) Identify high quality educational opportunities and inform Board Members
 - ✓ Continuous/regular offerings of seminars and conferences
- 14) Ensure that StanCERA processes are completed on time and to standards
 - ✓ All major processes completed on time
 - Board agenda and minute production
 - 4th quarter retiree payrolls
 - 4th quarter member refunds
 - Disability retirement applications (17 outstanding; Increase of 4 from 3rd quarter)
- 15) Staff and Board to attend approved educational opportunities
 - ✓ Staff
 - SACRS Fall/Winter Conference
 - Director attendance of SOA annual conference in October
 - Attendance of CALAPRS Intermediate Overview Session
 - ✓ Board
 - SACRS Fall/Winter Conference
- 16) Search out other Systems' websites for best practices and ideas for the future
 - ✓ Considerable time was spent searching other 1937 Act Systems for alternative data in preparation for the asset liability study. As a result, there were certain practices learned regarding the presentation of asset information. StanCERA will consider implementing some of these practices after the transition to alternative investments is complete

Attachment 1 - 2012 Strategic Action Plan (SAP) Quarter 4 Progress Update

17) Enhance website based on research of other Systems' websites

➤ Nothing new to report out

18) Track and resolve post-implementation Tyler issues as needed

✓ Some work has been completed due to PEPRA implementation, however, this aspect is still not fully complete

SAP Tasks with a specific resolution

1) Explore and make recommendations regarding document imaging

➤ Incomplete; This efficacy and completion of this task should be reevaluated and included in the new Organizational Strategic Plan if so desired

Ad Hoc Board Requests

1) Feasibility study regarding a change of custodial bank

✓ Staff has begun researching this task

✓ Staff to complete this task in 2013

Attachment 2 – 2012 Executive Director Goals Quarter 4 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)
 - ✓ Completed Quarter 4
 - ✓ Quarter 4 update
 - Ongoing meetings with County Executive Staff regarding pension costs
 - Presentation on asset/liability study
 - Several PEPRRA implementation sessions with all StanCERA plan sponsors
 - Numerous responses to requests from media
 - Presentation to CRCEA regarding pension risk
2. Complete internal staffing and reorganization (SAP Goal 3, Strategy B)
 - ✓ Completed Quarter 2
3. Complete policy and procedural requirements recommended by Operational Auditor (SAP Goal 3, Strategy C)
 - ✓ Completed Quarter 1
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 Quarter 4
 - ✓ Quarter 4 update
 - Asset liability study
 - Alternative Investments
5. Complete ongoing educational opportunities for Staff (SAP Goal 3, Strategy B)
 - ✓ Completed Quarter 4
 - ✓ Quarter 4 update
 - Staff Events: November SACRS Conference
 - Staff self-study for CFA Exam Level 1
 - CALAPRS Intermediate Overview Session
6. Continue ongoing development and understanding of Organizational processes and procedures (SAP Goal 3, Strategy B)
 - ✓ Completed Quarter 4
 - ✓ Quarter 4 update
 - Work closely with General and Special Counsel
 - Network with other 1937 Act Administrators
 - Extensive contact with individual Board members outside of regular meetings
7. Complete Cost/Benefit analysis on document imaging system (SAP Goal 4, Strategy B)
 - Incomplete

- Staff and Board will have to reassess whether this item is still of interest

Attachment 2 – 2012 Executive Director Goals Quarter 4 Progress Update

8. Explore and potentially execute “paperless” Board meetings (SAP Goal 4, Strategy C)
 - ✓ Completed quarter 1
9. Director Professional Development (SAP Goal 3, Strategy B)
 - ✓ Completed Quarter 4
 - ✓ Quarter 4 update
 - Society of Actuaries annual conference in October
10. Oversee administrative functions
 - ✓ Completed Quarter 4
 - ✓ Quarter 4 update
 - All Board agenda and minute production complete for 4th quarter
 - All Committee agenda production complete for 4th quarter
 - Board and Staff travel arrangements complete
 - Complete 4th quarter retiree payrolls on time
 - 4th quarter member refunds current
 - 17 outstanding disability retirement applications as of January 15 (increase of 4 from prior quarter)



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**For the Retirement Board meeting
Held on January 22, 2013**

TO: Retirement Board

1/22/13

FROM: Kathy Herman, Operations Manager

Item #6f

SUBJECT: StanCERA Complaint Log

There were twenty-three (23) complaints logged from October 1 through December 31, 2012 in the StanCERA complaint log. All of them related to the Health Care Insurance being managed by RESCO, SML Insurance and Patrick McTighe.

An additional forty-six (46) complaints were logged from January 1 through January 14, 2013. Several of the complaints logged represented numerous callers.

Summary – Patrick McTighe, formally of SML Insurance, contracts with the Retired Employees of Stanislaus County (RESCO) to manage the health insurance plans for the retired members of StanCERA. Early in the fall of 2012 (about the same time that open enrollment was in process) there was a major change in the structure at SML Insurance.

Consequently retirees were unable to reach SML Insurance or Patrick McTighe regarding open enrollment questions and because of timing, we were unable to deduct all the health care premiums for the November 1, 2012 payroll. Many tearful, confused and angry retirees called StanCERA directly.

StanCERA staff worked with RESCO and Patrick McTighe to resolve the issues and to set up a process whereby retiree health care premiums could still get deducted electronically and the December 3, 2012 payroll was much smoother, with minimal calls regarding this issue.

Unfortunately the electronic file received from Patrick McTighe Insurance for the January 2, 2013 retiree payroll deductions was rife with errors. StanCERA's phones rang off the hook the first day of the new year with more tearful, confused and angry retirees.

Currently, neither Patrick McTighe Insurance or RESCO have a physical address, however they have established phone numbers with voicemails and Patrick McTighe's staff does respond to these messages. Dawn Lea is working with Patrick McTighe to eliminate errors before the next payroll. StanCERA staff continues to politely listen then refer health insurance questions and concerns to RESCO and Patrick McTighe.

Kathy Herman

Rick Santos

U.S. EQUITY

U.S. equity markets staged a rally at the end of November to end the month in positive territory. Growth outperformed Value and Large caps performed in-line with Small caps. The Russell 1000 Growth Index was up +1.7% for the month and the Russell 1000 Value Index was down -0.0%. The Russell 2000 Growth Index was up +0.8% and the Russell 2000 Value was up +0.3%. The S&P 500 Index ended the month up +0.6%

The S&P 500 Index has a trailing P/E ratio of 16.8 and a forward 12-month estimate P/E ratio of 13.5.

Corporate merger highlights for the month included: Red Prairie, backed by private equity firm New Mountain Capital, will acquire JDA Software for \$1.9 billion; Gulf Oil will acquire Houghton International for \$1.05 billion; Diageo, the owner of Johnnie Walker and Guinness, will buy a majority stake in United Spirits for \$2.1 billion; Priceline.com will buy price comparison site Kayak for \$1.8 billion; Sherwin-Williams will buy Mexico City coatings maker Consorcio Comex for about \$2.3 billion; Cisco Systems will pay \$1.2 billion to buy cloud networking company Meraki; Reckitt Benckiser Group trumped Bayer's \$1.2 billion deal to buy Schiff Nutrition International with a higher offer of \$1.4 billion for the U.S. vitamin maker; Conoco Phillips will sell its 8.4% stake in a Kazakhstan oil venture for \$5 billion to Oil and Natural Gas Corporation; Onex Corp. will buy USL, one of the largest providers of insurance brokerage services in the U.S., from Goldman Sachs' GS Capital for \$2.3 billion; McGraw-Hill will sell its educational publishing unit to Apollo Global Management for \$2.5 billion; ConAgra Foods will buy Ralcorp Holdings for \$4.95 billion to become the largest private label food company in North America; British engineering group Invensys sold its rail business to Germany's Siemens for \$2.8 billion; and, Siemens will acquire Invensys's rail unit for \$2.8 billion.

FIXED INCOME

The Commerce Dept. reported that gross domestic product was revised up to a better than expected 2.7% annual rate in the 3rd quarter.

The Labor Dept. reported that the unemployment rate in October ticked up to 7.9% from 7.8% in September.

Long-term interest rates fell slightly in the month of November. The bellwether 10-year Treasury note ended the month yielding 1.61% down from 1.68% at the close of October. At month-end, the 30-year bond yield was 2.8% with the 3-month T-bill at 0.1%. The Barclays Capital US Aggregate Index was up +0.2% in November.

On the economic front, the following key data was released in November:

THE GOOD

*Chrysler's U.S. vehicle sales rose 10%, Volkswagen's surged 22%, Toyota's jumped 16% and GM's increased 5% in October.

*The Labor Dept. reported that worker productivity increased at a modest 1.9% annual rate in the 3rd quarter, matching the 2nd quarter rate.

*The Commerce Dept. reported that new orders for manufactured goods climbed 4.8% in September.

*CoreLogic reported that U.S. home prices rose 5% in September compared to a year earlier and was the larger year-over-year increase since July 2006.

*The Commerce Dept. reported that the seasonally adjusted monthly trade gap narrowed to \$41.6 billion in September, the smallest deficit since December 2010.

*The Commerce Dept. reported that inventories at U.S. wholesalers increased 1.1% in September to a seasonally adjusted \$494 billion, the fastest pace in 9 months.

*The delinquency rate, that includes mortgages that are past due but not yet in foreclosure, fell to a seasonally adjusted 7.4% in the 3rd quarter.

*The National Association of Realtors reported that sales of previously owned homes rose 2.1% in October to a seasonally adjusted annual rate of 4.8 million.

*The Commerce Dept. reported that housing starts increased 3.6% to a seasonally adjusted annual rate of 894,000 in October, the highest since July 2008.

*The Conference Board's leading economic indicators index rose 0.2% in October, following a 0.5% gain in September.

*Markit reported that its U.S. preliminary manufacturing Purchasing Managers Index rose to 52.4 in November from a 3-year low of 51.0 in October.

*Total retail spending for the Black Friday long weekend rose to \$59.1 billion, up 12.8% over last year, according to the National Retail Federation.

*Orders for core capital goods, considered a proxy for business investment, rose 1.7% in October, the best showing since May.

Consumer confidence continued to improve slightly in November. The University of Michigan-Thomson Reuters' consumer sentiment gauge final reading rose to 82.7 in November from 82.6 in October. The Conference Board reported that its consumer confidence index rose to 73.7 in November from 73.1 in October, its best reading since February 2008.

THE NOT SO GOOD

*The Institute for Supply Management reported that its gauge of non-manufacturing activity declined to 54.2 in October from 55.1 in September.

*The Federal Reserve reported that U.S. consumers increased their debt in September by a seasonally adjusted \$11.4 billion, the second straight strong gain.

*The Philadelphia Fed's manufacturing index slumped to a negative 10.7 from +5.7 in October.

*The Federal Reserve reported that industrial output declined 0.4% in October as Hurricane Sandy held down production in the Northeast.

*October personal income and spending was disappointing. Overall income was unchanged for the month, failing to rise for the first time since April. Personal consumption expenditures (PCE) fell -0.2% in October, the first decline since May, which combined with flat income sent the savings rate up a tick to 3.4%.

NON-U.S. MARKETS

Canadian GDP growth in Q3 slowed to a meager 0.6% annual rate, down 1.1% from Q2 and its weakest reading in five quarters. Year-over year GDP rose by 1.4%.

U.K. GDP rose by a robust 1.0% in the third quarter. However, industrial production fell by a much larger than expected 1.7% in the U.K. in September. The services PMI fell 1.6 points in October to 50.6, its lowest reading since December 2010.

Euro zone finance ministers and the International Monetary Fund reached an agreement to release \$57 billion in loans to help reduce Greece's debt.

The overall euro zone unemployment rate rose a tick to 11.7% In September, the 16th increase in the last 17 months and the highest level in the history of the

monetary union. In Germany, industrial indicators remain downbeat. Real factor orders fell by a greater than expected 3.3% in September. Industrial production also fell a greater than expected 1.8% in September. Producer prices (PPI) for the overall euro zone rose a moderate 0.2% in September, down from the large 0.9% gain in the previous month.

Japanese manufacturing continues to weaken. Industrial production plunged 4.1% in September and was the fifth decline in the past six months. The Japanese economy is now the weakest of any major developed or emerging country, contracting at about a 3% annualized pace.

Non-U.S. equities were up for the month of November. The MSCI ACWI Ex-U.S. was up +1.9% (US dollars) in November. Developed stocks (EAFE) were up +2.4% while Emerging Markets rose by +1.3% for the month.

CONCLUSION

Change, change, change and Americans ultimately decided for political status quo in the November elections. The re-election of President Obama and retention of the Senate by Democrats and the House by Republicans – raised concerns by market participants that resolving the pending fiscal cliff may continue to be problematic. U.S. tax rates on dividends and long-term capital gains are likely to increase in 2013.

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Nov-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	0.77	1.64	15.01	15.95	11.38	11.80	1.67	4.17	6.93
Russell TOP 200 Index	0.44	1.19	15.43	16.85	12.47	10.56	1.01	3.75	5.65
Russell TOP 200 Growth Index	1.46	0.17	15.91	16.10	12.97	11.88	3.17	5.14	6.04
Russell TOP 200 Value Index	-0.56	2.23	14.93	17.62	12.06	9.23	-1.19	2.36	5.27
S&P 500 Index	0.58	1.27	14.96	16.13	11.91	11.25	1.34	3.99	6.36
Russell 1000 Index	0.79	1.64	15.23	16.19	11.70	11.63	1.57	4.17	6.79
Russell 1000 Growth Index	1.67	0.64	15.29	14.92	11.74	12.50	3.06	5.12	6.76
Russell 1000 Value Index	-0.04	2.63	15.13	17.45	11.67	10.76	-0.01	3.11	6.69
Russell Mid-Cap Index	1.64	2.75	14.70	14.56	9.88	14.41	3.04	5.27	9.96
Russell Mid-Cap Growth Index	2.23	1.90	13.76	12.06	9.02	14.51	2.92	5.30	9.44
Russell Mid-Cap Value Index	1.14	3.51	15.46	16.90	10.66	14.34	3.02	4.97	10.08
Russell 2000 Index	0.53	1.58	12.35	13.09	7.80	13.85	2.82	4.20	8.71
Russell 2000 Growth Index	0.77	0.56	11.38	11.13	7.87	14.86	3.03	4.90	8.71
Russell 2000 Value Index	0.31	2.58	13.28	15.05	7.68	12.76	2.52	3.39	8.58
DJ US REIT Index	-0.50	-3.35	12.87	18.17	13.70	19.15	3.17	4.77	11.22
DJ-UBS US Commodity Index TR	0.05	-2.18	1.59	-2.22	-1.27	1.61	-3.81	-0.53	4.87
DJ-UBS US Gold Index TR	-0.50	1.38	8.41	-2.95	10.41	12.36	15.77	18.20	17.38

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Nov-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	1.92	6.19	13.44	12.19	2.97	3.87	-3.39	4.19	9.48
MSCI AC World Index	1.33	3.89	14.16	13.97	6.84	7.12	-1.28	4.10	7.89
MSCI EAFE Index	2.43	6.38	14.23	13.16	4.40	3.44	-4.26	2.88	7.99
MSCI Emerging Markets index	1.28	6.77	13.08	11.73	-0.43	4.67	-1.49	8.89	15.93
ML Global Government Bond Ex. U.S. Index	-1.22	-1.71	-0.18	0.56	5.30	3.74	6.72	7.38	7.12
Euro	0.37	3.18	0.19	-3.38	-0.04	-4.67	-2.39	1.41	2.72
Japanese Yen	-3.08	-5.06	-6.71	-5.87	0.79	1.46	6.11	5.46	4.04
UK Pound Sterling	-0.52	0.90	3.12	1.90	1.44	-0.79	-4.86	-1.09	0.30

US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Nov-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.02	0.04	0.10	0.09	0.11	0.11	0.57	1.80	1.79
BarCap Aggregate Bond Index	0.16	0.49	4.36	5.51	5.51	5.68	6.04	6.02	5.41
ML U.S. Corp/Govt Master Index	0.37	0.79	5.39	6.66	6.23	6.27	6.14	6.09	5.55
ML U.S. Corporate Master Index	-0.08	1.98	10.39	12.52	8.42	8.77	7.71	6.94	6.64
BarCap Mortgage Backed Securities Index	-0.17	-0.13	2.45	3.17	4.04	4.18	5.70	5.91	5.17
ML U.S. High Yield Master Index	0.72	2.97	13.65	16.49	9.91	12.13	9.62	8.90	10.23
JPM EMBI Global	1.55	3.89	17.44	18.82	12.68	12.71	10.40	9.92	11.80

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOVEMBER 30, 2012
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

ASSET CLASS	MARKET VALUE	PERCENT		POLICY	
				TARGET	RANGE
DOMESTIC EQUITIES	627,240,223	43.3%	✓	41.9%	36.9% - 46.9%
INTERNATIONAL EQUITIES	250,322,716	17.3%	✓	19.0%	16.0% - 22.0%
FIXED INCOME	536,620,520	37.1%	✓	37.6%	33.9% - 41.3%
SPECIAL SITUATIONS	20,395,582	1.4%	✓	1.5%	1.0% - 2.0%
SECURITY LENDING	(1,025,713)	-0.1%		0.0%	0.0% - 0.0%
CASH (equity managers only)	14,467,148	1.0%		0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,448,020,475	100.0%		100.0%	

	CURRENT	TARGET
DODGE & COX - LARGE CAP VALUE	10.0%	9.8%
BlackRock - R1000 VALUE INDEX	6.3%	6.0%
DELAWARE - LARGE CAP GROWTH	8.3%	7.3%
BlackRock - R1000 GROWTH INDEX	5.2%	5.0%
CAPITAL PROSPECTS	4.8%	4.5%
LEGATO CAPITAL	4.2%	4.0%
BNY - S&P 500 INDEX	5.2%	5.3%
LSV ASSET MGMT - INTL EQ	8.5%	9.5%
PYRAMIS - INTL EQ	9.0%	9.5%
DODGE & COX FIXED INCOME	29.3%	30.1%
PIMCO	7.7%	7.5%
BlackRock - US REAL ESTATE SECURITIES INDEX	1.4%	1.5%
SECURITY LENDING	-0.1%	0.0%
TOTALS	100.0%	100.0%

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOVEMBER 30, 2012
PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION













ASSET CLASS MARKET VALUE	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
DOMESTIC EQUITIES	627,240,223	622,536,757	0.76%	532,795,670	17.73%
INTERNATIONAL EQUITIES	250,322,716	245,603,112	1.92%	221,656,371	12.93%
FIXED INCOME	536,620,520	535,871,192	0.14%	515,333,434	4.13%
SPECIAL SITUATIONS	20,395,582	20,503,301	-0.53%	32,869,442	-37.95%
SECURITIES LENDING	(1,025,713)	(1,025,713)	0.00%	(2,607,640)	60.67%
CASH (equity managers only)	14,467,148	16,249,880	-10.97%	12,923,707	11.94%
TOTAL PORTFOLIO	1,448,020,475 ✓	1,439,738,529 +8mm	0.58%	1,312,970,983 +135mm	10.29%
ASSET ALLOCATION (ACTUAL)					
DOMESTIC EQUITIES	43.32%	43.24%	0.1%	40.58%	2.7%
INTERNATIONAL EQUITIES	17.29%	17.06%	0.2%	16.88%	0.4%
FIXED INCOME	37.06%	37.22%	-0.2%	39.25%	-2.2%
SPECIAL SITUATIONS	1.41%	1.42%	0.0%	2.50%	-1.1%
SECURITY LENDING	-0.07%	-0.07%	0.0%	-0.20%	0.0%
CASH (equity managers only)	1.00%	1.13%	-0.1%	0.98%	0.0%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%

* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOVEMBER 30, 2012
PRELIMINARY BASIS

MANAGER ALLOCATION

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			TARGET	RANGE
DOMESTIC EQUITIES				
DODGE & COX LARGE CAP VALUE	145,294,954	10.0% 	9.8%	7.8% - 11.8%
BLACKROCK R1000 VALUE INDEX	91,209,301	6.3% 	6.0%	5.0% - 7.0%
DELAWARE LARGE CAP GROWTH	120,614,190	8.3% 	7.3%	5.8% - 8.8%
BLACKROCK R1000 GROWTH INDEX	74,959,298	5.2% 	5.0%	4.0% - 6.0%
CAPITAL PROSPECTS SMALL CAP VALUE	69,727,683	4.8% 	4.5%	3.5% - 5.5%
LEGATO CAPITAL SMALL CAP GROWTH	61,148,168	4.2% 	4.0%	3.0% - 5.0%
BNY S&P 500 INDEX	75,558,596	5.2% 	5.3%	4.3% - 6.3%
TOTAL DOMESTIC EQUITIES	638,512,191	44.1%	41.9%	
FIXED INCOME				
DODGE & COX	424,644,388	29.3% 	30.1%	27.6% - 32.6%
PIMCO	111,976,132	7.7% 	7.5%	6.0% - 9.0%
TOTAL FIXED INCOME	536,620,520	37.1%	37.6%	
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT	123,304,597	8.5% 	9.5%	8.0% - 11.0%
PYRAMIS	130,213,298	9.0% 	9.5%	8.0% - 11.0%
TOTAL INTERNATIONAL EQUITIES	253,517,895	17.5%	19.0%	
SPECIAL SITUATIONS				
BlackRock US RE SECURITIES INDEX	20,395,582	1.4% 	1.5%	1.0% - 2.0%
TOTAL SPECIAL SITUATIONS	20,395,582	1.4%	1.5%	0.0% - 3.0%
SECURITIES LENDING	(1,025,713)	-0.1%	0.0%	0.0% - 0.0%
TOTAL STANCERA PORTFOLIO	1,448,020,475	100.0%	100.0%	

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOV 30, 2012
PRELIMINARY

	TOTAL FUND			
	CASH	BONDS	EQUITIES	TOTAL
DOMESTIC EQUITIES				
DODGE & COX LARGE CAP VALUE	6,013,705		139,281,249	145,294,954
BLACKROCK R1000 VALUE INDEX	6,244		91,203,057	91,209,301
DELAWARE LARGE CAP GROWTH	1,256,777		119,357,414	120,614,190
BLACKROCK R1000 GROWTH INDEX	0		74,959,298	74,959,298
CAPITAL PROSPECTS SMALL CAP VALUE	2,803,308		66,924,374	69,727,683
LEGATO CAPITAL SMALL CAP GROWTH	1,191,712		59,956,456	61,148,168
BNY S&P 500 INDEX	222		75,558,375	75,558,596
TOTAL DOMESTIC EQUITIES	11,271,968		627,240,223	638,512,191
FIXED INCOME				
DODGE & COX	10,755,689	413,888,699		424,644,388
PIMCO	6,981,829	104,994,303		111,976,132
TOTAL FIXED INCOME	17,737,518	518,883,002		536,620,520
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT	1,360,968		121,943,629	123,304,597
PYRAMIS	1,834,212		128,379,087	130,213,298
TOTAL INTERNATIONAL EQUITIES	3,195,180		250,322,716	253,517,895
SPECIAL SITUATIONS				
BLACKROCK - US REAL ESTATE SECURITIES INDEX	0		20,395,582	20,395,582
TOTAL SPECIAL SITUATIONS	0		20,395,582	20,395,582
SECURITIES LENDING	(1,025,713)			(1,025,713)
TOTAL STANCERA PORTFOLIO	31,178,953	518,883,002	897,958,520	1,448,020,475

2.2%

35.8%

62.0%

100.0%

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOVEMBER 30, 2012
PRELIMINARY BASIS

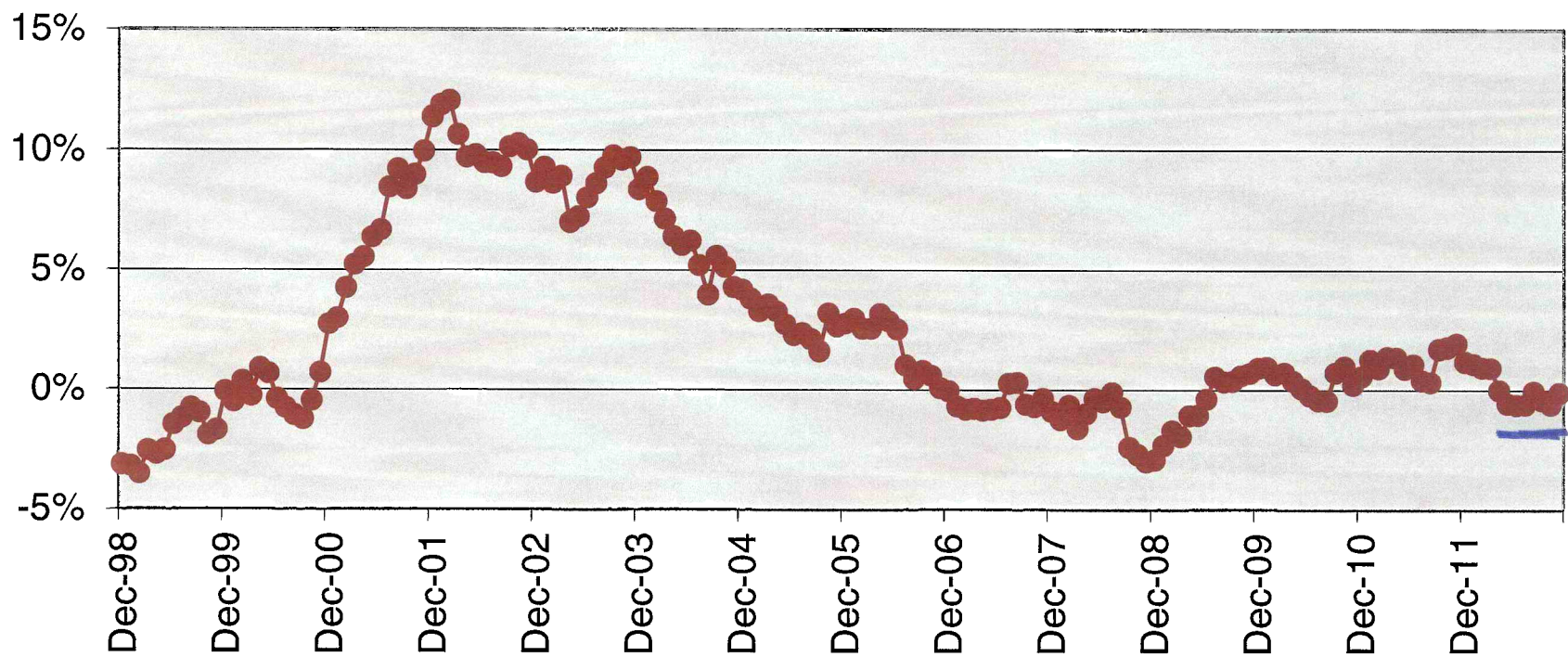
CURRENT PERFORMANCE

	MARKET VALUE	NOVEMBER	ALPHA	OCTOBER	ALPHA	FISCAL YTD	ALPHA
DOMESTIC EQUITIES							
DODGE & COX - LARGE CAP VALUE	139,281,249	0.74%	0.78%	-0.61%	-0.12%	8.22%	2.27%
RUSSELL 1000 VALUE		-0.04%		-0.49%		5.95%	
BLACKROCK - R1000 VALUE INDEX	91,203,057	-0.03%	0.01%	-0.51%	-0.02%	5.98%	0.03%
RUSSELL 1000 VALUE		-0.04%		-0.49%		5.95%	
DELAWARE - LARGE CAP GROWTH	119,357,414	1.16%	-0.51%	-2.15%	0.77%	5.47%	0.74%
RUSSELL 1000 GROWTH		1.67%		-2.92%		4.73%	
BLACKROCK - R1000 GROWTH INDEX	74,959,298	1.67%	0.00%	-2.92%	0.00%	4.77%	0.04%
RUSSELL 1000 GROWTH		1.67%		-2.92%		4.73%	
CAPITAL PROSPECTS	66,924,374	2.13%	1.82%	0.99%	2.24%	10.87%	6.20%
RUSSELL 2000 VALUE		0.31%		-1.25%		4.67%	
LEGATO CAPITAL	59,956,456	0.99%	0.22%	-3.13%	-0.02%	3.31%	0.95%
RUSSELL 2000 GROWTH		0.77%		-3.11%		2.36%	
BNY - S&P 500 INDEX	75,558,375	0.58%	0.00%	-1.84%	0.01%	4.40%	0.02%
S&P 500		0.58%		-1.85%		4.38%	
TOTAL DOMESTIC EQUITY	627,240,223	0.95%	0.18%	-1.39%	0.33%	6.35%	1.15%
Russell 3000 Index		0.77%		-1.72%		5.20%	
FIXED INCOME							
DODGE & COX	424,644,388	0.05%	-0.11%	0.88%	0.68%	3.51%	1.55%
BARCLAYS US AGGREGATE BOND		0.16%		0.20%		1.95%	
PIMCO	111,976,132	0.46%	0.30%	0.08%	-0.12%	2.70%	0.75%
BARCLAYS US AGGREGATE BOND		0.16%		0.20%		1.95%	
TOTAL FIXED INCOME	536,620,520	0.14%	-0.02%	0.72%	0.52%	3.38%	1.43%
BARCLAYS US AGGREGATE BOND		0.16%		0.20%		1.95%	
INTERNATIONAL INVESTMENTS							
LSV ASSET MGMT	121,943,629	1.25%	-0.67%	0.20%	-0.20%	10.12%	0.13%
MSCI ACWI Free ex-US		1.92%		0.40%		9.99%	
PYRAMIS	128,379,087	2.44%	0.52%	0.33%	-0.07%	10.80%	0.81%
MSCI ACWI Free ex-US		1.92%		0.40%		9.99%	
TOTAL INTERNATIONAL EQUITY	250,322,716	1.86%	-0.06%	0.27%	-0.13%	10.49%	0.50%
MSCI ACWI Free ex-US		1.92%		0.40%		9.99%	
SPECIAL SITUATIONS							
BlackRock US RE Index	20,395,582	-0.53%	0.00%	-0.91%	-0.01%	-1.43%	-0.01%
FTSE EPRA/NAREIT Global REIT		-0.53%		-0.90%		-1.42%	
SECURITIES LENDING							
BNY MELLON	(1,025,713)						
CASH and SHORT-TERM INVESTMENTS							
CASH	14,467,148	0.01%	0.00%	0.01%	0.00%	0.05%	0.00%
90-day US Treasury Bill		0.01%		0.01%		0.05%	
Total StanCERA Fund	1,448,020,475	0.79%	0.06%	-0.24%	0.37%	6.02%	1.26%
Policy Index		0.73%		-0.61%		4.76%	
Actuary Rate of Assumption (8.00%)		0.67%	0.12%	0.67%	-0.91%	3.36%	2.66%
Actuary Rate of Inflation (3.50%)		0.29%	0.50%	0.29%	-0.53%	1.46%	4.56%

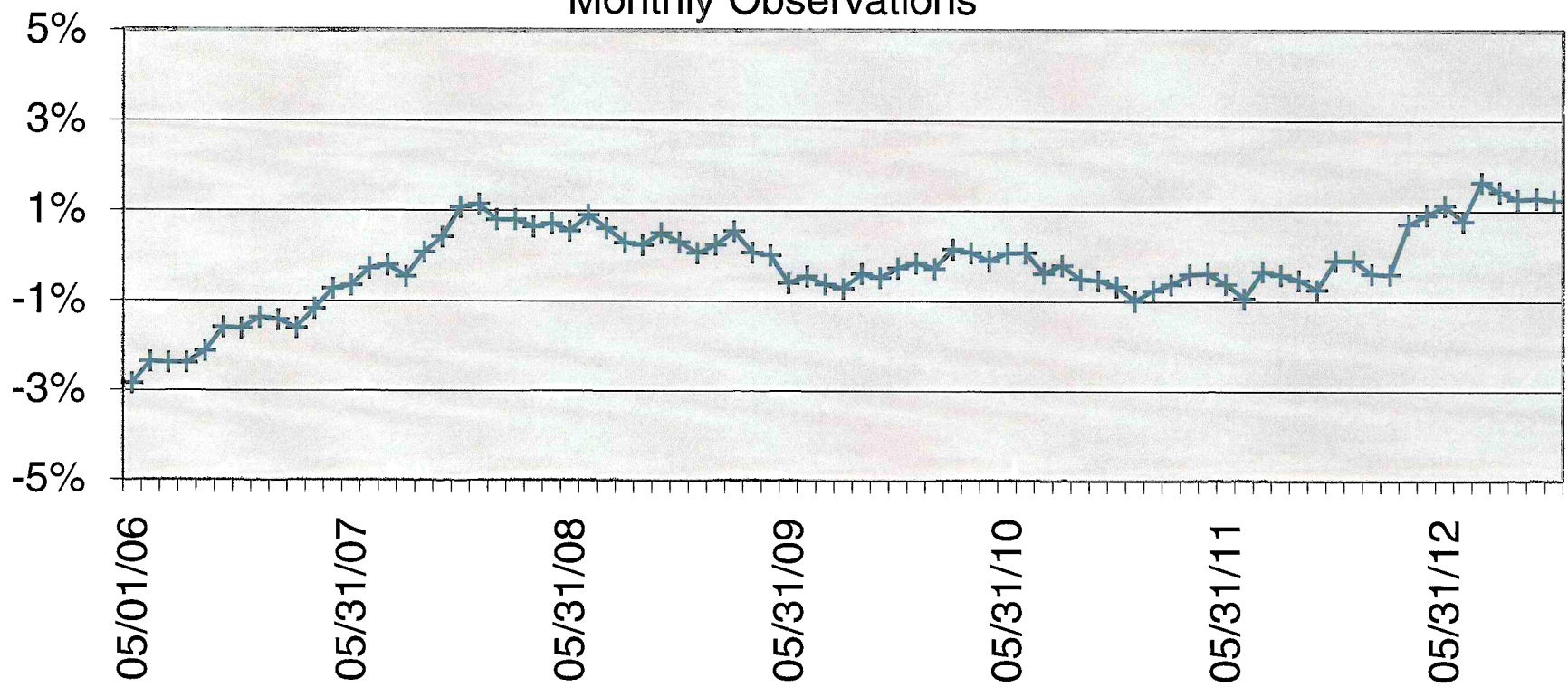
wow!

All active
managers
producing
Alpha!
FYD

Dodge & Cox Equity
Rolling 3-Years Annualized Alpha
Monthly Observations

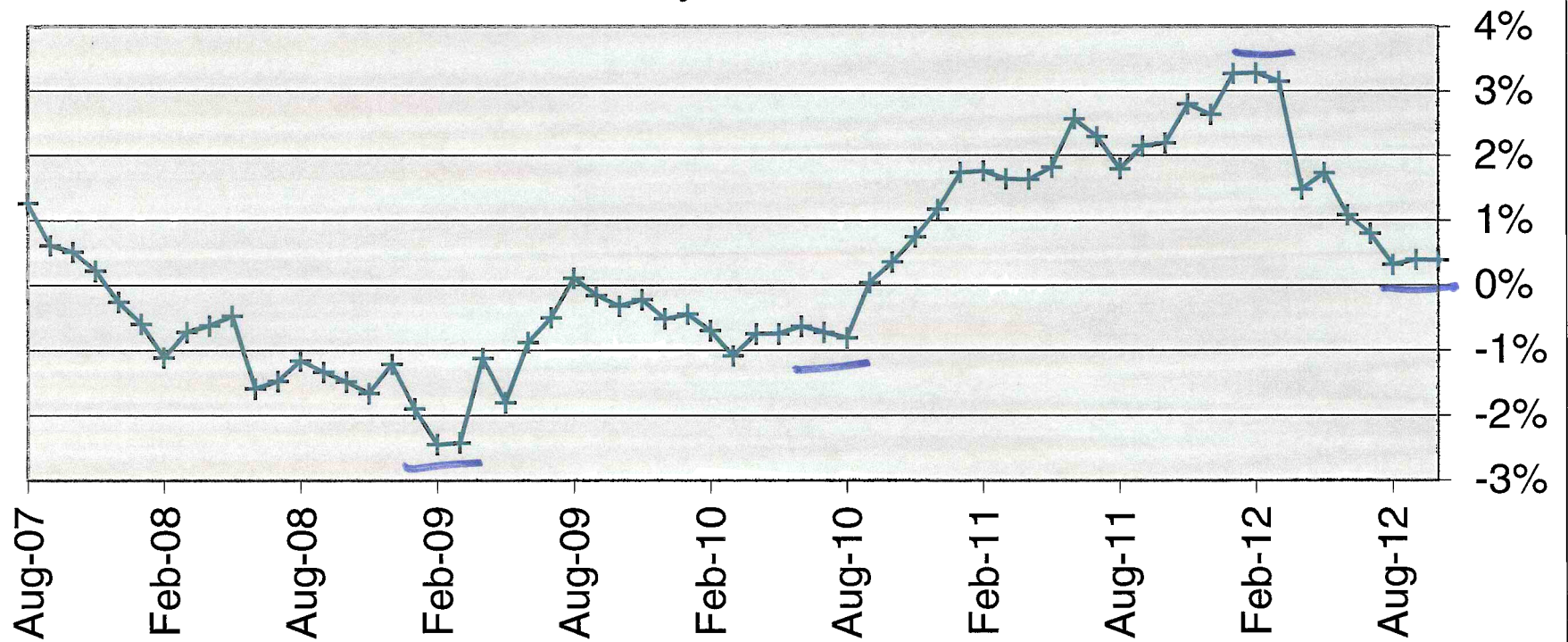


Pyramis (May 2006)
Rolling 3-Years Annualized Alpha
Monthly Observations

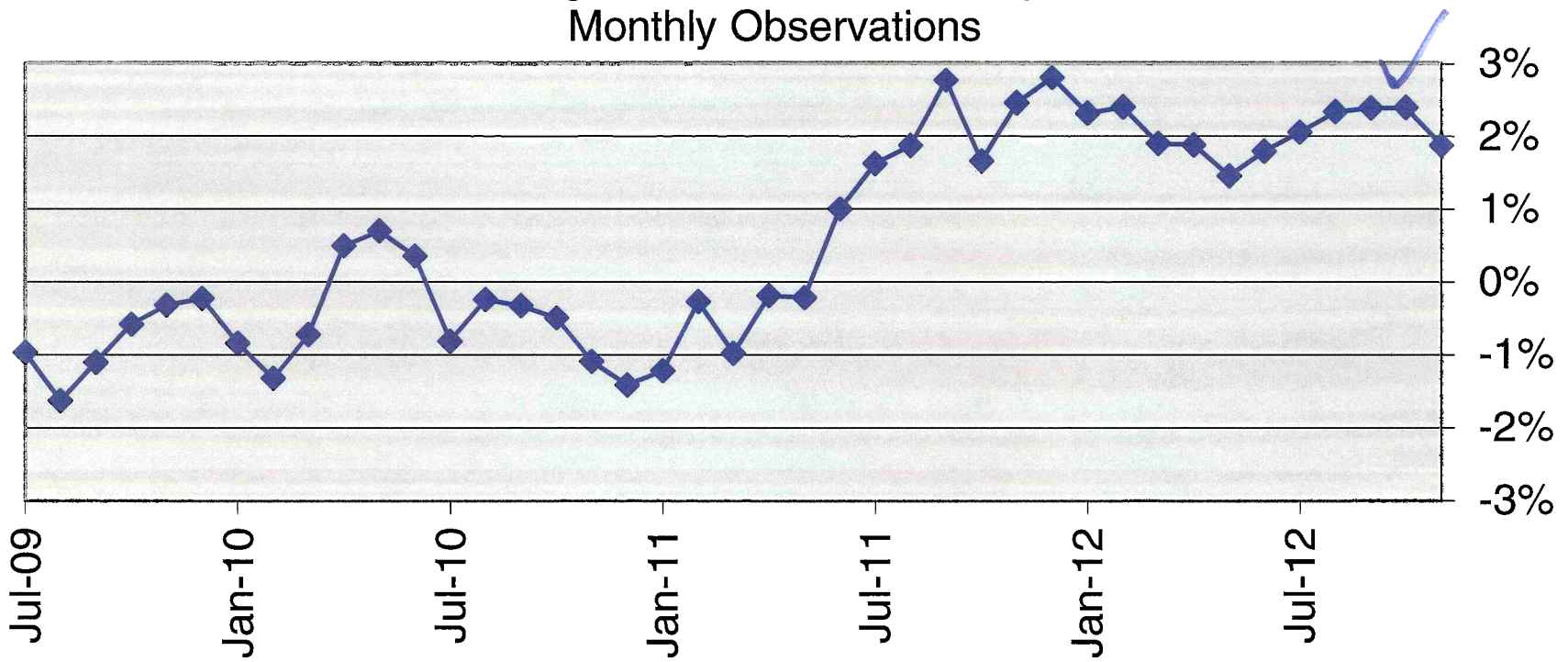


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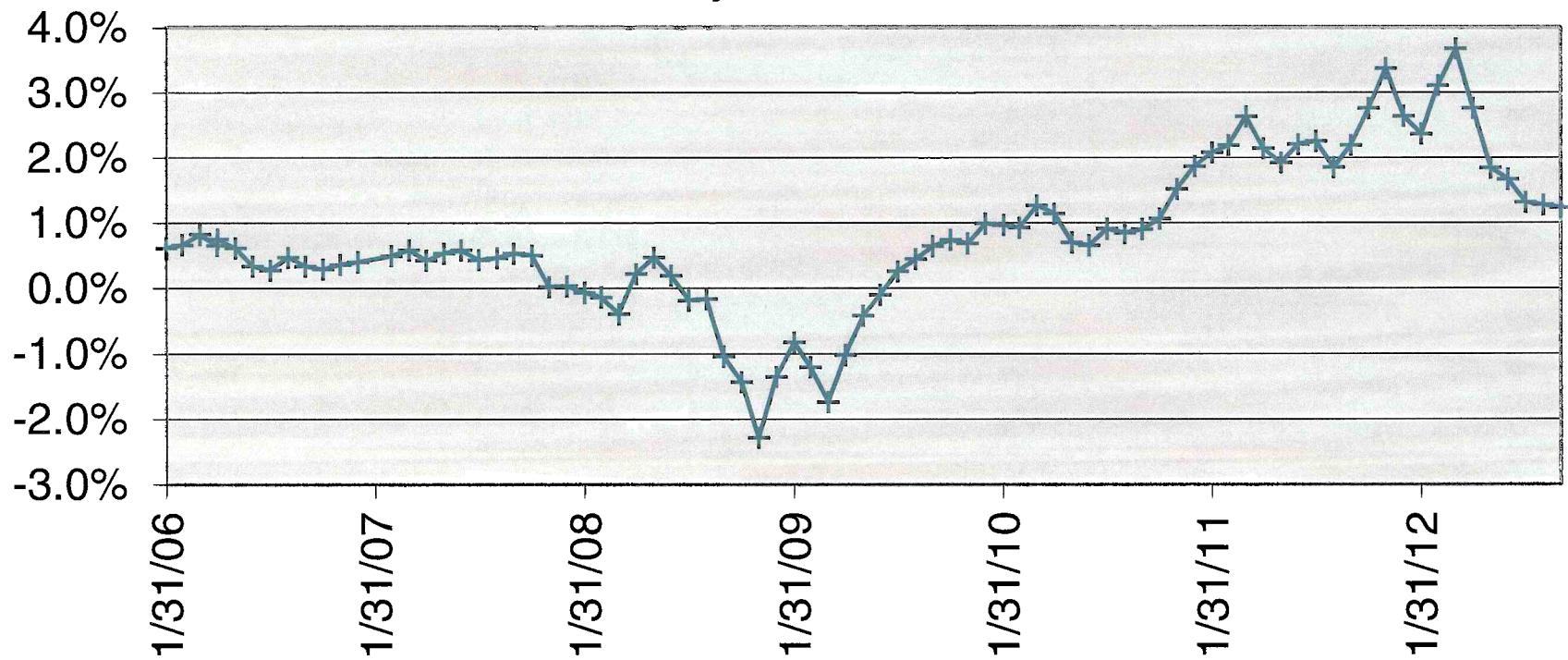
LSV
Rolling 3-Years Annualized Alpha
Monthly Observations



Delaware
Rolling 3-Years Annualized Alpha
Monthly Observations

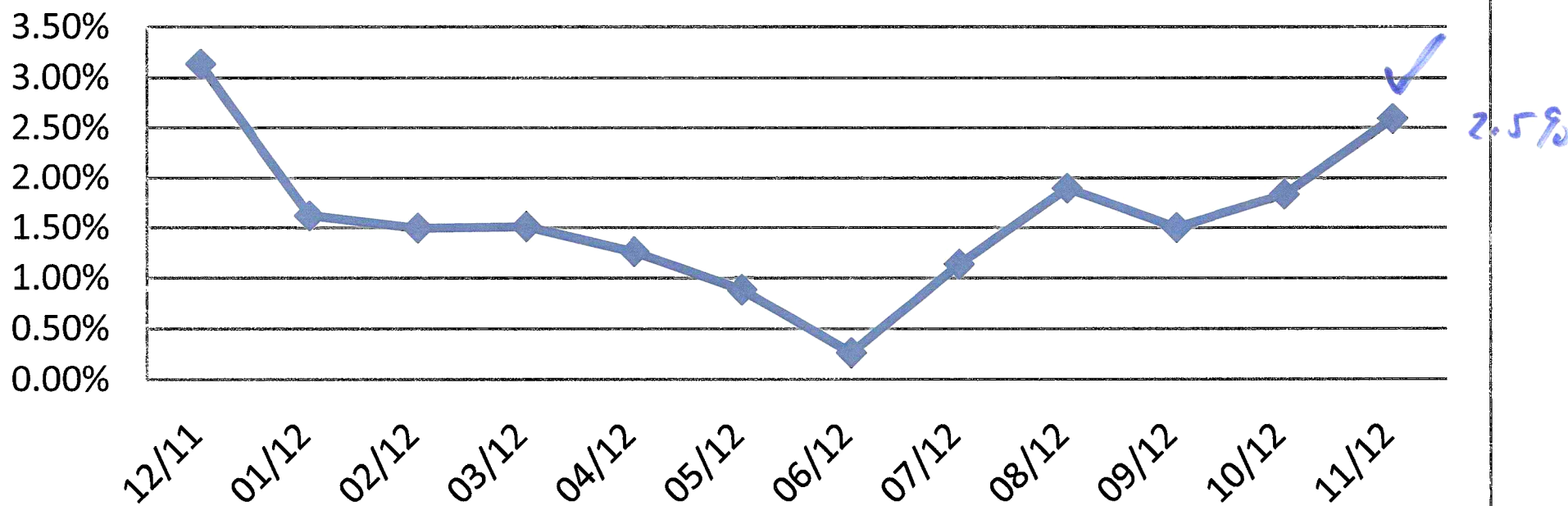


Dodge & Cox Fixed Income
Rolling 3-Year Alphas Annualized
Monthly Observations

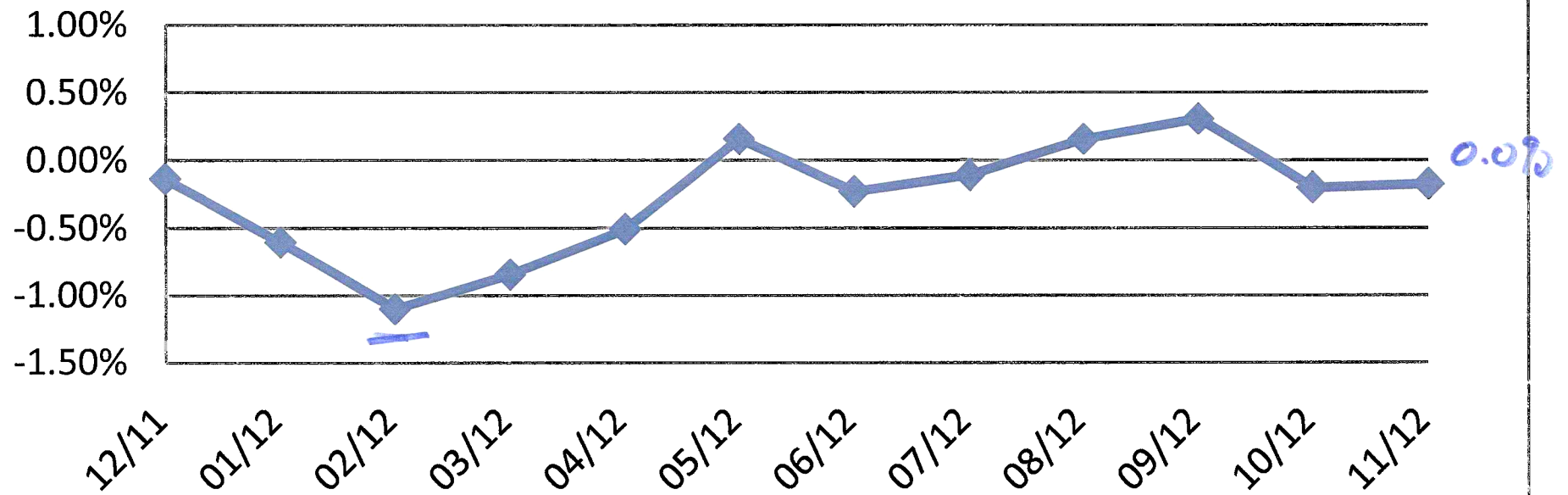


1%

Capital Prospects
Rolling 3-Year
Alphas
Monthly Observations



Legato Rolling
3-Year Alphas
Annualized
Monthly Observations



U.S. EQUITY

2012 was a good year for global equity markets as almost all indices were up 16-18%.

For the month of December in the U.S., Value outperformed Growth and Small caps outperformed Large caps. The Russell 1000 Growth Index was down -0.0% for the month and the Russell 1000 Value Index was up +2.1%. The Russell 2000 Growth Index was up +2.9% and the Russell 2000 Value was up +4.2%. The S&P 500 Index ended the month up +0.9%

The S&P 500 Index has a trailing P/E ratio of 16.8 and a forward 12-month estimate P/E ratio of 13.7.

Corporate merger highlights for the month included:

Dover acquired glass-door maker Anthony International for \$600 million; Dean Foods will sell its Morningstar Foods unit to Saputo for \$1.45 billion; Computer Sciences will sell its credit-services unit to Equifax for \$1 billion; Baxter International will buy Swedish dialysis product company Gambro for about \$4 billion; Freeport-McMoRan Copper & Gold will buy Plains Exploration and McMoRan Exploration for \$9 billion; A group led by KingSett Capital launched a \$2.7 billion hostile takeover of Primaris Retail REIT, one of Canada's largest shopping mall owners; HSBC will sell its stake in China's Ping An Insurance for \$9.4 billion; A group of Chinese companies is in talks to buy nearly all of AIG's aircraft leasing unit for about \$5.5 billion; Clearwire agreed to sell roughly half of the company for \$2.2 billion to majority shareholder Sprint Nextel; Sun Life Financial will sell its U.S. annuity business for \$1.35 billion to a firm connected to Guggenheim Partners; Nielsen, the dominant source of TV ratings, agreed to buy Arbitron for about \$1.3 billion to expand into radio measurement; Elliott Management, which holds an 8% stake in Compuware, offered to buy the company for \$2.35 billion; The U.S. Treasury Dept. will sell all its stock in GM within 12 to 15 months starting with a \$5.5 billion deal for GM to buy back 200 million shares; Markel will buy fellow specialty insurer Alterra Capital for \$3.1 billion; NYSE Euronext, the operator of the New York Stock Exchange, will be acquired by Intercontinental Exchange for \$8.2 billion; General Electric will buy the aviation business of Italian aerospace company Avio for \$4.3 billion; and, Aviva, Britain's second largest insurer, will sell its U.S. business for \$1.8 billion to Athene Holding, a specialist life insurer.

FIXED INCOME

The Commerce Dept. reported that gross domestic product grew at a seasonally adjusted annual rate of 3.1% in the 3rd quarter.

U.S. companies added 146,000 jobs, and the unemployment rate fell to 7.7% in November, the lowest in nearly four years. The rate fell mainly because more people stopped looking for work.

The National Association for Business Economics predicted that the economy will grow in 2013 by 2.1% after 2.2% growth in 2012. That would continue the same tepid growth seen since the Great Recession ended in mid-2009.

Long-term interest rates rose in the month of December. The bellwether 10-year Treasury note ended the month yielding 1.78% up from 1.61% at the close of November. At month-end, the 30-year bond yield was 2.95% with the 3-month T-bill at 0.1%. The Barclays Capital US Aggregate Index was down -0.14% in December. High Yield was the strongest sector up +1.6% as measured by the BofA Merrill Lynch US High Yield Master II index.

As expected, the Federal Reserve announced in mid-December that it will start outright purchases of long-term U.S. Treasuries in 2013, after its current Twist purchases expire at the end of 2012. The Fed will buy \$45 billion in long term U.S. Treasuries a month, the same amount it was buying under Twist. However, unlike Twist these will be outright purchases as the Fed will not sell any shorter-term Treasuries to offset them, and they will be financed by the Federal Reserve expanding its balance sheet. These purchases will be in addition to the \$40 billion in agency MBS per month.

On the economic front, the following key data was released in December:

THE GOOD

*The Chicago Purchasing Managers Index edged higher in November to 50.4 from 49.9 in October.

*Financial information firm Markit reported that its U.S. Manufacturing Purchasing Managers Index rose to 52.8 in November, rebounding from a more than three year low of 51.0 in October.

*Motor vehicle sales surged 9.0% (1.3 million units) in November to 15.5 million annualized and their highest level since February 2008.

*The Commerce Dept. reported that construction spending rose 1.4% in October.

*CoreLogic reported that home prices rose 6.3% in October from a year earlier, marking the largest increase since June 2006.

*The Commerce Dept. reported that factory orders rose a stronger than expected +0.8% in October from September, when order jumped +4.5%.

*The Labor Dept. reported that worker productivity increased at a revised rate of +2.9% in the 3rd quarter, the fastest rate in two years.

*The consumer price index dropped -0.3% in November from October as gas prices fell -7.4%. In the past year, consumer prices have risen +1.8% showing inflation is muted.

*Factory output posted its sharpest increase in nearly a year in November, rising +1.1% as auto production staged a rebound and the clean-up and rebuilding efforts picked up in the aftermath of Hurricane Sandy.

*Homebuilder confidence inched up this month to the highest level in more than six and a half years, as builders reported the best market for newly built homes since the housing boom.

*The National Association of Realtors reported that sales of existing homes increased +5.9% in November to a seasonally adjusted annual rate of 5.04 million units.

*The median existing home price in November rose +10.1% from the prior year to \$180,600.

*The Philadelphia Fed index improved to a reading of positive 8.1 in December from a negative 10.7 in November.

*The Commerce Dept. reported that consumer spending rose +0.4% in November compared with October and that personal income jumped +0.6%, the largest gain in 11 months.

THE NOT SO GOOD

*The Commerce Dept. reported that consumer spending dropped -0.2% in October, the first decline in 5 months.

*The Institute for Supply Management reported that its index of national factory activity fell to 49.5 in November, its lowest level in more than three years.

*Americans increased personal borrowing by \$14.2 billion in October from September to a record of \$2.75 trillion.

*Real PCE, which makes up roughly 70% of spending in the economy, is now on track to expand at only about a +1.0% annualized pace in the fourth quarter according to Bridgewater Associates, compared to a +2.3% average pace over the past few years.

Consumer confidence eroded substantially in December. The University of Michigan Consumer Sentiment final number for December came in at 72.9, a decline from the November final of 82.7.

NON-U.S. MARKETS

Economic activity in the U.K. remains downbeat. The service sector is stagnating as the services PMI fell 0.4 point in November to 50.2, the weakest reading in two years. Industrial production fell -0.8% in October the third consecutive decline leaving output down -3.0% from a year earlier.

The eurozone is technically back in recession. The second estimate confirmed GDP fell -0.1% in the third quarter after falling -0.2% in the second. The eurozone's recession pushed up unemployment in the currency bloc to 11.7% in October, the highest level since the introduction of the euro in 1999. The European Central Bank cut its eurozone forecast for 2013, predicting it will shrink -0.3%. Germany's central bank sharply cut its 2013 economic growth forecast, lowering it to +0.4%.

Spain's property market shows no sign of recovery as housing prices were down -15.2% in the 3rd quarter versus a year ago.

Shinzo Abe was elected Prime Minister in mid-December in Japan, and roughly 80% of the new Diet party campaigned on ending the ongoing deflation through monetary easing. The Japanese yen continued to weaken on the news and the Japanese equity market rallied strongly.

China's manufacturing activity rose to a 14-month high in December, a sign the world's second largest economy is recovering, but export orders weakened.

The Reserve Bank of Australia cut its policy rate a quarter point to 3.00%. This cut was the sixth one in the past fourteen months, dropping the cash rate a cumulative 175 basis points. GDP in Australia rose a sluggish 0.5% in the third quarter, the weakest gain in six

quarters although down only slightly from the 0.6% gain in the second.

Non-U.S. equities were up for the month of December. The MSCI ACWI Ex-U.S. was up +3.5% (US dollars) in December. Developed stocks (EAFE) were up +3.2% while Emerging Markets rose by +4.9% for the month.

CONCLUSION

The U.S. congress passed a fiscal cliff deal. The legislation will produce an additional fiscal tightening in the first half of 2013 of about -1% of annualized GDP, but it does eliminate the risk of a much larger tightening had no agreement been reached. The deal does not include an authorization for an increase in the debt ceiling (predicted to run out at the end of February). The deal also puts off for a couple of months a decision on spending cuts.

The first month of the year, January is often a very powerful and predictive period. The January Barometer – as the S&P 500 goes in January, so goes the year. When the month of January records a gain, history suggests that the rest of the year will finish in positive territory as well. Since 1950, this indicator has an incredible 88.7% accuracy ratio. Every down January for the S&P 500 Index since 1950, without exception, preceded a decline for the entire calendar year.

The First Five Days in January Indicator – the last 40 up first five trading days of the year have been followed by full-year gains 34 times for an 85% accuracy ratio. The results are less reliable when the first five days of January are negative, showing just a 47.8% accuracy rate. The S&P 500 has posted a gain for the first five days of the year in just six out of the last fifteen Post-Election Years.

January is also the Nasdaq's top performing month of the year. In addition, the January Effect is the tendency for small cap stocks to outperform large caps.

Here is hoping that everyone and their families enjoy a Happy, Healthy and Prosperous New Year!

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Dec-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	1.23	0.25	16.42	16.42	8.45	11.20	2.04	4.34	7.68
Russell TOP 200 Index	0.53	-1.00	16.04	16.04	9.24	10.30	1.28	3.86	6.38
Russell TOP 200 Growth Index	-0.73	-2.46	15.06	15.06	9.73	10.87	3.15	5.16	6.75
Russell TOP 200 Value Index	1.81	0.47	17.01	17.01	8.77	9.74	-0.65	2.55	6.01
S&P 500 Index	0.91	-0.38	16.00	16.00	8.84	10.87	1.66	4.12	7.10
Russell 1000 Index	1.04	0.12	16.42	16.42	8.71	11.12	1.92	4.30	7.52
Russell 1000 Growth Index	-0.03	-1.32	15.26	15.26	8.77	11.35	3.12	5.16	7.52
Russell 1000 Value Index	2.07	1.52	17.51	17.51	8.61	10.86	0.59	3.32	7.38
Russell Mid-Cap Index	2.25	2.88	17.28	17.28	7.45	13.15	3.57	5.45	10.65
Russell Mid-Cap Growth Index	1.79	1.69	15.81	15.81	6.72	12.91	3.23	5.41	10.32
Russell Mid-Cap Value Index	2.64	3.93	18.51	18.51	8.11	13.39	3.79	5.21	10.63
Russell 2000 Index	3.56	1.85	16.35	16.35	5.59	12.25	3.56	4.79	9.72
Russell 2000 Growth Index	2.88	0.45	14.59	14.59	5.48	12.82	3.49	5.35	9.80
Russell 2000 Value Index	4.21	3.22	18.05	18.05	5.62	11.57	3.55	4.11	9.50
DJ US REIT Index	3.77	2.31	17.12	17.12	13.18	17.94	5.08	5.31	11.48
DJ-UBS US Commodity Index TR	-2.61	-6.33	-1.06	-1.06	-7.39	0.07	-5.17	-1.34	4.09
DJ-UBS US Gold Index TR	-2.15	-5.63	6.08	6.08	7.84	14.40	13.83	17.11	16.05

Small caps rally!

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Dec-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	3.49	5.89	17.39	17.39	0.87	4.33	-2.44	4.00	10.22
MSCI AC World Index	2.31	3.01	16.80	16.80	4.30	7.19	-0.61	4.07	8.66
MSCI EAFE Index	3.21	6.60	17.90	17.90	2.01	4.04	-3.21	2.67	8.70
MSCI Emerging Markets index	4.90	5.61	18.63	18.63	-1.48	4.98	-0.61	8.74	16.88
ML Global Government Bond Ex. U.S. Index	-2.18	-4.90	-2.35	-2.35	2.61	5.18	6.39	6.87	6.35
Euro	1.37	2.48	1.56	1.56	-0.87	-2.78	-2.05	1.60	2.31
Japanese Yen	-4.62	-10.02	-11.02	-11.02	-3.15	2.49	5.26	4.55	3.22
UK Pound Sterling	1.43	0.66	4.59	4.59	1.89	0.22	-3.97	-0.78	0.10

Non-US rebounds!

US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Dec-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.02	0.04	0.11	0.11	0.11	0.11	0.52	1.76	1.78
BarCap Aggregate Bond Index	-0.14	0.21	4.22	4.22	6.01	6.19	5.95	5.86	5.18
ML U.S. Corp/Govt Master Index	-0.29	0.42	5.09	5.09	6.84	6.83	6.05	5.91	5.25
ML U.S. Corporate Master Index	-0.02	1.21	10.37	10.37	8.93	9.13	7.72	6.79	6.31
BarCap Mortgage Backed Securities Index	0.14	-0.20	2.59	2.59	4.40	4.72	5.67	5.78	5.08
ML U.S. High Yield Master Index	1.57	3.15	15.44	15.44	9.83	11.61	9.90	9.00	10.23
JPM EMBI Global	0.93	3.33	18.53	18.53	13.39	12.94	10.47	9.77	11.56

Bond returns muted

Corp spreads still

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DECEMBER 31, 2012
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			TARGET	RANGE
DOMESTIC EQUITIES	633,656,471	43.2%	41.9%	36.9% - 46.9%
INTERNATIONAL EQUITIES	260,015,791	17.7%	19.0%	16.0% - 22.0%
FIXED INCOME	537,180,804	36.6%	37.6%	33.9% - 41.3%
REAL ESTATE SECURITIES	21,169,068	1.4%	1.5%	1.0% - 2.0%
SECURITY LENDING	(1,025,713)	-0.1%	0.0%	0.0% - 0.0%
CASH (equity managers only)	15,102,718	1.0%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,466,099,140	100.0%	100.0%	

	CURRENT	TARGET
DODGE & COX - LARGE CAP VALUE	10.2%	9.8%
BlackRock - R1000 VALUE INDEX	6.3%	6.0%
DELAWARE - LARGE CAP GROWTH	8.3%	7.3%
BlackRock - R1000 GROWTH INDEX	5.0%	5.0%
CAPITAL PROSPECTS	4.9%	4.5%
LEGATO CAPITAL	4.3%	4.0%
BNY - S&P 500 INDEX	5.1%	5.3%
LSV ASSET MGMT - INTL EQ	8.8%	9.5%
PYRAMIS - INTL EQ	9.2%	9.5%
DODGE & COX FIXED INCOME	29.0%	30.1%
PIMCO	7.6%	7.5%
BlackRock - US REAL ESTATE SECURITIES INDEX	1.4%	1.5%
SECURITY LENDING	-0.1%	0.0%
TOTALS	100.0%	100.0%

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DECEMBER 31, 2012
PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION













ASSET CLASS	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
MARKET VALUE					
DOMESTIC EQUITIES	633,656,471	627,240,223	1.02%	540,668,320	17.20%
INTERNATIONAL EQUITIES	260,015,791	250,322,716	3.87%	218,687,961	18.90%
FIXED INCOME	537,180,804	536,620,520	0.10%	520,193,044	3.27%
SPECIAL SITUATIONS	21,169,068	20,395,582	3.79%	33,080,091	-36.01%
SECURITIES LENDING	(1,025,713)	(1,025,713)	0.00%	(2,607,640)	60.67%
CASH (equity managers only)	15,102,718	14,467,148	4.39%	10,433,580	44.75%
TOTAL PORTFOLIO	1,466,099,140	1,448,020,475	1.25%	1,320,455,356	11.03%
ASSET ALLOCATION (ACTUAL)					
DOMESTIC EQUITIES	43.22%	43.32%	-0.1%	40.95%	2.3%
INTERNATIONAL EQUITIES	17.74%	17.29%	0.4%	16.56%	1.2%
FIXED INCOME	36.64%	37.06%	-0.4%	39.39%	-2.8%
REAL ESTATE SECURITIES	1.44%	1.41%	0.0%	2.51%	-1.1%
SECURITY LENDING	-0.07%	-0.07%	0.0%	-0.20%	0.0%
CASH (equity managers only)	1.03%	1.00%	0.0%	0.79%	0.2%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%

* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DECEMBER 31, 2012
PRELIMINARY BASIS

MANAGER ALLOCATION

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	RANGE
DOMESTIC EQUITIES				
DODGE & COX LARGE CAP VALUE	148,864,008	10.2% 	9.8%	7.8% - 11.8%
BLACKROCK R1000 VALUE INDEX	92,095,982	6.3% 	6.0%	5.0% - 7.0%
DELAWARE LARGE CAP GROWTH	121,229,942	8.3% 	7.3%	5.8% - 8.8%
BLACKROCK R1000 GROWTH INDEX	73,961,968	5.0% 	5.0%	4.0% - 6.0%
CAPITAL PROSPECTS SMALL CAP VALUE	72,075,208	4.9% 	4.5%	3.5% - 5.5%
LEGATO CAPITAL SMALL CAP GROWTH	62,569,936	4.3% 	4.0%	3.0% - 5.0%
BNY S&P 500 INDEX	75,290,476	5.1% 	5.3%	4.3% - 6.3%
TOTAL DOMESTIC EQUITIES	646,087,521	44.1%	41.9%	
FIXED INCOME				
DODGE & COX	425,372,810	29.0% 	30.1%	27.6% - 32.6%
PIMCO	111,807,994	7.6% 	7.5%	6.0% - 9.0%
TOTAL FIXED INCOME	537,180,804	36.6%	37.6%	
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	128,498,591	8.8% 	9.5%	8.0% - 11.0%
PYRAMIS	134,188,869	9.2% 	9.5%	8.0% - 11.0%
TOTAL INTERNATIONAL EQUITIES	262,687,460	17.9%	19.0%	
REAL ESTATE SECURITIES				
BlackRock US RE SECURITIES INDEX	21,169,068	1.4% 	1.5%	1.0% - 2.0%
TOTAL SPECIAL SITUATIONS	21,169,068	1.4%	1.5%	0.0% - 3.0%
SECURITIES LENDING	(1,025,713)	-0.1%	0.0%	0.0% - 0.0%
TOTAL STANCERA PORTFOLIO	1,466,099,140	100.0%	100.0%	

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DEC. 31, 2012
PRELIMINARY

TOTAL FUND				
	CASH	BONDS	EQUITIES	TOTAL
DOMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	5,962,080		142,901,928	148,864,008
BLACKROCK - R1000 VALUE INDEX	6,244		92,089,738	92,095,982
DELAWARE - LARGE CAP GROWTH	1,383,525		119,846,418	121,229,942
BLACKROCK - R1000 GROWTH INDEX	0		73,961,968	73,961,968
CAPITAL PROSPECTS - SMALL CAP VALUE	3,061,076		69,014,132	72,075,208
LEGATO CAPITAL - SMALL CAP GROWTH	1,983,834		60,566,103	62,569,936
BNY - S&P 500 INDEX	34,291		75,256,186	75,290,476
TOTAL DOMESTIC EQUITIES	12,431,049		633,656,471	646,087,521
FIXED INCOME				
DODGE & COX	5,512,394	419,860,416		425,372,810
PIMCO	14,182,172	97,625,822		111,807,994
TOTAL FIXED INCOME	19,694,566	517,486,238		537,180,804
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	1,471,296		127,027,295	128,498,591
PYRAMIS	1,200,373		132,988,496	134,188,869
TOTAL INTERNATIONAL EQUITIES	2,671,669		260,015,791	262,687,460
REAL ESTATE SECURITIES				
BLACKROCK - US REAL ESTATE SECURITIES INDEX	0		21,169,068	21,169,068
TOTAL SPECIAL SITUATIONS	0		21,169,068	21,169,068
SECURITIES LENDING				
	(1,025,713)			(1,025,713)
TOTAL STANCERA PORTFOLIO	33,771,571	517,486,238	914,841,330	1,466,099,140
	2.3%	35.3%	62.4%	100.0%

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DECEMBER 31, 2012

PRELIMINARY BASIS

CURRENT PERFORMANCE

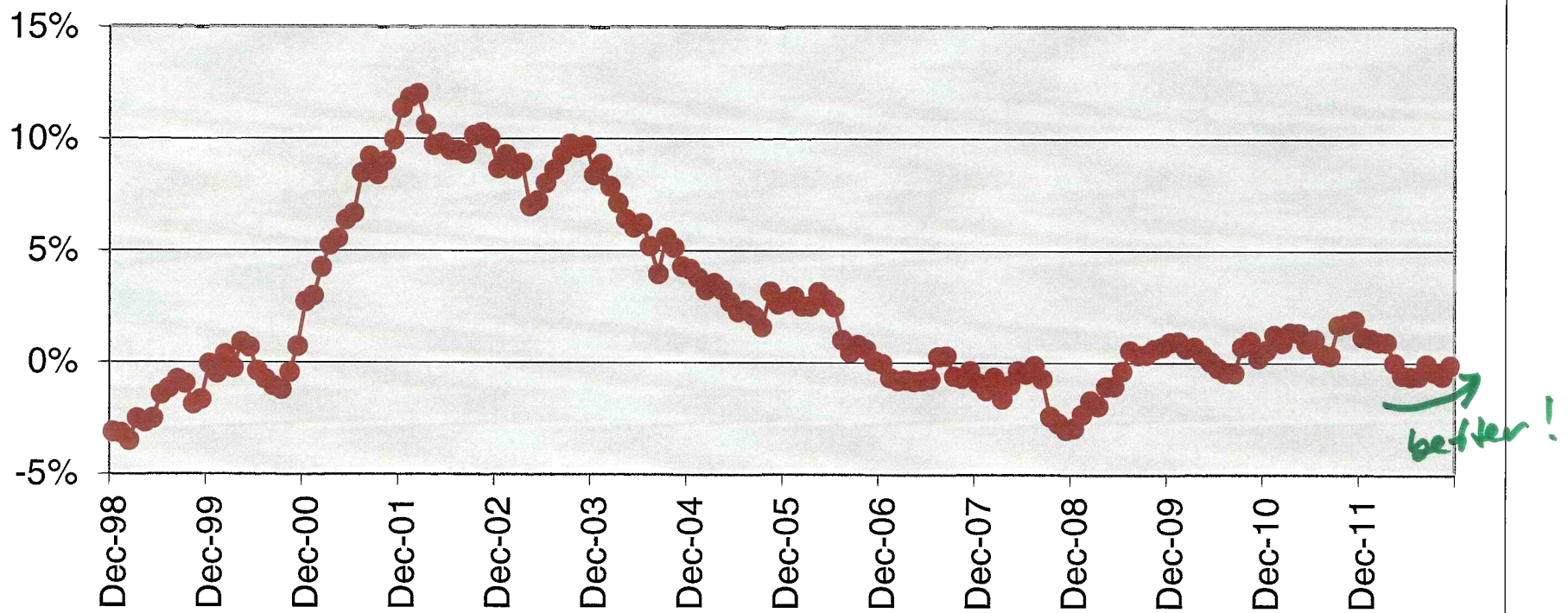
	MARKET VALUE	DECEMBER	ALPHA	NOVEMBER	ALPHA	FISCAL YTD	ALPHA
DOMESTIC EQUITIES							
DODGE & COX - LARGE CAP VALUE	142,901,928	2.46%	0.39%	0.74%	0.78%	10.88%	2.74%
RUSSELL 1000 VALUE		2.07%		-0.04%		8.14%	
BLACKROCK - R1000 VALUE INDEX	92,089,738	2.07%	0.00%	-0.03%	0.01%	8.17%	0.03%
RUSSELL 1000 VALUE		2.07%		-0.04%		8.14%	
DELAWARE - LARGE CAP GROWTH	119,846,418	0.51%	0.54%	1.16%	-0.51%	6.01%	1.31%
RUSSELL 1000 GROWTH		-0.03%		1.67%		4.70%	
BLACKROCK - R1000 GROWTH INDEX	73,961,968	0.00%	0.03%	1.67%	0.00%	4.78%	0.08%
RUSSELL 1000 GROWTH		-0.03%		1.67%		4.70%	
CAPITAL PROSPECTS	69,014,132	3.37%	-0.84%	2.13%	1.82%	14.61%	5.53%
RUSSELL 2000 VALUE		4.21%		0.31%		9.08%	
LEGATO CAPITAL	60,586,103	2.33%	-0.55%	0.99%	0.22%	5.72%	0.41%
RUSSELL 2000 GROWTH		2.88%		0.77%		5.31%	
BNY S&P 500 INDEX	75,256,186	0.91%	0.00%	0.58%	0.00%	5.96%	-0.01%
S&P 500		0.91%		0.58%		5.97%	
TOTAL DOMESTIC EQUITY	633,656,471	1.66%	0.43%	0.95%	0.18%	8.12%	1.63%
Russell 3000 Index		1.23%		0.77%		6.49%	
FIXED INCOME							
DODGE & COX	425,372,810	0.17%	0.31%	0.05%	-0.11%	3.68%	1.87%
BARCLAYS US AGGREGATE BOND		-0.14%		0.16%		1.81%	
PIMCO	111,807,994	-0.15%	-0.01%	0.46%	0.30%	2.55%	0.74%
BARCLAYS US AGGREGATE BOND		-0.14%		0.16%		1.81%	
TOTAL FIXED INCOME	537,180,804	0.11%	0.25%	0.14%	-0.02%	3.49%	1.68%
BARCLAYS US AGGREGATE BOND		-0.14%		0.16%		1.81%	
INTERNATIONAL INVESTMENTS							
LSV ASSET MGMT	127,027,295	4.21%	0.00%	1.25%	-0.27%	14.76%	-0.03%
MSCI ACWI Value ex-US		4.21%		1.52%		14.79%	
MSCI ACWI ex-US		3.49%		1.92%		13.83%	
PYRAMIS	132,988,496	3.05%	0.28%	2.44%	0.12%	14.18%	1.29%
MSCI ACWI Growth ex-US		2.77%		2.32%		12.89%	
MSCI ACWI ex-US		3.49%		1.92%		13.83%	
TOTAL INTERNATIONAL EQUITY	260,015,791	3.62%	0.13%	1.86%	-0.06%	14.49%	0.65%
MSCI ACWI ex-US		3.49%		1.92%		13.83%	
REAL ESTATE SECURITIES							
BlackRock US RE Index	21,169,068	3.79%	0.00%	-0.53%	0.00%	2.30%	-0.02%
FTSE EPRA/NAREIT Global REIT		3.79%		-0.53%		2.32%	
SECURITIES LENDING							
BNY MELLON	(1,025,713)						
CASH AND SHORT-TERM INVESTMENTS							
CASH	15,102,718	0.01%	0.00%	0.01%	0.00%	0.06%	0.00%
90-day US Treasury Bill		0.01%		0.01%		0.06%	
Total StanCERA Fund	1,466,099,140	1.46%	0.15%	0.79%	0.06%	7.57%	1.44%
Policy Index		1.31%		0.73%		6.13%	
Actuary Rate of Assumption (8.00%)		0.67%	0.79%	0.67%	0.12%	4.00%	3.57%
Actuary Rate of Inflation (3.50%)		0.29%	1.17%	0.29%	0.50%	1.75%	5.82%

First 6 months
FYTD All
Active Managers
Contributing

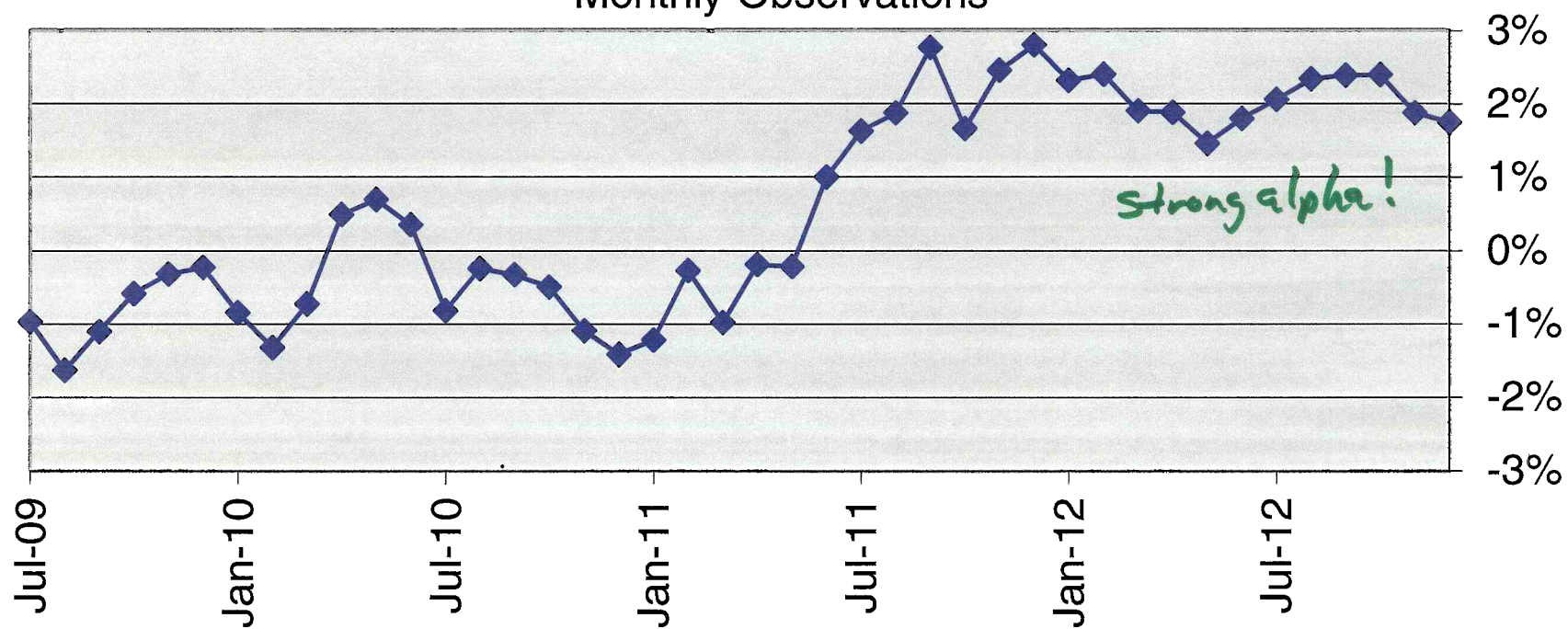
Int'l Equity
Compared to style
benchmarks

Another good
month & very
good six months

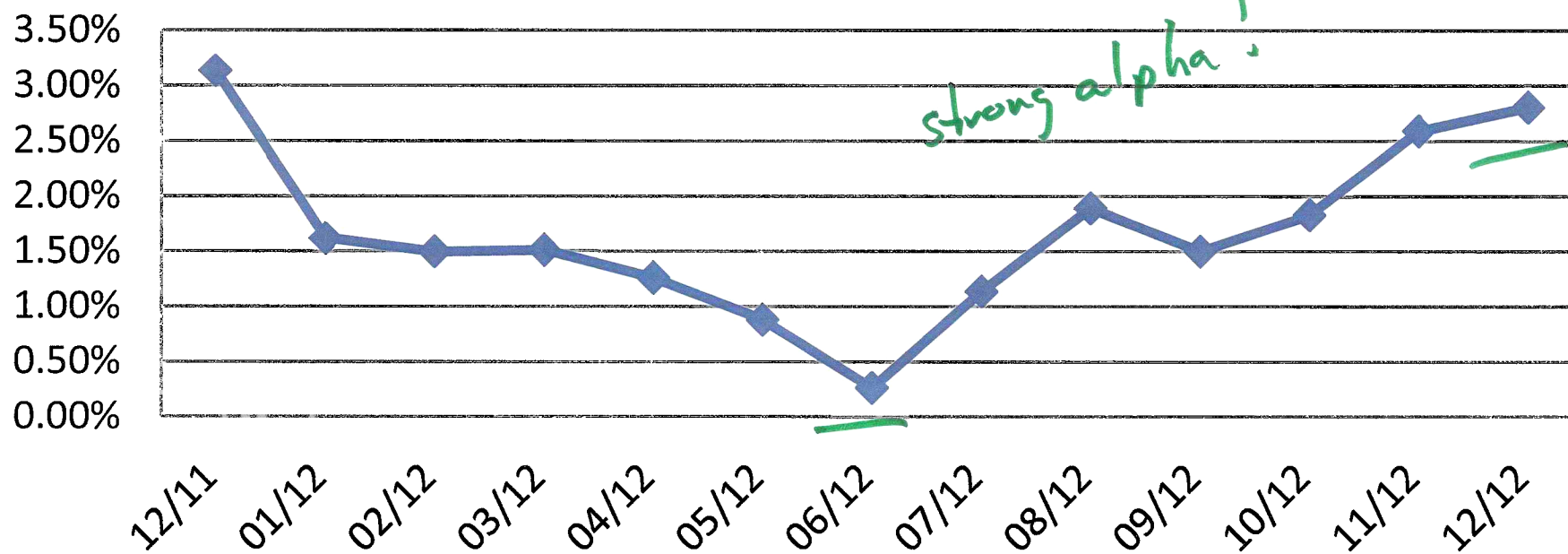
Dodge & Cox Equity
Rolling 3-Years Annualized Alpha
Monthly Observations



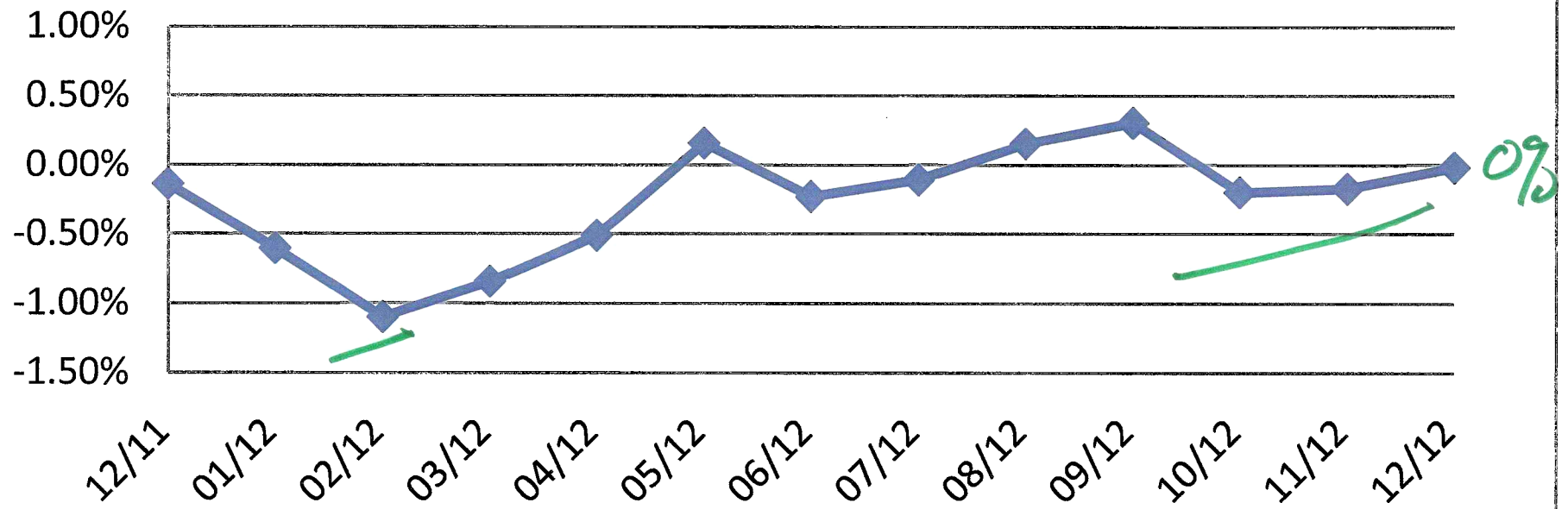
Delaware
Rolling 3-Years Annualized Alpha
Monthly Observations



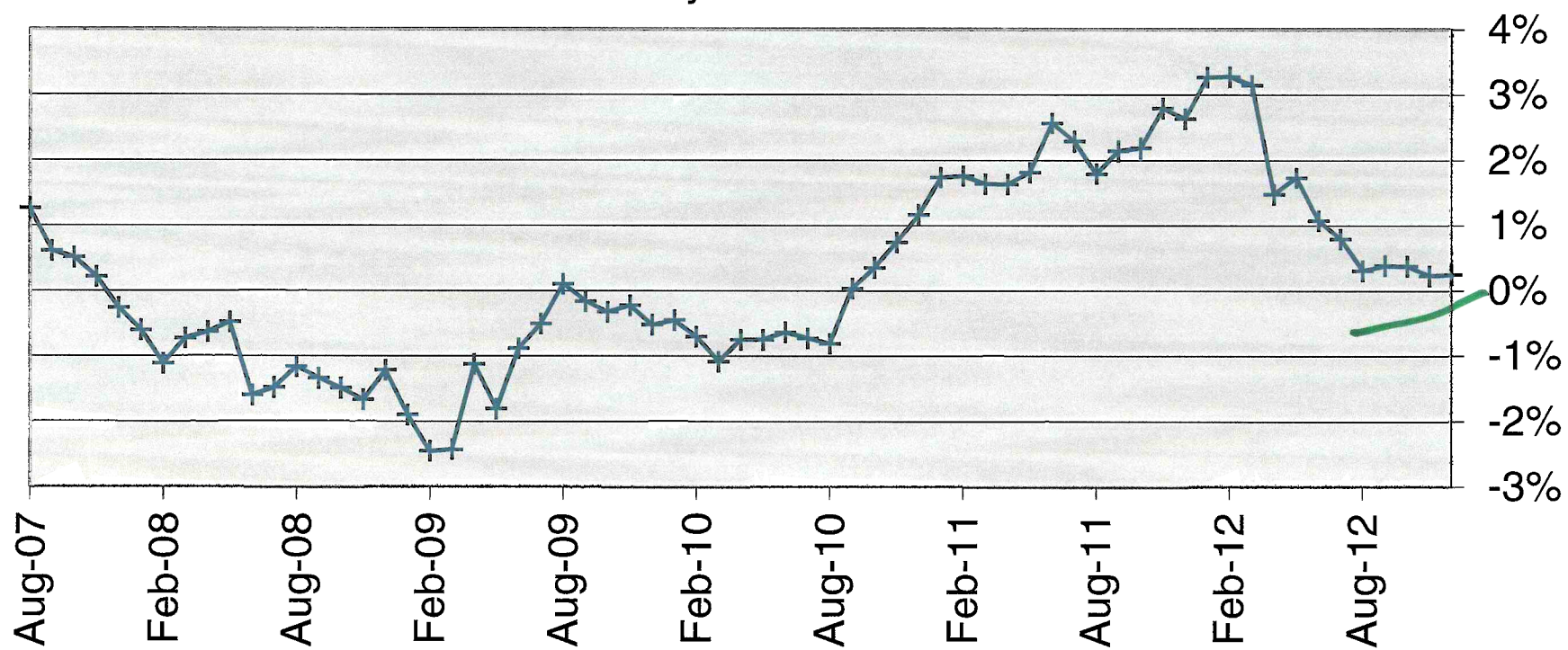
Capital Prospects
Rolling 3-Year
Alphas
Monthly Observations



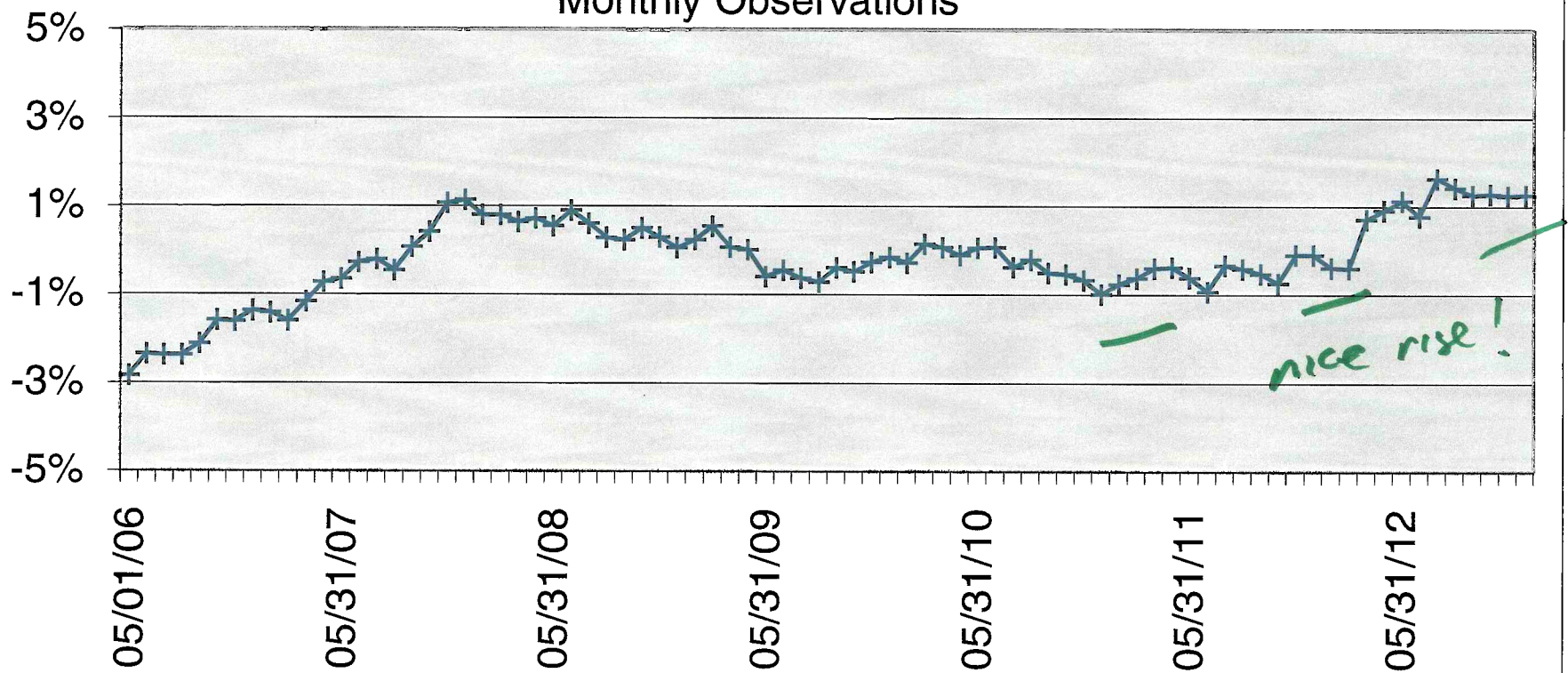
Legato Rolling
3-Year Alphas
Annualized
Monthly Observations



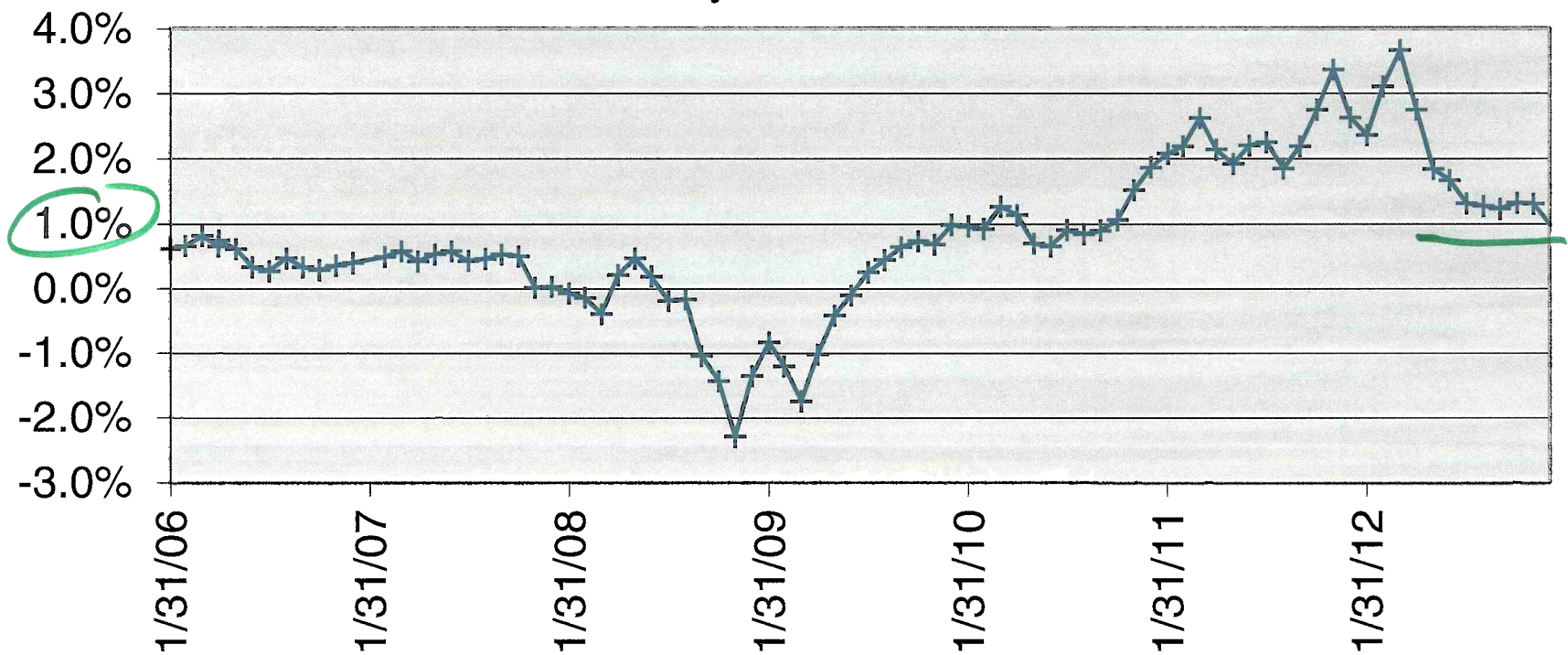
LSV
Rolling 3-Years Annualized Alpha
Monthly Observations



Pyramis (May 2006)
Rolling 3-Years Annualized Alpha
Monthly Observations



Dodge & Cox Fixed Income
Rolling 3-Year Alphas Annualized
Monthly Observations



STANCERA
Price Monitor Position Report

1/22/13
Item #7b

BlackRock
Passive Large Cap Growth Manager
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	8,950	\$4,763,151	6.44%	0.32%	532.17	501.75	-5.72%	-8.64%
INTL Business Machines	IBM	11,120	\$2,130,105	2.88%	0.15%	191.55	192.62	0.56%	-2.36%
Microsoft Corp.	MSFT	76,980	\$2,056,143	2.78%	0.14%	26.71	26.89	0.67%	-2.25%
Google Inc.	GOOG	2,687	\$1,900,823	2.57%	0.13%	707.38	723.25	2.24%	-0.68%
Coca-Cola Co.	KO	40,195	\$1,457,051	1.97%	0.10%	36.25	36.99	2.04%	-0.88%
Philip Morris Intl.	PM	16,978	\$1,420,070	1.92%	0.10%	83.64	89.07	6.49%	3.57%
Oracle Corp	ORCL	40,621	\$1,353,504	1.83%	0.09%	33.32	34.96	4.92%	2.00%
Verizon Communications	VZ	28,706	\$1,227,769	1.66%	0.08%	42.77	42.59	-0.42%	-3.34%
Pepsico Inc.	PEP	16,537	\$1,131,618	1.53%	0.08%	68.43	71.29	4.18%	1.26%
Qualcomm Inc.	QCOM	18,054	\$1,116,826	1.51%	0.08%	61.86	64.24	3.85%	0.93%
TOP TEN HOLDINGS			\$18,557,058	25.09%	1.27%	Russell 1000 Growth:		2.92%	

Total Portfolio Value
Total StanCERA Value

\$73,961,968
\$1,466,099,140

STANCERA
Price Monitor Position Report

BlackRock
Passive Large Cap Value Manager
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
EXXON MOBIL CORP	XOM	57,460	\$4,973,183	5.40%	0.34%	86.55	89.58	3.50%	-0.07%
GENERAL ELECTRIC CO	GE	126,363	\$2,652,364	2.88%	0.08%	20.99	21.12	0.62%	-2.95%
CHEVRON CORP	CVX	24,442	\$2,643,155	2.87%	0.08%	108.14	112.85	4.36%	0.79%
PFIZER INC	PFE	94,740	\$2,376,076	2.58%	0.16%	25.08	26.74	6.62%	3.05%
AT&T INC	T	71,120	\$2,366,867	2.57%	0.16%	33.28	34.02	2.22%	-1.35%
PROCTER & GAMBLE CO	PG	30,929	\$2,099,788	2.28%	0.14%	67.89	69.63	2.56%	-1.01%
JPMORGAN CHASE & CO	JPM	47,450	\$2,072,160	2.25%	0.06%	43.67	45.88	5.06%	1.49%
WELLS FARGO & CO	WFC	59,008	\$2,016,902	2.19%	0.06%	34.18	34.77	1.73%	-1.84%
BERKSHIRE HATHAWAY INC	BRK/B	22,485	\$2,016,902	2.19%	0.06%	89.70	95.36	6.31%	2.74%
JOHNSON & JOHNSON	JNJ	26,144	\$1,832,710	1.99%	0.13%	70.10	72.56	3.51%	-0.06%
TOP TEN HOLDINGS			\$25,050,107	27.20%	1.28%	Russell 1000 Value		3.57%	

Total Portfolio Value
Total StanCERA Value

\$92,095,982

\$1,466,099,140

STANCERA
Price Monitor Position Report

Capital Prospects
Active US Small Cap Value Manager
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000V	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
Hillenbrand, Inc	HI	49,410	\$1,117,166	1.55%	0.08%	0.10%	22.61	23.68	4.73%	1.48%
Regal Beloit Corp	RBC	14,728	\$1,037,883	1.44%	0.07%	0.00%	70.47	73.55	4.37%	1.12%
Belden Inc	BDC	21,788	\$980,223	1.36%	0.07%	0.17%	44.99	46.25	2.80%	-0.45%
Hanesbrands Inc	HBI	24,951	\$893,733	1.24%	0.06%	0.00%	35.82	37.00	3.29%	0.04%
Gulfport Energy Corp	GPOR	22,630	\$864,902	1.20%	0.06%	0.18%	38.22	39.69	3.85%	0.60%
Polyone Corporation	POL	39,885	\$814,450	1.13%	0.06%	0.15%	20.42	22.16	8.52%	5.27%
The Brink's Co	BCO	28,295	\$807,242	1.12%	0.06%	0.11%	28.53	30.18	5.78%	2.53%
PHH Corp	PHH	35,483	\$807,242	1.12%	0.06%	0.11%	22.75	23.18	1.89%	-1.36%
Littelfuse, Inc	LFUS	12,964	\$800,035	1.11%	0.05%	0.11%	61.71	62.86	1.86%	-1.39%
Meredith	MDP	22,595	\$778,412	1.08%	0.05%	0.10%	34.45	33.83	-1.80%	-5.05%
TOP TEN HOLDINGS			\$8,901,288	12.35%	0.61%	1.03%	Russell 2000 Value:		3.25%	

Total Portfolio Value
Total StanCERA Value

\$72,075,208
\$1,466,099,140

STANCERA
Price Monitor Position Report

Delaware Investments Advisers
Active Large Cap Growth Portfolio
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000G	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	15,525	\$8,261,984	6.82%	0.56%	7.04%	532.17	501.75	-5.72%	-8.64%
EOG Resources Inc.	EOG	54,950	\$6,637,411	5.48%	0.45%	0.46%	120.79	124.66	3.20%	0.28%
Visa Inc.	V	43,400	\$6,578,572	5.43%	0.45%	1.12%	151.58	160.65	5.98%	3.06%
Crown Castle International Corp.	CCI	89,350	\$6,447,496	5.32%	0.44%	0.30%	72.16	72.94	1.08%	-1.84%
QUALCOMM Inc.	QCOM	97,100	\$6,006,567	4.95%	0.41%	1.50%	61.86	64.24	3.85%	0.93%
MasterCard Inc. Cl A	MA	12,100	\$5,944,488	4.90%	0.41%	0.75%	491.28	523.51	6.56%	3.64%
Kinder Morgan Inc.	KMI	154,990	\$5,475,797	4.52%	0.37%	0.24%	35.33	36.94	4.56%	1.64%
Allergan Inc.	AGN	57,400	\$5,265,302	4.34%	0.36%	0.39%	91.73	103.89	13.26%	10.34%
Adobe Systems Inc.	ADBE	124,200	\$4,679,856	3.86%	0.32%	0.15%	37.68	38.16	1.27%	-1.65%
Intuit Inc.	INTU	77,700	\$4,621,239	3.81%	0.32%	0.25%	59.48	62.68	5.38%	2.46%
TOP TEN HOLDINGS			\$59,918,710	49.43%	4.09%	12.21%	Russell 1000 Growth:		2.92%	

Total Portfolio Value
Total StanCERA Value

\$121,229,942
\$1,466,099,140

STANCERA
Price Monitor Position Report

Dodge & Cox Equity
Active US Large Cap Value Manager
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000V	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
COMCAST CORP-CLASS A	CMCSA	157,863	\$6,120,244	4.10%	0.42%	0.70%	37.38	38.92	4.12%	0.55%
WELLS FARGO & CO	WFC	160,072	\$5,589,675	3.80%	0.38%	2.20%	34.18	34.77	1.73%	-1.84%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$5,565,725	3.80%	0.38%	0.40%	57.93	61.28	5.78%	2.21%
MERCK & CO. INC.	MRK	122,500	\$5,392,825	3.50%	0.37%	1.70%	40.94	43.34	5.86%	2.29%
GENERAL ELECTRIC CO	GE	230,000	\$4,843,800	3.40%	0.33%	3.00%	20.99	21.12	0.62%	-2.95%
SANOFI-ADR	SNY	98,255	\$4,308,481	3.30%	0.29%	-	47.38	48.69	2.76%	-0.81%
TIME WARNER INC	TWX	93,532	\$4,124,795	3.10%	0.28%	0.60%	47.83	49.30	3.07%	-0.50%
NOVARTIS AG-ADR	NVS	67,000	\$4,050,820	3.00%	0.28%	-	63.30	65.48	3.44%	-0.13%
SPRINT NEXTEL CORP	S	715,000	\$3,928,750	2.80%	0.27%	0.20%	5.67	5.69	0.35%	-3.22%
PFIZER INC	PFE	153,100	\$3,807,597	2.70%	0.26%	2.50%	25.08	26.74	6.62%	3.05%
TOP TEN HOLDINGS			\$47,732,712	33.50%	3.26%	11.30%	Russell 1000 Value:		3.57%	

Total Portfolio Value
Total StanCERA Value

\$148,864,008
\$1,466,099,140

STANCERA
Price Monitor Position Report

Legato Capital Management
Active US Small Cap Growth Manager
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000G	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
ULTIMATE SOFTWARE GROUP INC	ulti	10,001	344,882.85	0.55%	0.02%	0.43%	94.41	100.28	6.22%	2.13%
UNITED NATURAL FOODS INC	unfi	14,500	361,514.13	0.58%	0.02%	0.45%	53.59	52.04	-2.89%	-6.98%
DEALERTRACK HOLDINGS INC.	trak	24,085	536,610.40	0.86%	0.04%	0.19%	28.72	31.16	8.50%	4.41%
PORTFOLIO RECOVERY ASSOCIATES II	praa	6,411	237,354.00	0.38%	0.02%	0.31%	106.86	101.93	-4.61%	-8.70%
ENCORE CAPITAL GROUP INC.	ecpg	22,337	505,358.40	0.81%	0.03%	0.09%	30.62	30.10	-1.70%	-5.79%
HEALTH MANAGEMENT ASSOC INC	hma	73,137	498,123.62	0.80%	0.03%	--	9.32	9.22	-1.07%	-5.16%
BEACON ROOFING SUPPLY INC	becn	20,410	387,284.44	0.62%	0.03%	0.27%	33.28	33.88	1.80%	-2.29%
TRIUMPH GROUP INC	tgi	10,259	622,587.05	1.00%	0.04%	--	65.30	67.63	3.57%	-0.52%
SEMTECH CORP	smtc	22,968	390,136.25	0.62%	0.03%	0.33%	28.95	29.00	0.17%	-3.92%
COSTAR GROUP INC	csgp	7,434	344,696.26	0.55%	0.02%	0.43%	89.37	90.36	1.11%	-2.98%
TOP TEN HOLDINGS			\$ 4,228,547.40	6.76%	0.29%	2.50%	Russell 2000 Growth:		4.09%	

Total Portfolio Value
Total StanCERA Value

\$62,569,936
\$1,466,099,140

STANCERA
Price Monitor Position Report

BNY - S&P 500 Index
Passive S&P 500 Index Fund
Positions as of December 31, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	12/31/2012 \$ PX	1/14/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	5,079	\$2,702,928	3.59%	0.18%	532.17	501.75	-5.72%	-8.92%
Exxon Mobil Corp	XOM	27,054	\$2,341,534	3.11%	0.16%	86.55	89.58	3.50%	0.30%
General Electric Co	GE	60,620	\$1,272,409	1.69%	0.09%	20.99	21.12	0.62%	-2.58%
Chevron Corp	CVX	11,697	\$1,264,880	1.68%	0.09%	108.14	112.85	4.36%	1.16%
INTL Business Machines	IBM	6,132	\$1,174,531	1.56%	0.08%	191.55	192.62	0.56%	-2.64%
Microsoft Corp.	MSFT	43,692	\$1,167,002	1.55%	0.08%	26.71	26.89	0.67%	-2.53%
Johnson & Johnson	JNJ	16,433	\$1,151,944	1.53%	0.08%	70.10	72.56	3.51%	0.31%
Pfizer Inc	PFE	45,030	\$1,129,357	1.50%	0.08%	25.08	26.74	6.62%	3.42%
AT&T	T	33,256	\$1,106,770	1.47%	0.08%	33.28	34.02	2.22%	-0.98%
Google Inc.	GOOG	1,565	\$1,106,770	1.47%	0.08%	707.38	723.25	2.24%	-0.96%
TOP TEN HOLDINGS			\$14,418,126	19.15%	0.98%	S&P 500 Index:		3.20%	

Total Portfolio Value
Total StanCERA Value

\$75,290,476
\$1,466,099,140

STANCERA
Price Monitor Position Report

LSV Asset Management
International Large Cap Value
Positions as of December 31, 2012

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	12/31/2012 \$ PX*	1/14/2013 \$ PX*	Position % Change	Relative % Change
ROYAL DUTCH SHELL	RDS/A	London	47,896	\$3,302,414	2.57%	0.23%	1.40%	68.95	69.66	1.03%	-1.14%
SANOFI S.A.	SNY	Paris	60,479	\$2,865,519	2.23%	0.20%	0.71%	47.38	48.69	2.76%	0.59%
ASTRAZENECA PLC	AZN	London	41,863	\$1,978,878	1.54%	0.13%	0.37%	47.27	48.77	3.17%	1.00%
CHINA PETROLEUM & CHEMICAL CORP	SNP	Hong Kong	17,220	\$1,978,878	1.54%	0.13%	0.12%	114.92	119.07	3.61%	1.44%
ALLIANZ SE	ALV.DE	Germany	18,392	\$1,927,479	1.50%	0.13%	0.40%	104.80	106.00	1.15%	-1.02%
BASF SE	BAS.DE	Germany	25,646	\$1,824,680	1.42%	0.12%	0.55%	71.15	71.76	0.86%	-1.31%
ENI - ENTE NAZIONALE IDROCARBURI	ENI	Chile	99,442	\$1,811,830	1.41%	0.12%	0.39%	18.22	18.70	2.63%	0.46%
OLD MUTUAL PLC	OML.L	London	9,663	\$1,721,881	1.34%	0.12%	0.09%	178.20	185.30	3.98%	1.81%
BT GROUP PLC	BT	London	42,236	\$1,606,232	1.25%	0.11%	0.19%	38.03	39.16	2.97%	0.80%
CANADIAN IMPERIAL BANK OF COMMER	CM.TO	Canada	19,925	\$1,593,383	1.24%	0.11%	0.21%	79.97	82.01	2.55%	0.38%
TOP TEN HOLDINGS				\$20,611,174	16.04%	1.41%	4.43%	MSCI ACWI ex-U.S.		2.17%	

Total Portfolio Value
Total StanCERA Value

\$128,498,591
\$1,466,099,140

*Company quotes are provided directly in USD

STANCERA
Price Monitor Position Report

Pyramis Global Advisors
Active Non-US Growth Manager
Positions as of December 31, 2012

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	12/31/2012 PX*	1/14/2013 PX*	Position % Change	Relative % Change
NESTLE SA (REG)	7123870	Switzerland	31619	\$2,059,587	1.53%	0.14%	1.31%	65.11	66.73	2.49%	0.32%
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	59118	\$2,025,329	1.51%	0.14%	1.38%	34.25	35.35	3.21%	1.04%
SANOFI	5671735	Paris	19605	\$1,845,969	1.38%	0.13%	0.70%	94.12	98.25	4.39%	2.22%
ROCHE HLDGS GENUSSSCHEINE	7110388	Swiss	7065	\$1,420,743	1.06%	0.10%	0.88%	201.02	212.00	5.46%	3.29%
BP PLC	798059	London	202329	\$1,397,663	1.04%	0.10%	0.82%	6.91	7.37	6.66%	4.49%
VODAFONE GROUP PLC	B16GWD5	London	544581	\$1,367,762	1.02%	0.09%	0.77%	2.51	2.66	5.98%	3.81%
BAYER AG	5069211	Germany	14192	\$1,345,650	1.00%	0.09%	0.49%	94.78	96.15	1.45%	-0.72%
SAP AG	4846288	Germany	16641	\$1,332,038	0.99%	0.09%	0.46%	80.01	81.55	1.92%	-0.25%
BRITISH AMER TOBACCO PLC (UK)	287580	London	25600	\$1,299,253	0.97%	0.09%	0.61%	50.73	50.95	0.43%	-1.74%
HSBC HOLDINGS PLC (UK REG)	540528	London	122550	\$1,289,171	0.96%	0.09%	1.20%	10.52	10.79	2.57%	0.40%
TOP TEN HOLDINGS				\$15,383,165	11.73%	1.05%	8.62%	MSCI ACWI ex-US:		2.17%	

Total Portfolio Value
Total StanCERA Value

\$134,188,869
\$1,466,099,140

*Company quotes are provided in foreign currency and then converted to USD

Asset Class	Current Policy Index %	New Policy Index %	January	February	March	April	May	June	July	August	September	October	November	December
Direct Lending	0.0%	7.5%	A	B	C									
Fixed Income	37.6%	30.0%				D	E	F						
US Equities	41.9%	38.0%							G	H				
Int'l Equities	19.0%	18.0%							G	H				
Real Estate	1.5%	3.5%									I	J	K	
Infrastructure	0.0%	3.0%												L
Total StanCERA Plan	100.0%	100.0%												

Direct Lending

- A. January 2013. Present list of candidates to StanCERA Board. StanCERA Board to select candidates to present.
- B. February 2013. Interview up to 3 Direct Lending Candidates. StanCERA Board to select candidates for commitments pending legal review.
- C. March 2013. Legal Review of Direct Lending Candidates. Approval of hiring of Direct Lending firms and commitment levels.

Fixed Income

- D. April 2013. SIS Manager Structure Review of Fixed Income. Discussion of alternative FI investments.
- E. May 2013. Determine and approve potential new Fixed Income manager structure.
- F. June 2013. Potential revision of assignments with existing FI managers. Potential search activity for new FI assignments.

Equities

- G. July 2013. SIS Manager Structure Review of Equities (US + Int'l).
- H. August 2013. Determine and approve potential new Equity manager structures. Potential movement of funds amongst exiting StanCERA equity managers.

Real Estate

- I. September 2013. Determine whether increase in Real Estate to be added to existing REIT Index fund or a new investment in Private RE fund.
- J. October 2013. If Private RE whether Core or Value Added space. Provide a potential list of Core and Value Added Private RE Funds.
- K. November 2013. Interview up to 2 Private RE Candidates (if necessary) .

Infrastructure

- L. December 2013. Determine whether new allocation to Infrastructure should be in public markets and/or private vehicle.
- M. January 2014. Provide a list of public and private Infrastructure funds.
- N. February 2014. Interview Public and/or Private Infrastructure managers.

STRATEGIC INVESTMENT SOLUTIONS, INC.

MEMORANDUM

To: StanCERA Board of Retirement

From: Paul Harte

Date: January 22, 2013

Subject: Direct Lending Asset Class
List of Candidates for Review

The StanCERA Board, at its November 2012 offsite meeting, approved an allocation of 7.5% to the Direct Lending strategy. The 7.5% allocation equates to roughly \$108 million based upon a total portfolio value of \$1.45 billion as of November 30, 2012.

Strategic Investment Solutions proposes the following timeline for consideration to build in the Direct Lending space:

January 22, 2013	Review Direct Lending Candidates StanCERA Board to select potential candidates to present
February 26, 2013	Interview up to 3 Direct Lending Candidates StanCERA Board to select candidates for commitments (pending legal review)
March 26, 2013	Legal Review of Direct Lending Candidates StanCERA Board approval of Direct Lending firms hiring and commitment levels

Strategic Investment Solutions suggests the Direct Lending strategy be the first asset class reviewed since a number of managers are currently in the marketplace raising capital. In addition, many such firms have indicated they will be closing in the March to April 2013 timeframe. Once these firms close their current funds we would not expect them to return to market for some time.

Strategic Investment Solutions also believes that current supply-demand dynamics are rather favorable to lenders and should persist for the next 18-24 months. Therefore it would be advantageous to begin the search process immediately and secure an investment period which falls within this 18-24 month timeframe.

Strategic Investment Solutions has compiled a list of Direct Lending candidates for StanCERA to consider. The list of candidates includes 17 firms. Three have been eliminated due to either fund closing or strategy restructuring.

Strategic Investment Solutions has met with numerous Direct Lending firms over the past 2-3 years. Our preferences for market-space and manager characteristics are as follows:

Market Space

- A direct lending focus to private companies in the small-to-mid market segment (EBITDA of \$5-\$50 million and/or enterprise values between \$50-\$500 million).
 - Higher return potential in this market segment and not necessarily a higher risk. Targeted returns are in the 12-15% range, whereas the larger market segments generate mid-single digit returns.
 - No leverage (borrowing from a credit facility) to boost unlevered returns. Direct Lending firms in the larger market segment tend to utilize leverage to boost returns.
 - Strong borrower pipeline – the smaller-to-middle market segment appears to have sufficient deal flow due to favorable supply/demand dynamics.

Manager Characteristics

- Managers with extensive history as a small-to-middle market Direct Lender
 - Either at the same firm or who have launched their own firm in recent years
 - Built a solid track record over time
 - Strong origination and underwriting capabilities
 - Low default rates (below industry averages)
 - “Institutional friendly”

Strategic Investment Solutions would recommend that the following three firms be considered to present to the StanCERA Board at its February 2013 financial meeting:

- | | |
|------------------------------|-------------------|
| 1. Medley Capital | San Francisco, CA |
| 2. Raven Capital | New York, NY |
| 3. White Oak Global Advisors | San Francisco, CA |

StanCERA is familiar with Medley Capital and White Oak from the education sessions provided in the Fall of 2012. Raven Capital is a newer firm started by investment professionals who ran the Direct Lending desk at Merrill Lynch prior to its sale to Bank of America. All three firms have the following positive attributes:

- Independent, employee-owned firms
- Experienced investment professionals in the Direct Lending space
- Focus on the small-to-middle market segment
- Excellent performance track record in the Direct Lending space
- Firms that are “institutional friendly”
- Currently out in the marketplace raising capital for existing funds
- Will be closing in the March-June 2013 timeframe

StanCERA
Direct Lending List
Q1 - 2013

Firm Name	Location	Fund Name	Final Closing Date	Contact Name	Fund Size	Acct. Type	Targeted Market	Leverage Employed	Expected Net Returns Unlevered	Expected Net Returns with Leverage	Team Size	Fees
Medley Capital	SF/NY	Medley Opportunity Fund II LP	04/30/13	Brook Taube	\$400 MM	Commingled	Small-Middle	No	13-15%	No Leverage	46	1.5%/20% above 8%
Raven Capital	NY	Raven Asset-Based Opportunity Fund I	03/31/13	Josh Green	\$125-175 MM	Commingled	Small	No	14-15%	No Leverage	4	1.75%/15% above 8%
White Oak Global Advisors	SF	White Oak Global Advisors	Q2-2013	Landy Pheloung	Target \$1 billion	both	small	No	12-17%	No Leverage	26	2%/20%; no hurdle
Cerberus Capital Management	NY	Cerberus: Leveraged Loan Opportunities Fund II	05/08/13	Keith Read	\$3B (w/lev)	both	upper-middle	1:1 to 2:1	9.5-11.5%	15-18%	65	1.5%/15%; 6% catchup
TCW/Regiment Capital Advisors	Boston	Regiment Capital Advisors (TCW)	Closed	Tom Sorbo			middle					
TPG Opportunities Partners	SF	TPG Specialty Lending	Open		Target >\$1 billion	commingled	upper-middle	Yes	N/A-	~13%	20+	0.75%-1.5%/15-17.5% pref 6%
Freeport	Chi	Freeport: Direct Lending Fund	suspended	Brody Browe	\$400 million	both	small-middle	Yes 0.5x	N/A-	12-14%	5	1.25%-2%/20%; pref 5%
Audax Group	Boston	Audax Group: Senior Loan Investment Group	Open	Alex Casale	\$250M	commingled	middle	yes (1.5-2:1)	N/A-	9-12% net		0.75%/15% above 4%
Golub Capital	NY	Golub: PEARLS - Direct Lending Program	Ongoing	Alissa Grad	>\$1 billion	both	small-middle	No/Yes (1-1.5x)	7%	11-12%	20	1.5%/10% above 7%
Garrison Investment Group	NY	Garrison Investment Group	Q2-2013	Daniel	\$120M; target \$500M	Commingled	small	No/Yes - tbd	9-10%	14-15%	9	1.25%/15% soft pref 7%
J.P. Morgan Highbridge	NY	Highbridge: Senior Loan Partners II	03/01/13	Aren LeeKong	Target \$2 billion	both	upper-middle	No/Yes	8%	13%	5	1.5%/15% carry; 5% pref
Prudential	Multiple	Prudential: Privest / Privest+	TBD	Albert Trank	\$700M	commingled	middle	No/Yes	Agg+100bps	Agg+200 bps	140	30 bps / 65 bps - no carry
Czech Asset Management	NY	Czech Asset Management (2nd Lien)	03/01/13	Adam Rochlin	\$400M	commingled	upper-middle	No	11-12%	No Leverage	4	1.5%/20% carry
Tennenbaum Capital Partners	LA	Tennebaum	TBD	Mark Smith	\$700M-\$1B	both	middle	No/Yes (1.8x)	7-8%	10-12%		75-100bps / 1.25%; 15% carry 8% pref
THL Credit	Multiple	THL Credit SS & Mezz	Q1-2013	Mark Smith	\$200M	Fund	small-middle	no	14-15%	No Leverage		1% / 5% carry 6% pref
Monroe Capital Partners	NY	Monroe Capital Senior Secured Direct Loan Fund	Q1-2013	Sean Duff	\$400M	Fund	middle	No/Yes	8-10%	12-14%	25	1.5%/20% carry; 7% pref
The Carlyle Group	NY	Carlyle GMS Finance	Open	Jeffrey Levin	\$1 billion	both	upper-middle	Yes (1:1)	N/A-	9%-11.7%	8	1.0%-1.5%/20% carry; 6% pref

Closed

Suspended or revamping strategy

Recommended Firms for StanCERA Consideration

Direct Lending

Medley Opportunity Fund II LP
Medley Capital, LLC

Key Evaluation Areas	Comments
1) Organization	
-Summary	Medley Opportunity Fund II LP ("MOF II"). Private debt fund targeting \$1B of capital. 1st closing occurred in Dec 2010, \$400B+ in commitments to date. Seeking equity-like (13-15%) returns with risk profile of secured debt. Medley has a successful track record in direct lending. Have delivered an avg. annual return of 12.8% net (2003-2010). 3 person team. Deep experience in sourcing, credit analysis, and monitoring. Currently raising capital for 3rd fund, Secured Debt focus - unlevered. Compounded return over the last 9yrs 12.1%. Target returns of 12-14% net. First close this past summer (\$450M). 2nd closing will potentially come at year end.
-Depth of Relevant Experience	Approaching 50 member team that works exclusively on private debt. 20 originators. Andrew Fentress (MP) senior portfolio mgr & member of BoD. Previously a Partner with CN Opportunity Fund. Brook Taube (MP) CIO and member of BoD. Previously a Partner at CN Opportunity Fund. Seth Taube (MP), Sr. Portfolio Mgr and member of BoD. Previously a Partner with CN Opportunity Fund. Avg team member industry experience (18-20yrs). Plan on growing the team up to 60 as they approach \$2B AUM. 6 people have left firm - primarily performance issues. No one has left voluntarily.
2) Investment Strategy	
- Strategy	Investment strategy is to originate \$10-50M senior secured loans. Target net returns of 13-15%+ to investors. High current cash pay on loans (10-12%). Additional upside participation via warrants and accrued interest (PIK). Current pipeline of ~\$620M across 25 potential investments as of June, 2010. MOF II is seeking 20%+ gross investment returns. Contractual returns of ~16% (12% cash + 4% PIK). equity upside adds 5-10% or more to annual IRR. Issues Warrants to capture equity upside (potentially adds 5-10% to annual IRR. Investment duration typically 36-48 months. Portfolio will generally consist around 50 loans. All deals are secured. Primarily senior - but do have some Junior secured tranches. Portfolio is completely domestic - some borrowers may sell abroad. Specific focus on the energy industry. The goal of the portfolio is to be equally weighted across sectors - but that will depend on where the growth is.
- Sourcing	19 investment professionals actively sourcing opportunities. Direct Origination Strategy: highly selective origination and underwriting process. Principals have closed over 60 deals in last 7 yrs. Significant repeat & referral deal flow (47%). Avoid broadly marketed & syndicated transactions. Not dependent on M&A & PE activity.
- Adherence to Strategy and Process	Historically, Medley invests in 2-4% of opportunities screened annually. Screen 1,000, PM reviews 200, Term Sheet Negotiations 100, Close & Fund 25-35. Rigorous in-house financial, industry, legal & business diligence. 3rd party appraisal, audit and industry specific analysis. Background & tax compliance checks. Engage outside legal counsel with industry specific expertise. 15 investment professionals with deep workout experience. Weekly contact and quarterly visits with borrowers. Rigorous collateral valuation, cash monitoring and anti-fraud protection. Pay based on how well the people do - not how well the deals do. 3-4 months for a transaction to close (not unlike PE). Diversified portfolio construction.
3) Performance	
-Level of Returns	2 yr investment period, 3-yr harvest, (2) 1-yr extensions. Aim for 12-14% net returns. Unlevered.
-Volatility	~3% Historical default rate on invested capital
4) Terms & Conditions	
- Alignment of Interests	GP Commitment: 1% of Committed Capital
Mgmt Fee (Factor in Term)	Investment Period: 2 years from Final Closing. 3 yr. harvest w/2 -1 yr. extensions. Fund Term: 7 yrs. w/2 one-year extensions. Management Fee: 1.5%
Carried Interest	Carried Interest: 20%
Preferred Return	Preferred Return: 8%
Other fees	Can potentially be negotiated
Clawback	Clawbacks (YES)

Key Evaluation Areas	Comments
1) Organization	
-Summary	Established in 2007, White Oak provides exposure to the Private Middle Loan Market. Focus on Senior Secured, 1st priority, collateralized loans. Short tenor terms loans (1-3yrs). 50% LTV or less at time of underwriting. Downside protection (financial maintenance, affirmative and negative covenants). No equity kicker at issuance. No leverage. 26 employees (13 investment professionals)
-Depth of Relevant Experience	26+ total employee count. Andrew Hakkak 20 yrs experience (MP) prior was the found & CIO at Suisse Global Investments. Barbara McKee 23yrs experience (MP) prior SVP & General Counsel at KKR. Rob Roden 20 yrs experience (MP) Head of Leverage finance at Cowen, Co-head of BAC Mezz Capital. 4-6 top executives are primarily individuals responsible for sourcing
2) Investment Strategy	
- Strategy	Small-to-Middle-market lending in the US is large (\$1.7trillion) and highly fragmented. White Oak's focus will be on US Based business (EBITDA of \$5-50 million and/or enterprise values between \$50-500M). W.O. will directly originate all their deals. Hard-asset intensive businesses. Industry leading management teams. Business growth financing. Capital structure optimization. Corporate asset utilization. Business growth & acquisition advice. Capital Structure rationalization. Portfolio Positioning: Loan size: \$5-40M. Pricing: 12-20%. Tenor: 1-5 Yrs. Covenant: High. Structure: Customized. Type of Lenders: Small & Regional Banks, White Oak. Risks: Low Liquidity, Possible delay in realization if subject to workout or bankruptcy. 70% of deals are done on hard assets.
- Sourcing	1,200 opportunities sourced annually, representing ~ \$12B of potential transactions per quarter. 400 (25%) of opportunities meet White Oak risk & return objectives. 160 (13%) make it t W.O. pipeline and begin diligence. 48 (4%) become available for funding. Represents \$300M per quarter. Relationship Network: Direct, Investment banks & Brokers, Financial Sponsors, Local & Regional Banks, Restructuring Firms & Bankruptcy Law Firms.
- Adherence to Strategy and Process	Track credit and cash flow, amount, timing, and process of portfolio investments. Stress test financial results: Covenant analysis and Company/industry update. Prepare monthly updates for Investment Committee.
3) Performance	
-Level of Returns	Targeting net IRR of 12-17% (unlevered). Will consider use of leverage on an individual investment basis.
-Volatility	50 total transactions. \$5-6M in realized losses. 8 deals have breached covenants (4 of those have been paid off). Currently dealing with other 4.
4) Terms & Conditions	
- Alignment of Interests	MPs and employees will contribute to each fund. Specific amount not disclosed.
<i>Mgmt. Fee (Factor in Term)</i>	Open-end Fund: 2 yr. lock-up plus semi annual/annual notice 2% mgmt. fee. No hurdle. SMA: 3-5 yr. lock-up 1st \$100M commitment ~ 1.6% mgmt. fee. Potentially lower ea. \$50M increase. Hurdle Rate included (soft at 7-8%).
<i>Carried Interest</i>	Open-end Fund: 20%. SMA: 20% (possible room for negotiations)
<i>Preferred Return</i>	Preferred Return: 7.5% (potential room for negotiation)
<i>Other fees</i>	Can potentially be negotiated
<i>Clawback</i>	Clawbacks (YES)

Key Evaluation Areas	Comments
1) Organization - Summary - Depth of Relevant Experience	<p>Established in early 2012, a privately owned company with strategic partnership with Northern Lights Capital Group. The team managed \$7 billion portfolio in a similar asset-based direct lending investment strategy for Merrill Lynch from 1998 to 2007. A small team of four led by Josh Green. The same investment team executed \$12 billion in principal transactions in a similar strategy while at Merrill.</p> <p>Firm has a small group of four investment professionals. Josh Green is the founder and has 19 years of investment experience. Jeremy Tucker, James Masciello, and Brandon Doerr are the other members of the team. Raven has a relationship with Northern Lights Capital Group who provide marketing and client service capabilities.</p>
2) Investment Strategy - Strategy - Sourcing - Adherence to Strategy and Process	<p>Fund investments will be directly originated and opportunistic to the very small up to middle private companies market. The target fund size of \$150 million to \$250 million with BlackRock Alternatives, Colorado Fire & Police and Virginia Tech University clients who have committed \$70 million to date. Raven has a preference for making direct lending loans to asset-based rich companies. The current income on the fund is at 12%. No leverage is employed. Raven takes a sole or lead position to monitor and mitigate risk.</p> <p>Raven will source proprietary opportunities, perform the underwriting, and actively manage their portfolio of 10-15 companies. The length of the loans is expected to average 3-years. Targeted asset types are: Receivables/Intellectual Property; Specialty Finance; Commercial Real Estate; Transportation; and, Infrastructure. Individual loan size of approximately \$5-\$25 million.</p> <p>About 60% of capital invested directly in senior-secured first lien loan opportunities and the balance 40% invested in opportunistic acquisitions of certain cash-flow assets. The team's history and expertise investing in assets allows them to generate attractive yields while protecting capital. No defaults are modeled.</p>
3) Performance - Level of Returns - Volatility	<p>Targeted capital of \$250 million with gross return objective of 18%.</p> <p>First fund</p>
4) Terms & Conditions - Alignment of Interests Mgmt. Fee (Factor in Term) Carried Interest Preferred Return Other fees Clawback	<p>Raven employees will deploy to fund specific amount not disclosed.</p> <p>3-year minimum lock-up period with distribution of current income. Management fee of 1.75% (negotiable?)</p> <p>15% incentive fee.</p> <p>Preferred Return of 8% compounded annually.</p> <p>Can potentially be negotiated</p> <p>Clawbacks (YES)</p>



Stanislaus County Employees' Retirement Association

Actuarial Experience Study
July 1, 2009 through June 30, 2012

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Robert T. McCrory, FSA

Prepared January 14, 2013

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Executive Summary

Purpose

The purpose of this Actuarial Experience Study is to review the actuarial experience of the Stanislaus County Employees' Retirement Association (StanCERA, the Plan) during the period from July 1, 2009 through June 30, 2012.

The Plan's demographic experience – observed rates of retirement, withdrawal, vested termination, transfer, disability, and death – were compared with the experience expected under the actuarial assumptions adopted to determine Plan liabilities and cost, and revised assumptions are recommended as appropriate. Other demographic assumptions – such as commencement ages for deferred vested members and terminal pay loads – were also studied.

In addition, the plan's economic assumptions were reviewed. The economic assumptions include the assumed rates of inflation, COLA increases, investment return, and active payroll growth.

The purpose of this Section of the Study is to give the reader a quick summary of the major conclusions that have been reached. Details are presented in later sections of this Report.

Prior Experience Studies

The most recent Experience Study for the Plan was conducted by EFI in 2010, covering the period from July 1, 2006 through June 30, 2009. Based on that study, withdrawal and termination rates were updated, longevity and promotion pay assumptions were changed to be service-based, mortality assumptions were changed to incorporate the RP 2000 tables with mortality improvement, a terminal pay load to account for vacation cash outs was introduced, and the rate of return, inflation and COLA rates were lowered.

Retirement Rates

Over the past three years, actual rates of retirement have been somewhat lower than current actuarial assumptions would predict for the Safety members. Therefore, new sets of assumed retirement rates are proposed, bringing assumptions closer into line with experience.

For the Miscellaneous members, actual experience has been in close accord with assumptions, so no changes to the current assumed retirement rates are proposed.

Termination Rates

Overall, the total number of terminations (withdrawals, vested terminations and transfers) was higher than expected for both

Safety and male Miscellaneous members. The total number of terminations for female Miscellaneous members was less than expected. We have proposed separate male and female Miscellaneous termination rates, increasing the male rates, and reducing the female rates. We have also proposed increases in the termination rates for Safety members of both sexes.

We recommend assuming that 50% of Miscellaneous and 35% of Safety terminations before 10 years of service will take a refund, and that 20% of Miscellaneous and 10% of Safety terminations after nine years of service will take a refund. We recommend maintaining the assumption that 25% of Miscellaneous and 50% of Safety vested terminations be considered as transfers to a reciprocal employer.

Disability Rates

We recommended in our prior experience study to aggregate the disability experience of this study with the prior study. Some of the disability data reported during these combined Studies was quite limited; there were no ordinary (non-duty) reported disabilities among Safety members, and only six duty-related reported disabilities among the Miscellaneous members.

Based on the aggregated disability experience reported in this Study, we recommend that the current ordinary disability and Safety duty-related disability rates should be maintained until the next experience study. We also recommend that the

Miscellaneous duty-related disability rates be reduced to reflect actual experience more closely.

Longevity and Promotion Pay Increases

The current actuarial assumption for members is that the pay of active members will increase by 3.75% per year due to inflation, and an additional 0.50% to 4.00% for Miscellaneous members and 0.50% to 8.00% for Safety members for merit, longevity and promotion, depending on the service of the member. Smaller increases are assumed after three years of service for General members.

An analysis of the average pay of active members by service reveals that these patterns of increases are still appropriate: Pay increases remain steeper in the early years of employment.

Mortality Rates

Mortality experience among active and retired members and their survivors in this Study was in reasonable agreement with assumptions, with the actual number of deaths slightly lower than expected. Recent changes in actuarial standards require that actuaries explicitly disclose their assumptions about future improvements in mortality. The current assumptions leave a small margin for future decreases in mortality. We recommend waiting to update mortality until the next study, when new Society of Actuaries tables will be available.

Other Demographic Assumptions and Methods

We have recommended increasing the accumulated vacation time load for Safety retirement and disability benefits from 1.0% to 2.5%.

We have also recommended modifying the Entry Age Normal funding methodology from Entry-Age-to-Decrement to Entry-Age-to-Final-Decrement, and to change from Aggregate to Individual Normal Cost calculation. These changes were recommended by Segal in the actuarial audit performed for the County, and both these methods will be required in new GASB standards. Although the changes would increase in Plan cost, the modification would result in a one-time improvement to the funding ratio.

Economic Assumptions

The current inflation assumption of 3.50% could be considered high, based on the opinions of experts and information which can be discerned from the investment markets. Accordingly, we propose a reduction in the inflation assumption from 3.50% to 3.25%, and a reduction in the payroll growth assumption from 3.75% to 3.50%.

We propose keeping the current real return assumption of 4.50%, which would correspond to a reduction in the nominal annual rate of return from 8.00% to 7.75%

We recommend that no changes be made to the rate of expected COLA growth (2.7%) at this time.

Impact on Plan Costs

The following table shows the expected impact of the proposed assumption changes on the current employer contribution rate and funding ratio, based on preliminary actuarial valuation results as of June 30, 2012.

	Increase in Actuarial Cost (% Payroll)	Funding Ratio
June 30, 2012 Valuation	18.09%	79.07%
Economic Assumptions	1.80%	(2.13%)
Admin Expenses	0.98%	0.00%
Demographic Rates	(0.06%)	0.02%
Vacation Pay Load	0.10%	(0.09%)
Results Before Method Change	20.91%	76.87%
Actuarial Methods	2.12%	4.72%
Results After Method Change	23.03%	81.59%

The impact of the recommended demographic assumption changes - rates of retirement, termination, and disability - do not represent a significant departure from current assumptions.

Therefore, in aggregate, Plan contribution rates will not be greatly affected by changes in demographic assumptions. Revised economic assumptions are another matter: Changes to the inflation and investment return assumptions, and the addition of an explicit administrative expense assumption, will increase the actuarial contribution rate by approximately 2.8% of pay. The changes to the actuarial methods will result in an increase in employer contributions of approximately 2.1%, but a relative improvement in the funding ratio of nearly 5%.

Should all of the recommendations in this Report be adopted, an increase in the total actuarial employer contribution rate of approximately 5% will result. Employee contributions rates will be recomputed using the revised assumptions, and will also increase.

California Pension Reform

The California Public Employees' Pension Reform Act (PEPRA, AB 340) was enacted into law in 2012. Members joining StanCERA on and after January 1, 2013 will receive different benefits, with different eligibility rules, than current members. Consequently, they may experience different rates of termination, disability, and retirement than current Plan members.

This Experience Study is concerned only with current Plan members. As new members join the Plan with the benefits mandated by PEPRA, their actuarial experience will be monitored to determine if different assumptions are warranted for them.

Organization of Report

The first section of the Report deals with decrements among active members and also includes consideration of other demographic assumptions, such as the merit component of pay increases and recommendations regarding terminal pay loads.

The second section of the Report deals with mortality among active and inactive members.

The third section of the Report concerns economic assumptions.

A final section presents methodological details.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This Report was prepared exclusively for StanCERA for the purpose described herein. This Report is not intended to benefit any third party, and neither Cheiron nor EFI Actuaries assumes any duty or liability to any such party. We will be happy to answer any

questions from StanCERA Board or staff regarding the Report's methodology or conclusions.

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Active Decrements

Service Retirement (Miscellaneous)

Current Assumption

Summary of Experience versus Current Assumptions (Ages 50-69, 10+ Years of Service)

	Eligible Exposure	Actual Retirements	Expected Retirements	Actual to Expected Ratio
Males	854	99	101.5	97.5%
Females	2,325	255	251.1	101.5%
Combined	3,179	354	352.7	100.4%

	Actual Average Age	Expected Average Age
Males	59.9	59.6
Females	59.2	59.0
Combined	59.4	59.2

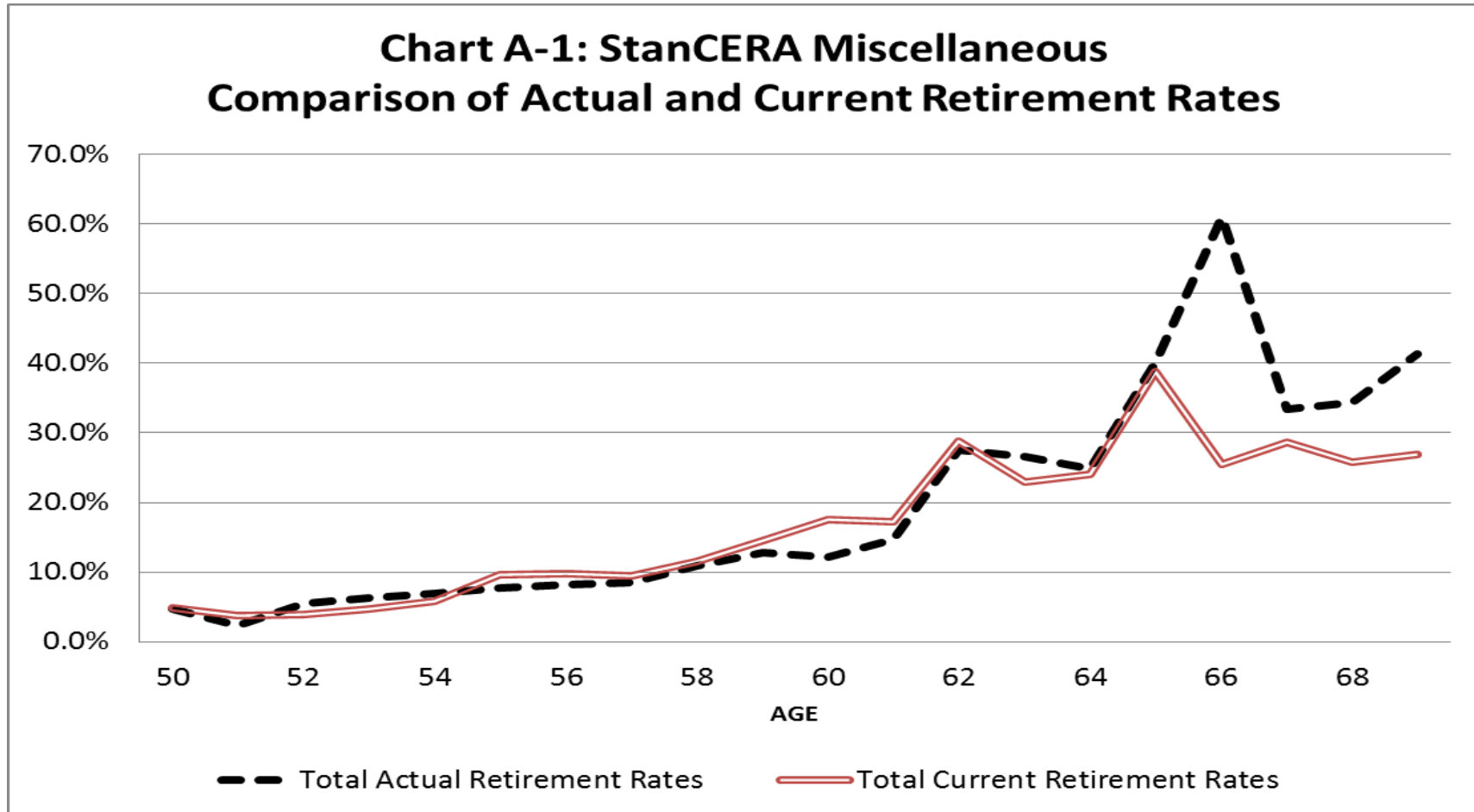
- Miscellaneous members are currently eligible to retire at age 70, age 50 (55 for Tier 3 members) with 10 years of membership or at any age with 30 or more years of Eligibility Service.
- Members recorded in the data as a vested termination or transfer while eligible for a service retirement benefit were counted as a service retirement, since they are eligible to begin receiving their benefit immediately.
- There were several members who appeared to retire with less than ten years of service; none have been assumed to retire in the past. These members may have had service with a reciprocal employer.
- We excluded the exposures and decrements for those above age 70 from this analysis.

It is common practice within public sector plans to assume that all members over age 70 will retire immediately.

- Average age among actual member retirements agreed well with that predicted by the actuarial assumptions.
- **Recommendation**
- Because the actual rates of retirement by age were in close agreement with those expected, we have not proposed any changes to the expected service retirement rates. See Chart A-1 below for more details.
- We have not proposed introducing rates for those less than age 70 with less than ten years of service. The impact of such retirements on Plan cost is not expected to be material. However, we will continue to monitor the frequency and circumstances of these retirements.
- No change is recommended to the assumption that all members are assumed to retire immediately at age 70, regardless of service. Only 0.2% of all active exposures were for members over age 70, so this assumption should have very little impact on plan cost.

Miscellaneous Retirement Rates – Current (with 10+ years of service)

Age	Rate
50	5.0%
51	4.0%
52	4.0%
53	5.0%
54	6.0%
55	10.0%
56	10.0%
57	10.0%
58	12.0%
59	15.0%
60	18.0%
61	18.0%
62	30.0%
63	25.0%
64	25.0%
65	40.0%
66	30.0%
67	30.0%
68	30.0%
69	30.0%
70+	100.0%



In reviewing Chart A-1, we can see that the current assumed retirement rates fit the actual retirement rates reasonably well by age.

Service Retirement (Safety)

Current Assumption

Summary of Experience versus Current Assumptions (Ages 40-59)

	Eligible Exposure	Actual Retirements	Expected Retirements	Actual to Expected Ratio
Male	239	27	34.5	78.4%
Female	62	11	6.4	171.9%
Combined	301	38	40.9	93.0%

	Actual Average Age	Expected Average Age
Male	52.9	53.0
Female	52.7	51.4
Combined	52.8	52.8

- Safety members are currently eligible to retire at age 70, age 50 with 10 years of service, or at any age with 20 or more years of service.
- Members recorded as a vested termination or transfer while eligible for a service retirement benefit are counted as a retirement, since they are eligible to begin receiving their benefit immediately.
- When developing the proposed assumptions we combined the experience of the genders; the amount of female experience is small.
- We excluded the exposures and decrements for those younger than 40 and older than 60 years old; there have been very few retirements at these ages.

Recommendation

Summary of Experience versus Proposed Assumptions (Ages 40-59)

	Eligible Exposure	Actual Retirements	Expected Retirements	Actual to Expected Ratio
Male	239	27	28.7	94.2%
Female	62	11	5.9	188.0%
Combined	301	38	34.5	110.1%

	Actual Average Age	Expected Average Age
Male	52.9	52.5
Female	52.7	51.0
Combined	52.8	52.2

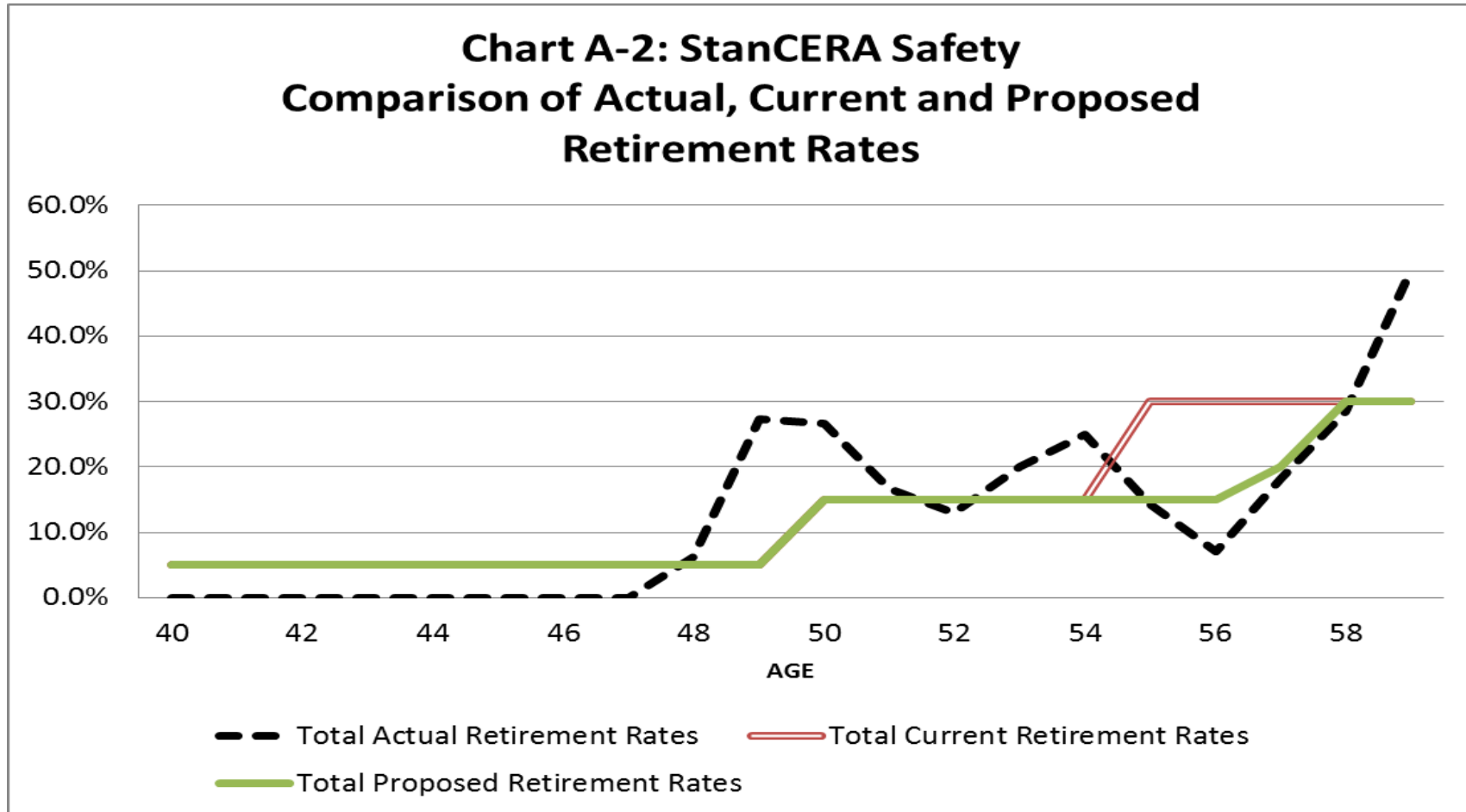
- New rates are proposed reflecting lower expected retirement rates for ages 55 through 57. See Chart A-2.
- The new assumptions do not fully reflect the lower rates reflected in the actual experience during the last three years. There were more retirements observed during the prior Experience Study, so we have suggested rates between those in this Study and the prior Study.
- The experience of this Study can be combined with that of the next Experience Study to determine whether the change in retirement behavior is continuing.
- Maintaining a single set of rates for both males and females is recommended, due to the limited amount of female experience.
- We continue to assume all members with 10 years of service will retire at age 60.

Safety Retirement Rates - Current

Age	Rate
40 – 44	5.0%
45 – 49	5.0%
50	15.0%
51	15.0%
52	15.0%
53	15.0%
54	15.0%
55	30.0%
56	30.0%
57	30.0%
58	30.0%
59	30.0%
60+	100.0%

Safety Retirement Rates – Proposed

Age	Rate
40 – 44	5.0%
45 – 49	5.0%
50	15.0%
51	15.0%
52	15.0%
53	15.0%
54	15.0%
55	15.0%
56	15.0%
57	20.0%
58	30.0%
59	30.0%
60+	100.0%



In reviewing Chart A-2, we see that the proposed assumptions match actual experience better than the prior assumptions at the higher ages.

Termination – Withdrawals, Vested and Non-Vested Terminations and Transfers (Miscellaneous)

Current Assumption

Summary of Experience versus Current Assumptions

	Eligible Exposure	Actual Withdrawals	Expected Withdrawals	Actual to Expected Ratio
Male	1,828	118	108.3	109.0%
Female	5,286	251	296.7	84.6%
Combined	7,114	369	405.0	91.1%

	Actual Average Age	Expected Average Age
Male	40.5	41.0
Female	39.7	40.3
Combined	40.0	40.5

- A withdrawal occurs when a member terminates employment and withdraws his or her member contributions. A vested or non-vested termination applies to active members who terminate and leave their member contributions on deposit with the Plan. A transfer occurs if a member terminates and continues working with a reciprocal employer.
- For this analysis, we have combined the withdrawal, termination and transfer assumptions to develop a single assumption for terminations. Separately, we have analyzed the percentages of those terminating who withdraw, leave contributions on deposit, or transfer.
- Currently, a single set of service-based termination rates is assumed for both males and females. No terminations are assumed to occur once a member is eligible for retirement.
- Termination rates are strongly related to service, steadily decreasing as service increases (see Chart A-3). Male and female rates were different in early years of employment.

Recommendation

Summary of Experience versus Proposed Assumptions

	Eligible Exposure	Actual Withdrawals	Expected Withdrawals	Actual to Expected Ratio
Male	1,828	118	116.4	101.4%
Female	5,286	251	281.5	89.2%
Combined	7,114	369	397.9	92.7%

	Actual Average Age	Expected Average Age
Male	40.5	40.8
Female	39.7	40.5
Combined	40.0	40.6

- We have proposed separating male and female termination rates, lowering female rates from zero to two years of service, and raising male rates at zero, two and three years of service to better match experience (see Chart A-3).
- We recommend assuming that 50% of those terminating with less than ten years of service will take a refund, as will 20% of those terminating with five or more years of service.
- We also recommend maintaining the current assumption that 25% of vested terminated Miscellaneous members are reciprocal terminations.
- We recommend continuing the assumption that no withdrawals will occur once a member is eligible to retire.

Miscellaneous Termination Rates – Current Representative Rates

Service	All Ages
0	18.5%
1	14.0%
2	9.4%
3	7.9%
4	7.1%
5	5.0%
10	3.5%
15	2.9%
20	1.5%
25	1.3%
30	0.0%

No terminations are assumed for participants eligible for service retirement.

Rates include withdrawals and vested terminations.

Miscellaneous Termination Rates – Proposed Representative Rates

Service (All Ages)	Males	Females
0	24.0%	14.0%
1	14.0%	9.4%
2	11.7%	7.9%
3	9.4%	7.9%
4	7.1%	7.1%
5	5.0%	5.0%
10	3.5%	3.5%
15	2.9%	2.9%
20	1.5%	1.5%
25	1.3%	1.3%
30	0.0%	0.0%

No terminations are assumed for participants eligible for service retirement.

Rates include withdrawals and vested terminations.

**Chart A-3: StanCERA Miscellaneous
Comparison of Actual, Current and Proposed
Termination Rates**

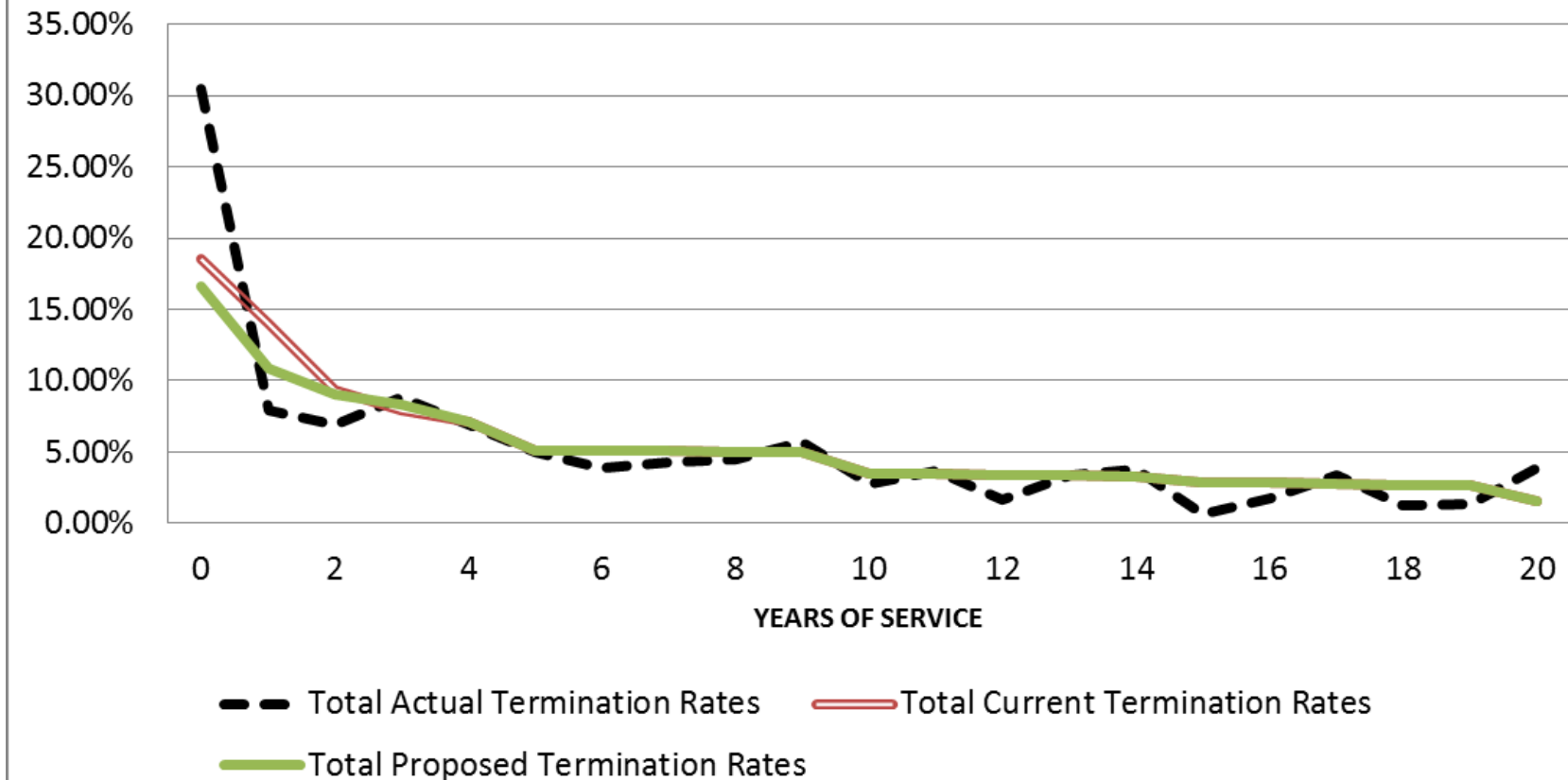


Chart A-3 shows that proposed reduced withdrawal rates for those with less than five years of service more accurately reflect the actual data.

Termination – Withdrawals, Vested and Non-Vested Terminations and Transfers (Safety)

Current Assumption

Summary of Experience versus Current Assumptions

	Eligible Exposure	Actual Terminations	Expected Terminations	Actual to Expected Ratio
Male	1,356	79	61.3	129.0%
Female	365	21	16.2	129.5%
Combined	1,721	100	77.5	129.1%

	Actual Average Age	Expected Average Age
Male	32.5	34.5
Female	31.7	33.2
Combined	32.3	34.2

- A withdrawal occurs when a member terminates employment and withdraws his or her member contributions. A vested or non-vested termination applies to active members who terminate and leave their member contributions on deposit with the Plan. A transfer occurs if the terminated member continues working with a reciprocal employer.
- For this analysis, we have combined the withdrawal, termination and transfer assumptions to develop a single assumption for terminations. Separately, we have analyzed the percentages of those terminating who withdraw, leave contributions on deposit, or transfer.
- Currently, a single set of service-based termination rates are assumed for both males and females.
- No terminations are assumed to occur once a member is eligible for retirement.
- Termination rates are strongly related to service, steadily decreasing as service increases (see Chart A-4).

Recommendation

Summary of Experience versus Proposed Assumptions

	Eligible Exposure	Actual Terminations	Expected Terminations	Actual to Expected Ratio
Male	1,356	79	66.2	119.4%
Female	365	21	17.3	121.6%
Combined	1,721	100	83.5	119.8%

	Actual Average Age	Expected Average Age
Male	32.5	33.9
Female	31.7	32.8
Combined	32.3	33.7

- The largest difference was in the first two years of service. As there are few exposures in those years of service, we also looked at the experience from the prior experience study.
- The combined experience from 2006 to 2012 still showed actual terminations to be higher than expected at years of low service, but not at the levels experienced in the last three years.
- We have proposed increases to the termination rates below four years of service and decreases at thirteen and fourteen years of service to better match experience (see Chart A-4).
- We recommend assuming that 35% of those terminating with less than ten years of service will take a refund, as will 10% of those terminating with ten or more years of service. We also recommend maintaining the current assumption that 50% of vested terminated Safety members are reciprocal terminations.
- We recommend continuing the assumption that no withdrawals will occur once a member is eligible to retire. Maintaining a single set of rates for both males and females is recommended, due to the limited amount of female experience.

Safety Termination Rates – Current Representative Rates

Service	All Ages
0	13.0%
1	10.5%
2	9.0%
3	7.5%
4	6.0%
5	3.7%
10	3.4%
15	1.9%
20	0.0%

No terminations are assumed for participants eligible for service retirement.

Rates include withdrawals and vested terminations.

Safety Termination Rates – Proposed Representative Rates

Service	All Ages
0	15.0%
1	15.0%
2	10.5%
3	10.0%
4	6.0%
5	3.7%
10	3.4%
15	1.9%
20	0.0%

No terminations are assumed for participants eligible for service retirement.

Rates include withdrawals and vested terminations.

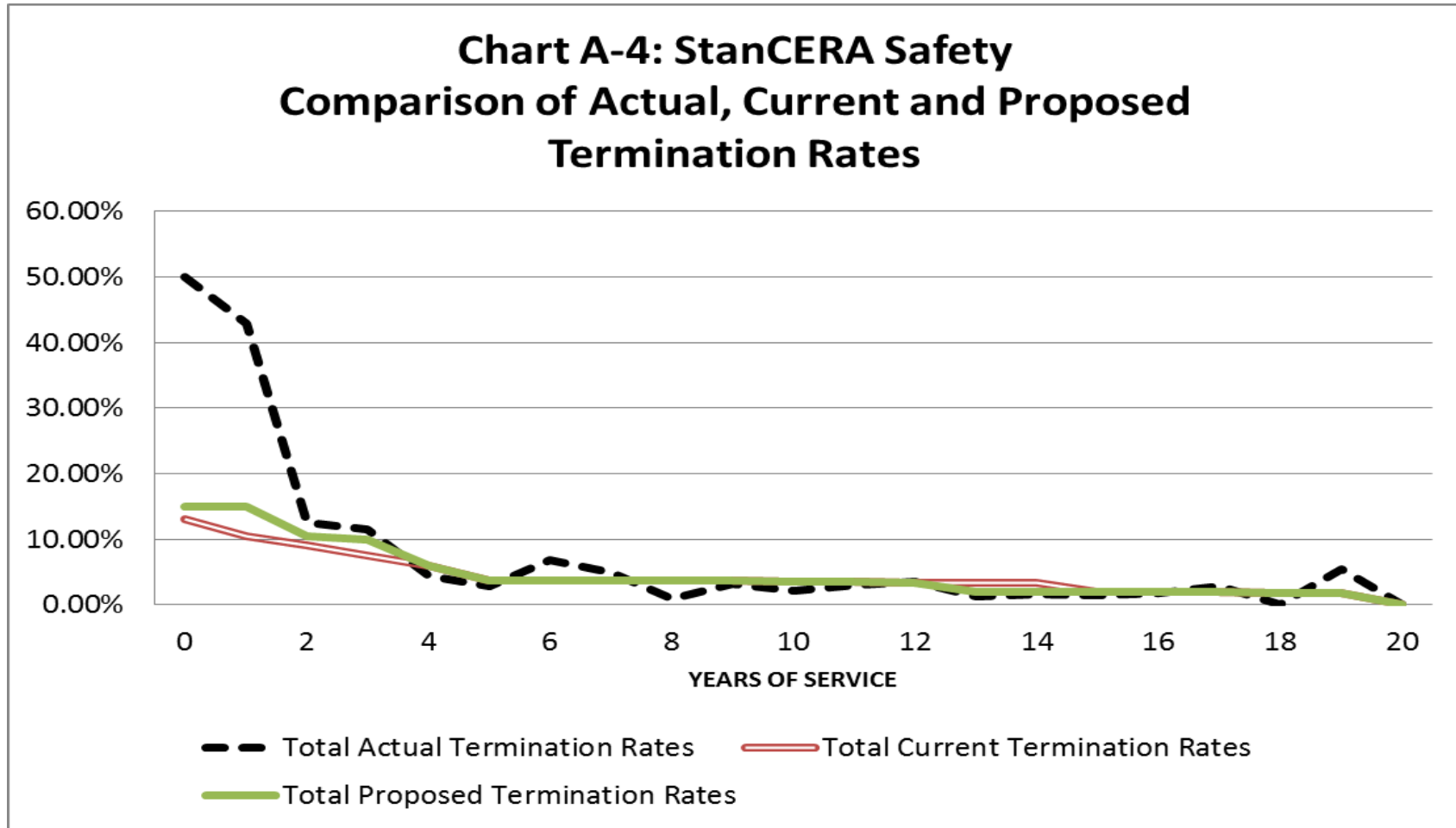


Chart A-4 shows the proposed withdrawal rates - reduced for those with less than five years of service, more accurately reflecting the actual data.

Ordinary Disability (Miscellaneous)

Current Assumption

Summary of Experience versus Current Assumptions

2006-2012	Eligible Exposure	Actual Disabilities	Expected Disabilities	Actual to Expected Ratio
Male	4,189	3	5.4	56.0%
Female	12,125	14	14.3	97.9%
Combined	16,314	17	19.7	86.5%

	Actual Average Age	Expected Average Age
Male	48.3	53.1
Female	49.9	53.3
Combined	49.6	53.2

- As we suggested in our prior study, we combined the data from this Experience Study with our prior Study in order to obtain a larger set of exposures from which to draw conclusions.
- Members are eligible for non-service-connected disability retirement if they are permanently disabled at any age after earning five years of service.
- Current assumptions for service-connected disabilities are based on age and gender, and applied to those members who have at least five years of service.
- The disability data reported over the experience study period is extremely limited.

Recommendation

- The number of non-duty disabilities occurring has been close to the number assumed. Because of this, we propose maintaining the current assumptions until the next experience study.

Current Representative Assumed Rates

Age	Male	Female
22	0.020%	0.003%
27	0.036%	0.005%
32	0.035%	0.013%
37	0.049%	0.039%
42	0.071%	0.057%
47	0.109%	0.098%
52	0.154%	0.142%
57	0.209%	0.231%
62	0.269%	0.307%

Ordinary Disability (Safety)

Current Assumption

Summary of Experience versus Current Assumptions

2006-2012	Eligible Exposure	Actual Disabilities	Expected Disabilities	Actual to Expected Ratio
Male	2,328	0	2.4	0.0%
Female	616	0	0.5	0.0%
Combined	2,944	0	2.9	0.0%

- As we suggested in our prior study, we combined the data from this Experience Study with our prior Study in order to obtain a larger set of exposures from which to draw conclusions.
- Members are eligible for non-service-connected disability retirement if they are permanently disabled at any age after earning five years of service.
- Current assumptions for non-service-connected disabilities are based on age, and applied to those members who have at least five years of service.
- Because of the limited amount of female data available, combined sex rates are used.

The disability data reported over the current and prior experience study periods is extremely limited; there were no non-service connected disabilities reported during the combined study periods, and less than three expected.

Recommendation

- Because of the lack of data, we propose maintaining the current assumptions until the next experience study.
- The experience of the current period can be combined with that of the next period to obtain a better sample from which to develop conclusions.

Current Representative Assumed Rates

Age	Rate
22	0.026%
27	0.048%
32	0.046%
37	0.065%
42	0.095%
47	0.145%
52	0.205%
57	0.279%

Duty Disability (Miscellaneous)

Current Assumption

Summary of Experience versus Current Assumptions

2006-2012	Eligible Exposure	Actual Disabilities	Expected Disabilities	Actual to Expected Ratio
Males	5,615	4	6.5	61.1%
Females	15,816	2	6.2	32.4%
Combined	21,431	6	12.7	47.2%

	Actual Average Age	Expected Average Age
Males	54.5	52.1
Females	54.0	53.0
Combined	54.3	52.5

- As we suggested in our prior Study, we combined the data from this Experience Study with our prior Study in order to obtain a larger set of exposures from which to draw conclusions.
- Members are eligible for service-connected disability retirement if they are permanently disabled in the line of duty at any age or service level.
- Current assumptions for service-connected disabilities are based on age and gender, and are applied to all Miscellaneous members.
- The number of actual male and female duty-related disabilities was below the expected number in the most recent six-year period.

Recommendation

Summary of Experience versus Proposed Assumptions

	Eligible Exposure	Actual Disabilities	Expected Disabilities	Actual to Expected Ratio
Males	5,615	4	4.4	91.7%
Females	15,816	2	2.1	97.2%
Combined	21,431	6	6.4	93.4%

	Actual Average Age	Expected Average Age
Males	54.5	52.1
Females	54.0	53.0
Combined	54.3	52.4

- The current Miscellaneous male rates were reduced by 33% and female rates were reduced by 67% to produce new duty disability rates. These rates produce a lower overall number of expected disabilities.

Miscellaneous Duty Disability Rates – Current Representative Rates

Age	Male	Female
22	0.010%	0.001%
27	0.018%	0.001%
32	0.035%	0.003%
37	0.049%	0.010%
42	0.071%	0.021%
47	0.109%	0.037%
52	0.154%	0.058%
57	0.209%	0.087%
62	0.269%	0.115%

Miscellaneous Duty Disability Rates – Proposed Representative Rates

Age	Male	Female
22	0.007%	0.000%
27	0.012%	0.000%
32	0.023%	0.001%
37	0.033%	0.001%
42	0.047%	0.007%
47	0.078%	0.012%
52	0.103%	0.019%
57	0.140%	0.029%
62	0.180%	0.038%

Duty Disability (Safety)

Current Assumption

Summary of Experience versus Current Assumptions

2006-2012	Eligible Exposure	Actual Disabilities	Expected Disabilities	Actual to Expected Ratio
Males	3,273	16	24.4	65.6%
Females	886	3	5.6	53.4%
Combined	4,159	19	30.0	63.3%

	Actual Average Age	Expected Average Age
Males	43.1	43.3
Females	47.3	40.9
Combined	43.7	42.9

- As we suggested in our prior Study, we combined the data from this Experience Study with our prior Study in order to obtain a larger set of exposures from which to draw conclusions.
- Members are eligible for service-connected disability retirement if they are permanently disabled in the line of duty at any age or service level.
- Current assumptions for service-connected disabilities are based on age, and are applied to all Safety members.

- Because of the limited amount of female data available, combined sex rates are used.
- The number of actual male and female duty-related disabilities was below the expected number in the most recent three-year period (7 actual vs. 15 expected). This was also true for the prior Experience Study audit, though the difference was much smaller (12 actual vs. 15 expected).

Recommendation

- The number of excessive expected disabilities appears greatest at the lower ages; however there are still relatively few exposures in those age groups, even with six years of experience. Although the overall rate of disability was significantly lower than expected during this period, the number expected was still quite small, and the experience during the prior period was close to that expected.
- There is frequently a lag between when disabilities occur and when they are approved; therefore, there could be a number of disabilities which occurred during the Study period, but have not yet been reported.
- Therefore no changes to the rates have been proposed. We will continue to monitor the number of duty disabilities, and will likely recommend a reduction in the rates at the time of the next Experience Study if the recent patterns are sustained.

Miscellaneous Duty Disability Rates – Current Representative Rates

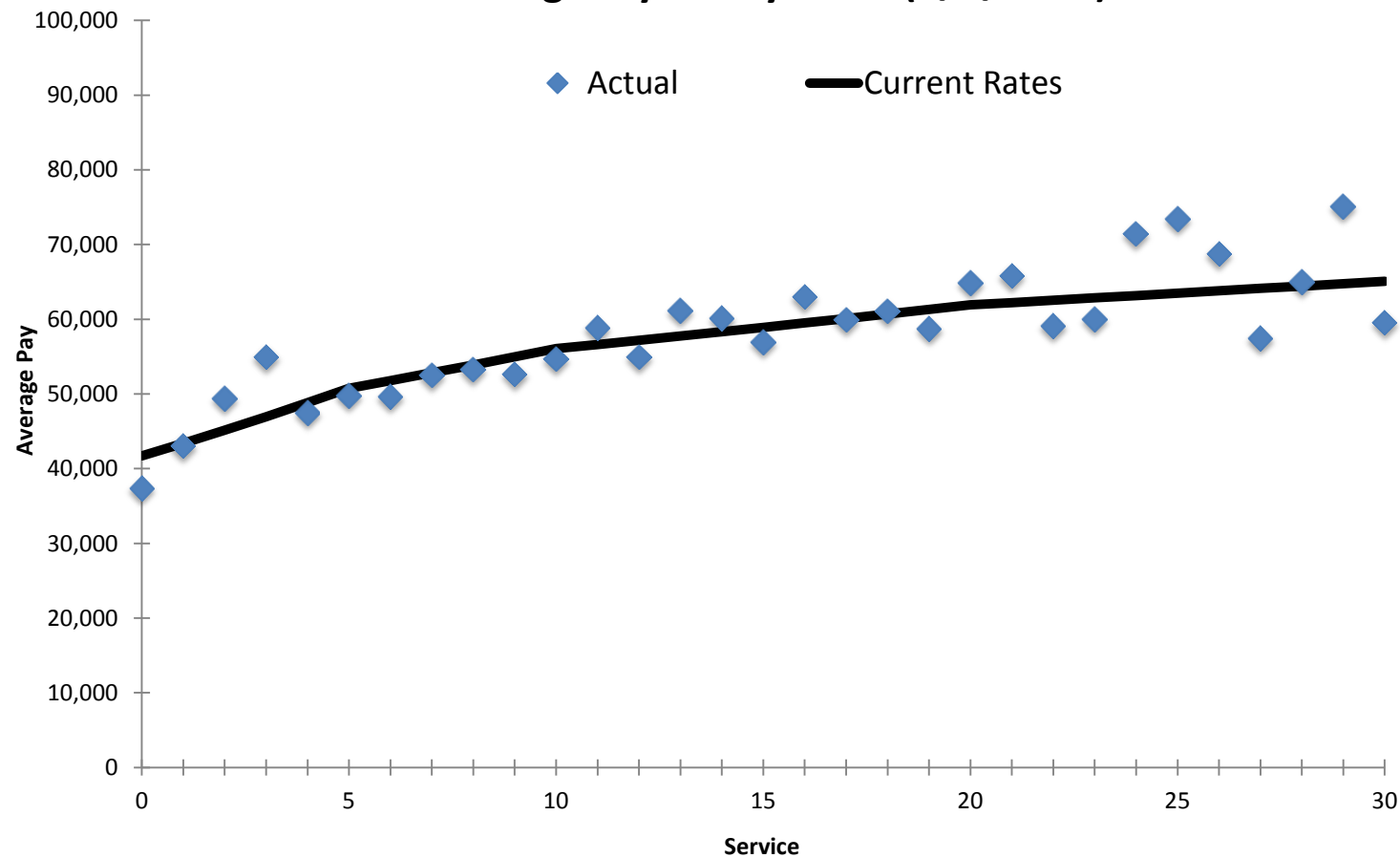
Age	Rate
22	0.162%
27	0.324%
32	0.557%
37	0.804%
42	1.004%
47	1.254%
52	1.658%
57	1.937%

Longevity and Promotion Pay Increases (Miscellaneous)

Pay increases consist of three components: Increases due to cost of living maintenance (inflation), increases related to non-inflationary pressures on base pay (such as productivity increases), and increases in individual pay due to merit, promotion, and longevity. Only increases due to merit (promotion and longevity) are considered here; increases due to cost of living and non-inflationary base pay factors are addressed in a later section of this report.

Current Assumption	Recommendation										
<table border="1" data-bbox="375 535 858 737"> <thead> <tr> <th>Years of Service</th><th>Assumed Increase</th></tr> </thead> <tbody> <tr> <td>0 – 4</td><td>4.00%</td></tr> <tr> <td>5 – 9</td><td>2.00%</td></tr> <tr> <td>10 – 19</td><td>1.00%</td></tr> <tr> <td>20+</td><td>0.50%</td></tr> </tbody> </table> <ul style="list-style-type: none"> The current assumptions are based on service. In the charts below, the average pay of the active members as of June 30, 2012 has been plotted against service. For example, the average pay for Miscellaneous members with two years of service is about \$50,000. In addition, a line of best fit, given the prior age-based pay assumptions is applied to the average pay data (the red line in Chart A-5). This line provides a visual indicator of how well the expected age-based pay increases are correlated with the actual data. 	Years of Service	Assumed Increase	0 – 4	4.00%	5 – 9	2.00%	10 – 19	1.00%	20+	0.50%	<ul style="list-style-type: none"> No new rates have been proposed. The current service-related assumptions closely match the line of best fit. The line of best fit based on the service-related assumptions is shown by the black line in Chart A-5. Note: This is called a <i>transverse</i> study of longevity and promotion pay increases; for a more detailed description of this type of study and its benefits, see the methodology section at the end of this report.
Years of Service	Assumed Increase										
0 – 4	4.00%										
5 – 9	2.00%										
10 – 19	1.00%										
20+	0.50%										

**Chart A-5: StanCERA Miscellaneous
Longevity Salary Scale (7/1/2012)**



Longevity and Promotion Pay Increases (Safety)

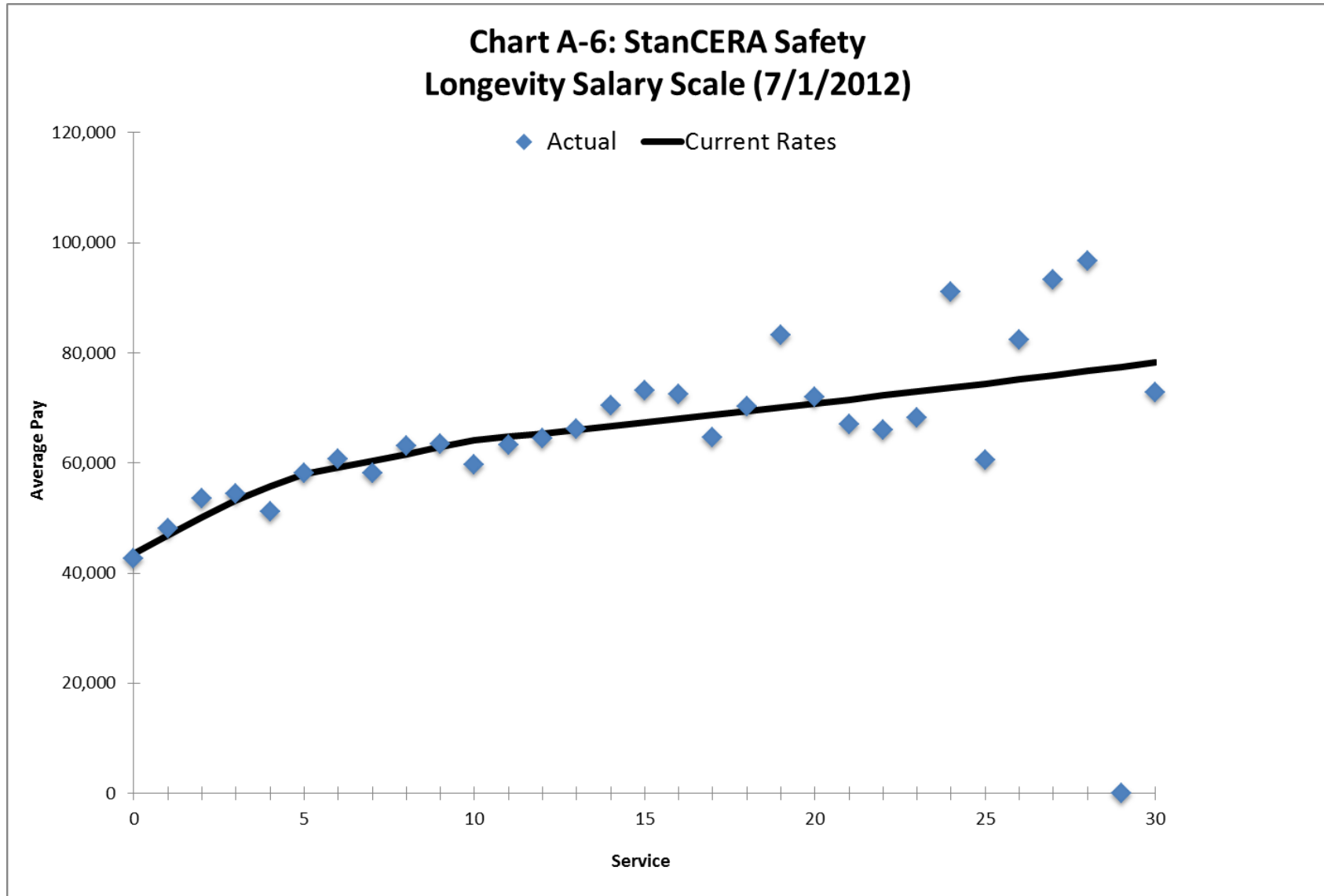
Current Assumption

Years of Service	Assumed Increase
0	8.00%
1	7.00%
2	6.00%
3	5.00%
4	4.00%
5 - 9	2.00%
10 - 29	1.00%
30+	0.50%

- The current assumptions are based on service.
- In the charts below, the average pay of the active members as of June 30, 2012 has been plotted against service. For example, the average pay for Safety members with six years of service is about \$60,000.
- In addition, a line of best fit, given the prior age-based pay assumptions is applied to the average pay data (the red line in Chart A-6). This line provides a visual indicator of how well the expected age-based pay increases are correlated with the actual data.

Recommendation

- No new rates have been proposed. The current service-related assumptions closely match the line of best fit.
- The line of best fit based on the service-related assumptions is shown by the black line in Chart A-6.



Mortality (Non-Disabled)

Current Assumptions (Miscellaneous & Safety)

Summary of Experience versus Current Assumptions

ACTIVE	Eligible Exposure	Actual Deaths	Expected Deaths	Actual to Expected Ratio
Males (09-12)	4,318	9	7.8	115.3%
Females (09-12)	8,055	9	13.2	68.3%
Males (06-09)	4,630	8	7.4	107.5%
Females (06-09)	8,679	13	12.2	106.4%
Combined	25,682	39	40.6	96.0%

RETIRED & SURVIVING SPOUSES	Eligible Exposure	Actual Deaths	Expected Deaths	Actual to Expected Ratio
Males (09-12)	2,908	79	78.2	101.0%
Females (09-12)	4,779	142	129.8	109.4%
Males (06-09)	2,573	76	69.5	109.3%
Females (06-09)	4,115	112	111.9	100.1%
Combined	14,375	409	389.4	105.0%

ALL PARTICIPANTS	Eligible Exposure	Actual Deaths	Expected Deaths	Actual to Expected Ratio
Males (09-12)	7,226	88	86.0	102.3%
Females (09-12)	12,834	151	142.9	105.6%
Males (06-09)	7,203	84	76.9	109.2%
Females (06-09)	12,794	125	124.1	100.7%
Combined	40,057	448	430.1	104.2%

- The current actuarial assumptions for non-disabled active, and retired members and their beneficiaries are the RP2000 Combined Healthy Tables (without age adjustment) projected from 2000 to 2020 using Projection Scale AA.
- Mortality was updated from 1994 GAM Mortality Tables in the prior Study.
- Experience has been aggregated with the prior Study to ensure adequate exposure, and to assist in the analysis of the underlying trends. The analysis now includes six years of experience (2006-2012).
- Actual deaths among active members are frequently below actuarial assumptions, as is the case for this Study on an aggregate basis. Active members often become disabled or retire when they are in poor health, so these deaths are reported in the inactive categories.
- The actuarial standards for selecting mortality assumptions have changed. Actuarial Standards of Practice (ASOP) #35 explicitly requires that actuaries disclose an assumption about future improvements in mortality:

"Include an assumption as to expected mortality improvement after the measurement date. This assumption should be disclosed... even if the actuary concludes that an assumption of zero future improvement is reasonable... Note that the existence of uncertainty about the occurrence or magnitude of future mortality improvement does not by itself mean that an assumption of zero future improvement is a reasonable assumption."

Recommendation

- The current assumptions provide a small margin between the number of actual deaths and the number expected, for the active members, retired members, and their beneficiaries. We will continue to monitor mortality experience, and determine if further modifications to the assumptions may be needed in future years.
- We propose continuing the use of the special table for duty-related active Safety deaths. The amount of data available is too limited to develop a separate new table.

Mortality (Disabled)

Current Assumptions (Miscellaneous & Safety)

Summary of Experience versus Current Assumptions

	Eligible Exposure	Actual Deaths	Expected Deaths	Actual to Expected Ratio
Males (09-12)	512	9	12.6	71.7%
Females (09-12)	406	10	8.7	115.3%
Males (06-09)	507	13	9.1	142.5%
Females (06-09)	410	11	9.4	117.4%
Combined	1,835	43	39.7	108.3%

- The current actuarial assumptions for disabled members are the RP2000 Combined Healthy Tables projected from 2000 to 2020 using Projection Scale AA with a seven year age set-forward.
- Mortality was updated from the 1981 Disability Mortality Tables for General and Safety Members published by the Society of Actuaries in the prior study.
- Experience has been aggregated with the prior Study to ensure adequate exposure, and to assist in the analysis of the underlying trends. The analysis now includes six years of experience (2006-2012).

Recommendation

- As with non-disabled mortality, the current assumptions provide a small margin between the number of actual deaths and the number expected, for the disabled members. We will continue to monitor mortality experience, and determine if further modifications to the assumptions may be needed in future years.

Summary of Experience

In this section, we look at a summary of experience. This will provide a sense of how well the current demographic assumptions predicted experience in aggregate over the years studied. It will also give an indication as to how the assumption changes proposed within this study would have performed during the same time period.

Summary of Demographic Experience

			Current Assumptions		Proposed Assumptions	
Assumption	Exposure	Actual	Expect	A/E Ratio	Expect	A/E Ratio
Retirement	3,480	392	394	100%	387	101%
Termination & Withdrawal	8,835	469	482	97%	481	97%
Disability ¹	25,590	42	65	65%	59	71%
Mortality ²	41,892	491	470	104%	470	104%

¹ Includes Disabilities from 2006-2012

² Miscellaneous and Safety, Healthy and Disabled Mortality combined, 2006-2012

Other Demographic Assumption and Methods

<p>Terminal (Vacation) Pay Load</p> <ul style="list-style-type: none"> Many members are able to cash out some or all of their unused vacation time in the year prior to retirement; the cashed out pay is then included in the members' final average compensation. The current terminal payout assumption is that pay for computing retirement benefits is increased by 3.5% due to terminal payments for Miscellaneous members, and by 1.0% for Safety members. Over 600 retirements and vested terminations occurred during the past three years and were analyzed to determine the impact of vacation cash outs. In each case, the actual final average compensation used in the member's official retirement calculation was compared to the pay contained in the most recent actuarial valuation data file, adjusted for expected pay increases from the valuation date to the date of retirement. <p>Commencement Age for Deferred Vested Members</p> <ul style="list-style-type: none"> Currently, Miscellaneous members with a deferred vested benefit (including those working for a reciprocal employer) are assumed to begin receiving benefits at age 58 (65 for Tier 3). Safety members are assumed to have their benefits commence at age 53. 	<p>Recommendation</p> <ul style="list-style-type: none"> Our analysis of the last three years of retirement and termination benefits indicated that Miscellaneous members final average compensation is 3.6% higher than expected, and Safety members is 2.7% higher than expected. Based on this analysis, we propose retaining the 3.5% load to the compensation used in the final year of the averaging period for determining projected retirement benefits for Miscellaneous members, and increasing the 1.0% assumed load to 2.5% for Safety members. These terminal pay loads are only applied to retirement benefits, and will be limited to full career benefits (i.e. where the career length is at least 20 years). <p>Recommendation</p> <ul style="list-style-type: none"> Our analysis showed that the actual commencement age for deferred vested members was close to the current assumptions. We recommend retaining assumptions used in the prior Study.
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Actuarial Cost Method

- When EFI assumed the role of the actuarial consultant to the Plan, a change was implemented to the methodology used to compute the entry age normal cost. Under this methodology (known as Entry-Age-to-Decrement), the costs are completed as a level percentage of pay for each individual benefit type (retirement, disability, etc.), spread over the period of time during which the member is eligible for that benefit. Under the traditional approach (known as Entry-Age-to-Final-Decrement), costs are computed for all benefits as a whole, spread over the entire expected career length of the member.
- EFI's alternate methodology (known as Entry-Age-to-Decrement) remains an acceptable method for determining an actuarially sufficient funding contribution. However, the Government Accounting Standards Board (GASB) has adopted new pension accounting standards requiring the use of the traditional, career-length approach to Entry Age Normal liability calculations.
- Under Entry-Age-to-Final-Decrement, the normal cost for an individual should remain level throughout their career. However, even if all assumptions are met exactly, the funded ratio for each individual will fluctuate above and below 100% during their career.
- Under Entry-Age-to-Decrement funding, the normal cost for an individual will decline somewhat over time, as the member moves past eligibility for certain benefits, while the funded ratio will remain constant at 100% if all assumptions are met.
- Under Entry-Age-to-Decrement funding, a comparison of the normal cost between Tiers with different benefit levels may prove difficult: the Tier with the richer benefits may appear to have a lower normal cost if the population of this Tier is closer to retirement age on average.
- EFI maintained one element of the actuarial cost method upon assuming the role of consultant: the use of an aggregate normal cost calculation, wherein the normal cost is computed for each tier based on the total present value of benefits and accrued liability for that tier.
- The new GASB standards require the use of a different method for computing the normal cost: the individual normal cost method, wherein the normal cost is computed for each individual and then added together to get an overall normal cost.
- The California Actuarial Advisory Panel (CAAP) has issued a draft document outlining recommended funding policies for public sector pension plans in California. Although both the Entry-Age-to-Decrement and Aggregate Normal Cost methods are described as "acceptable" practices (with conditions, for the Aggregate Normal Cost), the CAAP has described the Entry-Age-Final and Individual Normal Cost methods as "model."

Recommendation

- We recommend two changes to the funding methodology for determining the actuarial cost of the Plan: using an individual normal cost calculation for each member, and calculating the entry age on a full career basis (Entry-Age-to-Final-Decrement), rather than for each potential individual benefit.
- These revised methodologies represent a simpler and more traditional approach to determining Plan cost, and will avoid the problem of having separate and distinct liability and normal cost calculations for the Plan's funding requirements versus the accounting statements.
- The impact on current cost from changing methods is to increase the normal cost and lower the accrued liability. The net impact on the current contribution is to increase cost by 2.1% of payroll, as the normal cost is paid over a shorter period (the remaining career of the active employees) than the unfunded liability (24 years as of the current valuation). The long-term impact is negligible, since actual benefit payments and investment earnings will determine the ultimate contribution requirements.
- These changes would also result in an improvement in the funded ratio by approximately 4.7%, because the accrued liability is lower under the Entry-Age-Final-Decrement method.

Economic Assumptions

Introduction

Economic assumptions utilized in the development of actuarial liabilities and costs for a defined benefit plan include:

- The inflation assumption;
- The real investment return assumption;
- The real growth in pay relative to inflation; and
- COLA increases relative to inflation.

While we look to the past for indications of future economic behavior, we must also consider how the future may be expected to be different. In order to reflect the long-term nature of defined benefit plan funding in the development of these economic assumptions, it is appropriate to focus on long term trends.

Inflation

While historical trends are not entirely indicative of the future, they do often serve as a useful guide in determination of assumptions. However, there are elements of the future economic environment that may differ from the past due to structural changes. An important and fundamental case in point is the rate of inflation, which underlies each of the three elements of economic assumptions listed above.

Chart E-1 below shows the average rate of inflation over 30-year periods, with the earliest such period ending in 1955 and the latest ending in 2011. We note in the chart that inflation seemed to be increasing steadily until the 1990's when it leveled off and began to decrease. Examination of Chart E-1 may lead to an assumption that inflation is likely to be quite high, perhaps in the range of 4% to 5% annually.

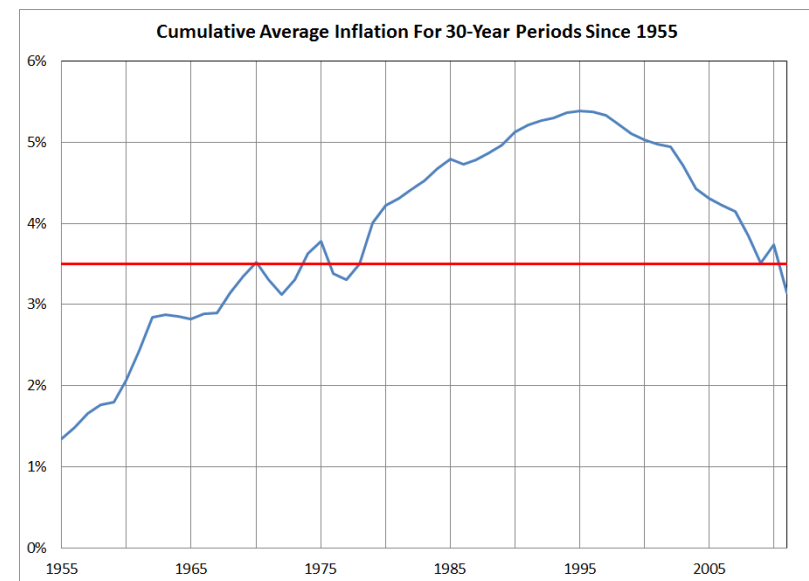


Chart E-1: Average Past Inflation

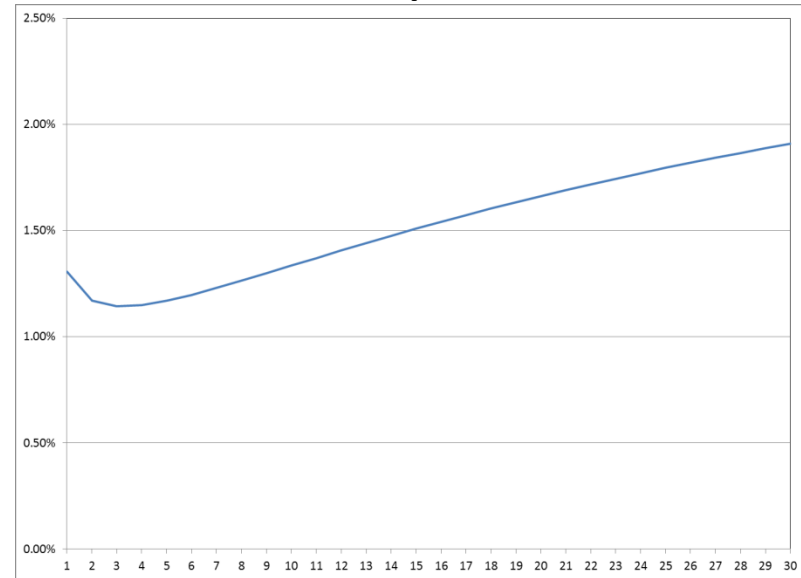
However, there are a number of reasons to believe that future inflation levels will not be as high as Chart E-1 would seem to suggest.

- An important reason for the high rate of inflation in the averages above is the nine-year period 1973-81 when inflation

averaged 9.2% per year.

- The years 1973-81 featured unprecedented levels of household formation. The demand for new houses, cars, office space and equipment caused by the maturation of the post-war baby boom may have largely been responsible for the inflation during these years. Since 1982, increases have been in the range 0.1% to 4.6% with one exception (6.1% in 1990), averaging 3.0% per year.
- The population of the United States is aging, which implies a greater likelihood of low inflation in the future. This has been observed in other countries with aging populations, such as Japan.
- Currently, the Federal Open Market Committee has policies in place to control inflation, making future levels more likely to remain relatively low.
- The Survey of Professional Forecasters, a quarterly publication of the Research Department of the Philadelphia Reserve Bank, indicates that national inflation levels are expected to be in the 2.50% on average over the next ten years.
- Financial markets offer evidence of what investors expect inflation to be in future years. Various securities, such as Treasury inflation-protected securities (TIPS), provide the necessary data for these analyses. As an example, a recent publication by the Federal Reserve Bank of Cleveland attempts to incorporate some of this market data. It contained the following 30-year projection of expected inflation rates.
- SIS, the investment consultant retained by StanCERA, bases their capital market assumptions on an assumption that average inflation over the next 10 years will be 2.40%.

Chart E-2: Expected Inflation



(Source: Cleveland Federal Reserve website. As of February 1, 2012)

An assumption of below 3% may appear to match well with current market and professional expectations. However, the predictions of future inflation by experts are not unanimous. Some commentators note that the large current and expected future deficits increase the likelihood of higher levels of inflation in the future. Also, historical data shows that periods of higher inflation can and do occur.

A change from the current 3.5% assumption to an assumption lower than 3.0% would represent a sudden and drastic change in the assumptions, which is not advisable. Therefore, we recommend reducing the inflation assumption from 3.5% to 3.25%, a moderate

but still significant reduction. This represents a substantial decline in the inflation assumption over the past several years – from 4% in the 2008 valuation to the current recommendation of 3.25%. If, at the time of the next experience study, the markets and forecasters continue to indicate lower expectations of future inflation, further reductions in the assumption could be considered.

Investment Return

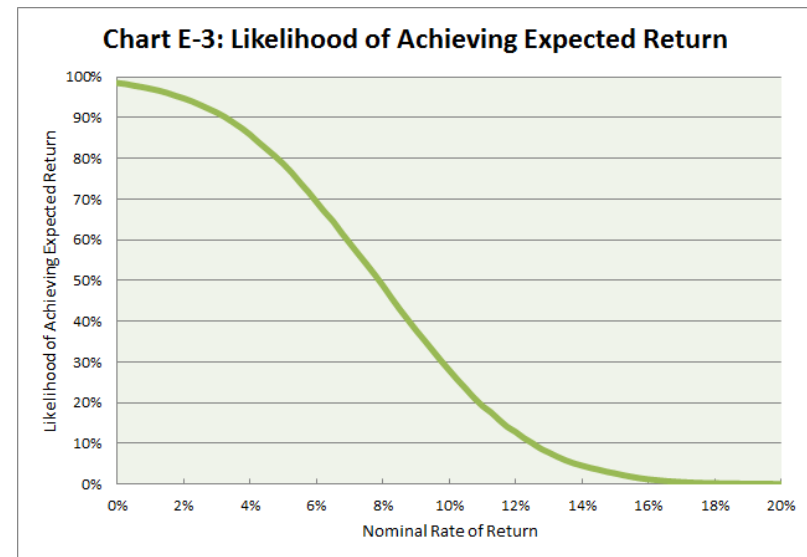
The investment return assumption depends on the anticipated average level of inflation and the anticipated average *real rate of return*. The real rate of return is the investment return in excess of underlying inflation. The expected average real rate of return is heavily dependent on asset mix: The portion of assets in stocks, bonds, and cash. A typical asset allocation is about 60% in equities and 40% in fixed income securities.

In the Chart E-3 below, we have simulated the real return derived using StanCERA's actual target allocation (adopted as of November, 2012) of 38.2% domestic equity, 18.0% international equity, 29.8% fixed income, 3.5% real estate, 7.5% direct lending, and 3.0% infrastructure. The simulated returns are derived by statistical sampling, using the following algorithm:

1. The expected returns, standard deviation and correlation matrix for each asset class were provided by the investment consultant (SIS).
2. The expected returns for each class were modified to adjust for the difference in the inflation assumption used by the investment consultant (2.4%) and the proposed inflation assumption used for actuarial purposes (3.25%).
3. 10,000 simulation trials for repeated ten year periods were

run, and the mean geometric return was computed for each of the ten year re-sampling periods.

4. Given the distribution of returns, we have created a chart that shows the likelihood of the geometric mean return for a specific trial exceeding a specified assumption over a ten year period.



The mean return from this simulation was 7.81%, for a real return of 4.56%. Note that the curve crosses the 50% likelihood threshold right around this point, meaning that chances are slightly better than 50/50 that a 7.75% return would be achieved over a ten year period.

This matches very well with the expectations of the investment consultant; a recent projection from SIS also showed an expected real return of 4.6% (7.0% nominal minus 2.4% inflation) for the same portfolio.

However, EFI recommends the use of a slightly lower real return assumption than indicated by the mean geometric return, in order to provide a small measure of conservatism, based partly on the impact of the excess earnings policy.

The Board has adopted an excess earnings and reserve policy which significantly limit the conditions under which future investment earnings above a certain level could be diverted from the valuation assets used to fund the basic Plan benefits.

At the time of the last experience study, we performed a stochastic projection of the expected net investment return on the assets used to pay the basic benefits of the Plan, with and without the excess earnings policy, and found that the impact of the excess earnings policy was expected to be de minimis. Therefore we did not recommend an explicit adjustment to the investment return assumption.

Although the policy has been designed to minimize the possibility of "excess" earnings being diverted when the Plan is in a negative funding position, there is still a nonzero potential for assets being used for purposes other than being made available to pay the basic Plan benefits if the funding level of the Plan improves.

We noted above that a reasonable inflation assumption is around 3.25%. We recommend a nominal annual return assumption of 7.75%, representing no change in the real return assumption (4.5%), with the exception that the return assumption is no longer expected to be net of administrative expenses as described below.

Administrative Expenses

The returns discussed above are expected to be net of investment expenses; administrative expenses are not addressed. According to Article 31580.2 of the '37 Act, administrative expenses (excluding certain technology expenses) may not exceed 0.20% of the *accrued liabilities* of the retirement system. Over the past three years, administrative expenses have averaged about 0.16% of the *assets* of the retirement system.

New changes to the GASB accounting statements require that the discount rate for accounting purposes will need to be determined net of investment, but not administrative, expenses in future years; a separate line item for administrative expenses will be included in the determination of pension expense.

Accordingly, we recommend that StanCERA begin to include an additional cost item for expected annual administrative expenses in the actuarial cost calculation. For the valuation as of July 1, 2012, we recommend an assumption of \$2,100,000, based on an analysis of administrative expense items that have been paid out of Plan assets over the past few years. This represents a cost of approximately 1.0% of payroll.

Payroll Growth

Components of the payroll growth assumptions are:

- Inflation, and

- Other payroll growth not offset by salary reduction caused by replacement of terminating employees by new entrants.

Such increases are often attributed to productivity gains. Other factors contributing to non-inflationary base salary increases include growth in the active workforce, bargaining pressures, competition among local employers, and workforce demographic issues.

The inflationary component is the assumed CPI (with a recommended rate of 3.25%). In general we recommend that long range gains due to productivity, the collective bargaining process or other pressures should be assumed to be zero or minimal. While productivity tends to increase in many sectors of the economy, any long-term assumption of salary growth beyond inflation carries with it an assumed improvement in *relative* standard of living.

It is acceptable to assume some additional level of base payroll increase beyond general inflation. Again, potential reasons contributing to the increase may include the presence of strong union representation in the collective bargaining process, competition in hiring among other similar employers, and regional factors – such as the local inflation index exceeding the national average, as has proven the case in Northern California.

Accordingly, EFI recommends maintaining a non-inflationary base payroll growth assumption of 0.25% annually. Therefore, the annual expected increase in base payroll would be 3.50%, reduced from 3.75% in the most recent valuation. This increase will be

applied to all continuing active members, and to starting pay for new entrants when projections of future populations are required.

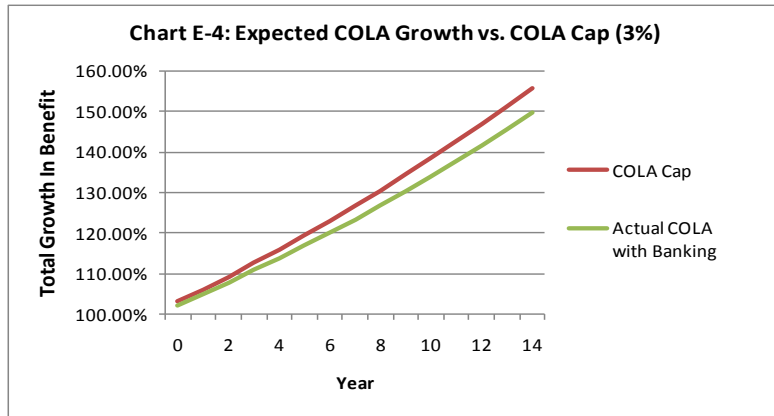
COLA Growth

Most members of StanCERA are eligible to receive automatic Cost of Living Adjustments (COLAs), based on the growth in the Bay Area Consumer Price Index (CPI) and reflecting various a 3% cap on the annual COLA increase. Any increase in the CPI above the 3% maximum increase can be banked for future years in which the change in the CPI is below 3%.

It is necessary to determine an assumed rate of COLA growth, reflecting both inflation (i.e. the growth in the CPI) and the interaction of the CPI with the 3% COLA cap. Currently, it is assumed that the COLA will grow by 3.0% per year.

We have produced statistical simulations of inflation, similar to our modeling of the investment return assumption, and then modeled how the COLA maxima and the banking process for each group interact with the changes in CPI.

Chart E-4 below demonstrates how the expected growth in the COLA is expected to be below the cap, even if the expected increase in the CPI (3.25% based on our earlier recommendation) is higher than the cap itself (3.0% in this example). This is because if there is not a significant bank already in existence (such as in the early years of retirement) and there are years in which inflation is below the cap, this shortfall will not be made up in future years.



Based on a 3.25% recommended inflation assumption, we recommend an assumed COLA growth rate of 2.7% per year, the same assumed rate currently being used. The recommended reduction in the inflation assumption from 3.5% to 3.25% is not expected to have a significant impact on the long-term rate of growth in the COLA.

Methodology

Purposes of the Experience Study

The first goal of this Experience Study is to review the recent past demographic experience of the Plan. We seek to understand the behavior of the participating members so that we can recommend actuarial assumptions concerning future demographic experience.

The second goal of this Study is to recommend economic assumptions to be used in computing liabilities and costs. These economic assumptions include the expected rate of return on Plan assets and the anticipated rate of increase in the Consumer Price Index (CPI). These assumptions are determined based on the investment strategy adopted by the Plan and on the past behavior of the capital markets and the CPI, and on future expectations.

Once adopted, the assumptions recommended by this Study will be used to determine future liabilities and costs and for purposes of evaluating prospective changes in benefits, eligibility conditions, and other aspects of the Plan's operations.

Importance of Accurate Assumptions

The liabilities and costs calculated in actuarial valuations and cost studies are based on a projection of future conditions. The actuary makes assumptions concerning the rates of retirement, withdrawal, termination, disability, and death among plan members. In addition, the actuary must project future earnings on plan assets, inflation, and growth in the pay of active members.

The actuary sets assumptions based on future expectations. In setting demographic assumptions, such as rates of retirement, the past experience of the covered group of employees is often the best predictor of future behavior. When establishing economic assumptions, such as the expected return on plan assets, the historical behavior of the investment markets can serve as a guide.

Actuarial funding methods are designed so that, if the actuarial assumptions are met, plan costs will generally be a level percentage of member pay from year to year. If actual economic or demographic experience varies from that assumed, plan costs will rise or fall accordingly. Therefore, it is worth the effort to make our best estimate of future conditions so that the plan costs computed by the actuary will be as stable and predictable as possible.

Methodology (Demographic Assumptions)

One goal of this Study is to compute the probability of death, disability, retirement, withdrawal, or termination leading to a vested benefit at each age for active members and the probability of death at each age for inactive members.

To this end, we proceed as follows:

- We count the number of members leaving for each cause during the term of the Study. This is the number of decrements.
- We count the number of members who could have left for each cause during the Study. This is the exposure.
- When the exposure is sufficient, we divide the number of decrements by the exposure at each combination of age and

service for an employee group to determine the probability of leaving due to the cause in question.

When there is insufficient exposure to derive statistically reliable rates by age and service, we may combine exposures and decrements for groups of ages and service. Alternatively, we may compare the total number of actual decrements with the total number of decrements predicted by a standard actuarial table, and adopt a table that predicts decrements, in total, reasonably close to those that have been observed.

Where the rate of decrement is low and the underlying causes of the decrement in question are not expected to change significantly with time (for instance, for non-duty Safety disability rates), we may combine the most recent experience with data from prior experience studies.

For the study of the merit (longevity and promotion) components of individual pay increases, we generally choose to use a *transverse* study. A reliable way to assess average increases in pay due to merit is to analyze average pay versus service for the current active members of a plan. With a homogeneous group of any size at all, the pattern of promotions and longevity increases during the career of an average employee is clearly visible in this analysis. This is a transverse study of longevity and promotion pay increases: The data is taken as of a particular point in time. *Longitudinal* studies, which use changes in pay collected over several years, are often unreliable due to the effects of inflation, collective bargaining, and management decisions during the term of the study.

Methodology (Economic Assumptions)

The Plan's economic assumptions are critically important in computing actuarial liabilities and costs. A careful determination of these assumptions requires an analysis of the past performance of the capital markets and the Plan's future investment outlook.

To this end, we proceed as follows:

- Based on a detailed analysis of recent past history and reasonable expectations for the future, a long term projection of the rate of inflation is determined.
- Based on the Plans' investment strategy and historical rates of return on various asset classes, the long term *real* rate of return on assets is projected. This is the return on assets in excess of inflation.
- The projected rate of inflation is combined with the assumption concerning merit pay increases to project future members' pay.
- The projected rate of inflation is combined with a model of the COLA provisions to project future growth in retiree benefits.
- The rate of inflation is combined with the estimated real return on assets to determine the overall return on assets.

Any estimate of future inflation and asset returns is difficult. Over time, there will be actuarial gains and losses as experience deviates from our assumptions.



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**For the Retirement Board meeting
Held on January 22, 2013**

TO: Retirement Board

1/22/13
Item #9a

FROM: Rick Santos, Executive Director

- I. SUBJECT: California Public Employees' Pension Reform Act. Inclusion of employer contributions to deferred compensation plans or defined contribution plans in the calculation of pensionable compensation for new members hired on or after January 1, 2013
- II. RECOMMENDATION: Rescind the approval of a motion disallowing contributions to deferred compensation plans or defined contribution plans used in the calculation of pensionable compensation for new members made at the November 27, 2012 Administrative and Investment meeting
- III. ANALYSIS: On November 27, 2012 the StanCERA Board of Retirement approved a motion to disallow contributions to deferred compensation plans or defined contribution plans in the calculation of pensionable compensation for new members. The actual motion made and approved was to disallow "contributions" and did not include the word "employer" before contributions.

In retrospect, this motion turned out to be moot anyway, since the Board had already approved the motion that only base pay would be allowed in the calculation of pensionable compensation for new members. Consequently, a simple rescission of the motion seems to be the most expeditious way to correct the issue.

- IV. RISK: None
- V. STRATEGIC PLAN: None
- VI. BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Operations Manager

Active vs. Passive

January 22, 2013

Today's Agenda

- Macro Return Attribution Analysis
- Value Added Analysis
- Fee Analysis
- Traditional Performance Measurements
- Market Correlation

Active Managers in Study

1. Dodge & Cox Equity
2. Delaware
3. Capital Prospects – 12/1/2008
4. Legato – 12/1/2008
5. LSV
6. Pyramis
7. Dodge & Cox Fixed Income
8. PIMCO - 5/1/2010
9. Invesco
10. RAFI – 7/1/2011

Managers Not Included

1. Loomis Sayles
2. Mazama

Caveats

- Any result is highly dependent on the analysis period chosen
- Assumption: StanCERA can choose to passively invest in and achieve benchmark returns for all its portfolios at no cost
- All results are benchmark relative
 - We are talking about excess return (manager return less benchmark return)
 - Analysis does NOT consider manager total returns

Macro Return Attribution Analysis

Macro Return Attribution Analysis

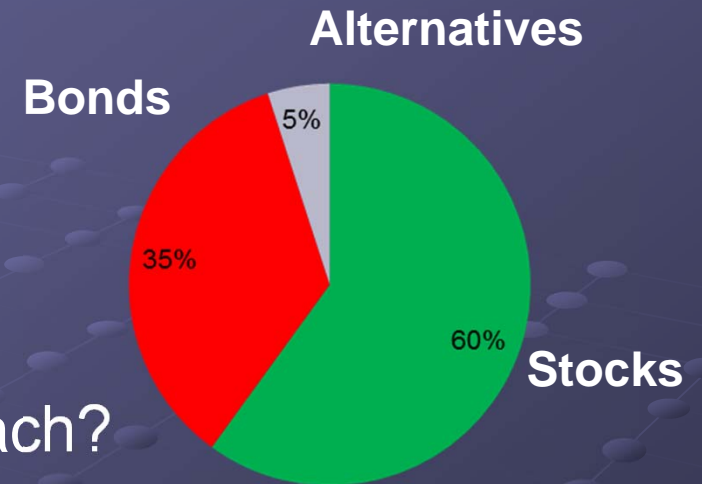
- Total returns (\$) based on various investment decisions
 - StanCERA decisions
 - Asset allocation
 - Style
 - Transition
 - Manager decisions
 - Which securities to invest in

Macro Return Attribution Analysis

StanCERA Decisions

- Asset allocation decision

- Should I invest in risky assets?
- How much should I allocate to each?



- Style decision

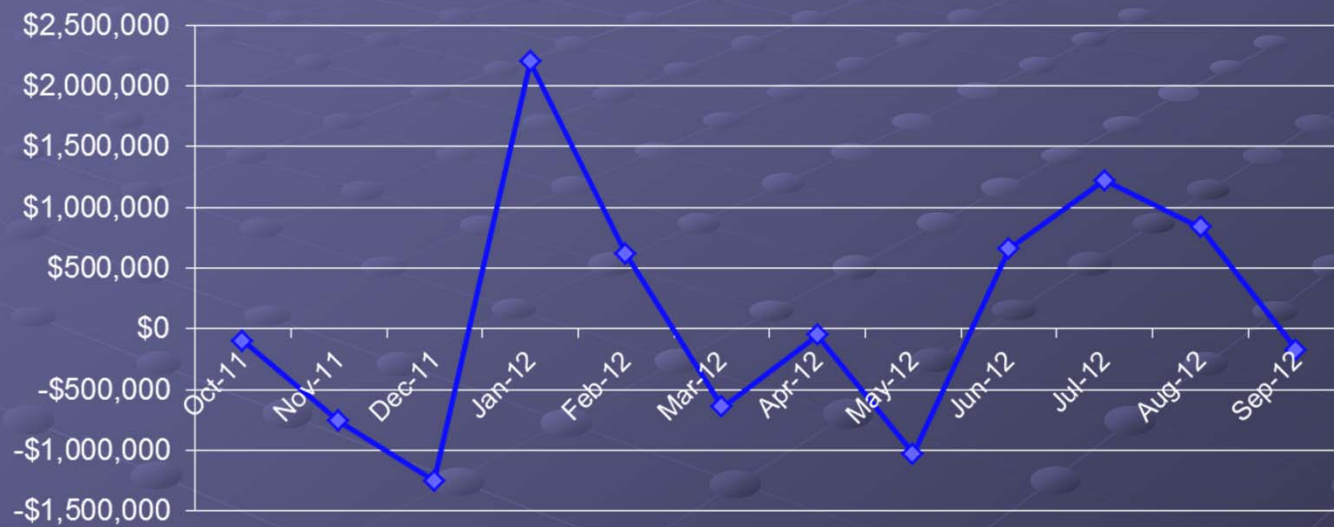
- Stocks: Growth or value? Small cap or large?
- How much to allocate to these styles?

- Transition decision (within periods)

- Should I keep, add or terminate a manager?
- Should I adjust my allocation percentages?

Macro Return Attribution Analysis

Manager Decisions



Security picking ability

- Did our managers in the aggregate add value by their stock selections?

Macro Return Attribution Analysis*

	June 30 2009 to June 30, 2010	June 30 2010 to June 30, 2011	June 30 2011 to June 30, 2012
Beginning Portfolio Value	\$1,052,808,679	\$1,180,857,145	\$1,414,619,624
Contributions Less Benefits	(30,637,000)	(31,278,000)	(34,151,000)
Administrative Costs	(2,307,000)	(2,037,000)	(2,145,000)
Risk Free Bond Portfolio	47,982,388	50,526,265	40,358,030
Asset Allocation Decision	88,168,208	198,127,920	(16,765,619)
Style Decision	4,152,290	1,309,608	(4,565,066)
Manager Security Picking Decision	18,075,611	17,015,229	(10,405,969)
Manager Fees	(3,950,422)	(4,261,019)	(4,037,044)
Custodial Fees	(631,189)	(732,210)	(600,987)
Transition Decision	6,995,579	5,091,687	2,659,455
Ending Portfolio Value	\$1,180,657,145	\$1,414,619,624	\$1,384,966,424

Green = StanCERA Decisions

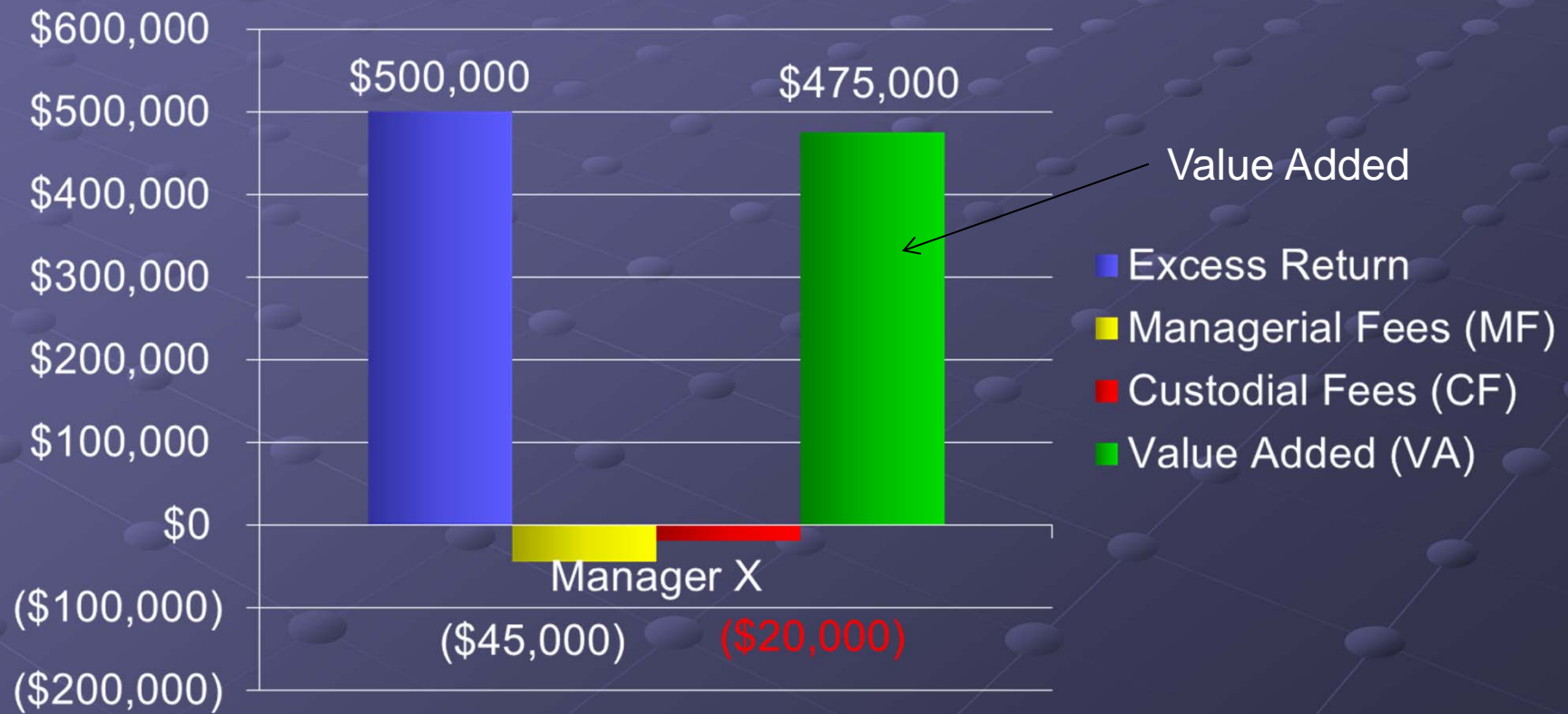
Blue = Manager Decision

* Does not include Sec Lending Portfolio

Value Added Analysis

“Value Added” Example

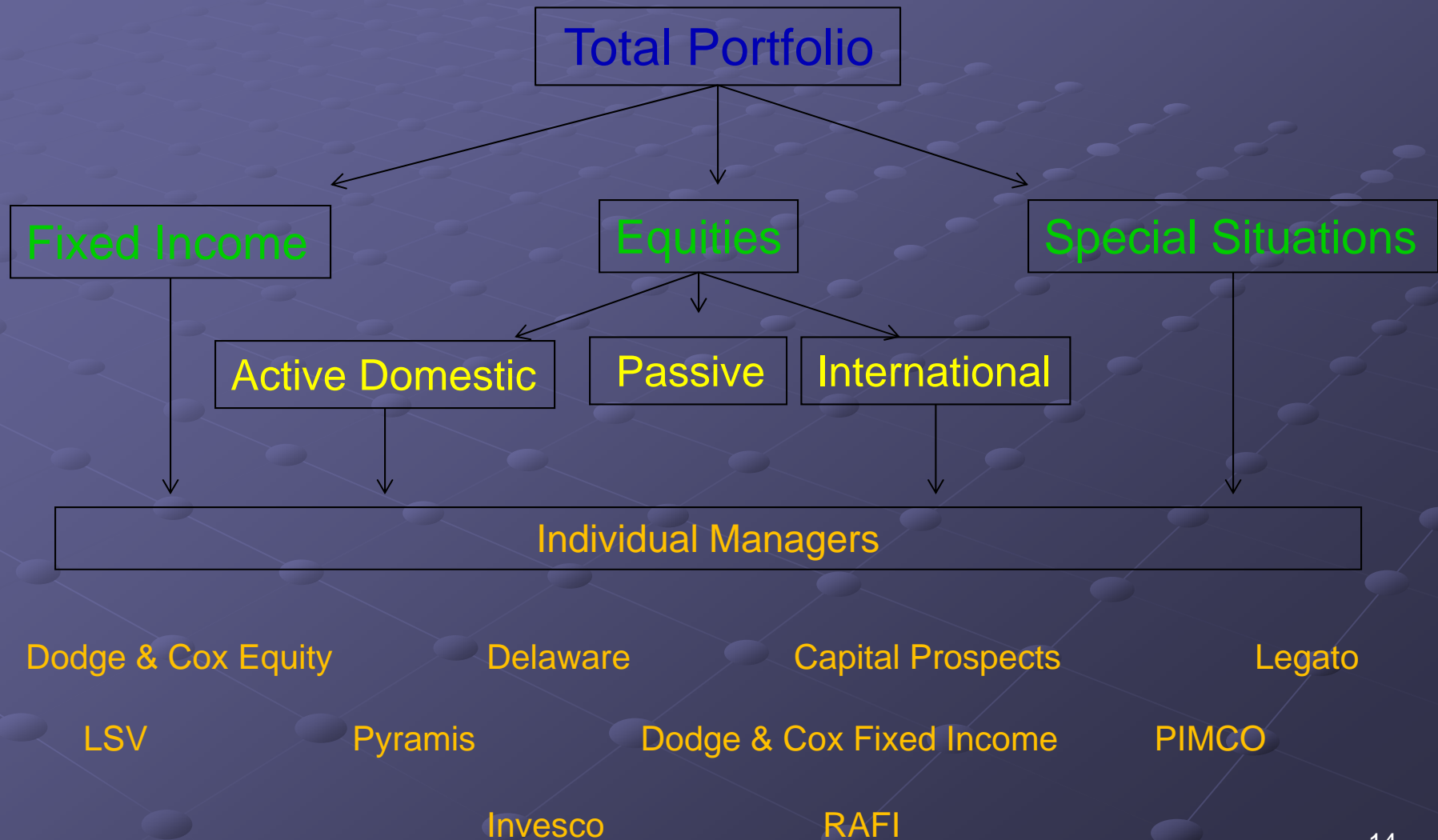
- \$ earned above benchmark return after fees
- $VA = \text{excess return} - MF - CF$



Value Added Analysis

- Results are cumulative
 - Fiscal Year: 2011-2012
 - Fiscal Years: 2010-2012
 - Fiscal Years: 2009-2012
 - Fiscal Years: 2008-2012
- Analyze StanCERA value added at 4 levels
 1. Total Portfolio
 2. Asset Class
 3. Equity Portfolio
 4. Individual Manager

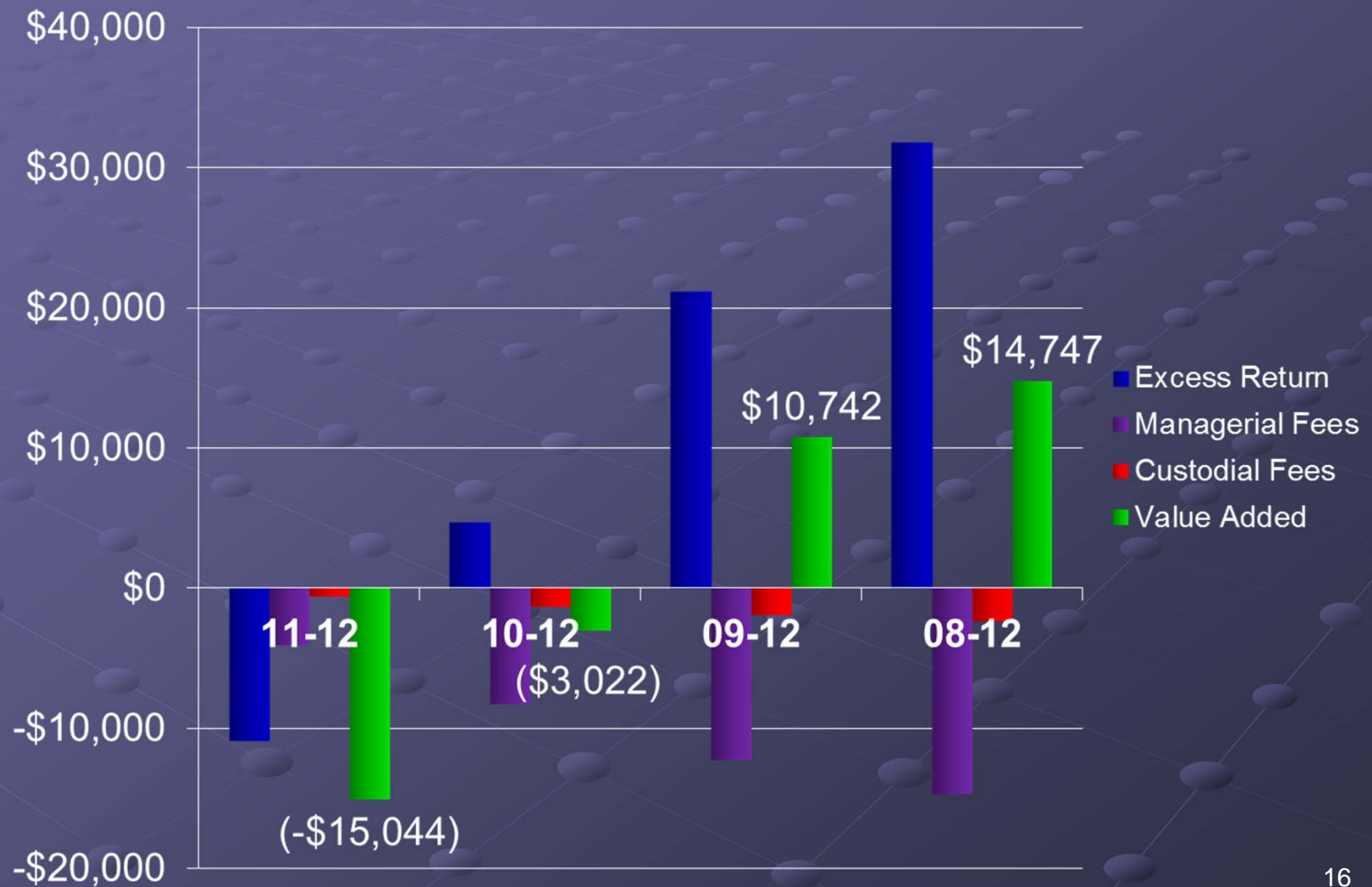
4 Levels of Analysis



Value Added – Total Portfolio Level

Total Portfolio

Cumulative Value \$ Added in thousands



Value Added – Asset Class Level

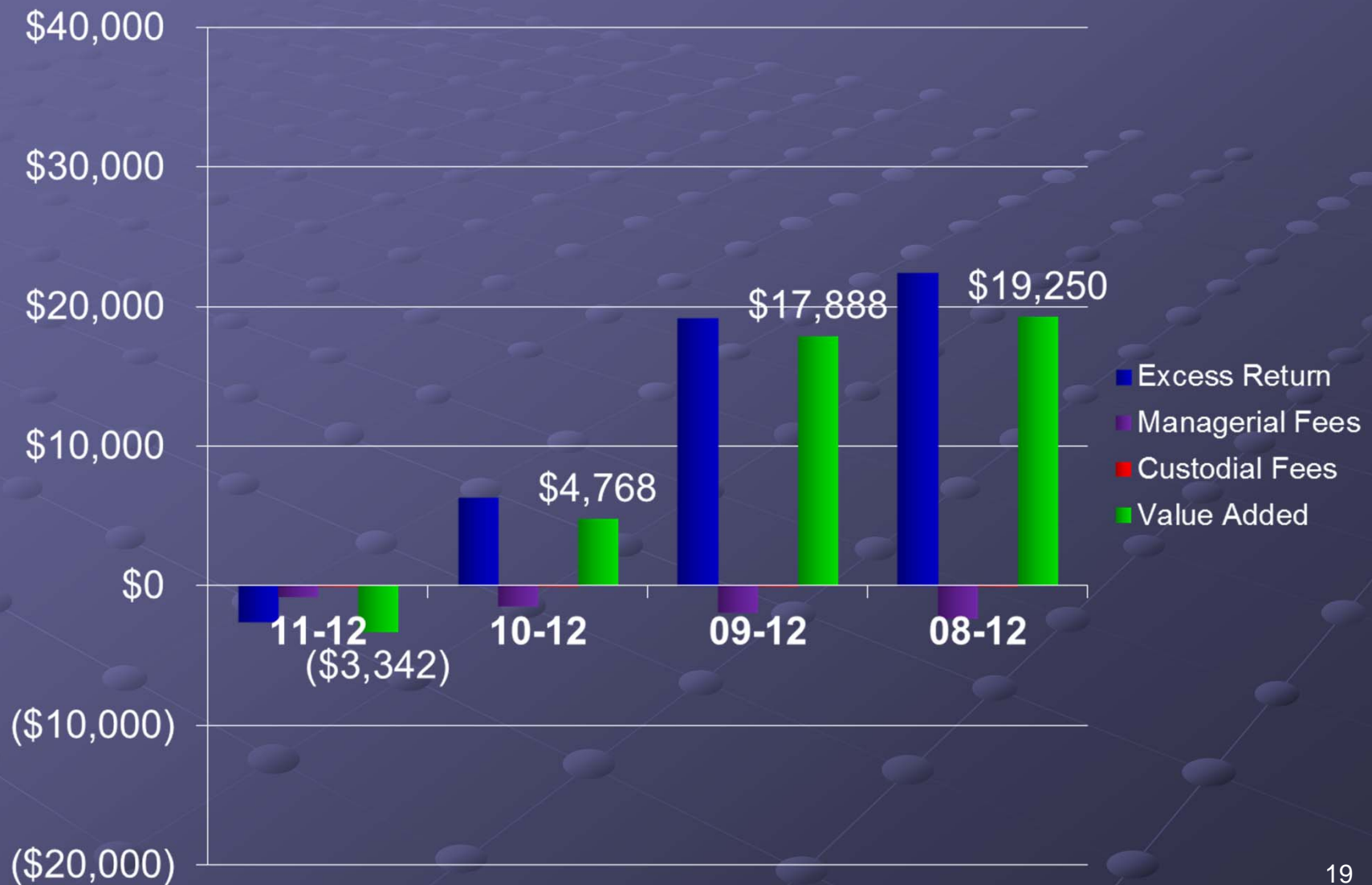
Equity Portfolio

Cumulative Value \$ Added in thousands



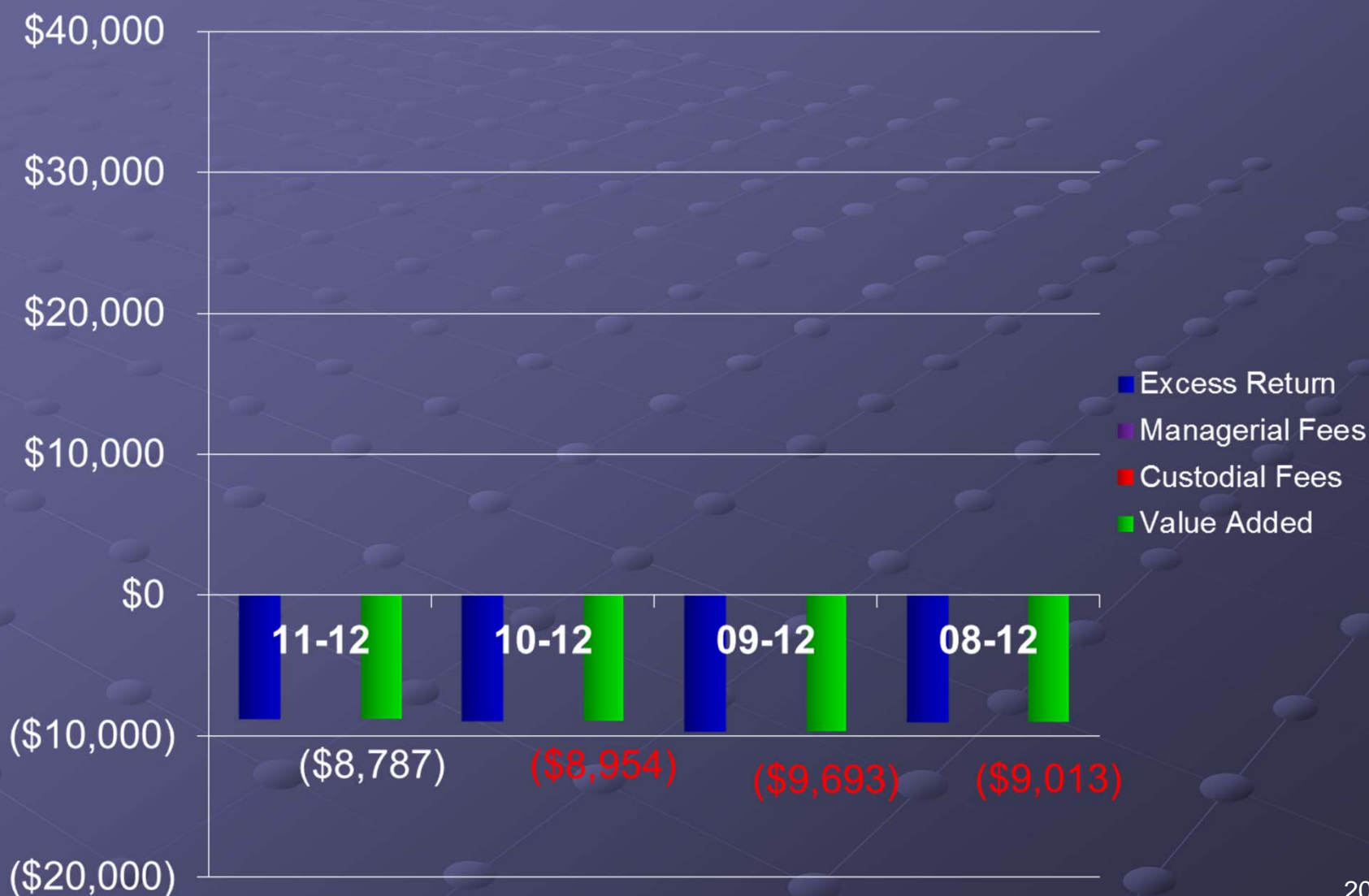
Fixed Income Portfolio

Cumulative Value \$ Added in thousands



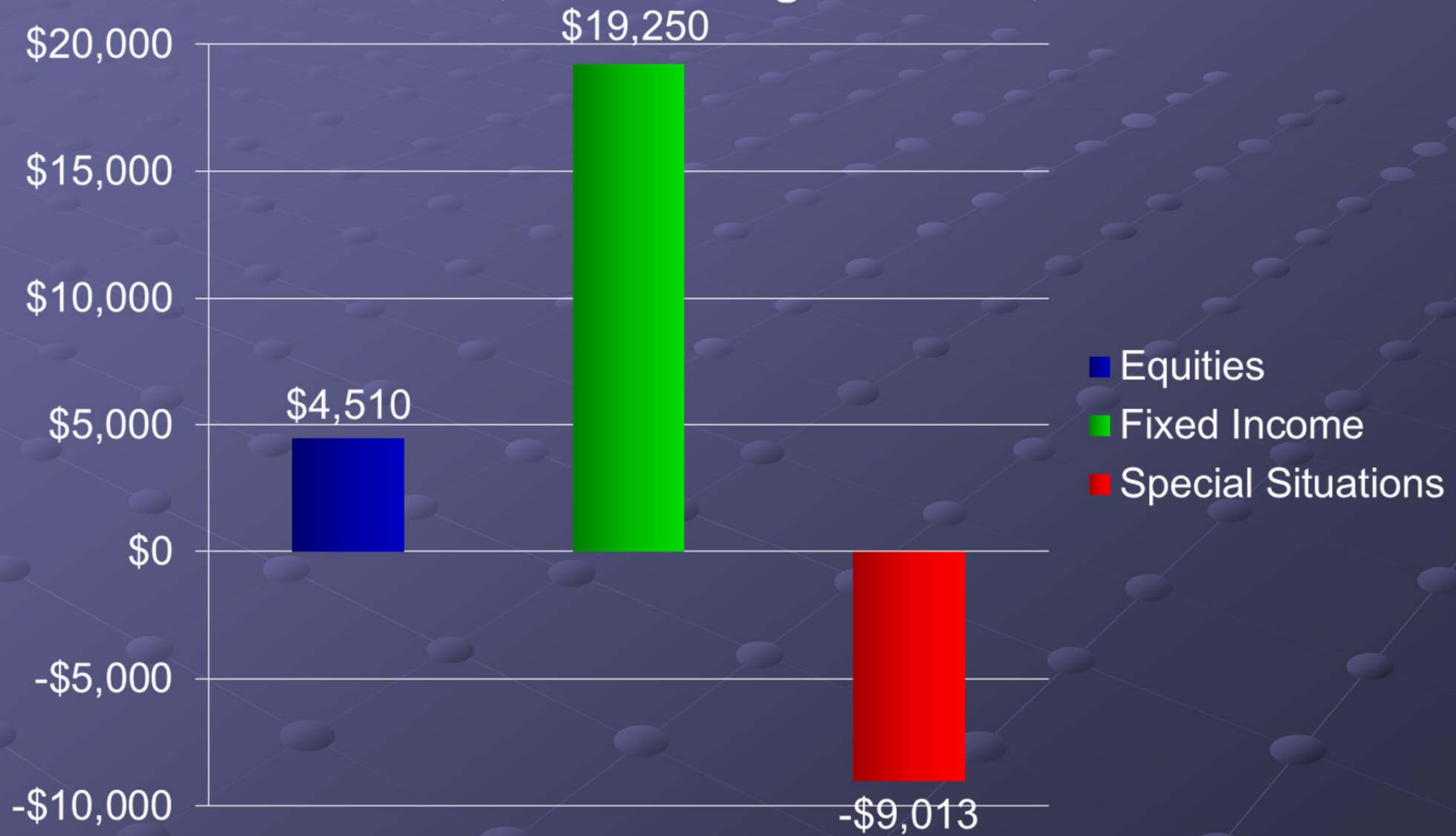
Special Situations Portfolio

Cumulative Value \$ Added in thousands



Total Value Added by Asset Class

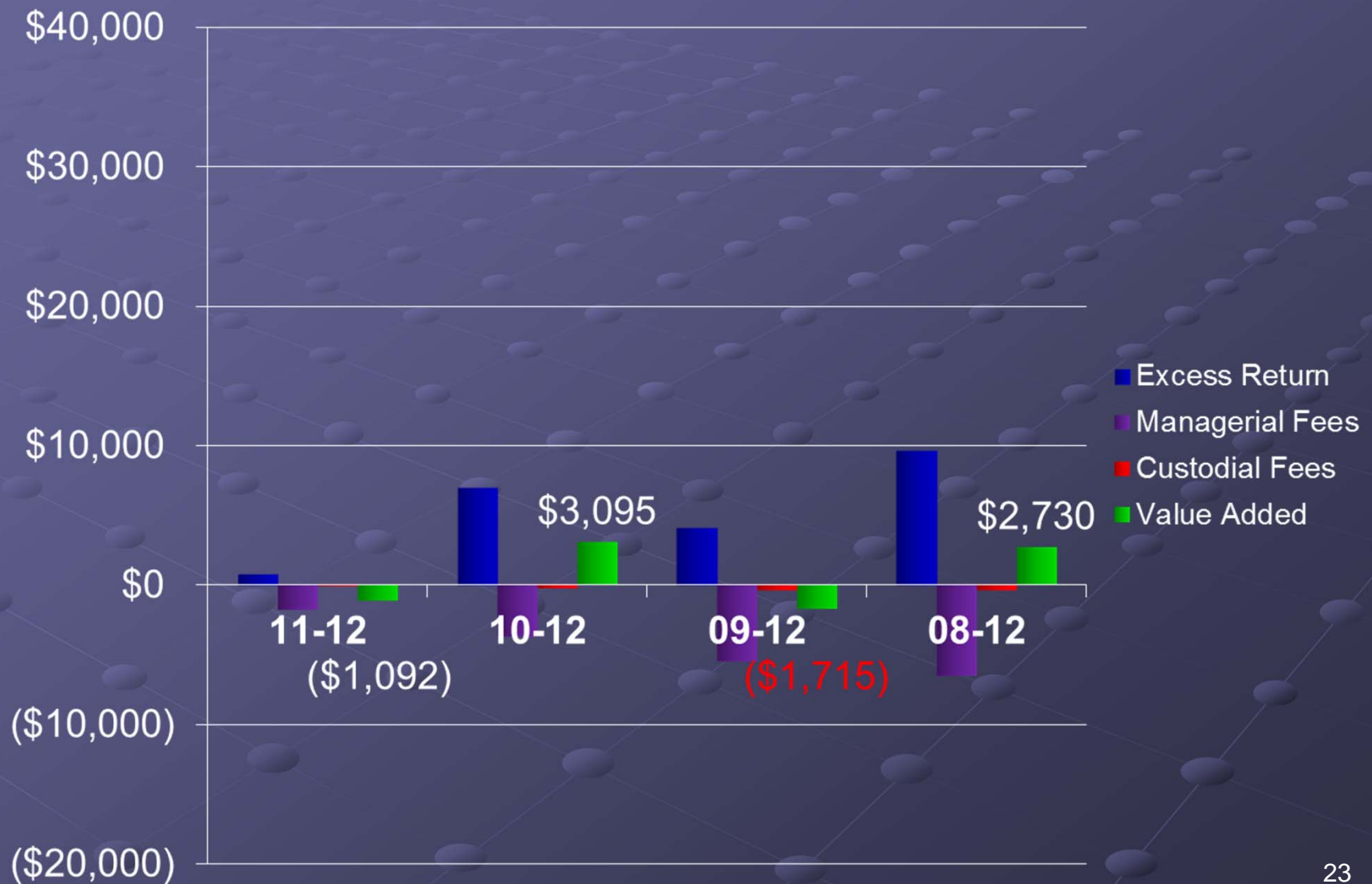
June 30, 2008 through June 30, 2012



Value Added – Equity Portfolio

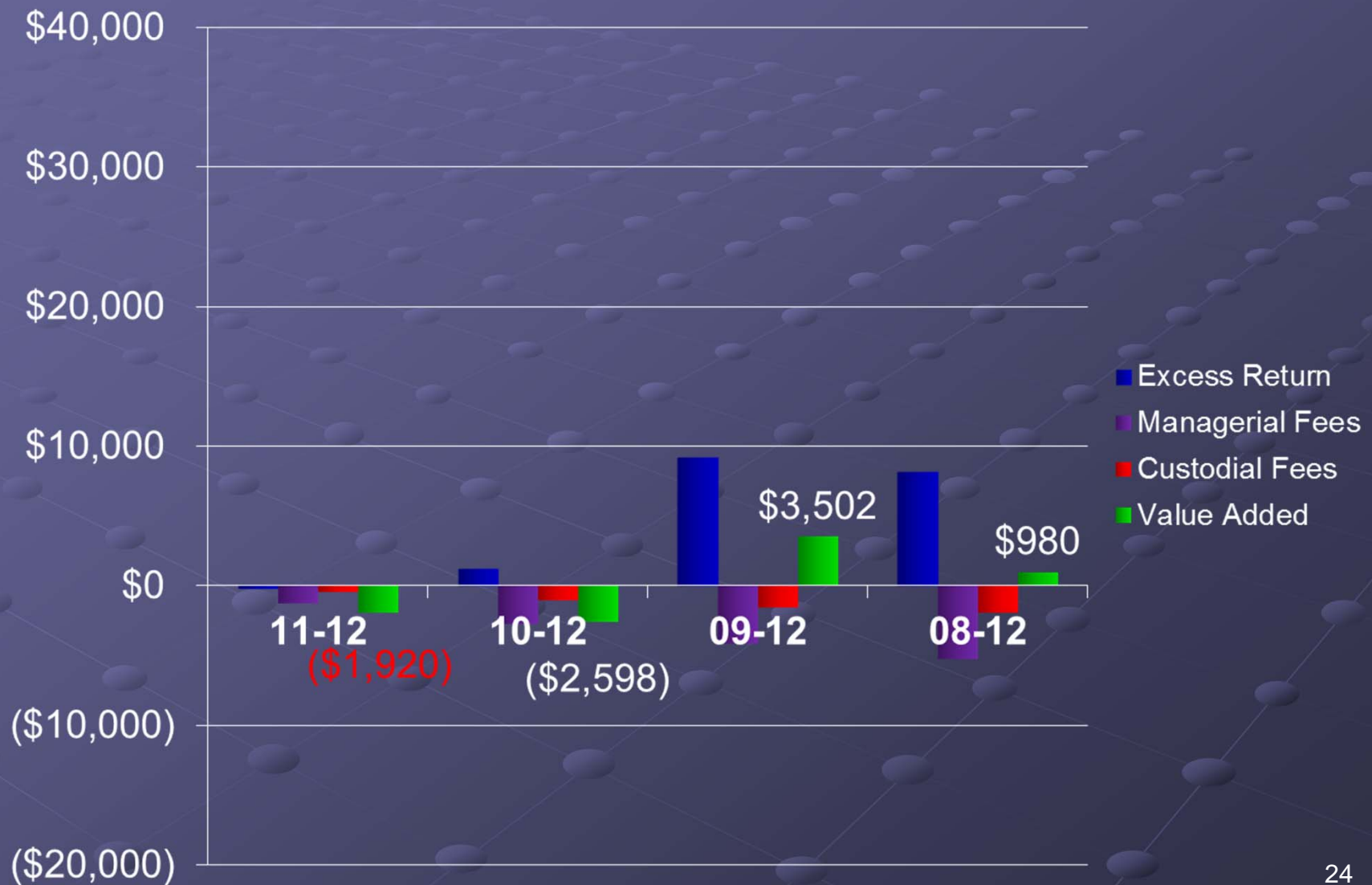
Domestic Active Equity

Cumulative Value \$ Added in thousands



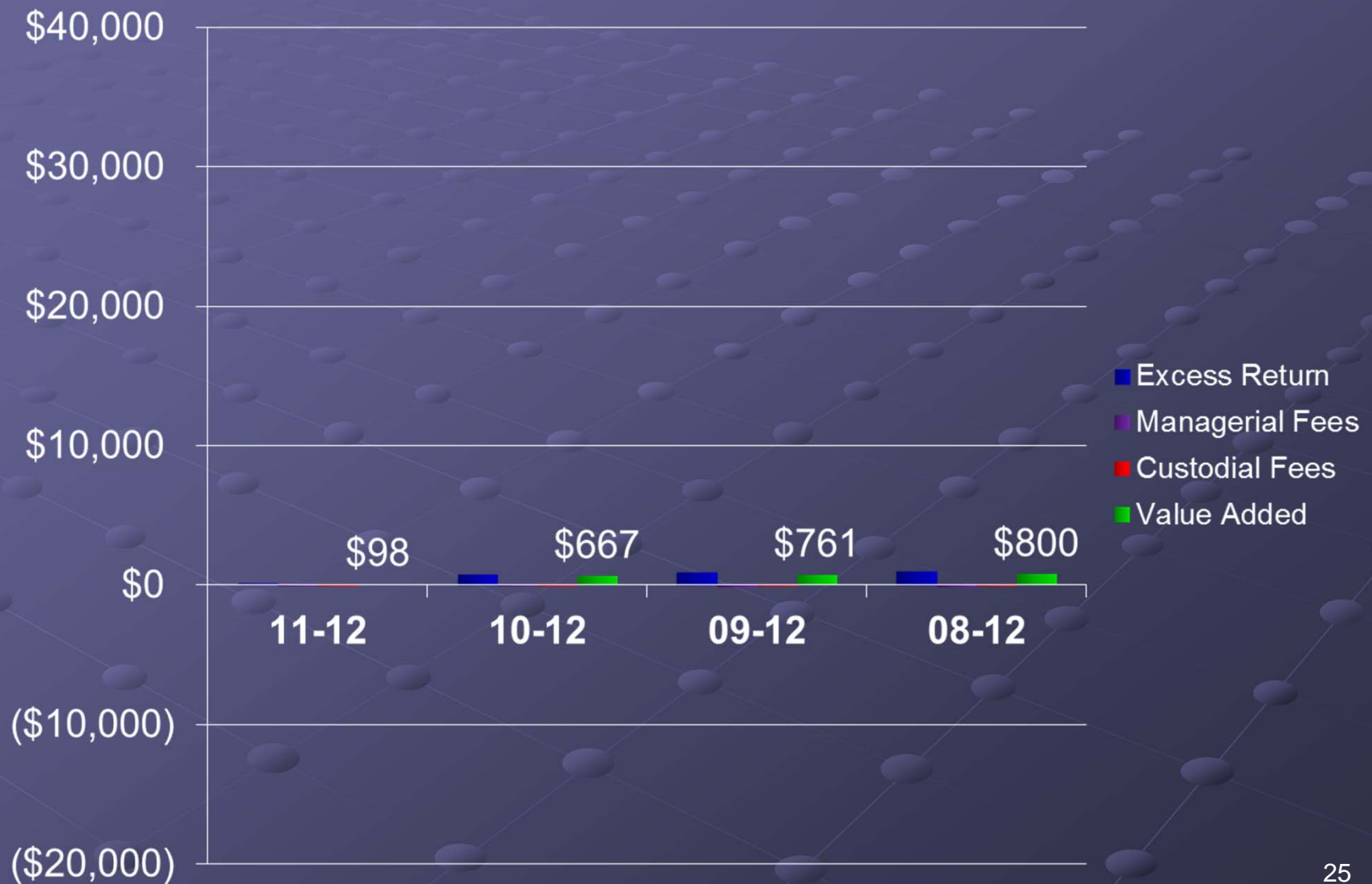
International Active Equity

Cumulative Value \$ Added in thousands



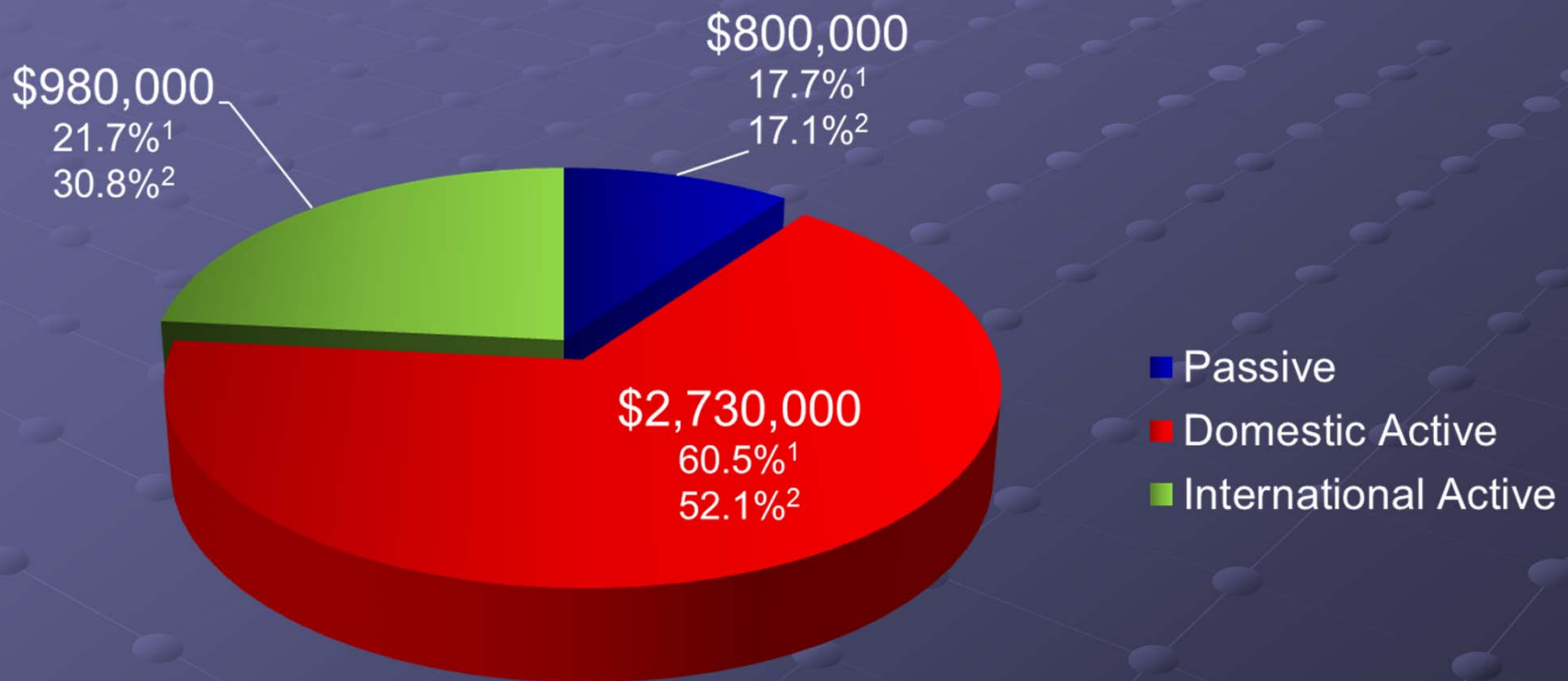
Passive Equity

Cumulative Value \$ Added in thousands



Equity Portfolio Total Value Added

June 30, 2008 to June 30, 2012 Total Value Added



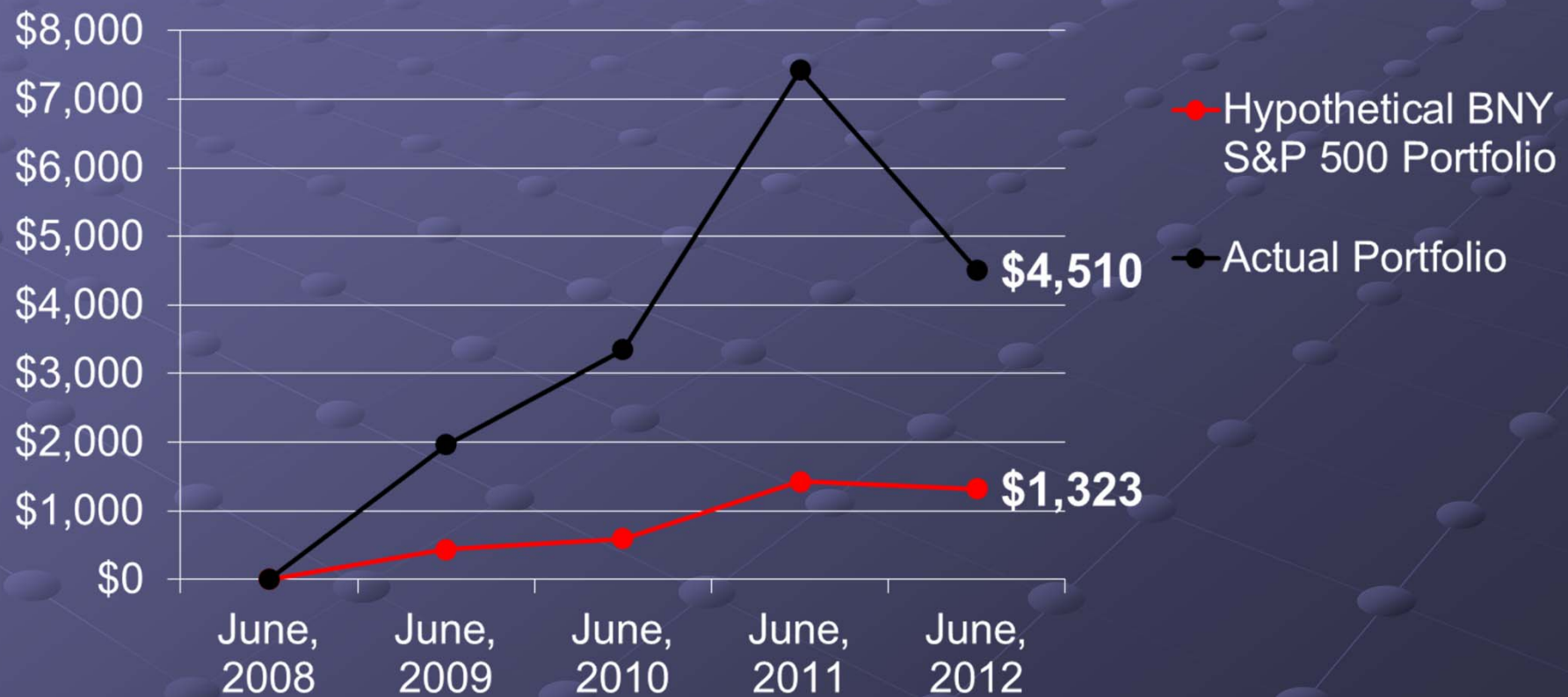
1 – Percentage of Total Value Added

2 – Percentage of Total Equity Portfolio

08-12 Incremental Value Added

(Excludes Loomis Sayles & Mazama)

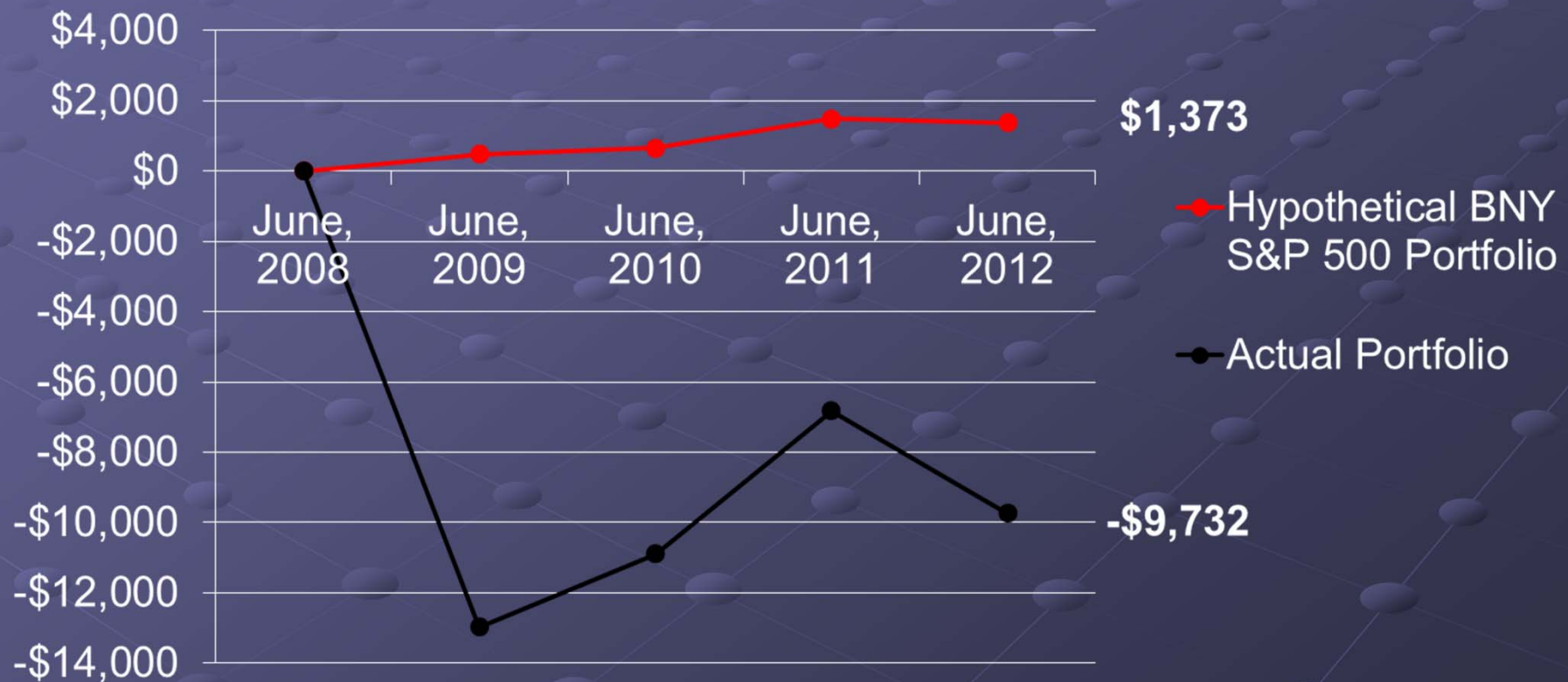
The difference in the cumulative value added to the equity portfolio if all dollars allocated to the equity managers included in the study on **June 30, 2008** had instead been invested in the StanCERA BNY S&P 500 Passive Fund



08-12 Incremental Value Added

(Includes Loomis Sayles & Mazama)

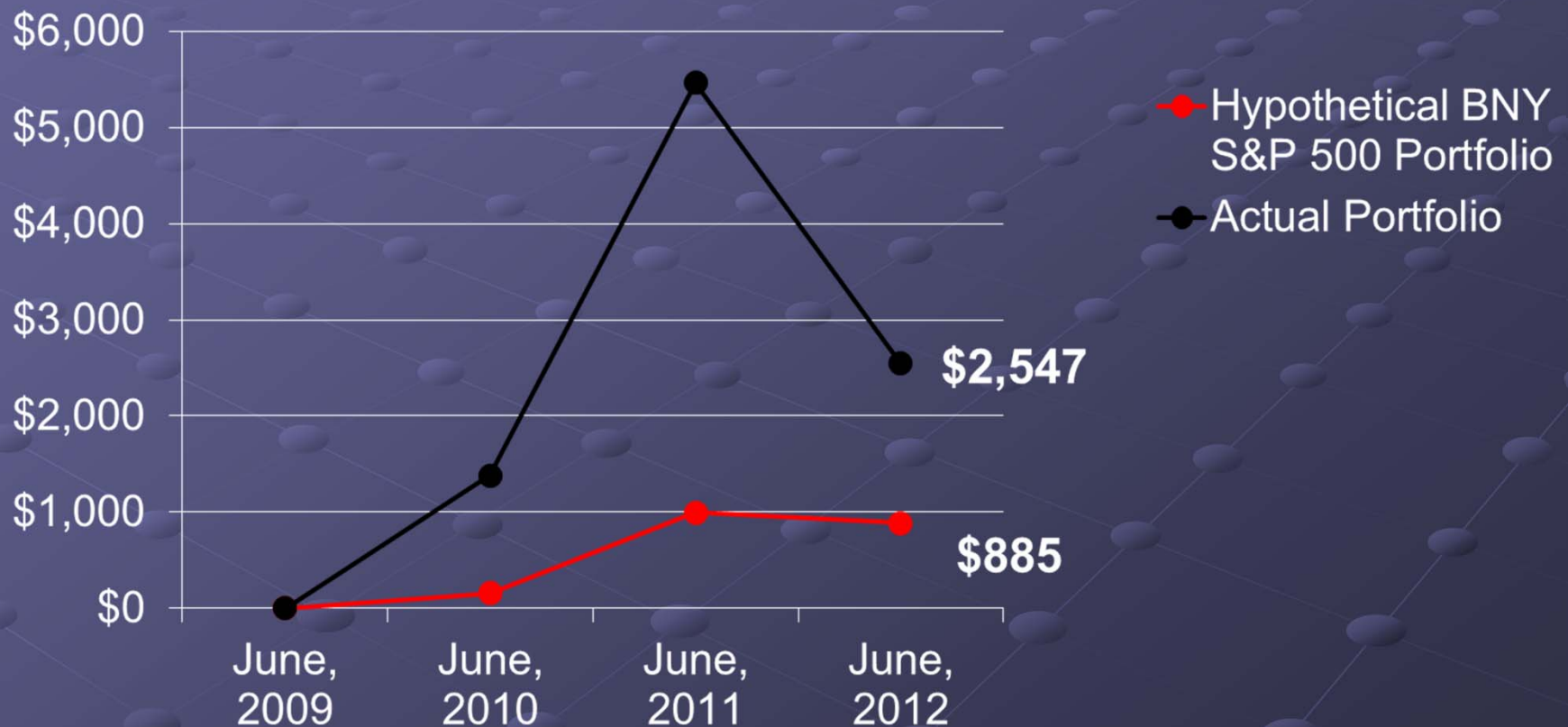
The difference in the cumulative value added to the equity portfolio if all dollars allocated to all equity managers on **June 30, 2008** had instead been invested in the StanCERA BNY S&P 500 Passive Fund



09-12 Incremental Value Added

(Excludes Loomis Sayles)

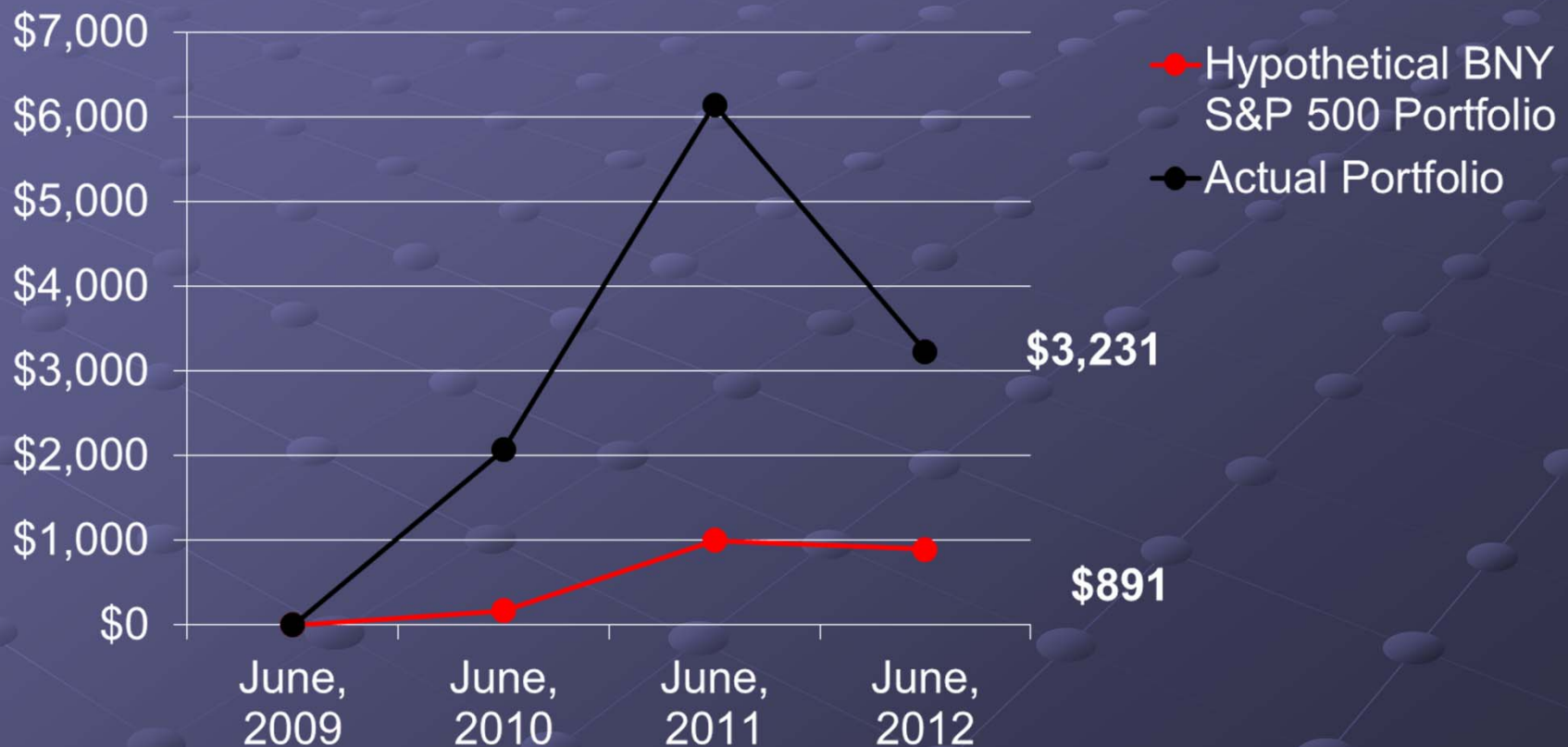
The difference in the cumulative value added to the equity portfolio if all dollars allocated to the equity managers included in the study on **June 30, 2009** had instead been invested in the StanCERA BNY S&P 500 Passive Fund



09-12 Incremental Value Added

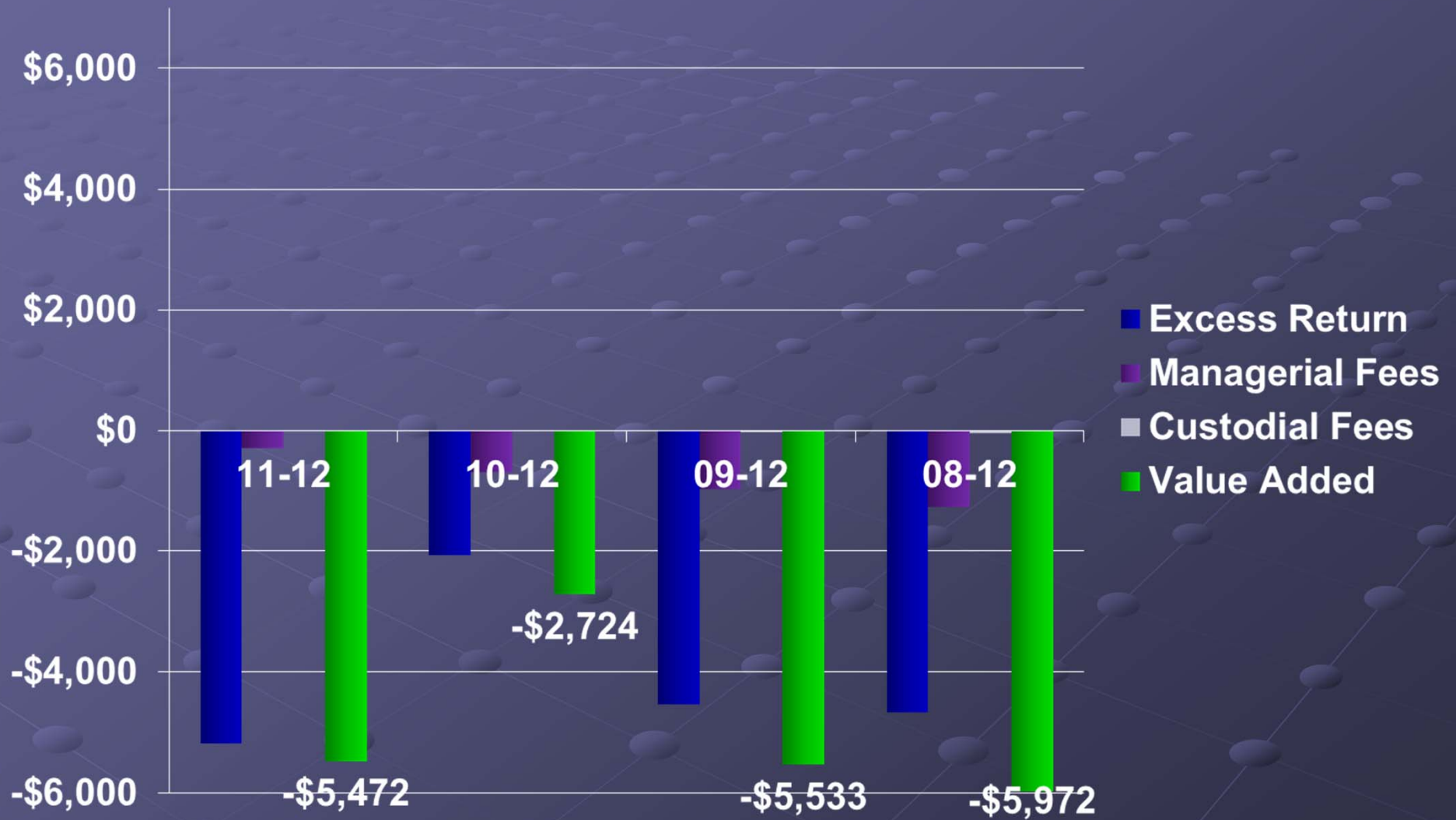
(Includes Loomis Sayles)

The difference in the cumulative value added to the equity portfolio if all dollars allocated to all equity managers on **June 30, 2009** had instead been invested in the StanCERA BNY S&P 500 Passive Fund



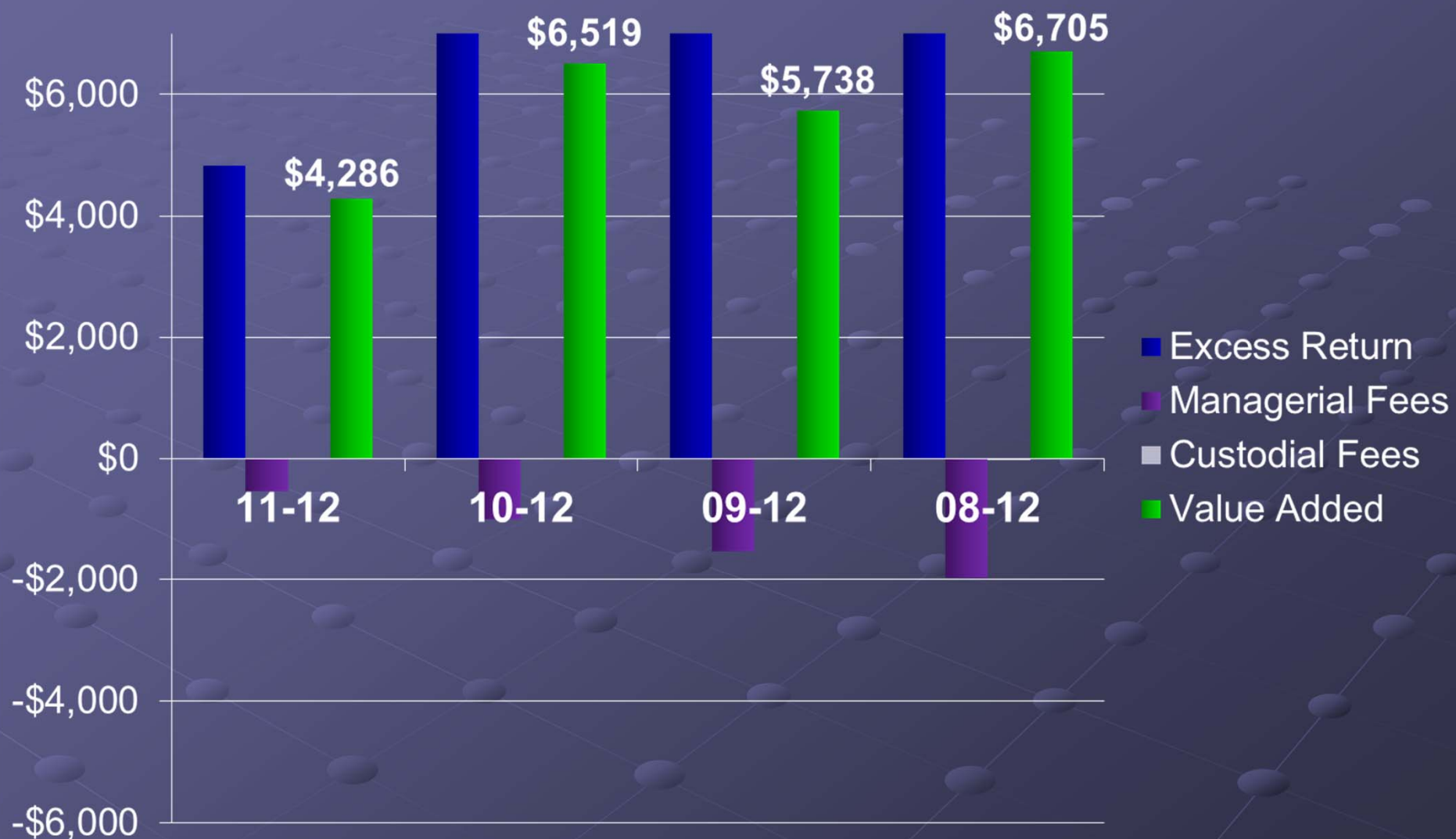
Value Added – Individual Manager

Dodge & Cox Equity*



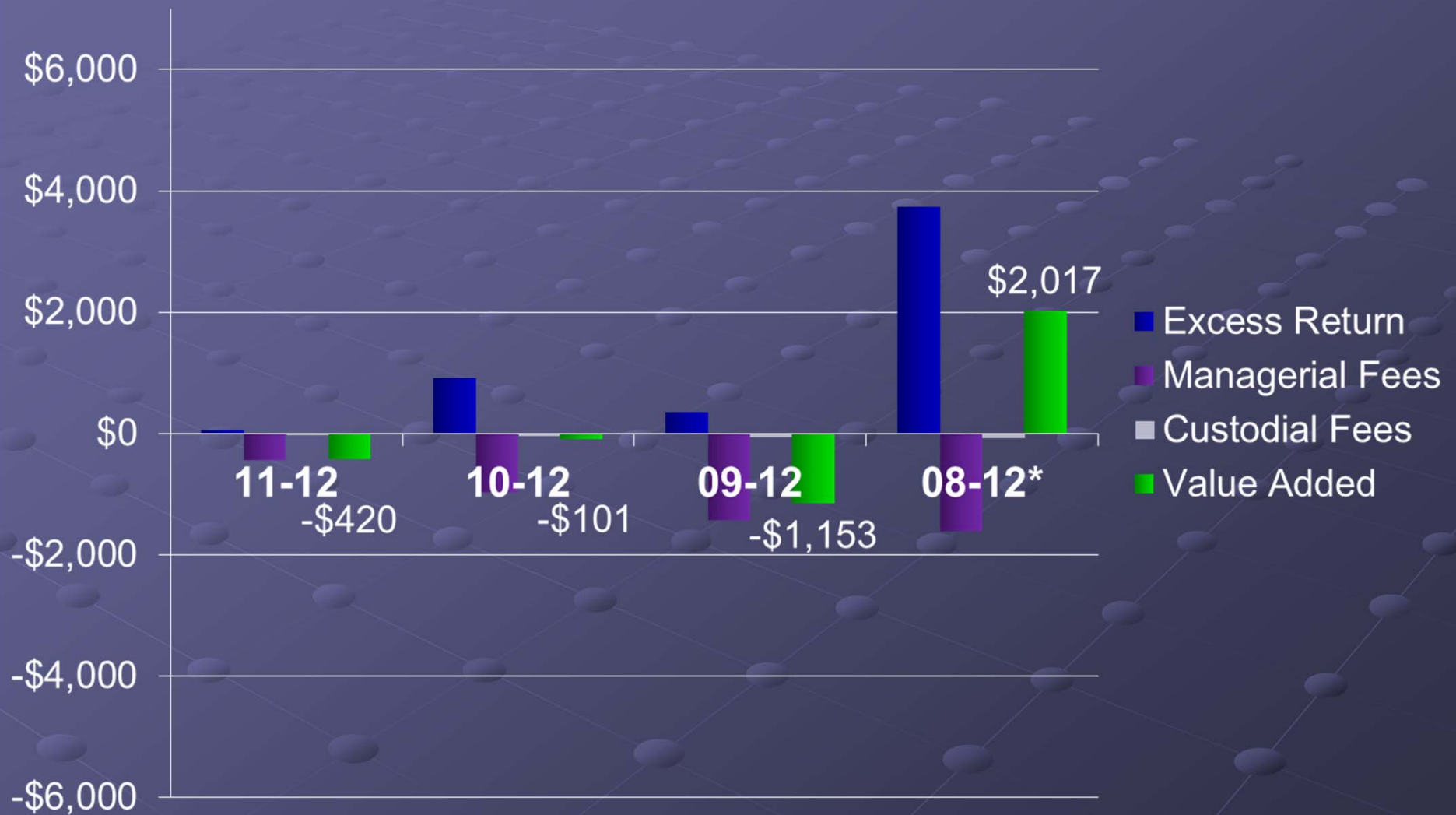
* In thousands

Delaware*



* In thousands

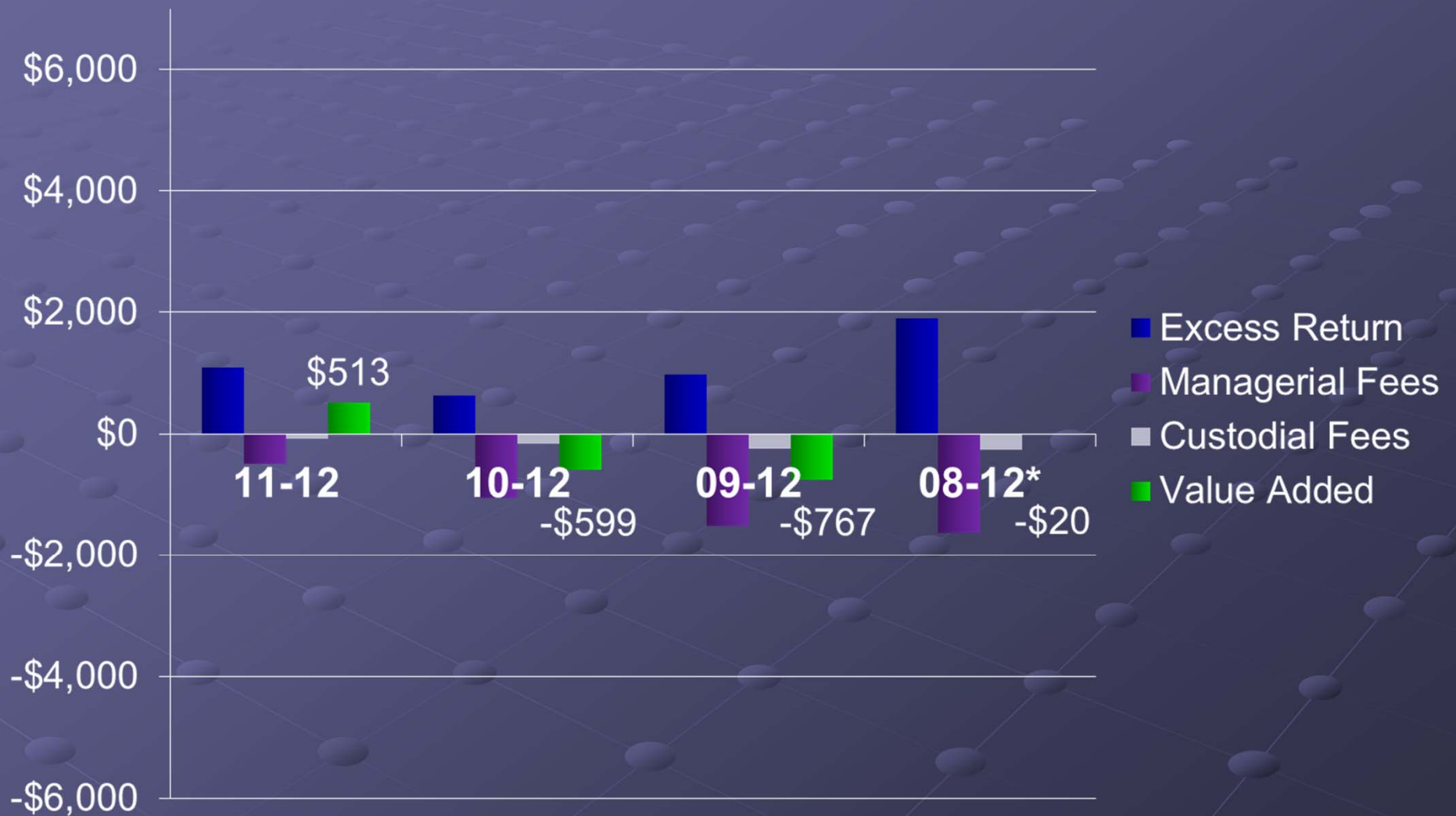
Capital Prospects*



* December 2008 to June 2012

* In thousands

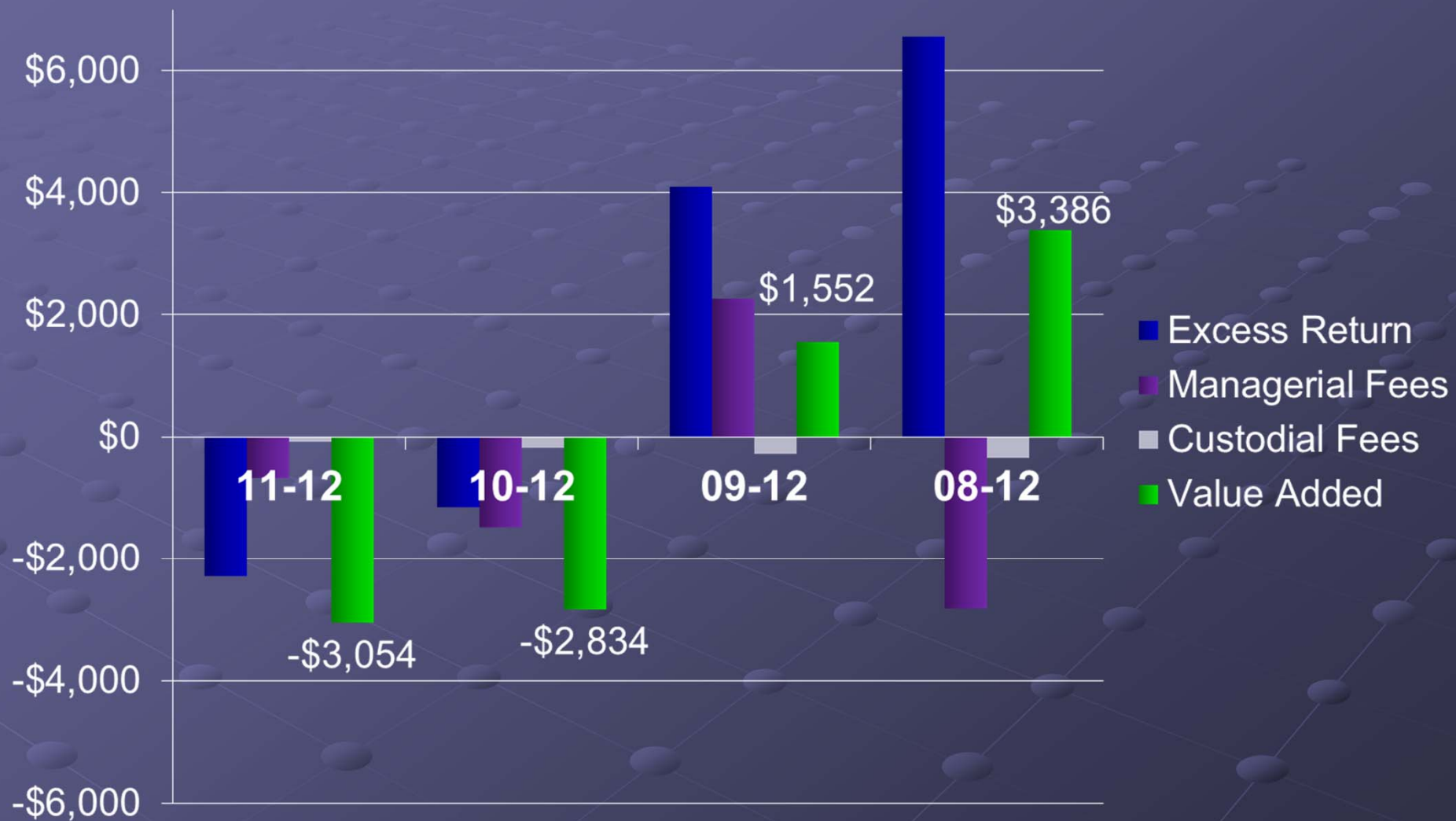
Legato*



* December 2008 to June 2012

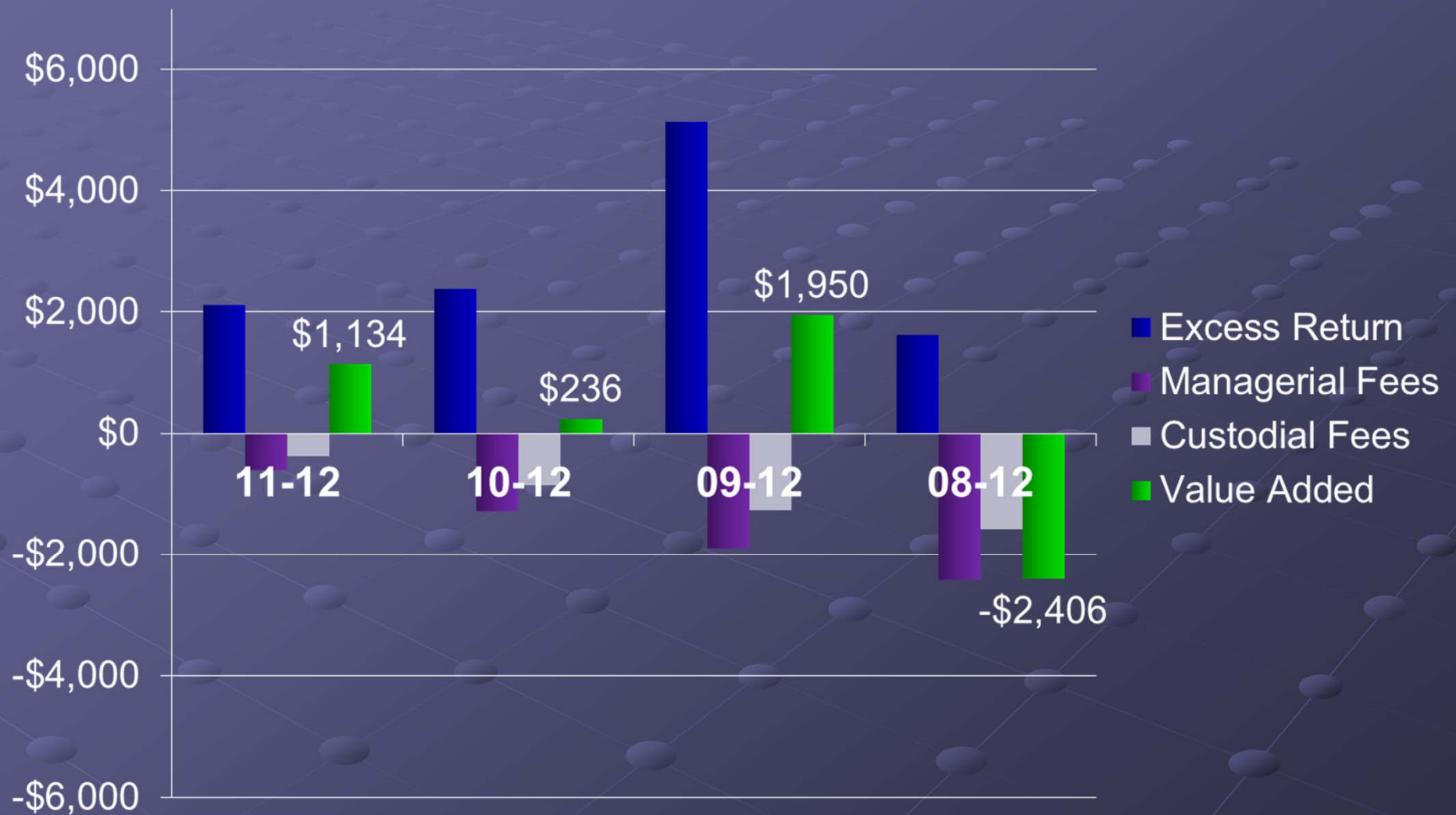
* In thousands

LSV*



* In thousands

Pyramis*



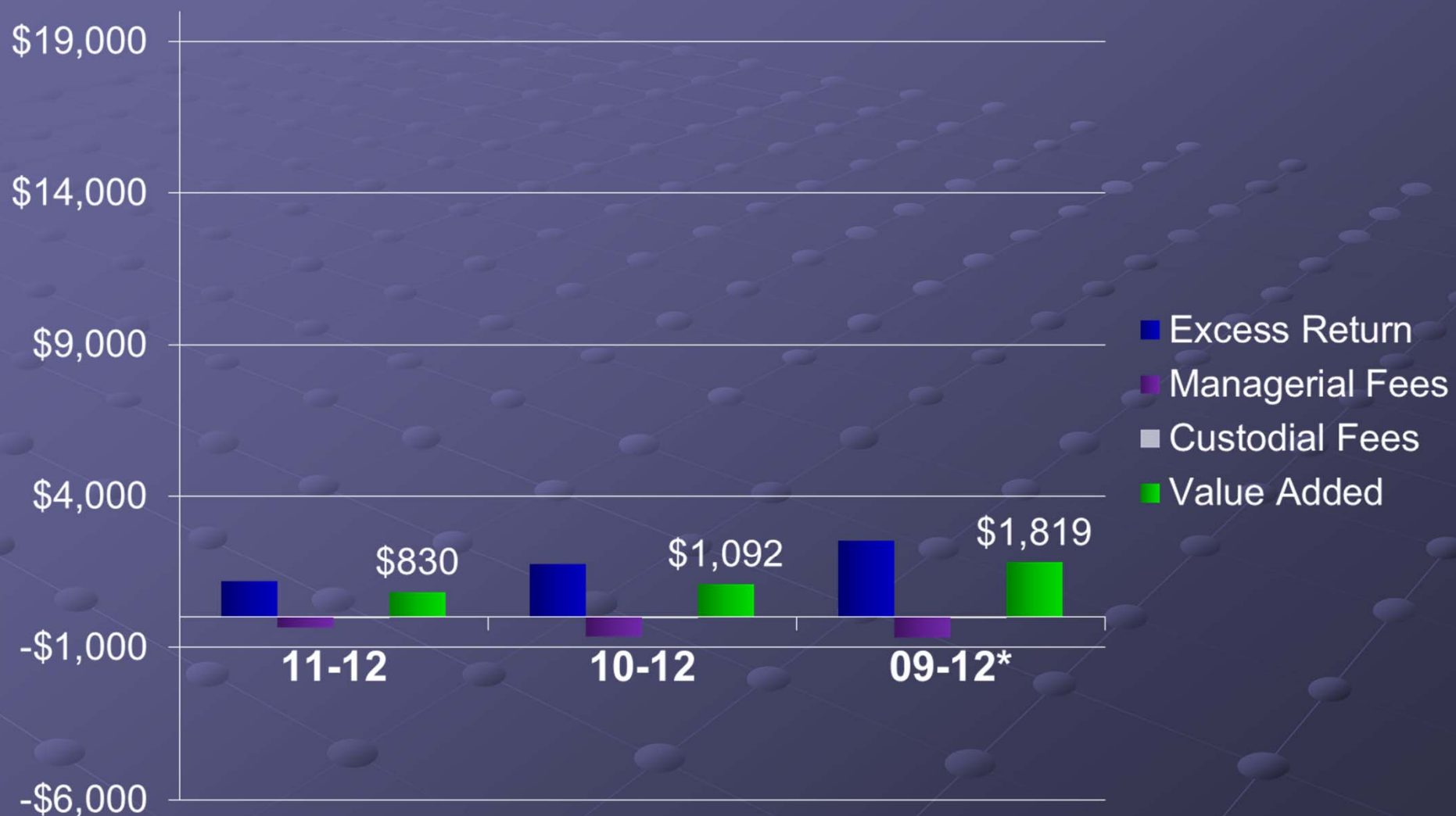
* In thousands

Dodge & Cox Fixed Income*



* In thousands

PIMCO*



* May 2010 to June 2012

* In thousands

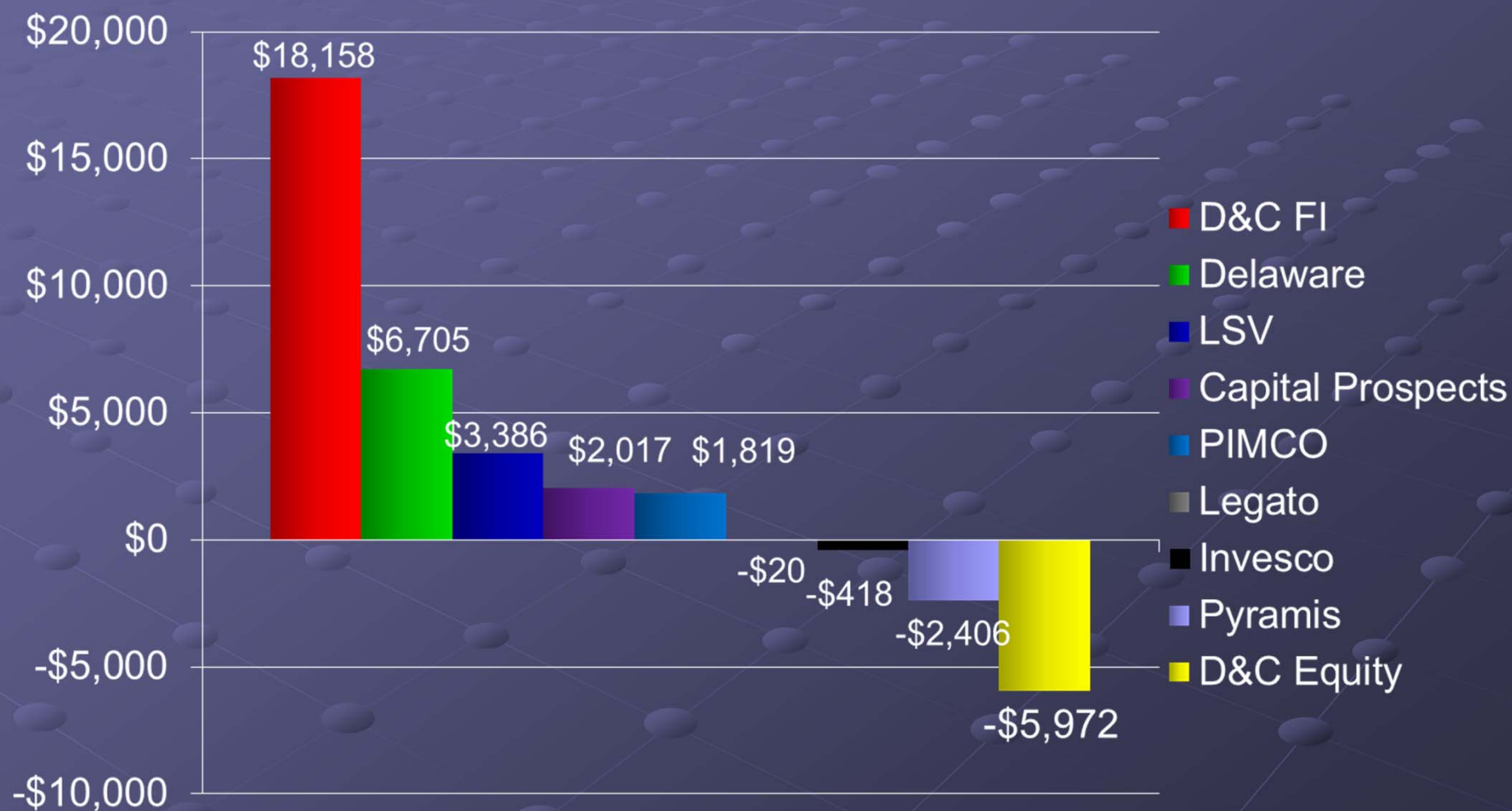
Invesco*



* In thousands

Active Manager Value Added Comparison*

June 30, 2008 through June 30, 2012

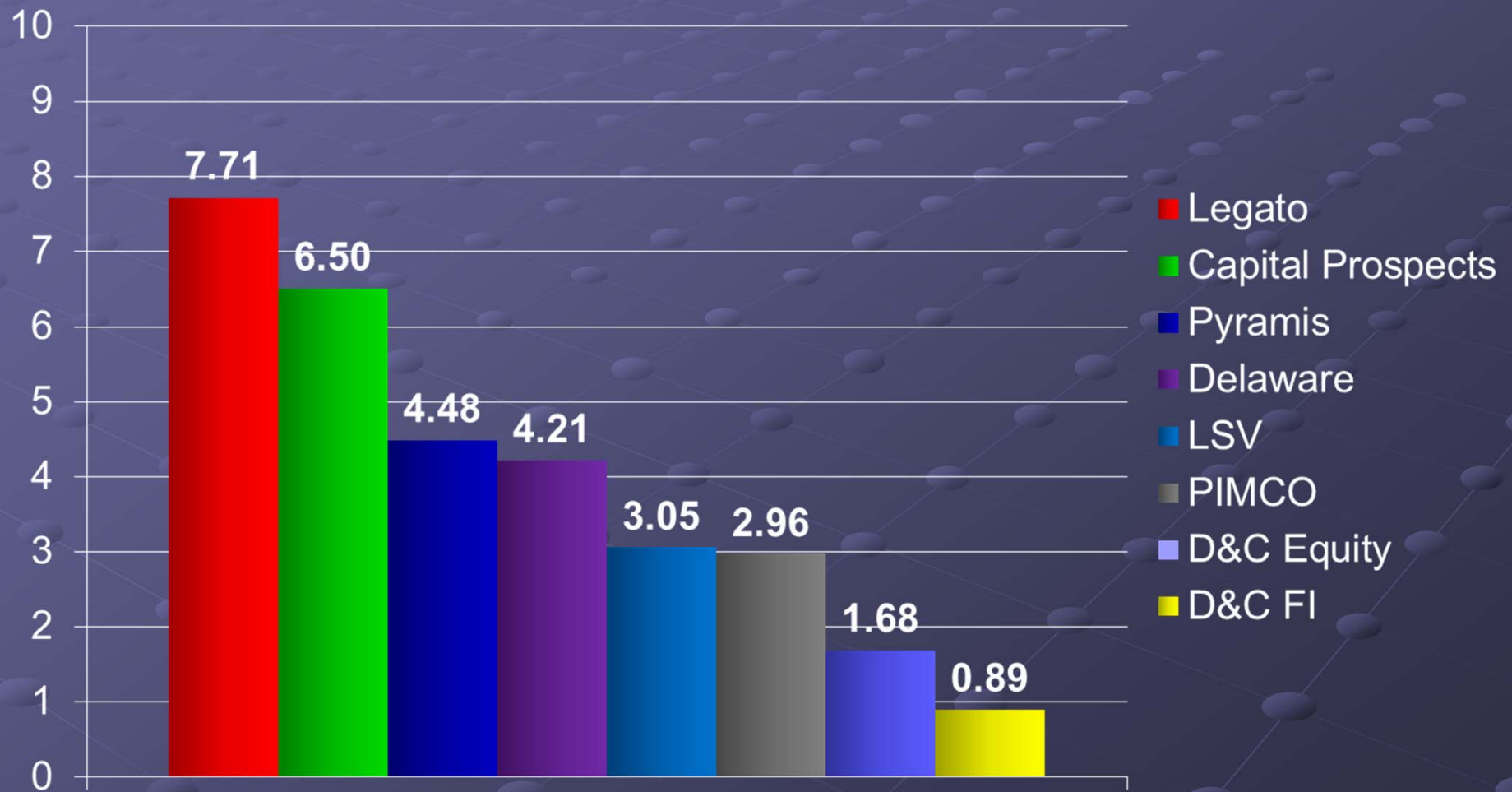


* In thousands

Fee Analysis

Average Monthly Managerial Fee (in basis points)

June 30, 2008 through June 30, 2012



Capital Prospects – 12/2008; Legato – 12/2008; PIMCO 5/2010

Average Monthly Custodial Fee (in basis points)

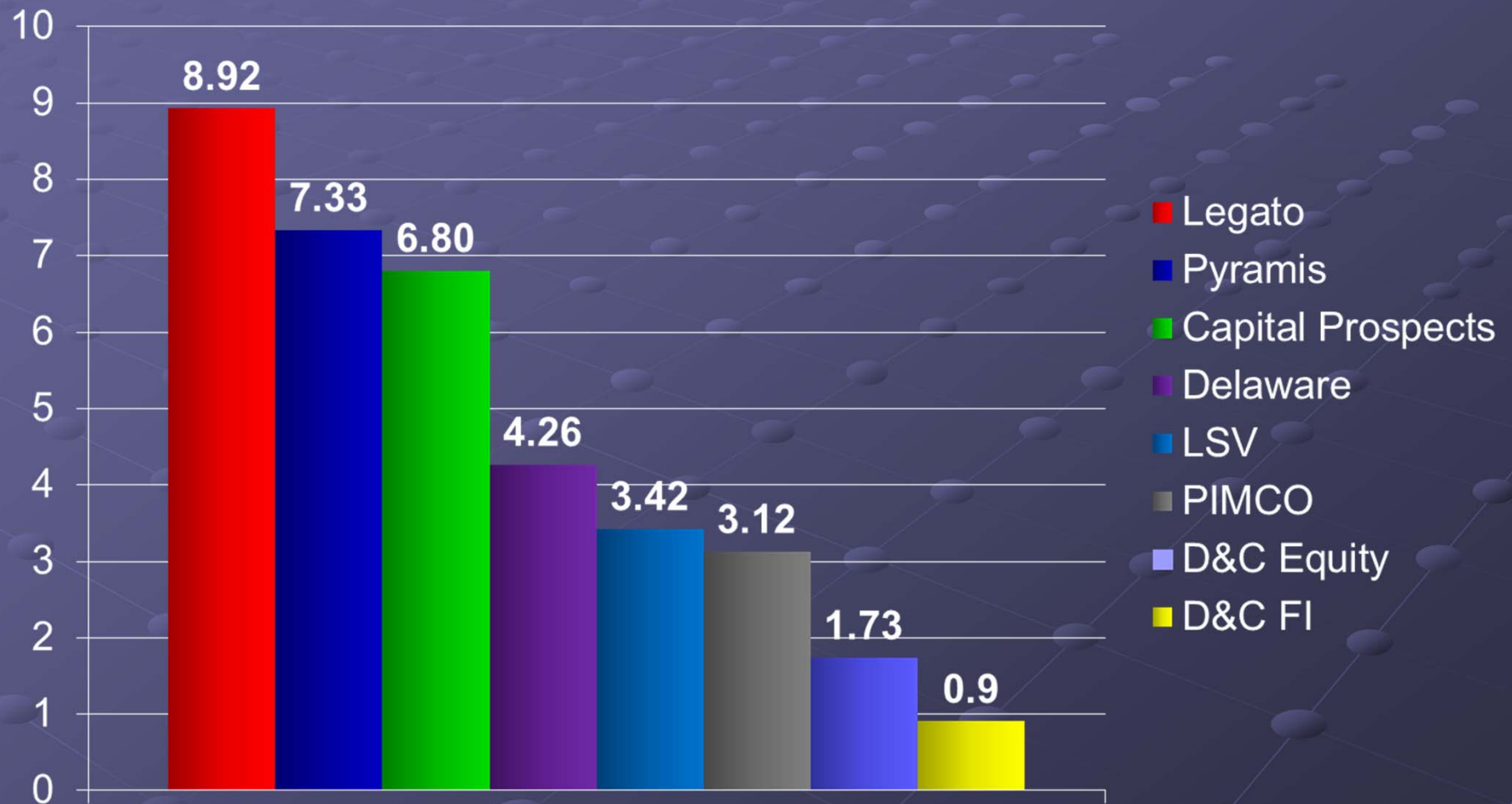
June 30, 2008 through June 30, 2012



Capital Prospects – 12/2008; Legato – 12/2008; Pyramis 5/2010

Average Monthly Total Fees (in basis points)

June 30, 2008 through June 30, 2012



Capital Prospects – 12/2008; Legato – 12/2008; Pyramis 5/2010

Active Manager excess return \$ per Fee \$ Spent

June 30, 2008 through June 30, 2012



Capital Prospects – 12/2008; Legato – 12/2008; PIMCO 5/2010

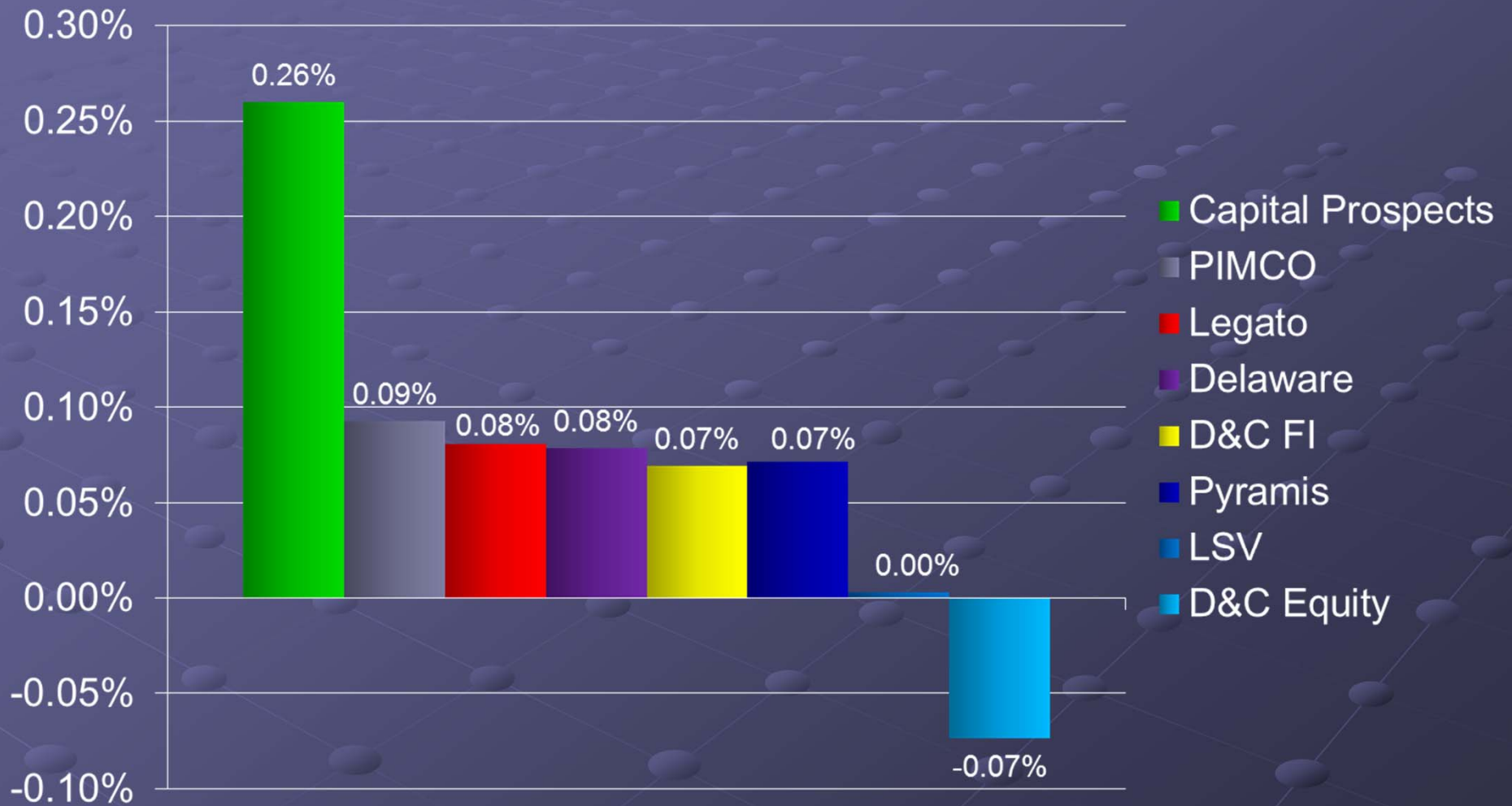


Traditional Measurements

Traditional Measurements

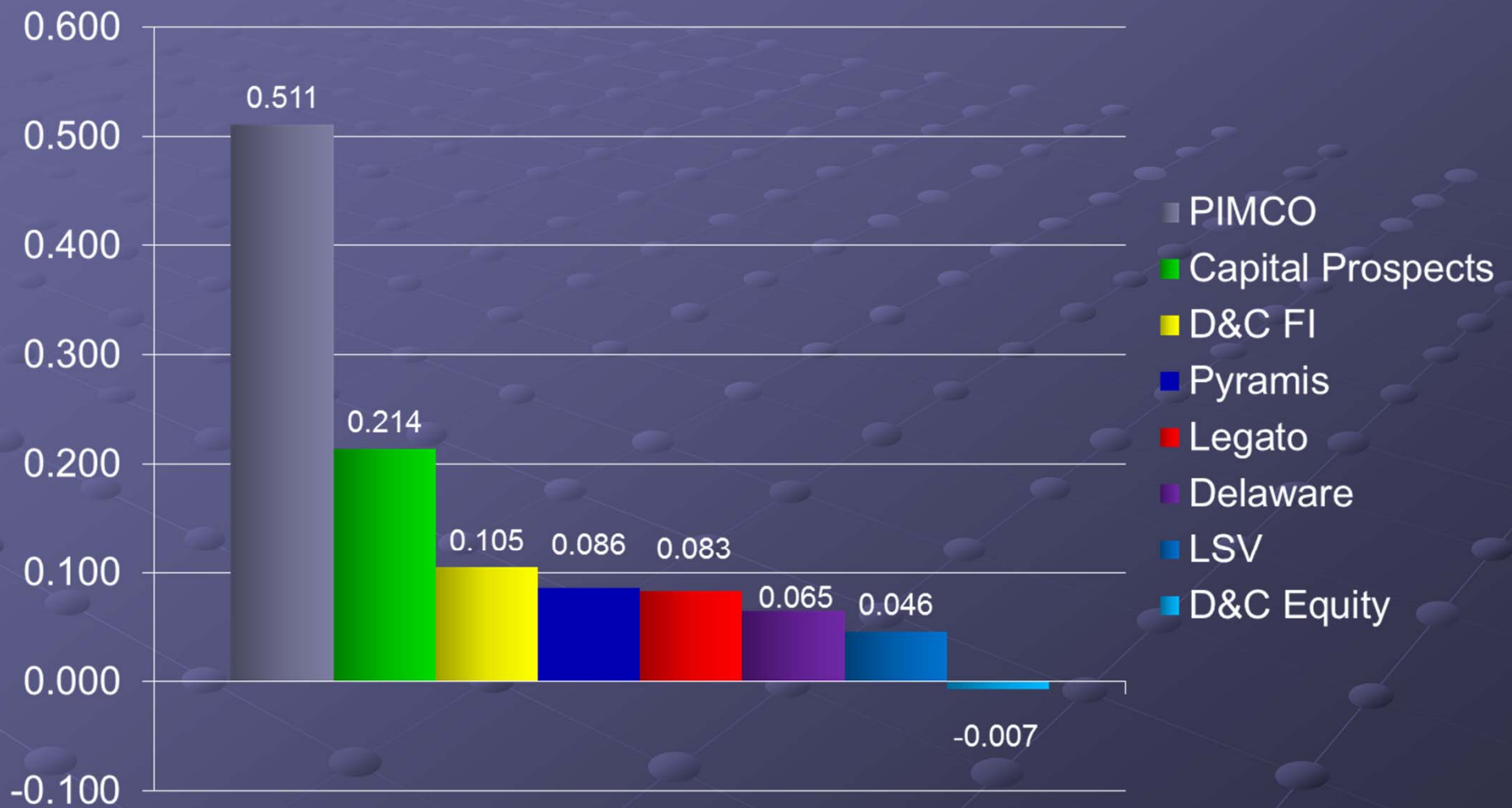
- Weighted Average Monthly Gross excess return
 - $\text{Gross excess return} = \text{Manager return} - \text{Benchmark return}$
 - Weighted on monthly portfolio values
- Information Ratio
 - The higher the measure, the more consistent or predictable a manager's performance is over time
 - May provide clues that a manager is taking on too much risk relative to their benchmark

Weighted Average Monthly Gross excess return*



* For all available StanCERA data for each manager

Information Ratio*



* For all available StanCERA data for each manager

Market Correlation

Market Correlation

- *“Is there a relationship between a manager’s over/under performance (excess return) with overall market returns?”*
- Generally, preferred there be no correlation
- Statistical test determination
 - If there is a positive or negative correlation detected, it is to a 95% degree of confidence

Excess Return Vs. Market Performance

<u>Manager</u>	<u>Correlation</u>	<u>Performance Conclusion</u>
D&C Equity	Positive	+ good markets/- poor markets
Delaware	None	No conclusion
Cap. Prospts	Negative	- good markets/+ poor markets
Legato	Negative	- good markets/+ poor markets
LSV	Positive	+ good markets/-poor markets
Pyramis	None	No conclusion
D&C FI	None	No conclusion
PIMCO	None	No conclusion

* Monthly manager excess return in basis points for every 1% market return 53