



# Stanislaus County Employees' Retirement Association

832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • [www.stancera.org](http://www.stancera.org) • 209-525-6393 • 209-558-4976 Fax

## AGENDA

### BOARD OF RETIREMENT

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

**October 27, 2015**  
**2:00 p.m.**

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

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

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

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

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

**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/agenda\\_schedule](http://www.stancera.org/agenda_schedule).

**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. Call Meeting to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items
  - a. Approval of the September 22, 2015 Meeting Minutes [View](#)
  - b. Approval of the October 14, 2015 Meeting Minutes [View](#)
  - c. StanCERA Quarter 3 2015 Complaint Log [View](#)
  - d. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
    1. Barclay, Ingrid – CSA– Effective 10-15-2015
    2. Brizendine, Stanley – HSA – Effective 09-08-2015
    3. Canales, Vincent – StanCOG – Effective 09-01-2015
    4. Dow, Karen – HSA – Effective 10-17-2015
    5. Ferris, Michelle – LIB – Effective 10-05-2015
    6. Goepfert, Susan – CEO – Effective 09-24-2015
    7. Hoover, David – CSA– Effective 10-02-2015
    8. Kong, Bosseba– BHRS – Effective 10-03-2015
    9. Ramirez, Francis– DCSS– Effective 08-31-2015
    10. Self, Karla – CSA– Effective 10-03-2015

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

1. Brennan, Thomas – District Attorney– Effective 09-19-2015
2. Bordona, Sheridan – Sheriff – Effective 05-15-2015
3. Dayton, Jake – Animal Services– Effective 05-30-2015
4. De Jesus, Samantha – City of Ceres – Effective 04-02-2015
5. Gonser, Luweta – CSA – Effective 08-08-2015
6. Harvick, Alexandria – Assessor – Effective 07-11-2015
7. Magana, Antonio – CSA – Effective 09-11-2015
8. Plante, Kristin – CSA – Effective 06-20-15
9. Powers, Andrew – Probation – Effective 04-18-2015 \*
10. Ruezga, Jose – CSA – Effective 08-08-15

*\* Indicates Safety Personnel*

f. Executive Director Goals Update Quarter 3 2015 [View](#)

6. Annual Update and Review – Jackson Square Partners [View](#)

a. Quarterly Value Added Report [View](#)

7. Executive Director

a. Legal/Legislation Update [View](#)

b. Monthly Staff Report [View](#)

c. Discussion and Action to approve the request to add CRCEA Annual Conference to the Annual Education Calendar. [View](#)

d. Discussion and Action to Approve the Fiscal Year 2015-2016 Budget Adjustment for Information Technology “I.T.” Project. [View](#)

e. Discussion and Action to Approve the Buildout of Unfinished Space on the 6<sup>th</sup> Floor and approval of the Fiscal Year 2015-2016 Budget Adjustment for this Project. [View](#)

f. Discussion and Action to Approve Legal Research Request [View](#)

g. Discussion and Action for Consideration of State Association of County Retirement Systems (SACRS) 2016 Legislative Proposals. [View](#)

8. Verus

a. Monthly Investment Performance Review for the Month Ending September 30, 2015 [View](#)

b. Current State of Assessment [View](#)

9. Closed Session

- a. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants,  
LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
Government Code Section 54956.9(d)(4)
- b. 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(d)(1)

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

11. Adjournment



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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

September 22, 2015

**Trustees Present:** Maria DeAnda, Jim DeMartini, Michael O'Neal, Jeff Grover, Jason Gordo, Donna Riley, Sam Sharpe and Gordon Ford

**Alternate Trustee** Joan Clendenin, Alternate Retiree Representative

**Trustees Absent:** Mike Lynch

**Staff Present:** Rick Santos, Executive Director  
Kathy Herman, Fiscal Services Manager  
Dawn Lea, Benefits Manager  
Kellie Gomes, Executive Board Secretary

**Others Present:** Fred Silva, General Legal Counsel  
Ed Hoffman, Investment Consultant

1. Meeting Called to Order

Meeting called to order 2:04 p.m. by Trustee DeAnda, Chair

2. Roll Call

3. Announcements

Rick Santos, Director announced that he would be out for the October 14<sup>th</sup> Administration meeting at a Society of Actuaries Conference.

Kellie Gomes, Executive Assistant announced that the Pyramis report was inadvertently left out of the Board packet that was mailed.

4. Public Comment

None

5. Consent Items

a. Approval of the September 9, 2015 Meeting Minutes

Motion was made by Trustee Grover and seconded by Trustee Gordo to approve consent items as presented.

Motion carried unanimously

6. Annual Performance Report

a. Pyramis Asset Management

Brian Hoesly and Kristin Shofner from Pyramis briefed the Board on recent performance and capital market expectations.

7. Verus

- a. Monthly Investment Report for the Month Ending August 31, 2015

Fiscal YTD Return: -3.75%

Total Fund Value as of 7/31/2015: \$1,751,425,576

8. Closed Session

- a. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants,  
LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
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9. Members' Forum (Information and Future Agenda Requests Only)

Director Santos gave an update on 2 items that were slated to be accomplished in this calendar year, the de-risking plan and the formal manager disposition policy. These are now slated to be completed Quarter 1 of 2016. The disposition of Pyramis and Legato (both on watch) will be addressed then as well.

Ed Hoffman, Investment Consultant from Verus briefed the Board on the timeline for conducting Trustee interviews, the asset liability study and the investment strategy development workshop.

Trustee Ford provided a handout regarding Selling Source and asked Fred Silva, General Counsel to look in to researching the Consumer Financial Protection Bureau's (cfpb) Civil Investigative Demand (CID) process in regards to an employee of PartnerWeekly, LLC, a wholly-owned subsidiary of Selling Source LLC.

Trustee Sam Sharpe announced he will not be at the the meeting on October 14<sup>th</sup> due to other work requirements.

10. Adjournment

Meeting adjourned at 3:16 p.m.

Respectfully submitted



Rick Santos, Executive Director

APPROVED AS TO FORM:  
Fred Silva, GENERAL LEGAL COUNSEL

By:   
Fred Silva, General Legal Counsel



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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

October 14, 2015

<b>Trustees</b>	Jim DeMartini, Michael O'Neal, Jason Gordo, Donna Riley
<b>Alternate Trustee</b>	Joan Clendenin, Alternate Retiree Representative
<b>Trustees Absent:</b>	Maria DeAnda, Sam Sharpe, Mike Lynch, Jeff Grover and Gordon Ford
<b>Staff Present:</b>	Kathy Herman, Fiscal Services Manager Dawn Lea, Benefits Manager Mary Williams, Member and Employer Services Technician
<b>Others Present:</b>	Fred Silva, General Legal Counsel

1. Meeting Called to Order

Meeting called to order 2:15 p.m. by Trustee Riley, Vice Chair

2. Roll Call

3. Adjournment

Mary Williams announced that we did not have a quorum present therefore the meeting was adjourned at 2:15 p.m.



**For the Board of Retirement Meeting  
Held on October 27, 2015**

TO: Retirement Board  
FROM: Alaine Taa, Administrative Assistant  
SUBJECT: StanCERA Complaint Log

There were three (3) retiree complaints logged between July 1, 2015, and September 30, 2015.  
A summary of these complaints follows:

Number of Complaints	Caller Status	Nature of Complaints
1	Retiree	Retired member called to inquire about the summer newsletter that she did not receive. Note: Production of the quarterly newsletter is being suspended.
1	Retiree	Retired member wanted to lodge a formal complaint regarding the receipt of his age 62 drop in benefit courtesy notice. He had chosen the Social Security Modification option upon retirement and only received the notice one week prior. Typically the notice is sent 60 days prior.
1	Retiree	Retired member sent in a form to change his direct deposit and mailing information. Staff missed the address change, which caused his check to be sent to the wrong place. Steps were immediately taken to correct the error and over-night the check.

The number of complaints this quarter decreased by 4 (four) complaints compared to the previous report period April 1, 2015, through June 30, 2015.

  
Alaine Taa, Administrative Assistant

  
Kathy Herman, Fiscal Services Manager





**October 27, 2015**

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Executive Director Goals Update Quarter 3 2015
- II. ITEM NUMBER: 5.f.
- III. ITEM TYPE: Consent
- IV. STAFF RECOMMENDATION: None
- V. ANALYSIS: This is the third quarter update on the Executive Director Goals for 2015. Attachment 1 shows the Quarter 3 progress on the goals for 2015. The task list that's directly tied to the Strategic Plan represent tasks slated to be completed in 2015. Those tasks that were a part of the Strategic Plan for 2014 have been completed and removed from this document. Progress (if any) is highlighted in blue. The document breaks out tasks that are general in nature and ongoing from those tasks that are explicitly tied to the Strategic Plan.

This year's theme is on manager assessment and disposition, the exercise of the creation of a glide path plan and risk reporting. Focus will also be on creating efficiencies within the Organization, from both a human resource perspective and technologically as well. Finally, stakeholder education and outreach play a role in this year's goals.

*Quarter 3 Update*

As reported in recent monthly staff reports, there are several tasks related to the investment governance process that will not be completed this year as stated in the strategic plan. This is due mainly to staff work load and the procurement of StanCERA's new investment consultant. It is the intent of staff to hand off the creation and implementation of each of these new processes to the consultant. As a result, staff anticipates the completion of these tasks sometime in 2016. This is still within the time scope of the 2014-2016 strategic plan.

- VI. RISK:
- VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.
- VIII. BUDGET IMPACT:

Rick Santos, Executive Director





## **Ongoing/Required Items**

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts and Employee Groups
  - *Annual plan sponsor visits regarding new fiscal year contribution rates and anticipated contribution rate changes in the future*
  - *Ongoing and continued dialogue with County Staff and other plan sponsors regarding various pension issues*
  - *Respond to several media requests for investment allocation information*
  - *Outreach with plan sponsors regarding vacant seat 7 and alternate seat 7*
2. Facilitate completion of the transition to alternative investments
  - *Complete legal diligence and negotiations for second subscription of Raven Fund*
  - *Complete/facilitate various capital calls*
  - *Deployment of alternative distributions*
3. Complete Custodial Bank Transition
  - Custodial Bank transition complete – 2014
4. Complete Trustee Elections
  - Seat 3 complete – 2014
  - *Seat 7 complete - 2015*
5. Complete intermediate and long-term Organizational Structure Review
  - 10 Year Strategic Realignment analysis complete - 2014
6. Continued monitoring of StanCERA lawsuits
  - *Analyses and discussions regarding settlement issues in Buck case*
7. Director Professional Development
  - *Participate in several webinars regarding actuarial pension issues*
  - *Participation in Administrator's Institute regarding professional development issues and local pension issues*
  - *Heavy involvement as Chair of the Controller's Retirement Advisory Committee*
8. Facilitate RFP for an Investment Consultant
  - *Investment Consultant acquisition completed*



## 9. Oversee and complete day to day administrative functions

- *Disabilities; Organizational goal of 18 or less outstanding disabilities at any one time. Outstanding disabilities are 13 as of October 8th (this compares to 12 outstanding at the end of Quarter 2, 2015)*
- *Agenda and minute production for all Board and Committee Meetings*
- *Facilitation of Board and Staff travel*
- *All retiree payrolls completed on time*
- *Member contributions and refunds up to date*
- *Monitoring of Investment Policy and Bylaws*
- *Daily monitoring of pension issues in media*
- *Ongoing and regular meetings with Investment Managers*
- *Ongoing revamping of buyback processes and final average compensation calculations*

## **Items Explicitly Tied to the 2014-2016 Strategic Plan**

### 1. Strategic Plan Objective #1

#### a. Monitor current costs and risks

- Create a program that allows StanCERA to determine the approximate cost to immunize any portion (percentage) of StanCERA's future benefit obligations using current yields available on various government treasuries and high grade corporate bonds – *Program complete.*

#### b. Enhance the understanding of various financial hedging tools available

- Contract with specialists in the area of asset-liability management – *Nothing to report*

#### c. Communicate with plan sponsors

- Meet with plan sponsors annually to discuss any issues that may affect StanCERA's future projected cash flows – *To be completed during Verus' plan sponsor analyses*
- Meet with plan sponsors annually to determine the sponsor's willingness and capacity to take pension risk – *To be completed during Verus' plan sponsor analyses*

#### d. Develop policy triggers for potential mitigating opportunities



- Develop a glide path approach to determine when and if efficiencies exist in the bond markets relative to StanCERA's liabilities – *Nothing to report. Note: This task is slated to be addressed in Quarter 1, 2016*

## 2. Strategic Plan Objective #2

- a. Develop clear and concise processes and policies dedicated to the continual assessment, monitoring and disposition of StanCERA's active managers
  1. Develop various reports meant to assess active manager performance
    - Creation of enhanced value added reports - Complete
    - Creation of risk allocation reports - Complete
    - Creation of benchmark adherence reports - Complete
  2. Define satisfactory performance with an eye towards asset liability and risk management
    - *Nothing to report. Note: Task is slated to be completed in Quarter 1, 2016*
  3. Define processes and remedies for active managers when performance is deemed to be unsatisfactory (continuation policy)
    - *Nothing to report. Note: Task is slated to be completed in Quarter 1, 2016*

## 3. Strategic Plan Objective #3

- a. Optimize StanCERA's organizational resources
  1. Review current job duties as they relate to the position, classification and Organizational needs
    - Staff review and documentation of current position and task analysis
    - Current and unique job duty statements for each position completed in Quarter 1
    - Monitoring process completed end of Quarter 2 and job duty statements are now available to be used to evaluate the desk/employee
    - *Quarter 3: Staff positions have been evaluated and determinations are being made regarding duty assignments and employee capability*



2. Continue to cross train and/or train staff with a goal of establishing multiple levels of backup (ongoing)
  - Accounting specialist training in all aspects of member and fiscal services
  - Accounting specialist training in investment compliance processes
  - Retiree payroll cross training from member services to accounting
  - Back up training for executive secretary regarding Board meeting planning, facilitation and web posting complete
  - Cross train staff for web site maintenance and updating
  - *Member and Employer Services Technician and Fiscal Services Technician positions cross trained in Quarter 3*
- b. Identify potential programs that will enhance skills and advance development of staff
  - Establish in-house training opportunities – *Preliminary draft complete*
4. Strategic Plan Objective #4
  - a. Formalize a process to educate StanCERA stakeholders
    - Develop an education/advocacy Committee – Task complete
    - Identify StanCERA stakeholders – Task complete
    - Outline job duties/responsibilities for a Communications Specialist – *To be completed in Quarter 1, 2016*
    - Determine areas of stakeholder educational needs – Task complete
    - Review and amend the media policy – *To be completed in 2016*
  - b. Enhance StanCERA technology in order to optimize human resources and productivity
    - Create a focus group to identify possible technology enhancements – *Nothing to report*
  - c. Expand technology and training to ensure continuity of operations during a natural disaster or a period of major outage
    - Develop testing and training for COOP – Quarter 2: Creation of a formal disaster recovery plan was put into place this quarter. The goal of this plan is to identify and address any additional resources necessary in order to assure continuance of operations in the event of an emergency. Staff has also begun the process of researching the cost/benefit of Cyber Insurance designed to provide coverage in the event of a data breach. *Quarter 3:*



*COOP information status has been made up to date and remote DR environment successfully tested.*

- Develop a formal schedule and process for disaster drills of Technology systems – *Nothing to report*



## Large-Cap Growth Equity

Presentation to:

# Stanislaus County ERA

Agenda:

- Firm overview
- Philosophy, people and process
- Portfolio, performance and characteristics
- Biographies

October 27, 2015

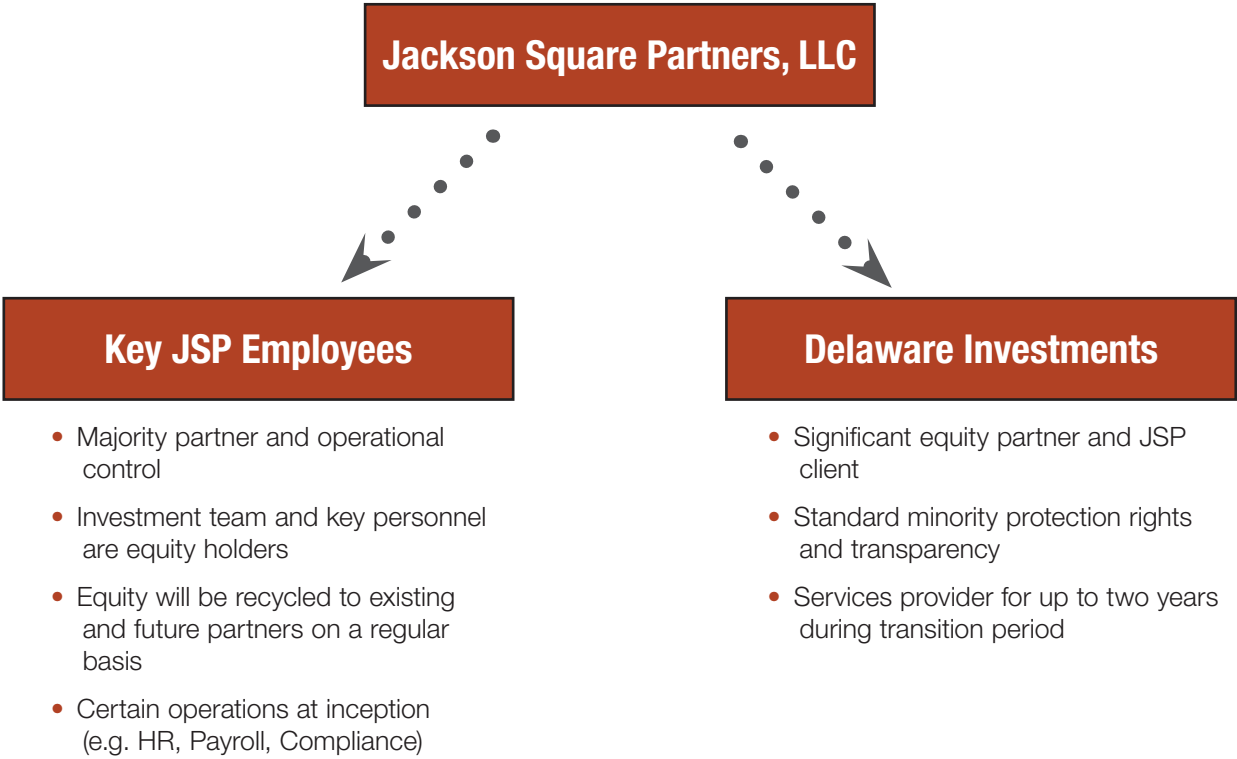


## Team History

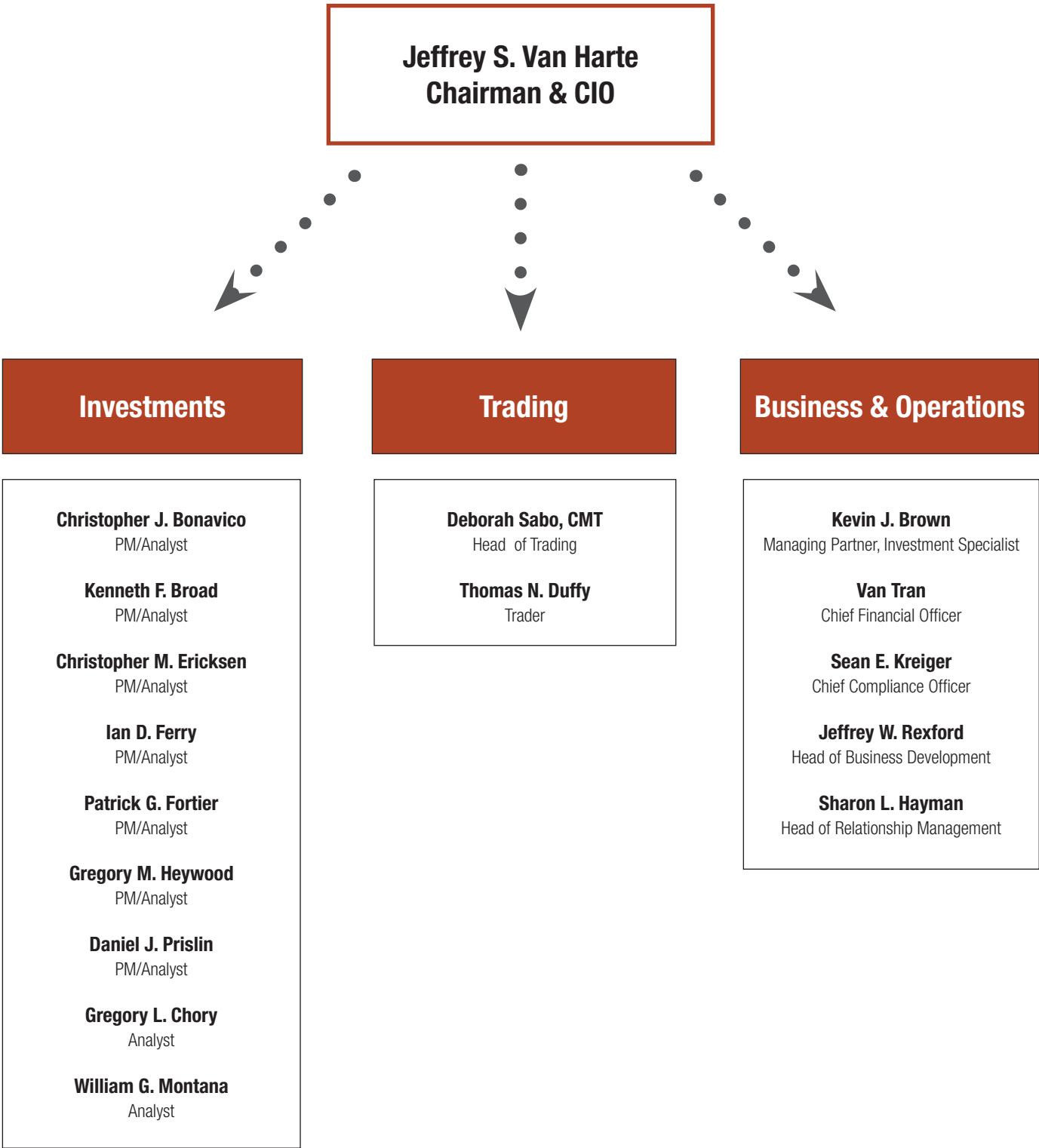
- 1980's - 1990's:** Transamerica, managed general account and captive retail vehicles
- 2000 - 2005:** Formed and developed an outside book of institutional accounts
- 2005 - 2014:** Delaware Investments "firm of boutiques" operating structure
- May 2014:** Formation of Jackson Square Partners, LLC

**Assets Under Management** (\$30.1 billion)  
As of June 30, 2015

<b>Large-Cap Growth</b> \$20.8 billion
<b>Smid-Cap Growth</b> \$3.5 billion
<b>Focus Global Growth</b> \$3.5 billion
<b>All-Cap Growth</b> \$1.4 billion
<b>Select 20 Growth</b> \$0.9 billion







# Firm Overview (continued)

As of September 2015



## Our team

	Industry experience	Portfolio management	Analysis	Trading	Business & Operations
Jeff Van Harte	35 years	●	●		
Chris Bonavico	27	●	●		
Ken Broad	27	●	●		
Dan Prislin	21	●	●		
Chris Ericksen	21	●	●		
Patrick Fortier	20	●	●		
Greg Heywood	21	●	●		
Ian Ferry	11	●	●		
Gregory Chory	7		●		
Billy Montana	6		●		
Deborah Sabo	21			●	
Tom Duffy	19			●	
Kevin Brown	20				●
Van Tran	19				●
Sean Kreiger	15				●
Jeff Rexford	23				●
Sharon Hayman	21				●

## Our philosophy

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We are growth investors. We believe that attractive returns can be realized by maintaining a **concentrated** portfolio of companies that we believe have enhanced business models, strong cash flows, and the opportunity to generate **consistent, long-term** growth of **intrinsic business value**.

## Our strengths

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- **Differentiated growth philosophy**, emphasizing intrinsic business value and cash economics
- **Concentrated portfolio** construction **reflects conviction** rather than benchmark
- Stable, veteran team with **high level of accountability** and **peer scrutiny**
- Flat team structure — **all team members are analysts** first and foremost
- **Entrepreneurial boutique structure** and **significant personal stakes** in products managed
- Performance-driven investment culture **limits asset capacity** in all products

Because the strategy expects to hold a concentrated portfolio of a limited number of securities, the strategy's risk is increased because each investment has a greater effect on the account's overall performance.

## One Team, One Philosophy

- Concentrated portfolios
- Long-term investment horizon
- Intrinsic value analysis

### Large Cap Growth

*Market cap range: >\$3B*

#### Primary managers

Jeff Van Harte  
Chris Bonavico  
Chris Ericksen  
Dan Prislin

### Focus Global Growth

*Market cap range: >\$1B*

#### Primary managers

Greg Heywood  
Patrick Fortier  
Chris Bonavico

### Small-Mid Cap Growth – Focus

*Market cap range: <\$5B at purchase to \$10-12B*

#### Primary managers

Chris Bonavico  
Ken Broad

### Select 20 Growth

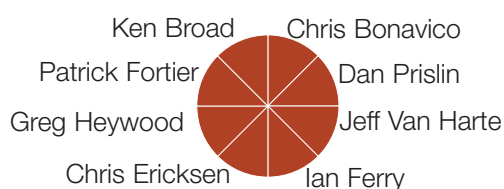
#### Primary managers

Jeff Van Harte  
Ken Broad  
Chris Bonavico  
Dan Prislin

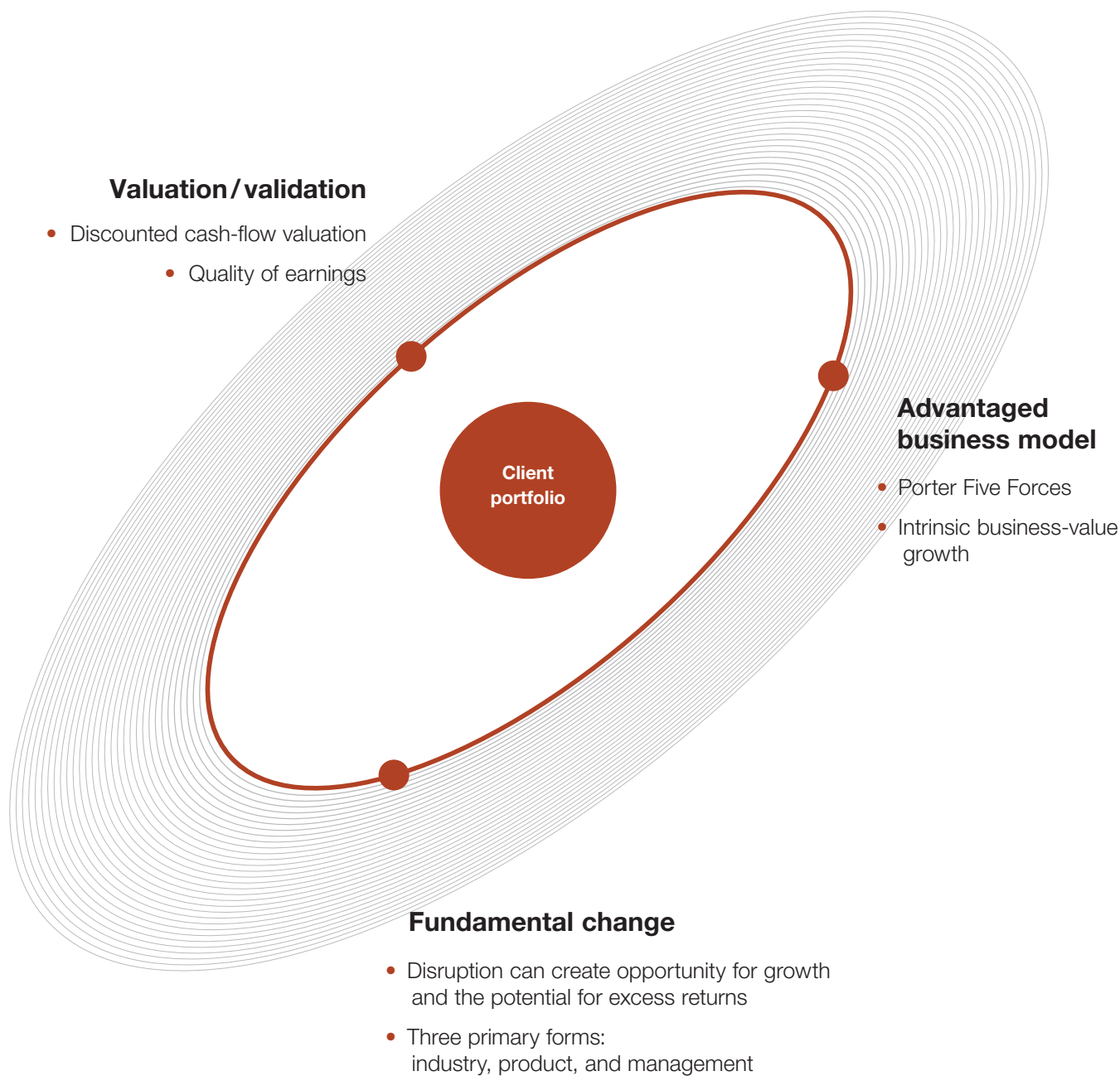
- Most concentrated product: 20 stocks or fewer
- Managed by four most seasoned portfolio managers
- Most opportunistic orientation

### All Cap Growth

- Most diversified product: typically 40-60 stocks
- Sleeve weightings important for signaling degree of conviction



# Focus Growth Equity investment process



# Investment process



## Idea sourcing

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- Rely primarily on qualitative idea generation (make little use of quantitative screens)
- Well-defined investment criteria preclude most companies from consideration
- Continuous pressure from new-idea pipeline

## Fundamental change

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- Disruption creates opportunity for growth and excess returns
- Three primary forms: industry, product, and management

## Advantaged business model

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- Seek strong barriers to entry and sustainable competitive advantage
- Returns on invested capital must be forecast to substantially exceed cost of capital
- Evaluate from a business owner's perspective

## Valuation/validation

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- Discounted cash-flow (DCF) analysis based on conservative projections of cash economics and risk-adjusted discount rate
- Seeking attractive absolute, not relative valuations
- Accounting earnings must reconcile with cash economics

## Portfolio construction

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- Concentrated portfolio: typically 25-35 holdings
  - high-return/low-risk positions at 4+%
  - moderate-return/low-risk positions at 3%-4%
  - high-return/high-risk positions at 2%-3%
  - maximum weight is typically 8%
- Seeks sector and industry diversification
  - Less than 20% non U.S.
- Low turnover: 25%-35% expected in most years
- Cash policy limit is 10% (typically 2-3%)

## Sell discipline

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- Better idea emerges from research "bench"
- Unexpected, negative fundamental change
- Valuation becomes stretched
- Portfolio construction considerations

# Relationship summary

Stanislaus County ERA  
As of September 30, 2015



Relationship inception . . . . . August 18, 2006

Investment style . . . . . Large-Cap Growth

Benchmark . . . . . Russell 1000 Growth

## Financials

Initial investment . . . . . 104,130,987

Net contributions/withdrawals . . . . . (50,727,436)

Net portfolio gain/loss . . . . . 101,403,245

Current portfolio value . . . . . 154,806,796



# Relationship summary

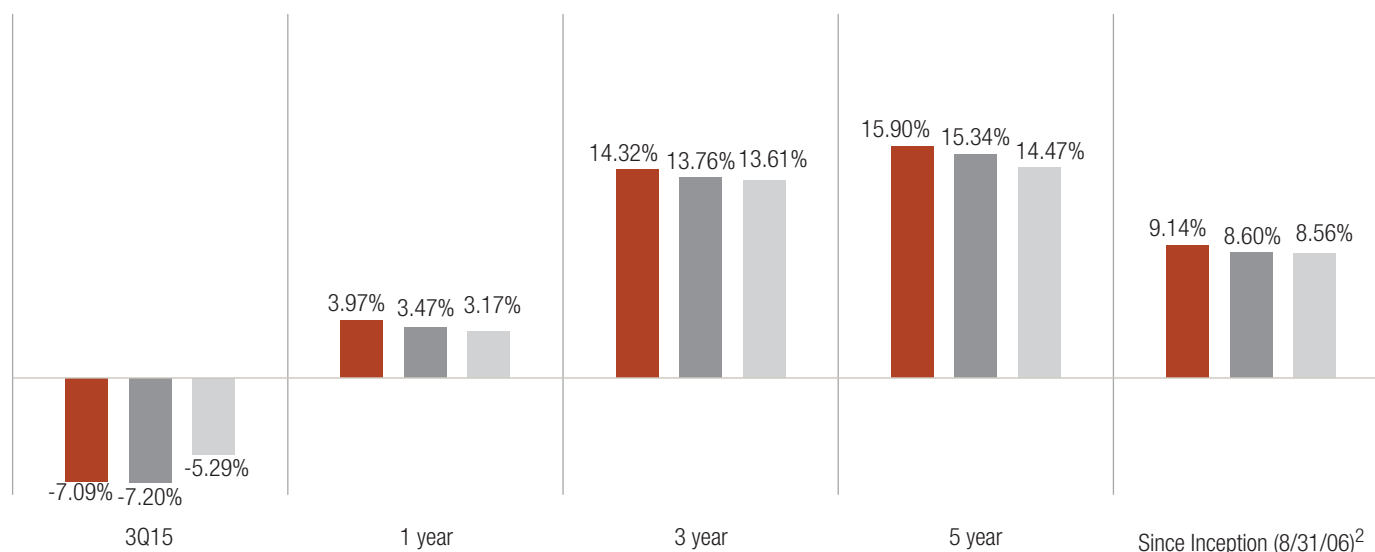
Stanislaus County ERA

Periods ended September 30, 2015



## Returns<sup>1</sup>

■ Stanislaus County ERA (gross of fees) ■ Stanislaus County ERA (net of fees) ■ Russell 1000 Growth Index



## Top five contributors to relative performance

Name	Sector	Contribution %
EQUINIX	FINANCIAL SERVICES	0.55
NIKE - CLASS B	CONSUMER DISCRETIONARY	0.38
VISA - CLASS A	FINANCIAL SERVICES	0.34
L BRANDS	CONSUMER DISCRETIONARY	0.32
INTERCONTINENTAL EXCHANGE	FINANCIAL SERVICES	0.30

## Bottom five contributors to relative performance

VALEANT PHARMACEUTICALS INTERNATIONAL	HEALTHCARE	-0.67
BAIDU ADR - CLASS A	TECHNOLOGY	-0.66
TRIPADVISOR	CONSUMER DISCRETIONARY	-0.64
PAYPAL HOLDINGS	FINANCIAL SERVICES	-0.54
BIOGEN	HEALTHCARE	-0.52

<sup>1</sup> Performance results are presented after the deduction of Jackson Square Partners investment advisory fees. Management fees and any other expenses incurred in the management of the account will reduce your return.

<sup>2</sup> Performance is calculated as of the first full month following inception.

# Portfolio holdings

Stanislaus County ERA  
As of September 30, 2015



## Technology 26.64

<i>Russell 1000 Growth</i>	22.39
QUALCOMM	5.69
Electronic Arts	4.00
Microsoft	3.79
Google - Class A	3.38
Google - Class C	2.59
Facebook - Class A	2.47
Baidu ADR - Class A	2.37
Intuit	1.91
Yelp - Class A	0.44

## Financial Services 26.39

<i>Russell 1000 Growth</i>	9.36
Visa - Class A	5.64
Equinix	5.07
MasterCard - Class A	4.74
Crown Castle International	4.27
PayPal Holdings	3.39
Intercontinental Exchange	3.28

## Healthcare 20.68

<i>Russell 1000 Growth</i>	16.56
Celgene	5.56
Allergan	4.73
Valeant Pharmaceuticals International	3.82
Novo Nordisk ADR - Class B	3.49
Biogen	3.08

## Consumer Discretionary 17.74

<i>Russell 1000 Growth</i>	22.97
Liberty Interactive QVC Group - Class A	4.36
L Brands	3.29
eBay	3.18
NIKE - Class B	3.11
TripAdvisor	1.84
Discovery Communications - Class C	1.23
Discovery Communications - Class A	0.73

## Consumer Staples 4.71

<i>Russell 1000 Growth</i>	10.40
Walgreens Boots Alliance	4.71

## Cash 3.84

Holdings are as of the date indicated and subject to change.

See page bfc1 for index descriptions. Indices are unmanaged and not available for direct investment.

# Portfolio characteristics

Stanislaus County ERA  
As of September 30, 2015

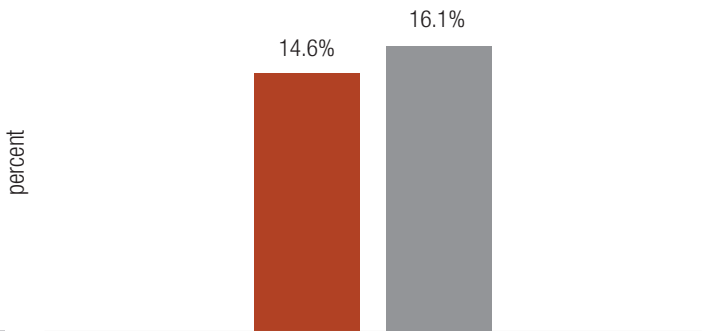


■ Stanislaus County ERA    ■ Russell 1000 Growth Index

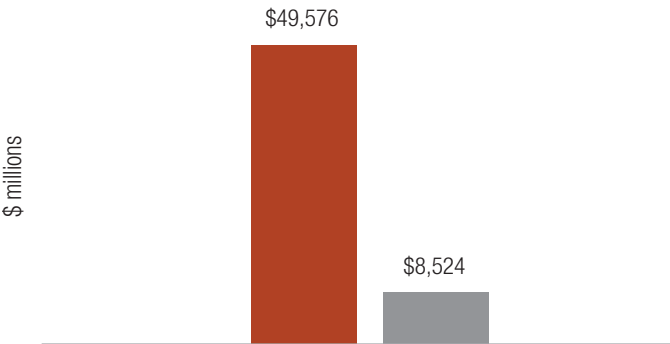
## Weighted-average market capitalization



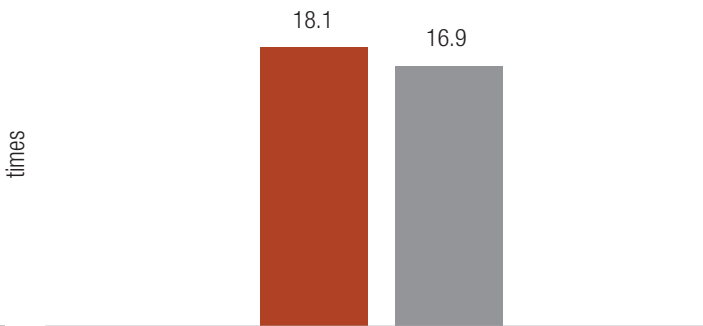
## Five-year EPS growth rate



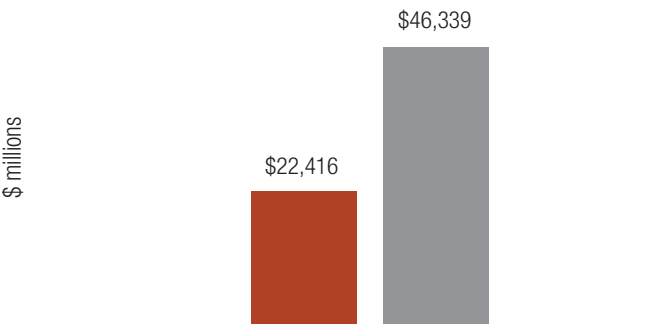
## Median market capitalization



## Price/earnings (weighted-average next 12 months)\*



## Weighted Average Revenues



**Turnover (12 months trailing): 38.25%**

\*Forward earnings projections do not predict stock price or investments performance and do not represent past performance. There is no guarantee that forward earnings projections will accurately predict the actual earnings experience of any of the companies involved, and no guarantee that owning securities with relatively high (or low) price-to-earnings ratios will cause the portfolio to outperform its benchmark or index.

Characteristics are as of the date indicated and subject to change.  
See page bfc1 for index descriptions. Indices are unmanaged and not available for direct investment.

# Team biographies

## Jeffrey S. Van Harte, CFA

*Chief Investment Officer*

INDUSTRY EXPERIENCE: 35 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
1980 – 2005	Transamerica Investment Management

California State University, Fullerton, BA

## Christopher J. Bonavico, CFA

*Senior Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 27 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
1993 – 2005	Transamerica Investment Management
1988 – 1993	Salomon Brothers

University of Delaware, BS

## Kenneth F. Broad, CFA

*Senior Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 27 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
2000 – 2005	Transamerica Investment Management

1994 – 2000 Franklin Templeton Group

1988 – 1992 KPMG Peat Marwick

Colgate University, BA

University of California, Los Angeles, MBA

## Daniel J. Prislin, CFA

*Senior Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 21 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
1998 – 2005	Transamerica Investment Management

1994 – 1998 Franklin Templeton Group

University of California, Berkeley, BS and MBA

## Christopher M. Ericksen, CFA

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 21 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
2004 – 2005	Transamerica Investment Management

1994 – 2004 Goldman Sachs

Carnegie Mellon University, BS

## Patrick G. Fortier, CFA

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 20 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
2000 – 2005	Transamerica Investment Management

1995 – 2000 Olde Equity Research

University of Kentucky, BBA

## Gregory M. Heywood, CFA

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 21 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
2004 – 2005	Transamerica Investment Management

2003 – 2004 Wells Capital Management

1996 – 2003 Montgomery Asset Management

1994 – 1996 Globalvest Management

University of California, Berkeley, BA and MBA

## Ian D. Ferry

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 11 YEARS

2014 – Present	Jackson Square Partners
2011 – 2014	Delaware Investments
2010 – 2011	Fidelity
2005 – 2008	Harbourvest Partners
2004 – 2005	Houlihan, Lokey, Howard & Zukin

Tulane University, BS

Wharton, University of Pennsylvania, MBA

## Gregory L. Chory

*Analyst*

INDUSTRY EXPERIENCE 7 YEARS

2014 – Present	Jackson Square Partners
2011 – 2014	Technology Crossover Ventures
2008 – 2011	BMO Capital Markets

Emory University, BBA

## William G. Montana

*Analyst*

INDUSTRY EXPERIENCE 6 YEARS

2014 – Present	Jackson Square Partners
2011 – 2014	TPG Capital
2009 – 2011	Goldman Sachs

Georgetown University, BA

## Deborah Sabo, CMT

*Head of Trading*

INDUSTRY EXPERIENCE 21 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
2003 – 2005	McMorgan & Company
2002 – 2003	Husic Capital Management

1999 – 2001 Robertson Stephens

1996 – 1999 Deutsche Bank

1994 – 1996 Merrill Lynch

University of Pittsburgh, BA

## Thomas N. Duffy

*Trader*

INDUSTRY EXPERIENCE 19 YEARS

2014 – Present	Jackson Square Partners
2010 – 2014	Snyder Capital Management
2004 – 2010	Husic Capital Management
1999 – 2004	Fremont Investment Advisors

1996 – 1999 AIM Funds (Formerly GT Global)

Arizona State University, BS

## Kevin J. Brown

*Managing Partner, Investment Specialist*

INDUSTRY EXPERIENCE 20 YEARS

2014 – Present	Jackson Square Partners
2006 – 2014	Delaware Investments
2003 – 2006	Merrill Lynch

2000 – 2003 Credit Suisse First Boston

1999 – 2000 Donaldson, Lufkin & Jenrette

1997 – 1999 JP Morgan

1995 – 1997 Robertson Stephens

University of California, Berkeley, BA

University of California, Los Angeles, MBA

## Van Tran

*Chief Financial Officer*

INDUSTRY EXPERIENCE 19 YEARS

2014 – Present	Jackson Square Partners
2005 – 2014	Delaware Investments
2000 – 2005	Transamerica Investment Management

1999 – 2000 PaineWebber

1996 – 1999 CIBC Oppenheimer

University of California, San Diego, BS

Golden Gate University, MS

## Sean E. Kreiger

*Chief Compliance Officer*

INDUSTRY EXPERIENCE 15 YEARS

2015 – Present	Jackson Square Partners
2012 – 2015	DCI, LLC
2010 – 2012	Babson Capital Management

2008 – 2010 QVT Financial LP

2006 – 2008 AIG Investments

2004 – 2006 K&L Gates

2000 – 2004 U.S. Securities and Exchange Commission

University of Maryland, BA

Georgetown University, LLM

University of Baltimore, JD

## Jeffrey W. Rexford

*Head of Business Development*

INDUSTRY EXPERIENCE 23 YEARS

2014 – Present	Jackson Square Partners
2002 – 2014	Delaware Investments
1997 – 2002	Tucker, Anthony, and RL Day

1995 – 1997 Freedom Chemical

1992 – 1995 Chase Manhattan Bank

Washington College, BA

## Sharon L. Hayman, CFA

*Head of Relationship Management*

INDUSTRY EXPERIENCE 21 YEARS

2015 – Present	Jackson Square Partners
2012 – 2015	Matthews International Capital Management
2006 – 2012	Delaware Investments

2000 – 2006 Gartmore Global Investments

1994 – 2000 Delaware Investments

Gettysburg College, BA

Drexel University, MBA

# Composite statistics and performance

December 31, 2014



## Composite statistics and performance

Period End	Composite return gross- of-fees (%)	Composite return net-of- fees (%)	Russell 1000® Growth Index return (%)	Composite Internal dispersion (%)	3-Year Annualized Standard Deviation (%)		As of December 31 <sup>st</sup>		
					Composite	Russell 1000 Growth Index	Number of Portfolios	Composite Assets (\$mm)	Total Firm Assets (\$mm)
2014	13.7	13.3	13.1	0.1	10.6	9.7	61	18,093	28,818
2013	35.6	35.1	33.5	0.1	12.3	12.4	46	15,270	n/a
2012	17.1	16.6	15.3	0.2	15.3	15.9	49	10,981	n/a
2011	8.9	8.4	2.6	0.1	17.2	18.0	49	9,160	n/a
2010	14.9	14.4	16.7	0.2	n/a	n/a	52	8,279	n/a
2009	44.0	43.5	37.2	0.6	n/a	n/a	54	7,474	n/a
2008	-42.6	-42.9	-38.4	0.3	n/a	n/a	62	6,119	n/a
2007	13.6	13.2	11.8	0.3	n/a	n/a	58	10,585	n/a
2006	3.0	2.6	9.1	0.3	n/a	n/a	62	11,016	n/a
2005*	22.8	22.5	11.9	n/a	n/a	n/a	47	7,862	n/a

\*2005 Performance from inception (May 1) through December 31.

## Performance disclosures: Large-Cap Growth Equity composite

Jackson Square Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Jackson Square Partners has not been independently verified.

Jackson Square Partners is a registered investment advisor that was established on May 1, 2014. Jackson Square Partners, LLC manages domestic and global growth equity strategies for institutional and retail clients. Performance shown prior to May 1, 2014 represents results achieved by the Jackson Square team at Delaware Investments prior to the establishment of Jackson Square Partners. Firm assets prior to May 1, 2014 are only applicable since the date Jackson Square Partners was established. Delaware Investments was independently verified for the periods from January 1, 1992 through December 31, 2011. A list of composite description is available upon request.

The Large Cap Growth Equity Composite ("Composite") emphasizes long-term ownership of dominant companies which are taking advantage of fundamental change to drive growth in their intrinsic business value. This composite was created in April 2014. In April 2005, responsibility for Large Cap Growth Equity investment management was assumed by the Jackson Square Partners team therefore performance of the Composite is presented since May 2005 only. The Composite includes all discretionary, fee paying accounts, including pooled funds and excluding wrap-fee accounts, managed in this strategy. Performance results are shown as total returns, net of dividend withholding taxes, assume reinvestment of dividends and capital gains, are presented before and after the deduction of actual investment advisory fees, and are calculated in U.S. dollars. The returns of some accounts in the composite may include income from securities lending. Jackson Square Partners investment advisory fees are described in Part II of our Form ADV. The Large Cap Growth Equity fee schedule is as follows: first \$25 million, 0.75%; next \$25 million, 0.65%; next \$50 million, 0.55%; next \$200 million, 0.45%; amounts over \$300 million, 0.40%. Net returns are calculated using actual management fees, which includes performance fees. Some clients may utilize a performance-based fee, therefore actual fees paid may be higher or lower than the maximum fixed fee. Management fees, and any other expenses incurred in the management of the account, will reduce your return. The actual fee schedule may vary. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. Past performance is not an indicator of future results.

Internal dispersion is calculated using the asset-weighted standard deviation of the annual returns of all the portfolios that were included in the composite for the entire year. Internal dispersion is only shown if the composite has at least six accounts that were managed for the full calendar year.

The three-year annualized standard deviation measures the variability of the composite and the benchmark over the preceding 36-month period. This measure is not required to be presented for annual periods ended prior to 2011 or when 36 monthly composite returns are not yet available.

The benchmark for the composite is the Russell 1000® Growth Index. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. For comparison purposes, the index is fully invested and includes the reinvestment of income. Index returns do not reflect management fees, transaction costs, or expenses. Indices are unmanaged, and one cannot invest directly in an index. Benchmark information contained herein has been obtained from third party sources believed to be reliable, but we cannot guarantee its accuracy or completeness. All third-party marks are the property of their respective owners.

Because the strategy expects to hold a concentrated portfolio of a limited number of securities, the strategy's risk is increased because each investment will have a greater effect on the strategy's overall performance.

This is not an offer of any product or service in any jurisdiction where it would be unlawful to do so under the laws of that jurisdiction.

The information presented is available for institutional one-on-one presentations only. It is not intended and should not be construed to be a presentation of information concerning any U.S. mutual fund. The firm's registration as an investment adviser does not imply any level of skill or training.

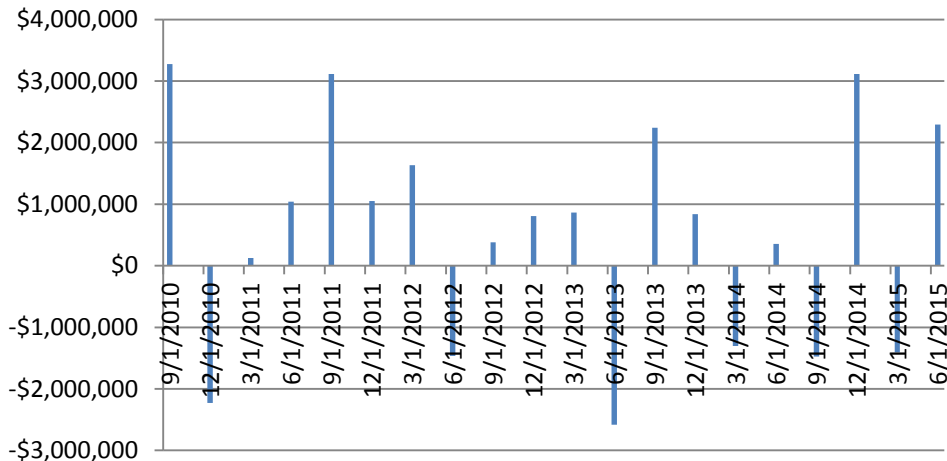
# Jackson Square

10/27/15  
Item #6.a.

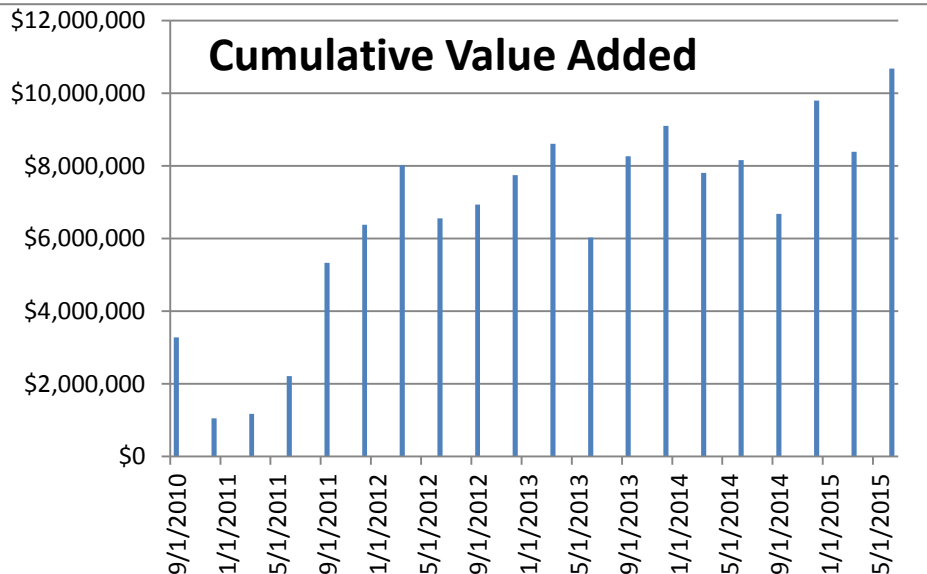


Quarter		Fees			
<u>Begin Date</u>	<u>End Date</u>	<u>Active Return</u>	<u>Managerial</u>	<u>Custodial</u>	<u>Value Added</u>
7/1/2010	9/30/2010	\$3,378,675	\$101,839	\$2,288	\$3,274,548
10/1/2010	12/31/2010	-\$2,113,459	\$115,269	\$508	-\$2,229,236
1/1/2011	3/31/2011	\$253,486	\$125,411	\$1,224	\$126,851
4/1/2011	6/30/2011	\$1,170,665	\$129,638	\$938	\$1,040,089
7/1/2011	9/30/2011	\$3,241,561	\$123,443	\$1,098	\$3,117,020
10/1/2011	12/31/2011	\$1,180,312	\$127,986	\$1,178	\$1,051,148
1/1/2012	3/31/2012	\$1,778,217	\$141,840	\$1,694	\$1,634,683
4/1/2012	6/30/2012	-\$1,317,924	\$142,009	\$1,954	-\$1,461,887
7/1/2012	9/30/2012	\$528,838	\$145,968	\$1,824	\$381,046
10/1/2012	12/31/2012	\$957,854	\$147,904	\$2,026	\$807,924
1/1/2013	3/31/2013	\$1,030,783	\$159,111	\$4,988	\$866,684
4/1/2013	6/30/2013	-\$2,421,912	\$156,738	\$4,430	-\$2,583,080
7/1/2013	9/30/2013	\$2,406,424	\$160,682	\$4,282	\$2,241,460
10/1/2013	12/31/2013	\$1,015,086	\$173,996	\$4,333	\$836,758
1/1/2014	3/31/2014	-\$1,120,390	\$177,076	\$4,840	-\$1,302,306
4/1/2014	6/30/2014	\$543,382	\$182,171	\$6,204	\$355,007
7/1/2014	9/30/2014	-\$1,282,465	\$187,760	\$5,505	-\$1,475,730
10/1/2014	12/31/2014	\$3,316,966	\$198,409	\$3,686	\$3,114,870
1/1/2015	3/31/2015	-\$1,205,047	\$198,383	\$4,580	-\$1,408,009
4/1/2015	6/30/2015	\$2,494,095	\$200,473	\$2,657	\$2,290,964

## Quarterly Value Added



## Cumulative Value Added





**October 27, 2015**

Retirement Board Agenda Item

TO: Retirement Board

FROM: Dawn Lea, Member and Employer Services Manager

- I. SUBJECT: Legislative Update – Pension Reform Initiatives
- II. ITEM NUMBER: 7.a
- III. ITEM TYPE: Information Only
- IV. STAFF RECOMMENDATION: None
- V. ANALYSIS: On October 5, 2015, the Attorney General's Office received two Requests for Title and Summary for Proposed Initiatives forms written by Chuck Reed and Carl DeMaio.

The first of the two initiatives is currently referred to as the "Voter Empowerment Act of 2016". This initiative is very similar to the earlier version presented this year by the same name. This initiative requires voter approval for the following issues:

- To offer a defined benefit plan to new employees
- To enhance an existing defined benefit plan
- To pay more than one-half of the total cost of retirement benefits for new employees
- To impose termination fees, accelerate payments on existing debt, or impose other financial conditions against an employer that proposes to close a defined benefit plan to new members

The initiative also declares that it shall not alter any provisions of a labor agreement in effect as of the effective date of the Act, but shall apply upon renewal or extensions of the agreements after the effective date. It also states that it shall not be interpreted to modify or limit any disability or death benefits.

The second initiative is currently referred to as the "Government Pension Cap Act of 2016". This Initiative allows government employers to continue to provide defined benefit plans to new employees, but limits the amount that can be contributed toward "retirement benefits" which includes defined benefit pension plans, defined contribution plans, retiree healthcare plans, Social Security or any form of deferred compensation provided by government employers. Limitations are as follows:

- Government employers shall not contribute more than 11 percent of base compensation for general members or 13 percent for safety members. All other costs (including unfunded liability costs) shall be the responsibility of the employee.
- Government employers shall not pay more than one-half of the total cost of the retirement benefit unless approved by the voters.

This initiative also declares that it shall not alter any provisions of a labor agreement in effect as of the effective date, but shall apply upon renewal or extensions of the agreements after the effective date of the Act. It also states that government employers may provide disability and death benefits for new employees that will not be subject to the limits set forth in this initiative.



The documents state that nothing in the initiative shall be interpreted to limit the ability of government employers to offer defined benefit plans, defined contribution plans or a combination of both plans for new employees but they will be subject to the new limitations.

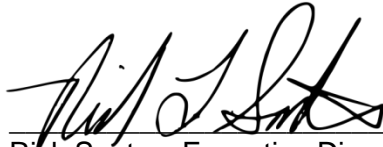
The authors of these two initiatives have stated that they only intend to take one of them forward for signature collection in hope of getting it added to the November 2016 ballot. They plan to wait to see how the titles and descriptions are handled by the Attorney General's Office. They will make their decision before the end of December 2015.

- VI. RISK: None
- VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.
- VIII. BUDGET IMPACT: None



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Dawn Lea, Member and Employer Services Manager



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Rick Santos, Executive Director

**PENSION REFORM 2016**Date: 9/28/15**RECEIVED****OCT 05 2015**

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

INITIATIVE COORDINATOR  
ATTORNEY GENERAL'S OFFICE

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Voter Empowerment Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:

Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,



Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM 2016

Date: 10/1/15

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Voter Empowerment Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:

Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,



Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM 2016

Date: September 30, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-2550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Voter Empowerment Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:

Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

  
Carl DeMaio

Pat Morris

Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM

Date: Sept. 20, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Voter Empowerment Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:

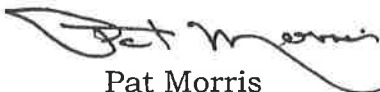
Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

Carl DeMaio

  
Pat Morris

Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM 2016

Date: September 30, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Voter Empowerment Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:

Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

*Bill Kampe*  
Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM 2016

Date: October 2, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Voter Empowerment Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:

Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,

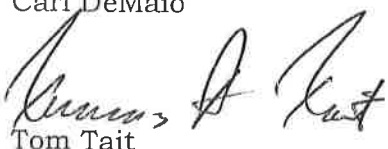
Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

Bill Kampe

  
Tom Tait

Enclosures



## Voter Empowerment Act of 2016

### SECTION 1. TITLE.

This measure shall be known and may be cited as "The Voter Empowerment Act of 2016."

### SECTION 2. STATEMENT OF FINDINGS AND PURPOSE.

(a) Government has an obligation to provide essential services that protect the safety, health, welfare, and quality of life enjoyed by all Californians. State and local governments face elimination or reduction of essential services because of costly, unsustainable retirement benefits granted to government employees.

(b) Almost all of these benefits were granted without the consent of voters. Consequently, the need to empower voters to approve retirement benefits for government employees is a matter of statewide concern.

(c) Therefore, the people hereby amend the Constitution to reform retirement benefits granted to new government employees and to require voters to approve or reject increases in defined benefits proposed for any government employees.

### SECTION 3. Section 23 of Article XVI of the California State Constitution is added to read:

- ✓ Sec. 23 (a) Government employers shall not provide a benefit enhancement to any government employee in a defined benefit pension plan unless the voters of that jurisdiction approve that enhancement.
- ✓ (b) Government employers may only enroll new government employees in a defined benefit pension plan if the voters of that jurisdiction approve enrollment in such a plan.
- ✓ (c) Government employers shall not pay more than one-half of the total cost of retirement benefits for new government employees unless the voters of that jurisdiction have approved paying that higher proportion.
- ✓ (d) Retirement boards shall not impose termination fees, accelerate payments on existing debt, or impose other financial conditions against a government employer that proposes to close a defined benefit pension plan to new members, unless voters of that jurisdiction or the sponsoring government employer approve the fees, accelerated payment, or financial conditions.
- ✓ (e) Challenges to the actions of a government employer or a retirement board to comply with requirements of this section may only be brought in the courts of California exercising judicial power as provided in Article VI or in the courts of the United States.

- ✓(f) Nothing in this section shall alter any provisions of a labor agreement in effect as of the effective date of this Act, but this Section shall apply to any successor labor agreement, renewal or extension entered into after the effective date of this Act. Nothing in this section shall be interpreted to amend or modify section 9 of Article I.
- ✓(g) Nothing in this section shall be interpreted to modify or limit any disability benefits provided for government employees or death benefits for families of government employees, even if those benefits are provided as part of a retirement benefits system. Nothing in this section shall be interpreted to require voter approval for death or disability benefits.
- (h) For the purpose of this section, the following definitions shall be applied:
- ✓(1) A "new government employee" means an employee hired by a government employer commencing on or after January 1, 2019, regardless of any prior employment status with that or any other government employer. An employee on disability leave from a government employer on January 1, 2019 shall not be considered a new employee if he or she subsequently returns to that same government employer.
- ✓(2) "Government employer" means the state, or a political subdivision of the state including, but not limited to, counties, cities, charter counties, charter cities, charter city and counties, school districts, special districts, boards, commissions, the Regents of the University of California, California State University, and agencies thereof.
- ✓(3) A "defined benefit pension plan" means a plan that provides lifetime payments to retirees and survivors based upon a formula using factors such as age, length of service and final compensation.
- ✓(4) "Retirement benefits" includes defined benefit pension plans, defined contribution plans, retiree healthcare plans, or any form of deferred compensation offered by government employers.
- ✓(5) A "benefit enhancement" means any change in a defined benefit pension plan that increases the value of an employee's benefit including, but not limited to, reducing employee's share of cost, increasing a benefit formula, increasing the rate of cost of living adjustments, expanding the categories of pay included in pension calculations, reducing a vesting period, lowering the eligible retirement age, or otherwise providing an economic advantage for government employees in a defined benefit plan, except for the disability component of any defined benefit plan.

#### SECTION 4. GENERAL PROVISIONS

- ✓(a) This Act is intended to be comprehensive. It is the intent of the People that in the event this Act and one or more measures relating to the same subject shall appear on the same statewide election ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this Act. In the event that this Act receives a greater number of

affirmative votes, the provisions of this Act shall prevail in their entirety, and all provisions of the other measure or measures shall be null and void.

✓(b) If any provision of this Act, or part thereof, or the applicability of any provision or part to any person or circumstances, is for any reason held to be invalid or unconstitutional, the remaining provisions and parts shall not be affected, but shall remain in full force and effect, and to this end the provisions and parts of this Act are severable. The voters hereby declare that this Act, and each portion and part, would have been adopted irrespective of whether any one or more provisions or parts are found to be invalid or unconstitutional.

✓(c) This Act is an exercise of the public power of the people of the State of California for the protection of the health, safety, and welfare of the people of the State of California, and shall be liberally construed to effectuate its purposes.

✓(d) Notwithstanding any other provision of law, if the State, government agency, or any of its officials fail to defend the constitutionality of this act, following its approval by the voters, any other government employer, the proponent, or in his or her absence, any citizen of this State shall have the authority to intervene in any court action challenging the constitutionality of this act for the purpose of defending its constitutionality, whether such action is in trial court, on appeal, and on discretionary review by the Supreme Court of California and/or the Supreme Court of the United States. The fees and costs of defending the action shall be a charge on funds appropriated to the Attorney General, which shall be satisfied promptly.

**PENSION REFORM 2016**Date: 9/28/15

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

**RECEIVED****OCT 05 2015**

INITIATIVE COORDINATOR  
ATTORNEY GENERAL'S OFFICE

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

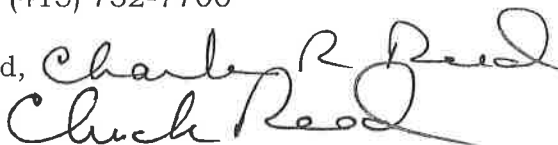
Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Government Pension Cap Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact us. For purposes of inquiries from the public and the media, please direct them as follows:



Chuck Reed  
150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,



Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM 2016

Date: 10/1/15

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Government Pension Cap Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

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Signed,



Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

Bill Kampe

Tom Tait

Enclosures

# PENSION REFORM 2016

Date: September 30<sup>th</sup>, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Government Pension Cap Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

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(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

  
Carl DeMaio

Pat Morris

Bill Kampe

Tom Tait

Enclosures

RECEIVED

SEP 30 2015

10:30 AM

# PENSION REFORM

Date: Sept 30, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Government Pension Cap Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

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San Francisco, CA 94108  
(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

Carl DeMaio

  
Pat Morris

Bill Kampe

Tom Tait

Enclosures

9/30/15

# PENSION REFORM 2016

Date: \_\_\_\_\_

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Government Pension Cap Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

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150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

Carl DeMaio

Pat Morris

*Bill Kampe*  
Bill Kampe

Tom Tait

Enclosures

4/20/16

5/10/16

5/10/16



# PENSION REFORM 2016

Date: October 2, 2015

Initiative Coordinator  
Office of the Attorney General  
State of California  
PO Box 994255  
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Initiative Coordinator:

Pursuant to Article II, Section 10(d) of the California Constitution, we, the undersigned proponents, submit the enclosed proposed statewide ballot measure ("Government Pension Cap Act of 2016") and request preparation of a circulating title and summary of the measure as provided by law. Also included with this letter are the required signed statements pursuant to California Elections Code sections 9001 and 9608, our addresses as shown on our affidavits of registration to vote, and a check in the amount of \$200.

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150 Post Street, Suite 405  
San Francisco, CA 94108  
(415) 732-7700

Signed,

Chuck Reed

Stephanie Gomes

Carl DeMaio



Pat Morris

Bill Kampe

Tom Tait

Enclosures

## **Government Pension Cap Act of 2016**

### **SECTION 1. TITLE.**

This measure shall be known and may be cited as "Government Pension Cap Act of 2016."

### **SECTION 2. STATEMENT OF FINDINGS AND PURPOSE.**

(a) Government has an obligation to provide essential services that protect the safety, health, welfare, and quality of life enjoyed by all Californians. State and local governments face reduction or elimination of essential services because of costly, unsustainable retirement benefits granted to government employees.

(b) Almost all of these benefits were granted without the consent of voters. Consequently, the need to empower voters to reform retirement benefits for new government employees is a matter of statewide concern.

(c) Therefore, the people hereby amend the Constitution to limit the cost of retirement benefits granted to new government employees and to empower voters to approve or reject any proposed increases in those limits.

**SECTION 3.** Section 23 of Article XVI of the California State Constitution is added to read as follows:

#### **Sec. 23**

(a) Government employers shall not contribute more than 11 percent of base compensation for a new employee's retirement benefits. Government employers shall not contribute more than 13 percent of base compensation for a new safety employee's retirement benefits. All other costs, including unfunded liability costs, of a new employee's retirement benefits shall be the responsibility of the employee, unless the voters of that jurisdiction establish a new limitation.

(b) Government employers shall not pay more than one-half of the total cost of retirement benefits for new government employees unless the voters of that jurisdiction have approved paying that higher proportion.

(c) Challenges to the actions of a government employer or retirement board to comply with requirements of this section may only be brought in the courts of California exercising judicial power as provided in Article VI or in the courts of the United States.

(d) Nothing in this section shall alter any provisions of a labor agreement in effect as of the effective date of this Act, but this Section shall apply to any successor labor agreement, renewal or extension entered into after the effective date of this Act. Nothing in this section shall be interpreted to amend or modify section 9 of Article I.

(e) Nothing in this section shall be interpreted to limit the ability of government employers to offer defined benefit pension plans or defined contribution plans or a combination of both plans for new employees, subject to the limitations in this section.

(f) Government employers may provide disability benefits and death benefits for new employees which are not subject to the limitations of this section.

(g) For the purpose of this section, the following definitions shall be applied:

(1) A “new government employee” or “new employee” means an employee hired by a government employer commencing on or after January 1, 2019, regardless of any prior employment status with that or any other government employer. An employee on disability leave from a government employer on January 1, 2019 shall not be considered a new employee if he or she subsequently returns to that same government employer.

(2) “Government employer” means the state, or a political subdivision of the state including, but not limited to, counties, cities, charter counties, charter cities, charter city and counties, school districts, special districts, boards, commissions, the Regents of the University of California, California State University, and agencies thereof.

(3) “Retirement benefits” includes defined benefit pension plans, defined contribution plans, retiree healthcare plan, Social Security, or any form of deferred compensation provided by government employers. “Retirement benefits” does not include death and disability benefits.

(4) A “new safety employee” means any new government employee as defined in (g) (1) who is also a police officer or sheriff duly certified in their law enforcement position, any licensed firefighter, any prison guard, or other classification the government employer finds is a high risk law enforcement or public safety position.

(5) “Base compensation” means the regular annual base pay of the individual public employee and reflective of regular base pay of similarly situated employees of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules, and subject to any exclusions as defined in California Government Code Section 7422.34 as it existed on September 1, 2015.

#### SECTION 4. GENERAL PROVISIONS

(a) This Act is intended to be comprehensive. It is the intent of the People that in the event this Act and one or more measures relating to the same subject shall appear on the same statewide election ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this Act. In the event that this Act receives a greater number of affirmative votes, the provisions of this Act shall prevail in their entirety, and all provisions of the other measure or measures shall be null and void.

(b) If any provision of this Act, or part thereof, or the applicability of any provision or part to any person or circumstances, is for any reason held to be invalid or unconstitutional, the remaining provisions and parts shall not be affected, but shall remain in full force and effect, and to this end the provisions and parts of this Act are severable. The voters hereby declare that this Act, and each portion and part, would have been adopted irrespective of whether any one or more provisions or parts are found to be invalid or unconstitutional.

(c) This Act is an exercise of the public power of the people of the State of California for the protection of the health, safety, and welfare of the people of the State of California, and shall be liberally construed to effectuate its purposes.

(d) Notwithstanding any other provision of law, if the State, government agency, or any of its officials fail to defend the constitutionality of this act, following its approval by the voters, any other government employer, the proponent, or in his or her absence, any citizen of this State shall have the authority to intervene in any court action challenging the constitutionality of this act for the purpose of defending its constitutionality, whether such action is in trial court, on appeal, and on discretionary review by the Supreme Court of California and/or the Supreme Court of the United States. The fees and costs of defending the action shall be a charge on funds appropriated to the Attorney General, which shall be satisfied promptly.



October 27, 2015

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Monthly Staff Report
- II. ITEM NUMBER: 7.b
- III. ITEM TYPE: Information-
- IV. STAFF RECOMMENDATION: None
- V. SUMMARY:

- a) *Fiscal Services* – The contract for Linea Solutions has been finalized and they will be on site to begin the assessment process on Monday October 19, 2015. A request for proposal for janitorial services is in process and the damaged carpet has been replaced. We received a \$15,000,000 capital call for Prime, the open ended core real estate fund, in September. Unlike the other private investments this was the entire capital commitment. As originally approved by the Board, most of the funds came from the passive BlackRock U.S. Real Estate fund.

Each year large amounts of member data is uploaded to the actuary. After multiple tests the actuary then sends data back to staff, with detailed questions, that must be researched prior to the valuation and / or experience study can begin. This research was completed in September. Internal I.T. staff has created several new tools to automate manual tasks. *"Refund and payable checks are electronically processed and staff no longer has to carry checks to 10<sup>th</sup> Street Place for signatures and an ongoing very frustrating member data manual correction problem has finally been automated."*

- b) *Member & Employer Services* – During the month of August, Member and Employer Services Staff processed 59 new hires (2 Safety and 57 General), 94 buy backs and 106 estimates. There were 30 individual counseling sessions and one group presentation at the Pay Dirt meeting.

Staff continues to update existing processes to ensure that they are current and comply with the auditor's recommendations.

We said goodbye to retired annuitant Michele Silva. Michele was retained by StanCERA to assist with transition to the current management team and later to head up the file audit project. Phase one of the file audit project covered member files with membership dates through December 31, 2015. The older files included data from multiple sources and required the high level of Michele's expertise. Phase one was completed at the end of September.

We are now moving into phase two of the file audit project. We have made offers of employment to two part time employees. The new part time employees will be tasked with auditing member files with membership dates of January 1, 1999 through current.

- c) *Investment Governance and Compliance* – The transition of data from SIS to Verus has been completed. Staff conducted an onsite meeting with Ed Hoffman to kick off the rest of the transition process.
- d) *2015 Financial Audit* - The year end Audit and creation of the annual reports is a priority this time of year. The accounting staff is closing the old year and maintaining the member and investment accounting and processes for the current year. Staff is current with the agreed upon time line. The “Critical Dates” list is included as Attachment 1.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently\*

VIII. BUDGET IMPACT: None



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Rick Santos, Executive Director



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Kathy Herman, Fiscal Services Manager



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Dawn Lea, Member and Employer Services Manager

**Stanislaus County Employees Retirement Association**  
**Critical Dates List**  
**For the year ended June 30, 2015**

<i>Item</i>	<b>2015 Dates</b>	<b>Status</b>
<b>PLANNING:</b>		
AUDITOR to provide StanCERA with Population request email	<b>Monday, June 01, 2015</b>	Completed
AUDITOR to provide Info Request email to StanCERA	<b>Friday, June 05, 2015</b>	Completed
StanCERA to provide AUDITOR with May 31, 2015 Preliminary Financials and trial balance	<b>Monday, July 06, 2015</b>	Completed
StanCERA to provide Custodian, Investment Managers, and all other confirmations (Except for Legal, Participant, Cash and Contributions) to AUDITOR for mailing	<b>Monday, July 06, 2015</b>	Completed
Active, Retiree and Purchased Service Credit populations provided to AUDITOR for confirmation purposes	<b>Friday, July 10, 2015</b>	Completed
AUDITOR to provide StanCERA with samples for confirmation purposes	<b>Tuesday, July 14, 2015</b>	Completed
Active/Retired Participant, Actuary, and Employer payroll Confirmations returned to AUDITOR for mailing	<b>Monday, July 20, 2015</b>	Completed
Remaining participant populations due to AUDITOR. See email sent to client on Monday, June 1, 2015	<b>Monday, August 03, 2015</b>	Completed
StanCERA to provide confirmations to Auditor for Cash and Contribution:	<b>Wednesday, August 05, 2015</b>	Completed
Participant confirmation responses due to AUDITOR, AUDITOR to send out second requests	<b>Monday, August 10, 2015</b>	Completed
<b>INTERIM FIELDWORK:</b>		
Beginning of interim audit fieldwork at StanCERA's office. Please provide space for three auditors	<b>Monday, August 10, 2015</b>	Completed
Items on Interim Fieldwork Information Request Lists due	<b>Monday, August 10, 2015</b>	Completed
AUDITOR to meet with STANCERA's Internal Governance Committee - Entrance meeting between AUDITOR and STANCERA staff (at your discretion)	<b>Wednesday, August 12, 2015 at 1:15pm</b>	Completed
Expected completion date of interim fieldwork, and exit conference with StanCERA Management	<b>Friday, August 14, 2015</b>	Completed
<b>FINAL FIELDWORK PLANNING:</b>		
Confirm responses for all (Except Legal, Alternatives, Real Estate, Cash, Actuary and Contributions) due to AUDITOR. AUDITOR to send out second requests	<b>Friday, August 14, 2015</b>	Completed
Confirm responses for Cash, Actuary, Contributions, Alternative and Real Estate investments due to AUDITOR. AUDITOR to send out second requests	<b>Friday, August 21, 2015</b>	Completed
StanCERA to provide actuary with financial data for actuary report	<b>Monday, August 24, 2015</b>	Completed
Items on Final Fieldwork Information Request Lists due. Begin audit work in BA offices	<b>Monday, August 24, 2015</b>	Completed
StanCERA to provide 6/30/2015 trial balance in electronic format - Preliminary 8/24	<b>Thursday, August 27, 2015</b>	Completed
StanCERA to provide AUDITOR with draft Statement of Net Assets and Statement of Changes in Net Assets	<b>Thursday, August 27, 2015</b>	Completed
StanCERA to provide responses to Investment Inquiries Memo	<b>Thursday, August 27, 2015</b>	Completed
<b>FINAL FIELDWORK:</b>		
Beginning of final fieldwork at StanCERA's office. Please provide space for four auditors	<b>Monday, August 31, 2015</b>	Completed
StanCERA to provide responses to General Question Memo	<b>Wednesday, September 02, 2015</b>	Completed
StanCERA to provide AUDITOR with legal confirmations for mailing/emailing	<b>Thursday, September 03, 2015</b>	Completed
StanCERA to provide draft Financial Section to AUDITOR	<b>Week of September 7th</b>	Completed
Expected completion date of fieldwork and exit conference with StanCERA management	<b>Friday, September 18, 2015 3:30pm</b>	Field work complete 9/18/2015 Exit conf complete 9/21/2015

**AUDIT WRAP-UP & PRESENTATION:**

StanCERA to receive Actuary GASB 67/68 report for inclusion in the CAFF

**Week of September 21st**

Completed 10/5/2015

AUDITOR will provide all recommendations, revisions & suggestions for improvement to draft of Financial Section of CAFR

**Monday, September 21, 2015**

Completed 9/23/2015

AUDITOR will provide Letter to Management in draft format

**Friday, September 25, 2015**

StanCERA to provide AUDITOR with draft of CAFR

**Friday, September 25, 2015**

Completed 10/7/2015

StanCERA to provide AUDITOR with responses to findings included in Letter to Management

**Friday, October 02, 2015**

AUDIT Manager will provide all recommendations, revisions & suggestions for improvement to the CAFF

**Tuesday, October 06, 2015**

StanCERA to provide AUDITOR with complete revised draft of CAFR

**Friday, October 09, 2015**

AUDITOR to provide StanCERA management with the following reports in draft format:  
Independent Auditors Report  
Report on Compliance and Internal Control  
Internal Governance Committee Report (SAS 114 letter)

**Friday, October 09, 2015**

Legal confirmation responses due to AUDITOR

**Friday, October 23, 2015**

StanCERA to provide AUDITOR with final revised CAFR. AUDITOR to submit for Partner/Cold review

**Friday, October 23, 2015**

StanCERA to provide approval of all AUDITOR reports

**Friday, October 23, 2015**

AUDITOR to provide StanCERA management with the Soft Copy of the following reports in final format:  
Independent Auditors Report  
Letter to Management  
Report on Compliance and Internal Control  
Internal Governance Committee Report (SAS 114 letter)

**Monday, November 02, 2015**

AUDITOR to provide StanCERA with "packets" of the above reports for Board meeting

**Tuesday, November 03, 2015**

AUDITOR presentation/delivery to StanCERA Board of Retirement

**Tuesday, November 10, 2015**

Created: 5/20/15

Approved by Client: 5/22/15

Revised: 7/22/15

Revised: 9/2/15

Revised: 9/17/15

Revised: 10/8/15





**October 27, 2015**

Retirement Board Agenda Item

TO: Retirement Board

FROM: Kellie Gomes, Executive Board Secretary

- I. SUBJECT: California Retired County Employees Association Semi-Annual Conferences
- II. ITEM NUMBER: 7.c
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: A motion to approve or deny Trustee attendance to current and future bi-annual California Retired County Employees Association (CRCEA).
- V. ANALYSIS: California Retired County Employees Association (CRCEA) is a non-profit corporation. It is comprised of Associations representing the twenty counties constituted under the 1937 Retirement Act. CRCEA provides a forum for educating members and promoting retiree benefits and issues. Its Volunteer Officers and Directors oversee opportunities to:
  - Exchange information through Communications and a website at [www.crcea.org](http://www.crcea.org)
  - Meet in semi-annual conferences to provide retirement information and related subjects to members
  - Initiate legislation to develop and maintain retirement benefits
  - Train and encourage associations to actively represent retirees to their respective Board of Supervisors and Retirement Boards.
- VI. RISK: None
- VII. STRATEGIC PLAN: Strategic Objective II: Continue to foster an organizational culture that values and promotes team work, education, awareness, accountability and achievement.
- VIII. ADMINISTRATIVE BUDGET IMPACT: Registration cost is \$45.00 for each attendee other expenses such as travel, lodging and meals will be subject to the location of individual conference held bi-annually.

  
Kellie Gomes, Executive Board Secretary

  
Rick Santos, Executive Director



## Stanislaus County Employees' Retirement Association

832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

**October 27, 2015**

### Retirement Board Agenda Item

TO: Retirement Board

FROM: Kathy Herman, Fiscal Services Manager

- I. SUBJECT: Fiscal Year 2015-2016 Budget Adjustment For Information Technology "I.T." Project
- II. ITEM NUMBER: 7.d
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: Accept the recommended adjustment to the Fiscal Year 2015-2016 Administrative Budget to include \$277,000 for Information Technology consulting services (Attachment 1).
- V. ANALYSIS: In order to continue to serve our members efficiently, several critical enhancements are needed to the current pension software system. On January 29, 2014 Tyler Inc. the company that installed and maintains the pension software system stated they would no longer enhance or be selling the current system. On October 10, 2014 the Board directed staff to begin the process of replacing the pension software system.

On June 10, 2015 the Board of Retirement approved the Administrative budget for Fiscal Year 2015-2016. At that time, the competitive bid process to determine the budget and vendor selection for I.T. consulting services was still in progress. Upon completion of the competitive bidding process, on August 12, 2015 the Board approved the evaluation team's recommendation to accept the proposal from Linea Solutions for the not-to-exceed amount of \$277,000. This agenda item serves to adjust the budget accordingly. The scope of work will include an assessment of the current state of the system(s), and the necessary work to either update or acquire the different system(s). Once vendor selection is completed the Board will determine if StanCERA will continue to retain Linea for implementation services.

- VI. RISK: None
- VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.
- VIII. BUDGET IMPACT: The Administrative budget for Fiscal Year 2015-2016 will increase by \$277,000 for a total of \$2,845,507.

Government Code section 31580.2 sets the legal limit for expenditures for the administration of the fund at 0.21% of the accrued actuarial liability. (\$4.3 million as of 6/30/14). Government Code section 31580.2(b) exempts computer software, hardware and computer technology consulting services in support of these products from this limit.

Kathy Herman, Fiscal Services Manager

Rick Santos, Executive Director

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION AMMENDED FISCAL YEAR 2015-2016 ADMINISTRATIVE BUDGET					
DESCRIPTION	Approved FY 14/15 Budget Including I.T.	FY 14/15 Final Expenditures	Fiscal Year 2015-2016 Approved Budget	CODE SECTION 31580.2(2)(b) (Technology)	Fiscal Year 2015-2016 Budget Request
<b>Salaries &amp; Benefits</b>					
Salaries	782,000	761,592	845,000		845,000
Employee Benefits	330,000	330,135	349,000		349,000
I.T. Specialist - Salary & Benefits	88,726	83,053		95,700	95,700
Contract Wages		33,545	30,000		30,000
<b>SALARIES &amp; BENEFITS TOTAL</b>	<b>1,200,726</b>	<b>1,208,325</b>	<b>1,224,000</b>	<b>95,700</b>	<b>1,333,700</b>
<b>TECHNOLOGY</b>					
Tyler Software Maint	74,000	43,700	46,000		46,000
Tyler Dysaster Maint	12,250	10,902	12,250		12,250
StanCERA Website	2,400	220	2,400		2,400
Software & Support and Service	10,000	2,485		10,000	10,000
Equipment and Computer Supplies	6,000	4,907		6,000	6,000
<b>IT. Consulting Services</b>				<b>277,000</b>	<b>277,000</b>
<b>Legal Counsel &amp; Services</b>					
Legal Counsel - Disability	100,000	98,891	130,000		130,000
Legal Counsel - O'Neal vs StanCERA	110,000	172,062	100,000		100,000
Legal Counsel - General	90,000	73,100	75,000		75,000
Legal Counsel - Nasrawi vs Stancera	50,000	17,777	20,000		20,000
Legal Counsel - StanCERA vs Buck	75,000	102,432	150,000		150,000
Medical Exams, Reviews, Hearings	30,000	9,020	30,000		30,000
<b>STANCERA / COUNTY SERVICE AGREEMENTS</b>					
SBT - Data Processing Services	23,500	23,999	24,500		24,500
SBT - Telecommunications	5,200	5,643	5,300		5,300
Central Services, Mail Room, Salvage	37,500	38,538	43,000		43,000
12th Street Janitorial	1,200	648	1,200		1,200
12th Street Maintenance	48,000	15,510	25,000		25,000
12th Street Utilities	38,500	37,991	39,500		39,500
12th Street Security	24,500	17,856	24,500		24,500
CEO/Personnel (true up)	9,000	11,195	10,000		10,000
Auditor	9,000	8,084	9,000		9,000
Purchasing	1,000	710	1,000		1,000
Risk Management	1,500	1,519	1,500		1,500
Salvage		374			
<b>COMMUNICATION &amp; EDUCATION</b>					
Communications & Printing	32,000	22,133	34,000		34,000
Publications	2,800	7,961	6,000		6,000
Staff Education & Training	25,000	40,348	25,000		25,000
Memberships	11,000	7,555	11,000		11,000
Contract Services	10,000	0	0		-
<b>GENERAL OPERATIONS</b>					
Other Professional Services	40,000	904	40,000		40,000
Office Supplies	10,000	8,321	10,000		10,000
Copier Expenses	20,000	13,746	15,000		15,000
Other Office Expense	16,000	5,641	16,000		16,000
6th Floor Security	2,000	995	2,000		2,000
6th Floor Janitorial & Supplies	23,500	19,768	20,000		20,000
6th Floor Maint	10,000	1,550	30,000		30,000
<b>FIDUCIARY / TRUSTEE</b>					
Fiduciary Education	50,000	23,146	45,000		45,000
Fiduciary Meeting Allowance	16,000	10,400	13,000		13,000
Insurance	75,000	77,834	80,000		80,000
<b>SERVICES &amp; SUPP. TOTAL</b>	<b>1,101,850</b>	<b>937,865</b>	<b>1,097,150</b>	<b>293,000</b>	<b>1,390,150</b>
<b>CAPITAL EXPENDITURES</b>					
Audio Visual Equipment	25,000	0			0
<b>**Board Room Design and Build Out</b>					0
<b>CAPITAL EXPENDITURES TOTAL</b>	<b>25,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capital Depreciation	174,000	173,782	174,000		174,000
6th Floor Lease Revenue	(52,343)	(52,343)	(52,343)		(52,343)
<b>TOTAL BUDGET</b>	<b>2,449,233</b>	<b>2,267,629</b>	<b>2,442,807</b>	<b>388,700</b>	<b>2,845,507</b>



**October 27, 2015**

Retirement Board Agenda Item

TO: Retirement Board

FROM: Kathy Herman, Fiscal Services Manager


- I. SUBJECT: Buildout of Unfinished Space on the 6<sup>th</sup> Floor and Budget Adjustment
- II. ITEM NUMBER: 7.e
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: Approve the use of County General Services to serve as project manager, complete the shell of the remaining 896 sq. ft. of unfinished vacant space on the 6<sup>th</sup> floor and approve an adjustment to the Fiscal Year 2015-2016 Administrative Budget to include \$50,000 for the total project. (Attachment I)
- V. ANALYSIS: In June 2015 staff received a request to research the cost of expanding or building a larger board room into the unfinished 896 sq. ft. on the 6<sup>th</sup> floor of 832 12<sup>th</sup> Street. The current board room is 560 sq. ft. StanCERA owns the 6<sup>th</sup> floor, however, the County of Stanislaus owns the core and shell of the building. This includes heating and air conditioning, plumbing, electrical and fire systems. Any buildout must be coordinated with the County and all tenants in the building and go through the competitive bid process. Getting any work done is going to require expertise in construction projects and government regulations.

The County's General Services Agency has a contract employee who may be able to assist. Matt Innes did a site visit, and considering the special nature of a custom design/build of a public board room, he suggested we first build out the shell. His very rough "unofficial" estimate was \$45,000 for the shell. This would complete the mechanical connections, install the ceiling, finish the walls and floors and add doors. This is the simpler project. It can be managed in-house, and this work must be done whether StanCERA uses the room or it is leased out. The interior space could then be addressed as a separate project later.

StanCERA has an agreement in place with the General Services Agency; however this project is outside of this agreement and would be billed at \$31.50 per hour, not to exceed \$3,780. Before they spend any time on this project, formal direction and approval of the funds are required.

- VI. RISK: None, any future use of the space will require this work to be done.
- VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.
- VIII. BUDGET IMPACT: The Administrative budget for Fiscal Year 2015-2016 will increase by \$50,000.

Government Code section 31580.2 allows for expenditures for administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability (\$4.3 million as of 6/30/14). This adjustment maintains the Fiscal Year 2015-2016 budget at 0.12%.



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Kathy Herman, Fiscal Services Manager



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Rick Santos, Executive Director

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION AMMENDED FISCAL YEAR 2015-2016 ADMINISTRATIVE BUDGET					
DESCRIPTION	Approved FY 14/15 Budget Including I.T.	FY 14/15 Final Expenditures	Fiscal Year 2015-2016 Approved Budget	CODE SECTION 31580.2(2)(b) (Technology)	Fiscal Year 2015-2016 Budget Request
<b>Salaries &amp; Benefits</b>					
Salaries	782,000	761,592	845,000		845,000
Employee Benefits	330,000	330,135	349,000		349,000
I.T. Specialist - Salary & Benefits	88,726	83,053		95,700	95,700
Contract Wages		33,545	30,000		30,000
<b>SALARIES &amp; BENEFITS TOTAL</b>	<b>1,200,726</b>	<b>1,208,325</b>	<b>1,224,000</b>	<b>95,700</b>	<b>1,333,700</b>
<b>TECHNOLOGY</b>					
Tyler Software Maint	74,000	43,700	46,000		46,000
Tyler Dysaster Maint	12,250	10,902	12,250		12,250
StanCERA Website	2,400	220	2,400		2,400
Software & Support and Service	10,000	2,485		10,000	10,000
Equipment and Computer Supplies	6,000	4,907		6,000	6,000
IT. Consulting Services				277,000	277,000
<b>Legal Counsel &amp; Services</b>					
Legal Counsel - Disability	100,000	98,891	130,000		130,000
Legal Counsel - O'Neal vs StanCERA	110,000	172,062	100,000		100,000
Legal Counsel - General	90,000	73,100	75,000		75,000
Legal Counsel - Nasrawi vs Stancera	50,000	17,777	20,000		20,000
Legal Counsel - StanCERA vs Buck	75,000	102,432	150,000		150,000
Medical Exams, Reviews, Hearings	30,000	9,020	30,000		30,000
<b>STANCERA / COUNTY SERVICE AGREEMENTS</b>					
SBT - Data Processing Services	23,500	23,999	24,500		24,500
SBT - Telecommunications	5,200	5,643	5,300		5,300
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Salvage		374			
<b>COMMUNICATION &amp; EDUCATION</b>					
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Contract Services	10,000	0	0		-
<b>GENERAL OPERATIONS</b>					
Other Professional Services	40,000	904	40,000		40,000
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<b>CAPITAL EXPENDITURES</b>					
Audio Visual Equipment	25,000	0			0
<b>**Board Room Design and Build Out</b>			50,000		50,000
<b>CAPITAL EXPENDITURES TOTAL</b>	<b>25,000</b>	<b>0</b>	<b>50,000</b>	<b>0</b>	<b>50,000</b>
Capital Depreciation	174,000	173,782	174,000		174,000
6th Floor Lease Revenue	(52,343)	(52,343)	(52,343)		(52,343)
<b>TOTAL BUDGET</b>	<b>2,449,233</b>	<b>2,267,629</b>	<b>2,492,807</b>	<b>388,700</b>	<b>2,895,507</b>



**October 27, 2015**

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Investigation of individual holding within the White Oak Portfolio
- II. ITEM NUMBER: 7.f
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: Direct staff whether to retain Investment Counsel Scott Smith of Hansen Bridgett to pursue the the investigation of an individual holding within the White Oak Portfolio
- V. ANALYSIS: On September 22, 2015, Fred Silva, General Counsel to the StanCERA Board of Retirement received a request from Trustee Ford during the Members Forum part of the meeting, to research the Consumer Financial Protection Bureau's (cfpb) Civil Investigative Demand (CID) process in regards to an employee of PartnerWeekly, LLC, a wholly-owned subsidiary of Selling Source LLC. (Attachment 1). Since this request is outside the scope of General Counsel's expertise and staff time is limited we are asking the Board to weigh in on whether to pursue this matter further and engage Investment Counsel, Scott Smith of Hansen Bridgett to investigate.

As of today, there have been at least 2 inquiries by Trustee Ford on this matter. The following attachments are various correspondences that have already been before the Board on this matter:

- Attachment 2 – Correspondence from Trustee Ford to White Oak dated April 15, 2014
- Attachment 3 - Response from White Oak regarding correspondence dated July 16, 2014
- Attachment 4 – Correspondence from Trustee Ford to the Executive Director regarding White Oak's annual visit to StanCERA dated April 15, 2015

It should be noted that White Oak addressed those issues raised in Attachment 2 before the full Board at its Investment meeting in April of 2014 and those issues raised in Attachment 4 before the full Board at the Investment meeting in June of 2015.

The issue of whether StanCERA should be investigating individual positions within each Manager's portfolio can be complicated. Even though White Oak has been asked about this particular investment and has addressed it on numerous occasions, a fair question to consider is whether that amount of diligence is prudent or even required. StanCERA hires investment managers with core skill sets and expertise to make investment decisions on its behalf. It is staff's opinion that if StanCERA is unhappy with an investment or investments within a manager's portfolio, the issue should be taken up with that particular Manager and if necessary, be brought before the Board for formal discussion and appropriate action.

The investigation of individual holdings within a manager's portfolio is not a core skill set nor a fiduciary responsibility or requirement of this Organization or Board unless there is an obvious violation of the law. On the other hand, White Oak does have the investment expertise to make prudent decisions regarding portfolio holdings and is a fiduciary to the fund regarding investment matters and decisions within their portfolio as laid out in the side letter between White Oak and StanCERA.

- VI. RISK: None at this time. StanCERA is not fiduciarily required to investigate individual holdings within a portfolio unless there is an obvious violation of the law. If the individual investment in question fails to perform for any reason, then there could be an adverse effect on portfolio performance as with any investment.
- VII. STRATEGIC PLAN: Strategic Objective II: Develop efficient and effective processes for the evaluation, monitoring and disposition of StanCERA's active managers.
- VIII. ADMINISTRATIVE BUDGET IMPACT: The cost to research this issue is an investment expense and not an administrative expense.



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Rick Santos, Executive Director



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Kathy Herman, Fiscal Services Manager





Consumer Financial  
Protection Bureau

1700 G Street NW, Washington, DC 20552

IN RE SELLING SOURCE, LLC  
2015-MISC-Selling Source, LLC-0001

## **DECISION AND ORDER ON PETITION BY SELLING SOURCE, LLC, AND TIM MADSEN TO MODIFY OR SET ASIDE CIVIL INVESTIGATIVE DEMAND**

Selling Source, LLC, and Tim Madsen, a Selling Source employee who received a civil investigative demand (CID) seeking his oral testimony, have petitioned the U.S. Consumer Financial Protection Bureau for an order to set aside or modify the CID. For the reasons set forth below, the petition is denied.

### **FACTUAL BACKGROUND**

On May 21, 2015, the Bureau issued a CID to Tim Madsen, the president of PartnerWeekly, LLC, a wholly-owned subsidiary of Selling Source. PartnerWeekly secures loan applications and then sells them to small-dollar lenders. The CID sought Madsen's oral testimony on June 17, 2015, in Las Vegas, Nevada, where the company is located. The Bureau sent this CID to counsel for Selling Source, who also represents Madsen.

On May 27, 2015, Bureau Enforcement counsel met by telephone with Selling Source's counsel to discuss the CID. During the call, Selling Source's counsel asserted that Petitioners were entitled to a more precise description of the practices or alleged violations of law that Bureau staff were investigating, but nonetheless indicated that Madsen would comply. Selling Source's counsel explained that the June 17 hearing date was not feasible, but offered to make the witness available for the hearing in San Francisco on a different date instead. On June 10, 2015, Selling Source and Madsen filed this petition to set aside the CID.

### **LEGAL DETERMINATION**

Petitioners raise a number of objections to the CID, none of which warrants setting aside or modifying the CID.

First, Petitioners contend that the CID's Notification of Purpose is insufficiently specific and thus fails to comply with the requirement, imposed by statute and the Bureau's regulations, that a CID state "the nature of the conduct constituting the alleged violation which is under investigation and the provision of law applicable to such violation," 12 U.S.C. § 5562(c)(2); *see also* 12 C.F.R. § 1080.5. Petition at 2-3. This requirement, however, does not demand a detailed narrative, and it is "well settled that the boundaries of an [agency] investigation may be drawn 'quite generally.'" *FTC v. O'Connell Assocs., Inc.*, 828 F. Supp. 165, 171 (E.D.N.Y. 1993) (quoting *FTC v. Invention Submission Corp.*, 965 F.2d 1086, 1090 (D.C. Cir. 1992)). The CID's Notification of Purpose identifies what conduct the Bureau is investigating – namely, "whether



lead generators or other unnamed persons have engaged or are engaging in unlawful acts and practices in connection with the marketing, selling, or collection of payday loans.” It also identifies the relevant provisions of law: “Sections 1031 and 1036 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. §§ 5531, 5536, the Equal Credit Opportunity Act, 15 U.S.C. § 1691, Regulation B, 12 C.F.R. Part 1002, the Fair Credit Reporting Act, 15 U.S.C. § 1681m(a), Regulation V, 12 C.F.R. Part 1022, the Gramm-Leach-Bliley Act, 15 U.S.C. §§ 6801-6809, Regulation P, 12 C.F.R. Part 1016, the Truth in Lending Act, 15 U.S.C. § 1601 et seq., Regulation Z, 12 C.F.R. Part 1026, or any other Federal consumer financial law.” The Bureau has previously found that notifications functionally equivalent to the one in this CID satisfied the requirements of the statute and regulations. *See, e.g., In Re CheckSmart Financial Company*, 2014-MISC-Checksmart Financial Company-001, at 2 (Jan. 22, 2014);<sup>1</sup> *In Re Aspire Financial Inc.*, 2013-MISC-Aspire Financial-001, at 2 (Apr. 16, 2013);<sup>2</sup> *In re PHH Corp.*, 2012-MISC-PHH Corp-001, at 5-6 (Sept. 20, 2012).<sup>3</sup> Accordingly, the Notification of Purpose here adequately informed Petitioners of the conduct of interest to the Bureau and the potentially applicable provisions of law.

Second, Petitioners contend that the CID’s Notification of Purpose is “misleading” because it states that the Bureau is investigating whether “lead generators or other unnamed persons” have violated the law, whereas Petitioners speculate that the Bureau’s investigation is in fact “entirely focused on Selling Source.” Petition at 3. Petitioners, however, cite no authority for the proposition that a CID must be set aside if it suggests that the agency’s investigation may commence as potentially involving various parties but later narrow to a more limited set of parties. Nor would that make any sense, particularly given that in the natural course of any investigation, the scope of the agency’s inquiry will change as the agency gathers and analyzes more evidence. Thus, even if Petitioners’ ungrounded speculation about the actual scope of the Bureau’s investigation were correct (which the Bureau neither confirms nor denies), that would provide no basis to set aside the CID.

Third, Petitioners contend that the investigation relates to a “potential enforcement proceeding that is not within the CFPB’s authority.” Petition at 3. In particular, Petitioners contend that Selling Source could not violate sections 1031 or 1036 of the Consumer Financial Protection Act, 12 U.S.C. §§ 5531, 5536, because it is neither a “covered person” nor a “service provider” – the categories of persons and entities that those provisions prohibit from “engag[ing] in any unfair, deceptive, or abusive act or practice,” 12 U.S.C. § 5536(a)(1)(B); *see also id.* § 5531(a). Petition at 3-9. Selling Source also contends that there is a “serious question” whether the Bureau could assert a claim that Selling Source violated section 1036(a)(3), 12 U.S.C. § 5536(a)(3), by “knowingly or recklessly provid[ing] substantial assistance to a covered person or service provider in violation of the provisions of section [1031].” Petition at 11. As an initial matter, Petitioners have waived this objection by not raising it with Bureau Enforcement counsel during the meet-and-confer process. The Bureau’s Rules Relating to Investigations

<sup>1</sup> Available at [http://files.consumerfinance.gov/f/201401\\_cfpb\\_order\\_checksart.pdf](http://files.consumerfinance.gov/f/201401_cfpb_order_checksart.pdf).

<sup>2</sup> Available at [http://files.consumerfinance.gov/f/201304\\_CFPB\\_MISC-Aspire-Financial-0001Order.pdf](http://files.consumerfinance.gov/f/201304_CFPB_MISC-Aspire-Financial-0001Order.pdf).

<sup>3</sup> Available at [http://files.consumerfinance.gov/f/201209\\_cfpb\\_setaside\\_phhcorp\\_0001.pdf](http://files.consumerfinance.gov/f/201209_cfpb_setaside_phhcorp_0001.pdf).



Consumer Financial  
Protection Bureau

1700 G Street NW, Washington, DC 20552

provide that, in considering a petition to modify or set aside a CID, the Bureau “will consider only issues raised during the meet and confer process.” 12 C.F.R. § 1080.6(c)(3). Petitioners’ failure to raise this objection during that process is, by itself, a sufficient basis to reject it. *See CheckSmart, supra*, at 2.

In any event, this objection also fails on the merits. This objection is essentially a substantive defense to claims that the Bureau has yet to assert. As the Bureau has previously explained, such fact-based arguments about whether an entity is subject to or complied with a law’s substantive provisions are not defenses to the enforcement of a CID. *See In Re Next Generation Debt Settlement, Inc.*, 2012-MISC-Next Generation Debt Settlement-0001, at 2 (Oct. 5, 2012);<sup>4</sup> *see also EEOC v. Karuk Tribe Hous. Auth.*, 260 F.3d 1071, 1076 (9th Cir. 2001) (noting that Supreme Court has “consistently reaffirmed” the principle that “fact-based claim[s] regarding coverage or compliance with the law” will not preclude enforcement of an administrative subpoena). This is because the responses to a CID may be highly relevant to determining the merits of the agency’s potential claims and the parties’ defenses. Indeed, “[i]f parties under investigation could contest substantive issues in an [administrative subpoena] enforcement proceeding, when the agency lacks the information to establish its case, administrative investigations would be foreclosed or at least substantially delayed.” *FTC v. Texaco, Inc.*, 555 F.2d 862, 879 (D.C. Cir. 1977).

Finally, Petitioners contend that it is “improper” for the Bureau to use CIDs to investigate because, they speculate, the Bureau has already decided to initiate an enforcement action against Selling Source and thus should sue and obtain evidence through discovery instead. Petition at 11. But even if Petitioners’ speculation about the Bureau’s intentions were correct (which the Bureau again will neither confirm nor deny), this objection fails. The statute permits the Bureau to issue CIDs “before the institution of any proceedings under the Federal consumer financial law.” 12 U.S.C. § 5562(c)(1) (emphasis added). No proceedings have yet been instituted.

## CONCLUSION

The petition by Selling Source and Madsen to modify or set aside the CID is denied. Selling Source and Madsen are directed to meet and confer with Bureau Enforcement counsel within 10 days of service of this order to decide upon the date on which Madsen’s hearing will take place.

Richard Cordray, Director

August 6, 2015

<sup>4</sup> Available at [http://files.consumerfinance.gov/f/201210\\_cfpb\\_2012-MISC-Next-Generation-Debt-Settlement-0001-Order.pdf](http://files.consumerfinance.gov/f/201210_cfpb_2012-MISC-Next-Generation-Debt-Settlement-0001-Order.pdf).



STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393

Fax (209) 558-4976

[www.stancera.org](http://www.stancera.org)

e-mail: [retirement@stancera.org](mailto:retirement@stancera.org)

April 15, 2014

## CORRESPONDANCE TO WHITE OAK

Milbrey "Casey" Jones  
White Oak Global Advisors LLC  
88 Kearney Street, Fourth Floor  
San Francisco, CA 94108

Dear Mr. Jones,

As the Chairman of StanCERA and County Treasurer, I am concerned about the loan to Selling Source LLC. I would appreciate you taking time during our meeting on April 22, 2014 to discuss the portfolio, with specific emphasis on investment in Selling Source.

StanCERA is new to the field of direct lending, and the topic of utilizing intermediaries to make loans was not covered in our initial meeting. Selling Source appears to be an intermediary who assists other companies in making loans, including so-called "payday loans". Certain states, including California, have strict laws regarding the issuance of "payday loans" there is a concern that some of the loans, particularly loans made on-line, may not be legal.

According to a January 8, 2012 Bloomberg article "Data from Payday Loan Applicants Sold in Online Auctions", Selling Source LLC or its affiliates, auction leads for loans. According to Richard Cordray, the director of the Consumer Financial Protection Bureau, "the highest bidder may be a legitimate lender, but it could also be a fraudster that has enough of the consumer's sensitive financial information to make unauthorized withdrawals from their bank account".

Questions regarding Selling Source activities are not new. In 2011, the Commonwealth of Pennsylvania was concerned Selling Source violated the Consumer Discount Company Act. There was concern with the section that deals with loans of \$25,000 or less with problems such as interest that exceeded that permitted by law.

I would appreciate your thoughts regarding the past loans and loans made in the future and how they may relate to our fiduciary responsibilities.

Sincerely,

Gordon B. Ford  
StanCERA Chair

C: Rick Santos, StanCERA  
Fred Silva, General Legal Counsel



July 16, 2014

Stanislaus County Employees' Retirement Association  
832 12<sup>th</sup> Street, Suite 600  
Modesto, California 95354  
Attention: Gordon B. Ford, StanCERA Chair

Dear Mr. Ford:

Although we responded to your letter dated April 15, 2014, during our presentation to the Board on April 22, we also wanted to provide a written response. First, however, I'd like to acknowledge your concern: please rest assured that White Oak does not lend to borrowers engaged in unlawful activities and that any involvement with such a firm would be completely unacceptable.

As you're no doubt aware, however, "payday loans" are not illegal and exist because a significant number of consumers have unmet capital needs. This population is particularly vulnerable to the fraudsters that prey on vulnerable members of our society, and we fully appreciate that you do not want to lend support to such bad actors in any way. However, Selling Source is also concerned about the bad actors tarnishing their industry. They have worked with the Federal Trade Commission and Secret Service, as well as an industry trade group, the On Line Lenders Alliance (OLA), to investigate these problems. Furthermore, Selling Source is an industry leader in data protection and its President/CEO wrote the OLA's Marketing Best Practices.

Beyond the questions of protecting consumers and their data against fraud, however, is the challenging complexity of regulatory compliance. For Selling Source, two areas have been a particular concern.

First, we believe you're familiar with the "Sovereign business model." Although Selling Source has worked with payday lenders that subscribe to this model, the company has been advised by nationally-recognized counsel that the lenders to whom Selling Source provides leads are authorized to do so under current law. The Sovereign model is currently being tested in the New York State courts; Selling Source has already made adjustments to its business, and we have no doubt it will continue to comply with the governing law in this area.

Second, your letter alluded to the Pennsylvania Department of Banking (PDB)'s objection that a Selling Source affiliate's national advertising campaign may have violated a statutory prohibition against marketing by or on behalf of certain lenders. The matter was settled by mutual consent. The parties' agreement acknowledges that Selling Source, upon notice from the PDB, "immediately contacted the Bureau to cooperate in its investigation and amicably resolve any open questions" regarding its activities and business. The company agreed to pay \$40,000 to cover the PDB's costs, to block Pennsylvania residents from their website, and to disclose in future advertising that their products are



not available to Pennsylvania residents. The matter was resolved in 2011, and the consent agreement is available online.<sup>1</sup>

On this latter point White Oak may be particularly sympathetic to Selling Source, as we also face the challenges of complying with myriad financial industry regulations. Likewise, we are keenly sensitive to your concerns about StanCERA's fiduciary responsibilities. White Oak is equally concerned about maintaining our investors' trust.

As we understand it, however, the Board's responsibility to StanCERA is to invest prudently, and it does not have a "social good" mandate or guideline. Therefore, your investment with White Oak and, indirectly with Selling Source, poses no negative implications to your fiduciary responsibility. On the contrary, we believe this investment is entirely consistent with StanCERA's investment objectives regarding its allocation to our firm.

On a final note, I'd like you to know that I personally respect your feelings about payday lending. Thank you for sharing your concerns and granting us an opportunity to address them.

Sincerely yours,

Andre Hakkak  
Managing Member

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<sup>1</sup>[http://webcache.googleusercontent.com/search?q=cache:xBpoe4yXRu8J:https://www.portal.state.pa.us/portal/server.pt/document/1046565/selling\\_source\\_llc\\_dba\\_money\\_mutual\\_cao\\_021811\\_redacted\\_for\\_website\\_pdf+&cd=1&hl=en&ct=clnk&gl=us](http://webcache.googleusercontent.com/search?q=cache:xBpoe4yXRu8J:https://www.portal.state.pa.us/portal/server.pt/document/1046565/selling_source_llc_dba_money_mutual_cao_021811_redacted_for_website_pdf+&cd=1&hl=en&ct=clnk&gl=us)



**OFFICE OF TREASURER/TAX COLLECTOR**

**Gordon B. Ford**  
Treasurer/Tax Collector

PO Box 859, Modesto, CA 95353-0859  
Phone: 209.525.6388 Fax: 209.525.7868

April 15, 2015

Rick Santos  
Executive Director  
Stanislaus County Employees' Retirement Association (StanCERA)  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354

Dear Mr. Santos,

You asked that I provide questions for White Oak prior to our meeting so they can prepare responses.

In their July 16, 2014 letter to StanCERA, they state "...White Oak does not lend to borrowers engaged in unlawful activities and that any involvement with such a firm would be completely unacceptable." Please have them clarify if that statement includes subsidiaries of such a firm?

A California judge tossed a putative class action in 2014 against DataX, a subsidiary of Selling Source, (case number 3:13-cv-02995). It was argued that Selling Source sold "sales leads" to the scammers. Selling Source responded that only its subsidiaries sell information about consumers to third parties.

In their July 16, 2014 letter to StanCERA, they refer to the "Sovereign business model" and state it is being tested in New York. They state "...Selling Source has already made adjustments to its business and we have no doubt it will continue to comply with the governing law in this area."

Please have them explain how in March 2015, Selling Source, d/b/a, Money Mutual will pay \$2.1 million penalty, cease its payday loan lead generation activities in New York, and provide new consumer warnings and disclosures after a Department of Financial Services (DFS) investigation uncovered that the company marketed illegal, online payday loans to New York Consumers.

In their July 16, 2014 letter to StanCERA, they stated that Selling Source agreed to pay \$40,000 and amicably resolved any open questions in Pennsylvania.

Please have them explain how Attorney General Kane filed lawsuit over alleged illegal payday loan scheme. Both Think Finance and Selling source which used Money Mutual were named. Selling Source allegedly made referrals of Pennsylvania residents to the scheme for a commission, even after it was ordered to stop those referrals in a 2011 agreement with the Pennsylvania Department of Banking.

It appears that there are many questions regarding Selling Source and its subsidiaries. Please have White Oak find out if any of the attorneys, judges, or prosecutors have asked about which organizations have provided funds and if StanCERA has been listed in any of the documents provided.

Sincerely,

Gordon B. Ford  
Treasurer-Tax Collector



**October 27, 2015**

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: State Association of County Retirement Systems (SACRS) Legislative Proposals
- II. ITEM NUMBER: 7.g.
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: Direct the StanCERA voting delegate to support or oppose the legislative proposals
- V. ANALYSIS: The following two proposals are up for consideration at the SACRS business meeting on November 20<sup>th</sup>:

- **District Status for 1937 Act County Employee Retirement Systems (SACRS Board of Directors).** - This proposal would provide statutory authorization for the Board of Retirement of any 1937 Act Retirement System to make an election to become an independent district. Specific language for this proposal would be developed by the Legislative Committee. Currently, for a system to seek independent status, they must seek legislative approval on their own for their own specific situation or adopt one of several "flavors" of independence already incorporated into the 1937 Act Code.
- **Optional Employee Sworn Statements** - This proposal would allow 1937 Act Retirement Systems to accept electronic data in lieu of sworn statements from employees. The proposal will not prevent systems from maintaining the requirement for or continuing to utilize sworn statements.

Attachment 1 contains the Platform Worksheets for both items and contains more information.

- VI. RISK: Nothing currently ascertainable.
- VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.
- VIII. BUDGET IMPACT: None regarding the opposition or support of these proposals. If the proposal regarding employee sworn statements is passed, there may be some operational efficiencies gained by not being required to collect sworn statements from members.

Rick Santos, Executive Director

Dawn Lea, Member and Employer Services Manager



## YEAR 2016 SACRS LEGISLATIVE PLATFORM WORKSHEET

PLEASE COMPLETE AND RETURN BY SEPTEMBER 4, 2015

Title of Issue: 1937 Act County District Status Authorization

Association: SACRS Board of Directors

Contact Person: Jim Lites

Phone #: 916 266-4575

Fax #: 916 266-4580

Email: [jlites@calstrat.com](mailto:jlites@calstrat.com)

Please answer the following questions as fully as possible:

1. Description of issue.

District authorization essentially allows a county retirement system to hire key executive personnel as employees of the retirement system, rather than employees of the county. Orange, San Bernardino and Contra Costa already operate under this section of the County Employees Retirement Law of 1937. The Ventura County Employees Retirement System sponsored AB 1291/Ch. 223, Statutes of 2015, which provides a modified version of district status for Ventura.

With the enactment of the Public Employee Pension Reform Act of 2012 (PEPRA), one of the responsibilities PEPRA mandates upon boards of retirement is the requirement to monitor and enforce the anti-spiking provisions of the measure. With senior retirement system personnel as employees of the retirement system rather than the county, 1937 systems will have greater independence to fulfill the PEPRA anti-spiking provisions. In addition, it will assist our local retirement system in attracting and retaining highly-talented human capital necessary to effectively manage a retirement system and an investment portfolio in today's investment marketplace.

2. Recommended solution.

Provide statutory authorization for the Board of Retirement for any 1937 act system to make an election to become an independent district.

3. Specific language that you would like changed in, or added to, '37 Act Law, and suggested code section numbers.

The intent is to amend Government Code Sections 31468 and 31522.5 to allow each 1937 Act county retirement system to elect to have district status. The specific language will be written based on the guidance of the SACRS Legislative Committee.

4. Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association?

This proposal would provide the remaining 1937 Act county retirement systems with the authority to become a district. The requested revisions will affect all CERL systems that have not yet sought legislation to obtain district status.

5. Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or create a problem with any of the other 19 SACRS retirement associations?

The intent of this proposal is to provide county-optional authority.

6. Who will support or oppose this proposed change in the law?

SACRS would seek support from other 1937 Act stakeholders.

7. Who will be available from your association to testify before the Legislature?

Richard Stensrud, Chair, SACRS Legislative Committee.

E-mail or mail your legislative proposals to:

**Jim Lites**  
**California Strategies, LLC**  
**980 9<sup>th</sup> Street, Suite 2000**  
**Sacramento, CA 95814**  
**Phone: (916) 266-4575**  
**Email: [jlites@calstrat.com](mailto:jlites@calstrat.com)**

## YEAR 2016 SACRS LEGISLATIVE PLATFORM WORKSHEET

PLEASE COMPLETE AND RETURN BY SEPTEMBER 4, 2015

Title of Issue: Sworn Statement Requirement

Association: San Diego County Employees Retirement Association (SDCERA)

Contact Person: Johanna Shick, Chief Service Officer  
Elaine Reagan, Chief Legal Officer

Phone #: 619.515.6815  
619.515.6804

Fax #: 619.515.5071  
619.515.5067

Please answer the following questions as fully as possible:

1. Description of issue.

Government Code §31526 states "The regulations shall include provisions: (a) For the election of officers, their terms, meetings, and all other matters relating to the administrative procedure of the board. (b) For the filing of a sworn statement by every person who is or becomes a member, showing date of birth, nature and duration of employment with the county, compensation received, and such other information as is required by the board. (c) For forms of annuity certificates and for such other forms as are required."

Some retirement systems receive date of birth, nature and duration of employment with the county and compensation automatically via electronic payroll feed from the County. At the time the statute became effective in 1947 electronic payroll feeds did not exist, making the collection of this information critical for enrolling members into the system.

When counties automatically enroll eligible employees into the retirement system, and collect and report to the retirement system the required information, the requirement of collecting a sworn statement from each eligible employee is duplicative and unnecessary. Further, requiring the collection of a sworn statement from each eligible employee creates compliance issues and inefficiencies. Because not all employees return their sworn statements, additional staff time and resources must be expended to obtain the form from employees in order to comply with Government Code §31526; however, the retirement system already has the necessary information from the employer via the payroll feed.

2. Recommended solution.

Add language that would allow counties to collect members' date of birth, nature and duration of employment with the county, and compensation received from the employer in lieu of requiring the member to complete a sworn statement. This would enable those counties that have implemented procedures to automatically enroll eligible employees into the retirement system, and collect and report the required information to the retirement system automatically to streamline processes, thus making the administration of the benefit more efficient and bringing statute in alignment with modern-day technology.

3. Specific language that you would like changed in, or added to, '37 Act Law, and suggested code section numbers.

§31526: The regulations shall include provisions: (a) For the election of officers, their terms, meetings, and all other matters relating to the administrative procedure of the board. (b) For the filing of a sworn statement by every person who is or becomes a member, showing date of birth, nature and duration of employment with the county, compensation received, and such other information as is required by the board or, alternatively and in lieu of a sworn statement, for such information to be provided by the member's employer to the retirement association in a form to be determined by the retirement association. (c) For forms of annuity certificates and for such other forms as are required.

4. Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association?

The requested addition to Government Code §31526 affects all CERL systems, not only SDCERA.

5. Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or create a problem with any of the other 19 SACRS retirement associations?

No

6. Who will support or oppose this proposed change in the law?

The proposed amendment is unlikely to raise opposition as it is designed to allow the status quo for those systems that prefer it. It does not prohibit systems from continuing to use sworn statements; it simply allows those systems gathering this information electronically to streamline their processes and more reliably collect the information.

7. Who will be available from your association to testify before the Legislature?

Johanna Shick, Chief Service Officer  
Elaine Reagan, Chief Legal Officer

E-mail or mail your legislative proposals to:

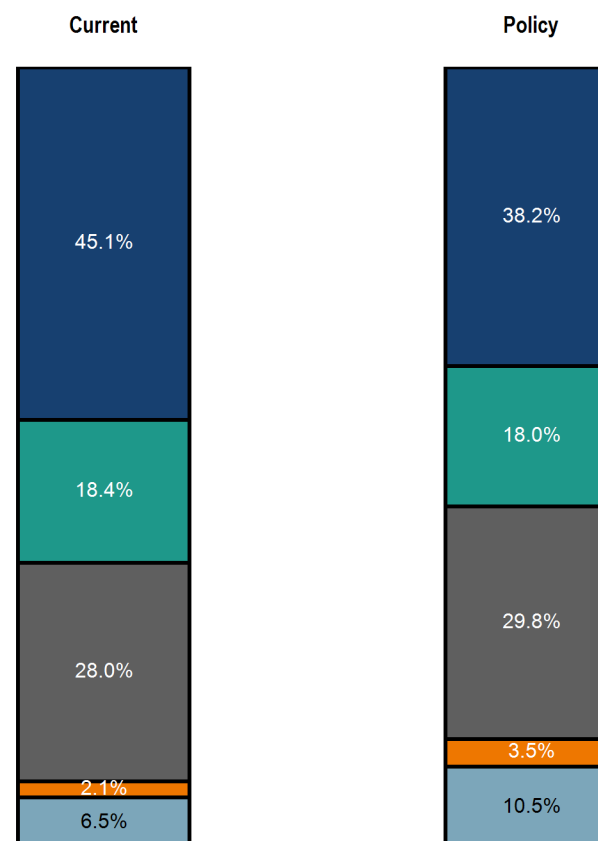
**Jim Lites**  
**California Strategies, LLC**  
**980 9<sup>th</sup> Street, Suite 2000**  
**Sacramento, CA 95814**  
**Phone: (916) 266-4575**  
**Email: [jlites@calstrat.com](mailto:jlites@calstrat.com)**

# Total Fund Executive Summary (Net of Fees) - Preliminary

Period Ending: September 30, 2015

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Fund</b>	<b>1,703,550,899</b>	<b>100.0</b>	<b>-2.7</b>	<b>-4.2</b>
<i>Policy Index</i>			-1.7	-2.9
<b>US Equity</b>	<b>767,579,673</b>	<b>45.1</b>	<b>-3.8</b>	<b>-6.0</b>
<i>US Equity Blended</i>			-3.2	-5.7
<i>Russell 3000</i>			-2.9	-5.4
Mellon S&P 500	68,702,743	4.0	-2.5	-5.3
<i>S&amp;P 500</i>			-2.5	-5.3
BlackRock Russell 1000 Growth	105,560,000	6.2	-2.5	-1.6
<i>Russell 1000 Growth</i>			-2.5	-1.5
Jackson Square	154,806,951	9.1	-3.7	-3.0
<i>Russell 1000 Growth</i>			-2.5	-1.5
BlackRock Russell 1000 Value	113,320,873	6.7	-3.0	-8.8
<i>Russell 1000 Value</i>			-3.0	-9.0
Dodge & Cox-Equity	168,608,804	9.9	-4.0	-8.2
<i>Russell 1000 Value</i>			-3.0	-9.0
Legato Capital	78,323,774	4.6	-7.0	-6.5
<i>Russell 2000 Growth</i>			-6.3	-5.5
Capital Prospects	78,256,527	4.6	-4.1	-9.2
<i>Russell 2000 Value</i>			-3.5	-10.1
<b>International Equity</b>	<b>313,371,916</b>	<b>18.4</b>	<b>-4.7</b>	<b>-7.5</b>
<i>MSCI ACWI ex USA Gross</i>			-4.6	-8.3
LSV Asset Mgt	154,248,546	9.1	-5.0	-8.5
<i>MSCI ACWI ex USA Gross</i>			-4.6	-8.3
Pyramis	159,123,369	9.3	-4.4	-6.3
<i>MSCI ACWI ex USA Gross</i>			-4.6	-8.3
<b>US Fixed Income</b>	<b>476,580,028</b>	<b>28.0</b>	<b>-0.1</b>	<b>0.1</b>
<i>Barclays Aggregate</i>			0.7	1.1
Dodge & Cox-Fixed	365,489,472	21.5	-0.3	-0.1
<i>Barclays Aggregate</i>			0.7	1.1
PIMCO	111,090,556	6.5	0.3	1.0
<i>Barclays Aggregate</i>			0.7	1.1

	Current	%	Policy	%
Domestic Equity	\$767,579,673	45.1%	\$650,756,443	38.2%
International Equity	\$313,371,916	18.4%	\$306,639,162	18.0%
Domestic Fixed Income	\$476,580,028	28.0%	\$507,658,168	29.8%
Real Estate	\$35,046,975	2.1%	\$59,624,281	3.5%
Alternatives	\$110,924,937	6.5%	\$178,872,844	10.5%
Cash and Equivalents	\$47,370	0.0%	--	--
<b>Total</b>	<b>\$1,703,550,899</b>	<b>100.0%</b>	<b>\$1,703,550,899</b>	<b>100.0%</b>



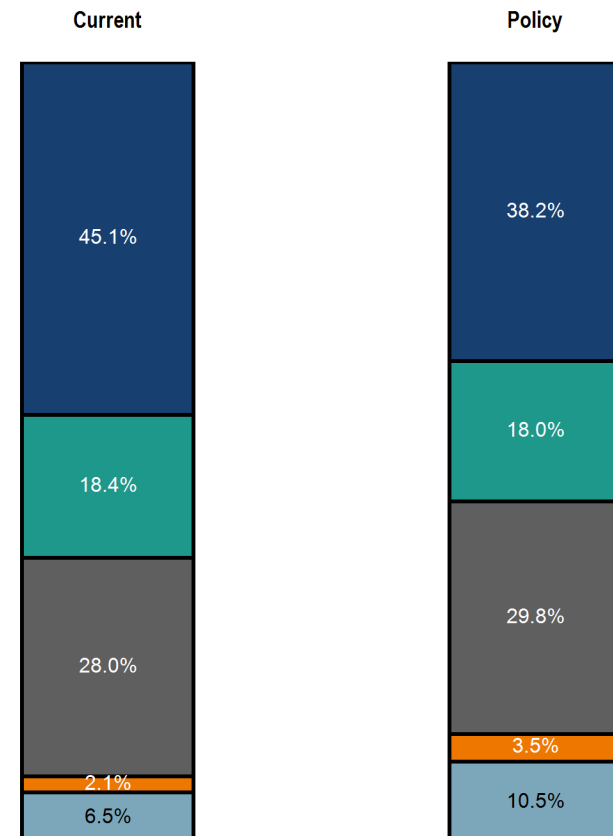
Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% Barclays Aggregate, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. All data prior to 6/30/2015 provided by the previous consultant. 12th Street Building removed from investable assets 3Q 2015. Invesco residual balance of \$133.03 included in Total Fund market value. Raven Opportunity III initial capital called 7/6/2015. Prime Property Fund capital called 9/30/2015. All data is preliminary.

# Total Fund Executive Summary (Net of Fees) - Preliminary

Period Ending: September 30, 2015

	Market Value	% of Portfolio	1 Mo	YTD
<b>Real Estate</b>	<b>35,046,975</b>	<b>2.1</b>	<b>0.7</b>	<b>3.9</b>
DJ US Select RESI			3.3	-2.9
Prime Property Fund	15,000,002	0.9	--	--
NCREIF-ODCE			--	--
American Strategic Value Realty	8,262,879	0.5	0.0	8.8
NCREIF Property Index			0.0	6.8
BlackRock US Real Estate	3,093,024	0.2	3.3	-3.0
DJ US Select RESI TR USD			3.3	-2.9
Greenfield Gap	8,690,937	0.5		
<b>Direct Lending</b>	<b>102,518,187</b>	<b>6.0</b>		
Medley Capital	32,981,403	1.9		
Raven Capital	27,027,468	1.6		
Raven Opportunity III	2,996,461	0.2		
White Oak Pinnacle	39,512,855	2.3		
<b>Infrastructure</b>	<b>8,406,750</b>	<b>0.5</b>		
MS Infrastructure Partners II	8,406,750	0.5		
Cash Account	47,370	0.0	0.0	--

	Current	%	Policy	%
Domestic Equity	\$767,579,673	45.1%	\$650,756,443	38.2%
International Equity	\$313,371,916	18.4%	\$306,639,162	18.0%
Domestic Fixed Income	\$476,580,028	28.0%	\$507,658,168	29.8%
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Alternatives	\$110,924,937	6.5%	\$178,872,844	10.5%
Cash and Equivalents	\$47,370	0.0%	--	--
<b>Total</b>	<b>\$1,703,550,899</b>	<b>100.0%</b>	<b>\$1,703,550,899</b>	<b>100.0%</b>



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% Barclays Aggregate, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. All data prior to 6/30/2015 provided by the previous consultant. 12th Street Building removed from investable assets 3Q 2015. Invesco residual balance of \$133.03 included in Total Fund market value. Raven Opportunity III initial capital called 7/6/2015. Prime Property Fund capital called 9/30/2015. All data is preliminary.

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# **PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS**



**OCTOBER 27, 2015**

Current assessment review for

**Stanislaus County Employees' Retirement Association**



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# Executive summary

# Executive summary

This document contains a review of the Plan characteristics, asset allocation, risk exposures, and investment managers for the Stanislaus County Employees' Retirement Association. The purpose of this document is to ensure that the Board, Staff, and Professionals share a common understanding of all key facts pertaining to the Plan.

The purpose of each section is as follows:

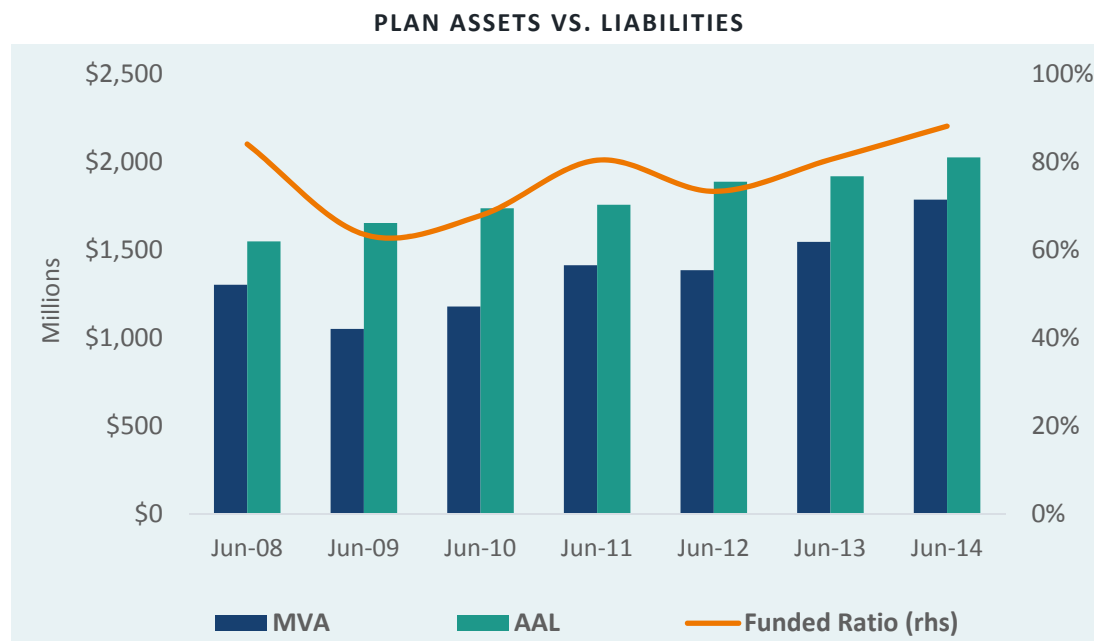
- The Plan Characteristics section summarizes the liability profile, cash flows, and participation in the Plan.
- The Asset Allocation section summarizes the expected risk and return levels with the current policy and actual asset allocation.
- The Risk Exposures section introduces risk factors and stress testing approaches to assessing investment risk.
- The Investment Managers section summarizes each investment strategy and its role in the portfolio.

This document is foundational in preparing for the Asset Liability Workshop, revising the Investment Policy Statement, and facilitating the Investment Strategy Development (ISD) process.

# Plan characteristics

# Actuarial accrued liabilities

- Market value of assets have grown at 3-yr and 6-yr annual rates of 8.1% and 5.4%, respectively
- Actuarial accrued liabilities have grown at 3-yr and 6-yr annual rates of 4.9% and 4.6%, respectively
- Market value of assets increased 4 out of the last 6 years, while actuarial accrued liabilities increased each of the last 6 years
- Assumed rate of return of 7.75%
- Based on market value of assets, the June 2014 funded ratio (88.2%) is at its highest level since 2007



As of June 30, 2014

Sources: StanCERA Investment Reports, Cheiron StanCERA Actuarial Valuation Reports

Note: Actuarial liabilities prior to June 30, 2008 were determined to be understated by both Milliman and EFI

# Plan cash flows

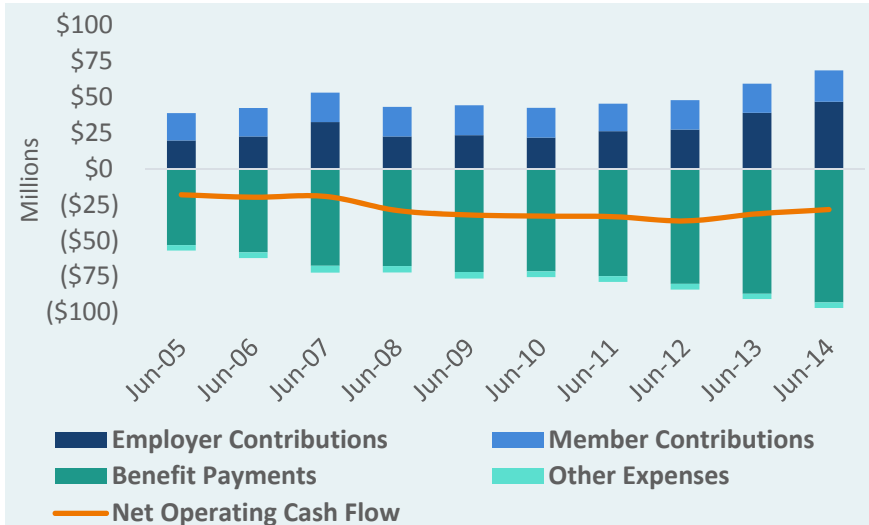
— Since June 2005

- Total contributions have grown at a 6.5% annual rate
  - Employer contributions at 10.0%
  - Employee contributions at 1.5%
- Benefit payments have grown at a 6.4% annual rate

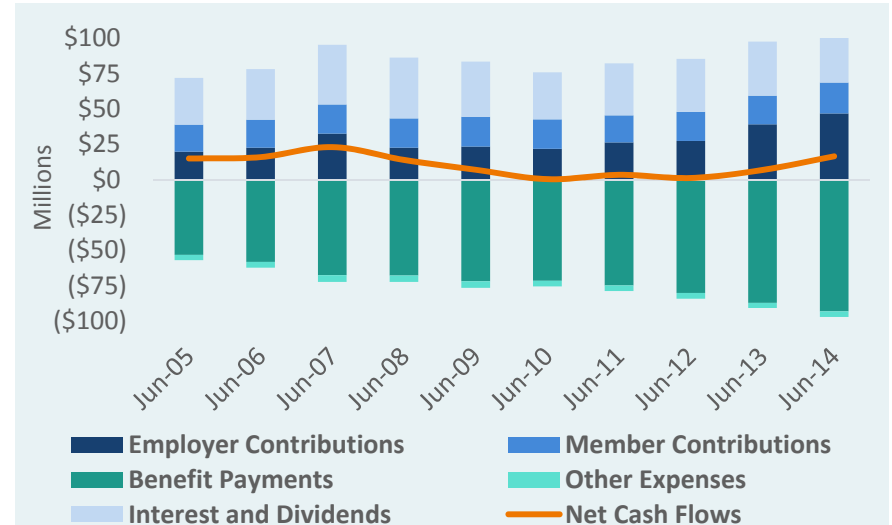
— Net operating cash flows have remained *negative* for the last 10 years (avg. -\$28.1 mil)

— Net cash flows, taking into account interest and dividends, has remained *positive* for the last 10 years (avg. \$10.3 mil)

**OPERATING CASH FLOWS**



**NET CASH FLOWS**



As of June 30, 2014

Sources: StanCERA Comprehensive Annual Financial Reports

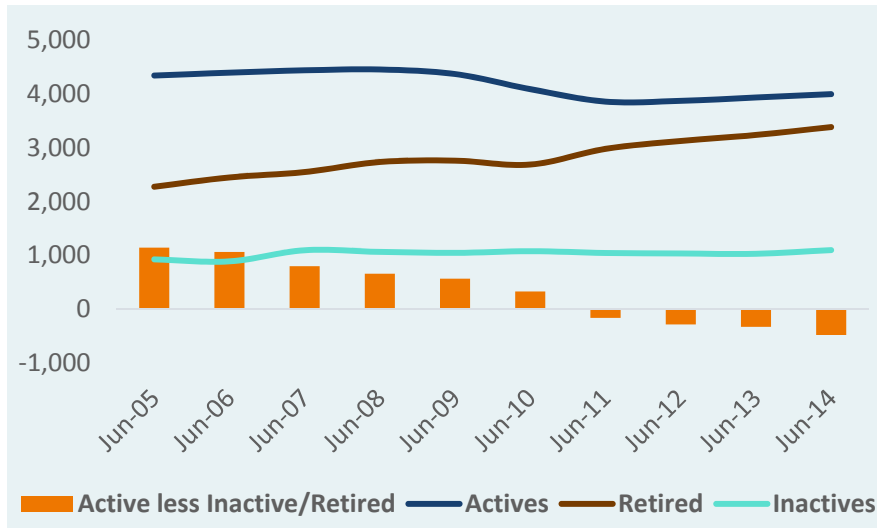
# Participant statistics

— Since June 2005

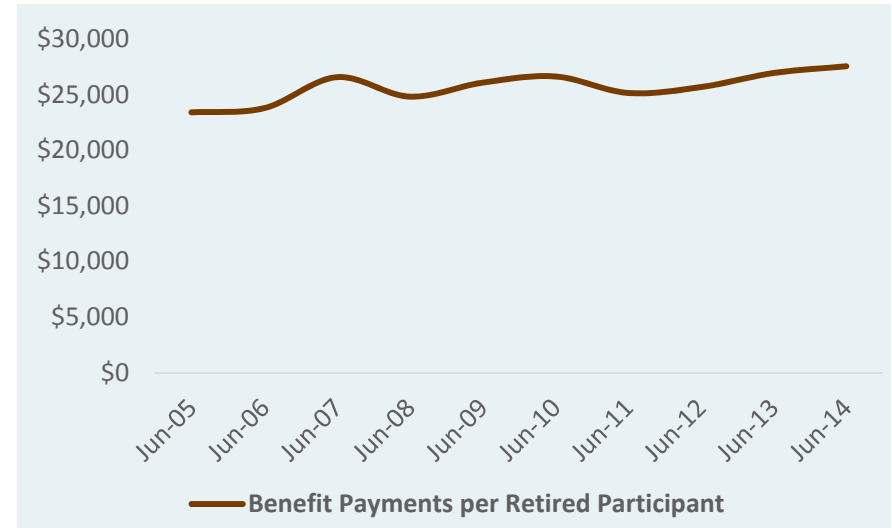
- Total participant count has increased at a 1.3% annual rate
  - Current active participants have been slightly decreasing at a -0.9% rate
  - Retired and inactive vested participants has grown at a 4.5% and 1.9% annual rate, respectively
- Benefit payments per retired participant has grown at a 1.8% annual rate

— The declining number of active participants should eventually lead to a decline in the growth rate of retired participants, likely leading to a decline in the growth of benefit payments

**PARTICIPANT TRENDS**



**BENEFIT PAYMENTS PER RETIRED PARTICIPANT**



As of June 30, 2014

Sources: StanCERA Comprehensive Annual Financial Reports

# Asset allocation



# Asset allocation analysis

	Actual	Policy	Avg Pension	CMA's (10 Yr)	Std Dev	Sharpe Ratio
<b>Domestic Equity</b>						
Large Cap US Equity	36.0	30.5	18.6	5.7	14.7	0.25
Small/Mid Cap US Equity	9.5	7.7	4.6	4.7	19.8	0.13
	<b>45.5</b>	<b>38.2</b>	<b>23.2</b>			
<b>International Equity</b>						
International Large	15.0	14.4	17.0	9.5	18.2	0.41
Emerging Markets	3.8	3.6	4.8	11.5	23.7	0.40
	<b>18.8</b>	<b>18.0</b>	<b>21.8</b>			
<b>Total Equity</b>	<b>64.3</b>	<b>56.2</b>	<b>45.0</b>			
<b>Fixed Income</b>						
Core Plus Fixed Income	27.3	29.8	35.0	3.8	5.9	0.29
Bank Loans	6.0	7.5	-	3.7	8.7	0.19
	<b>33.3</b>	<b>37.3</b>	<b>35.0</b>			
<b>Real Assets</b>						
Commodities	-	-	5.0	4.1	18.2	0.11
Real Estate	2.4	6.5	5.0	5.1	13.2	0.23
	<b>2.4</b>	<b>6.5</b>	<b>10.0</b>			
<b>Alternatives</b>						
Liquid Alts/HFoF	-	-	5.0	6.0	9.1	0.43
Private Equity/VC	-	-	5.0	7.7	23.7	0.24
	<b>-</b>	<b>-</b>	<b>10.0</b>			
Cash	-	-	-	2.1	0.6	-
<b>Total Allocation</b>	<b>100</b>	<b>100</b>	<b>100</b>			

	Actual	Policy	Avg Pension
<b>Mean Variance Optimization</b>			
<b>Forecast 10 Year Return</b>	<b>6.1</b>	<b>6.0</b>	<b>6.4</b>
Standard Deviation	11.5	10.6	10.7
Return/Std. Deviation	0.5	0.6	0.6
1st percentile ret. 1 year	-29.2	-28.6	-26.7
Sharpe Ratio	0.40	0.42	0.45
<b>Verus Economic Scenario Analysis</b>			
<b>10 Year Return Forecast</b>			
Stagflation	4.9	5.0	6.0
Weak Economy	2.0	2.2	2.7
<b>Base CMA</b>	<b>5.9</b>	<b>5.8</b>	<b>6.1</b>
Strong	10.1	9.6	9.5
Range of Scenario Forecast	8.1	7.4	6.8
Economic Shock (1 year)	-26.9	-24.1	-22.7

## Notes:

- Real Estate capital market assumptions are for core real estate
- Verus' capital market assumptions incorporates an inflation rate of 2.1% compared to an actuarial inflation rate assumption of 3.25%

As of 8/31/2015

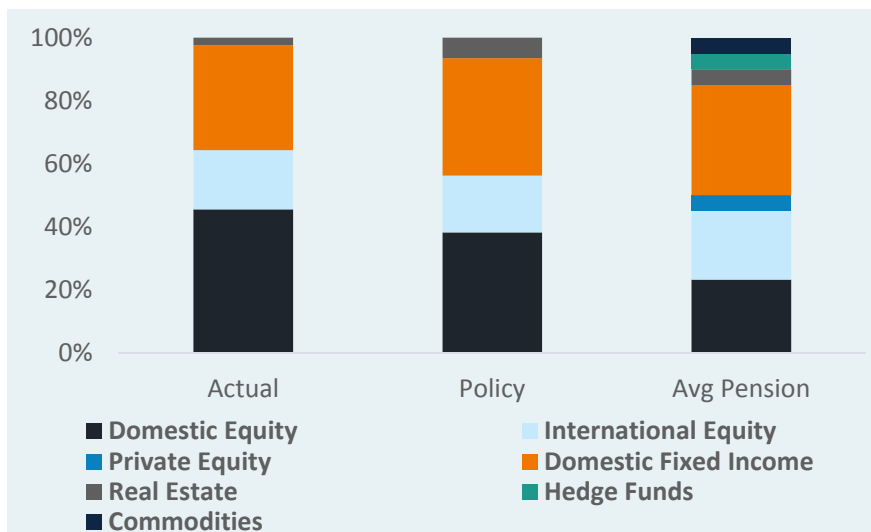
Scenario Analysis utilizes August 2015 Verus Capital Market Assumptions

Avg. Pension based on BNY Mellon Universe Data of DB Plan > \$2B (figures rounded): 45% ACWI; 35% BC Agg; 5% Private Equity (levered 30%); 5% NCREIF; 5% HFRI FoF; 5% Bloomberg Commodities

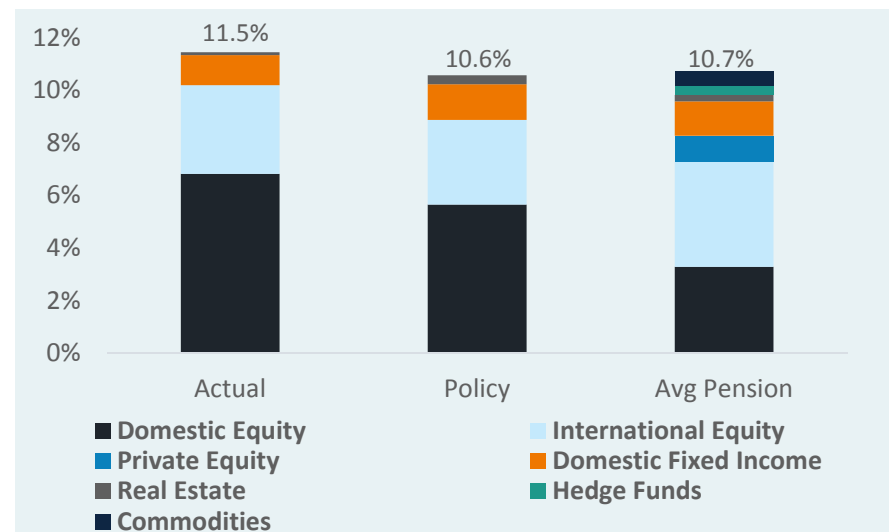
# Portfolio allocation

- Utilizes passive investment strategies
- Significant domestic tilt in equity exposure
- No current allocations to international fixed income, hedge funds, or commodities
- Current portfolio allocation risk is notably higher than policy portfolio risk (11.5% vs. 10.6%), driven by an overweight in domestic equity and an underweight in both domestic fixed income and real estate

**ASSET ALLOCATION BY ASSET CLASS**



**RISK CONTRIBUTION BY ASSET CLASS<sup>1</sup>**

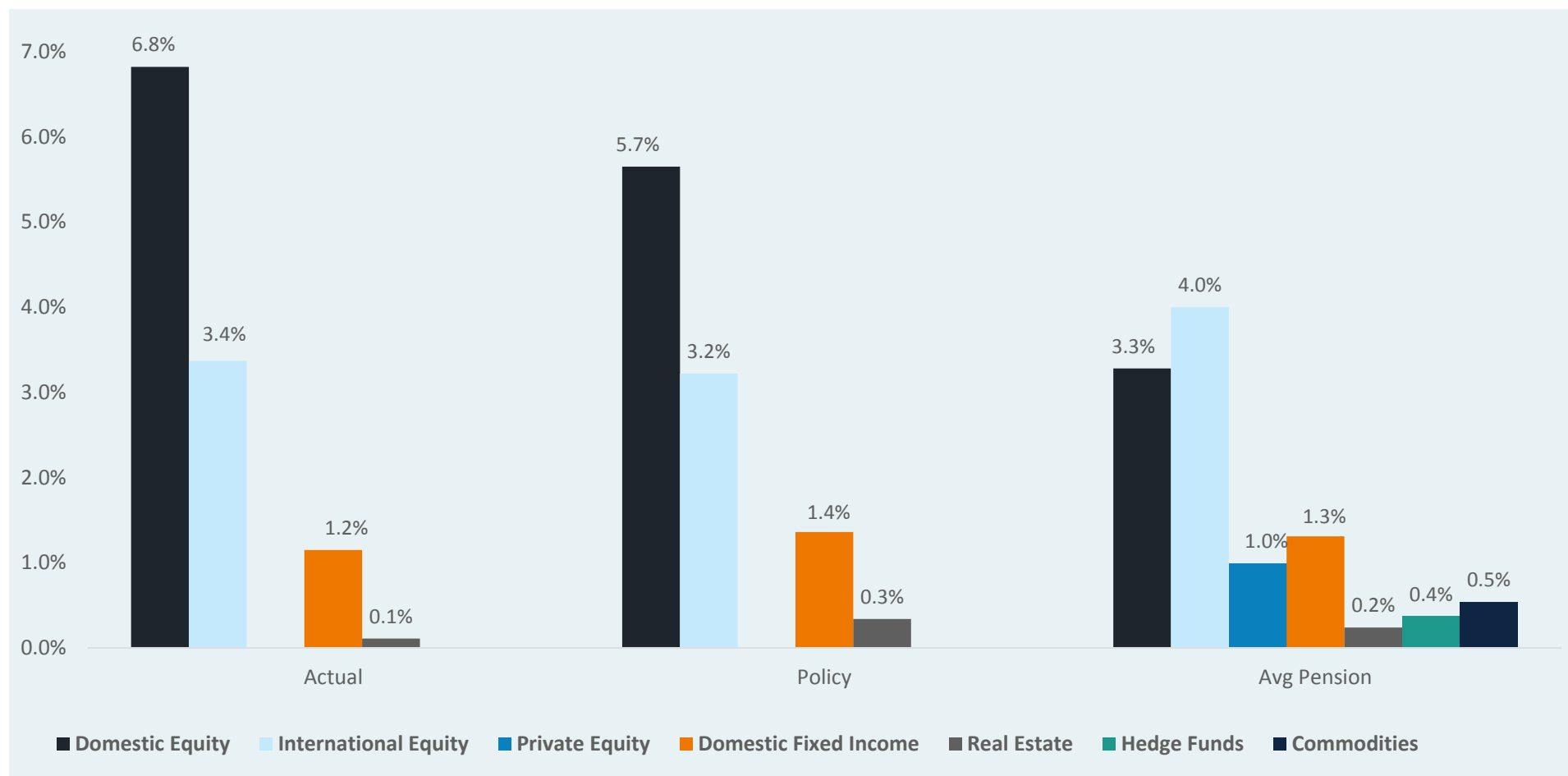


As of 8/31/2015

<sup>1</sup>Based on Verus' Capital Market Assumptions

Avg. Pension based on BNY Mellon Universe Data of DB Plan > \$2B (figures rounded): 45% ACWI; 35% BC Agg; 5% Private Equity (levered 30%); 5% NCREIF; 5% HFRI FoF; 5% Bloomberg Commodities

# Risk contribution by asset class



As of 8/31/2015

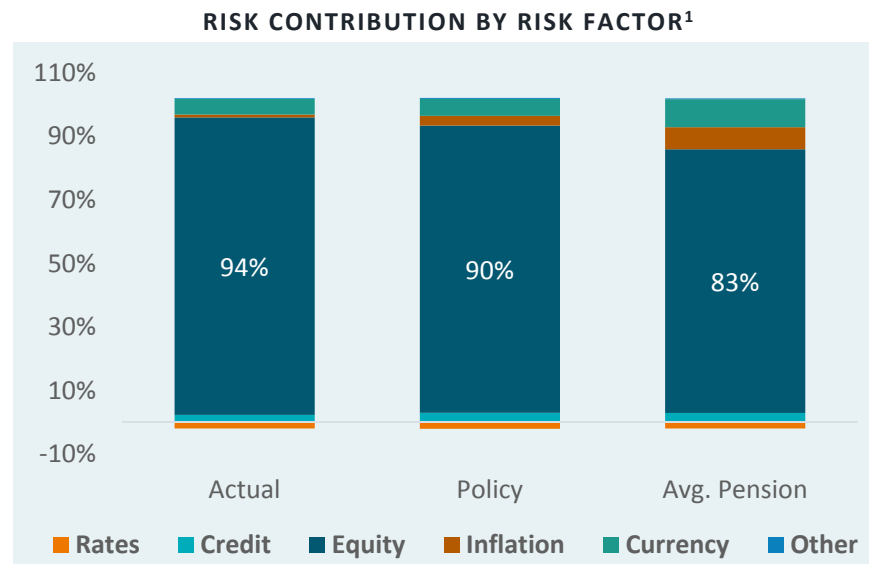
Based on Verus' Capital Market Assumptions

Avg. Pension based on BNY Mellon Universe Data of DB Plan > \$2B (figures rounded): 45% ACWI; 35% BC Agg; 5% Private Equity (levered 30%); 5% NCREIF; 5% HFRI FoF; 5% Bloomberg Commodities

# Risk exposures

# Risk contribution

- The Policy portfolio's total risk is composed of higher equity risk relative to the Avg. Pension
  - The greater equity risk, when compared to the Avg. Pension, is mostly attributable to a higher equity allocation
  - The lower inflation risk, when compared to the Avg. Pension, is mostly attributable to no commodities exposure
  - The lower currency risk, when compared to the Avg. Pension, is mostly attributable to less international exposure



As of 8/31/2015

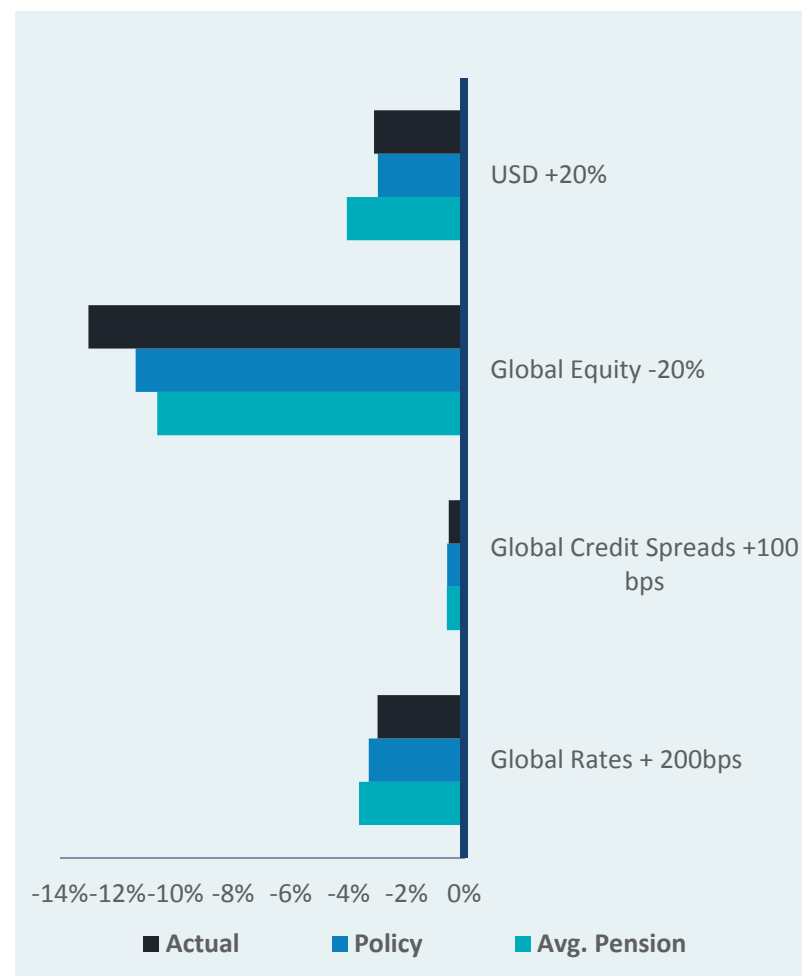
<sup>1</sup>Based on BarraOne's Capital Market Assumptions

Avg. Pension based on BNY Mellon Universe Data of DB Plan > \$2B (figures rounded): 45% ACWI; 35% BC Agg; 5% Private Equity (levered 30%); 5% NCREIF; 5% HFRI FoF; 5% Bloomberg Commodities

# Stress test

- BarraOne's risk decomposition analysis can hypothesize how the different portfolios would have performed in certain hypothetical stress tests or historical environments.
- This analysis is based on how the risk factors inherent in the current index holdings reacted in those environments.

TAIL RISK – STRESS TEST



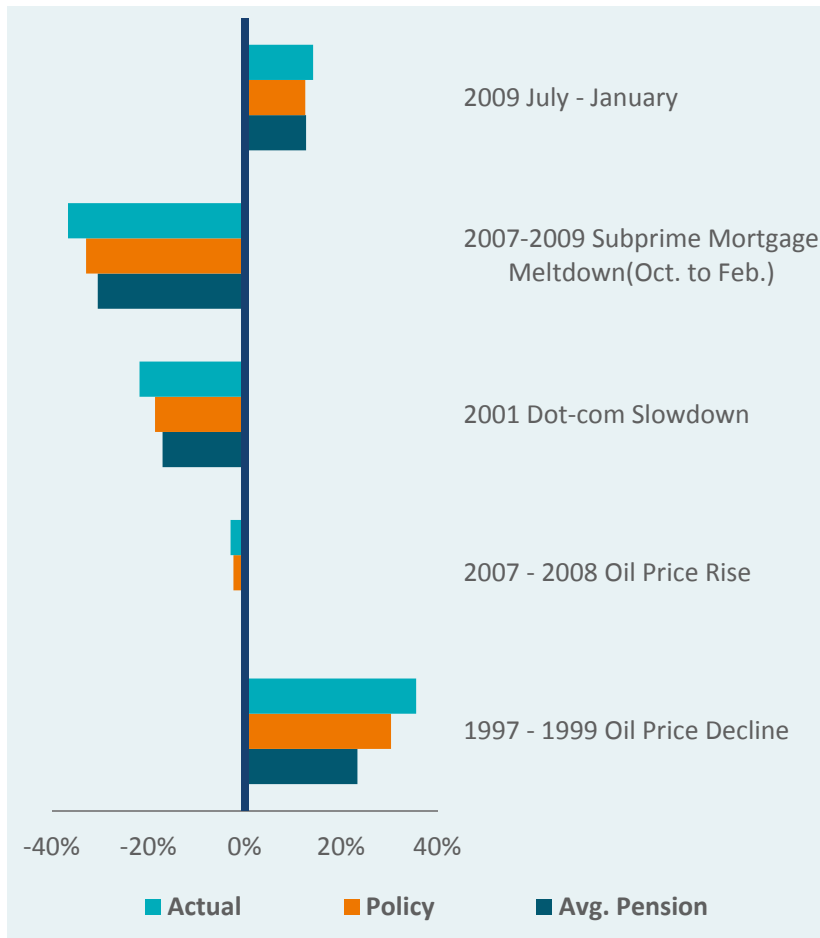
As of 8/31/2015

Scenario analysis based on risk factors in current policy index and computed as hypothetical scenarios using MSCI BarraOne

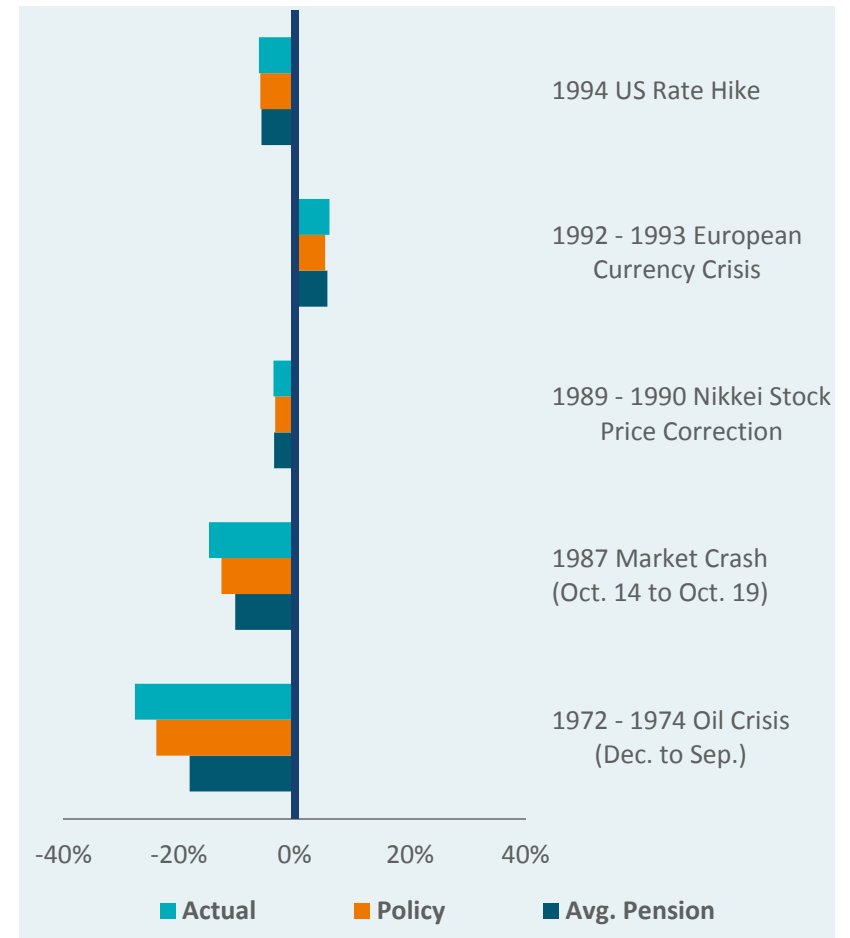
Avg. Pension based on BNY Mellon Universe Data of DB Plan > \$2B (figures rounded): 45% ACWI; 35% BC Agg; 5% Private Equity (levered 30%); 5% NCREIF; 5% HFRI FoF; 5% Bloomberg Commodities

# Historical scenario analysis

TAIL RISK – SCENARIO ANALYSIS



TAIL RISK – SCENARIO ANALYSIS



As of 8/31/2015

Scenario analysis based on risk factors in current policy index and computed as hypothetical scenarios using MSCI BarraOne

Avg. Pension based on BNY Mellon Universe Data of DB Plan > \$2B (figures rounded): 45% ACWI; 35% BC Agg; 5% Private Equity (levered 30%); 5% NCREIF; 5% HFRI FoF; 5% Bloomberg Commodities

# Investment managers



# Schedule of investments

Manager	Mandate	Assets as of 8/31/2015	
Domestic Equity			
Large Cap Core			
BNY Mellon S&P 500	S&P 500	\$70,445,228	4.0%
Large Cap Growth			
BlackRock Russell 1000 Growth	Russell 1000 Growth	\$108,236,585	6.2%
Jackson Square	Russell 1000 Growth	\$160,660,962	9.2%
Large Cap Value			
BlackRock Russell 1000 Value	Russell 1000 Value	\$116,838,871	6.7%
Dodge & Cox Equity	Russell 1000 Value	\$175,594,892	10.0%
Small Cap Growth			
Legato Capital	Russell 2000 Growth	\$84,057,044	4.8%
Capital Prospects	Russell 2000 Value	\$81,508,281	4.7%
Total Domestic Equity	Russell 3000 Index	\$797,341,863	45.5%
International Equity			
LSV Asset Management	MSCI ACWI ex-US	\$162,324,704	9.3%
Pyramis	MSCI ACWI ex-US	\$166,428,676	9.5%
Total International Equity	MSCI ACWI ex-US	\$328,753,380	18.8%

Manager	Mandate	Assets as of 8/31/2015	
Domestic Fixed Income			
Dodge & Cox Fixed Income	US Barclays Aggregate	\$367,419,006	21.0%
PIMCO Fixed Income	US Barclays Aggregate	\$110,690,797	6.3%
Total Domestic Fixed Income	US Barclays Aggregate	\$478,109,803	27.3%
Real Estate			
American Strategic Value Realty	NCREIF Property	\$8,262,747	0.5%
BlackRock US Real Estate	DJ US Select RESI TR USD	\$12,644,895	0.7%
Greenfield Gap	NCREIF ODCE +1%	\$10,841,790	0.6%
MS Infrastructure	CPI +5%	\$10,142,113	0.6%
Total Real Estate	DJ US Select RESI	\$41,891,545	2.4%
Direct Lending			
Medley Capital	9% Annual	\$32,981,403	1.9%
Raven Capital Opp Fund	9% Annual	\$28,671,035	1.6%
Raven Capital Opp Fund III	9% Annual	\$2,996,491	0.2%
White Oak Pinnacle	9% Annual	\$40,632,998	2.3%
Total Direct Lending	9% Annual	\$105,281,927	6.0%
Total Cash		\$47,058	0.0%
Total Portfolio		\$1,751,425,576	100.0%

# Jackson Square Partners

## Domestic Equity Large Cap Growth (Russell 1000 Growth)

**Role in Portfolio:** Concentrated portfolio of companies with sustainable long-term growth characteristics

**Firm (Strategy) Inception:** 2014 as joint venture with Delaware Investments (2001)

**Firm (Strategy) Assets Under Management:** \$30.1 bil (\$20.8 bil)

**Headquarters:** San Francisco, CA

**Estimated Annual Expense:** 0.42%

**People:** Jeffrey Van Harte, Christopher Bnoavico, Christopher Ericksen, Daniel Prislin

**Philosophy:** Believes that superior returns can be realized through holding a concentrated portfolio of companies with superior business models and opportunities to generate consistent, long-term growth of intrinsic business value. Portfolios should be constructed with a strong emphasis on the highest-conviction companies in a manager's coverage universe.

**Process:**

- 1) Idea Sourcing
- 2) Fundamental Change
- 3) Advantaged Business model
- 4) Valuation/Validation
- 5) Portfolio Construction
- 6) Sell Discipline

	Return (Gross)	Benchmark
3 Mo	1.6%	0.1%
YTD	4.7%	4.0%
1 Yr	12.7%	10.6%
3 Yr	19.6%	18.0%
5 Yr	21.0%	18.6%
10 Yr	10.0%	9.1%
2014	13.7%	13.1%
2013	35.6%	33.5%
2012	17.1%	15.3%
2011	8.9%	2.6%
2010	14.9%	16.7%

As of 6/30/2015

# Dodge & Cox

## Domestic Equity Large Cap Value (Russell 1000 Value)

**Role in Portfolio:** Diversified portfolio of companies priced below their intrinsic value with a favorable outlook for long-term growth

**Firm (Strategy) Inception:** 1930 (1965)

**Firm (Strategy) Assets Under Management:** \$281.3 bil (\$81.7 bil )

**Headquarters:** San Francisco, CA

**Estimated Annual Expense:** 0.40% first \$10 mil; 0.20% next \$90 mil; 0.15% thereafter

**People:** Philippe Barret, Wendell Birkhoffer, Charles Pohl

**Philosophy:** Seeks to build a portfolio of individual companies where the current market valuation does not adequately reflect the company's long-term profit opportunities. They evaluate each potential investment based on a three- to five-year investment horizon. In aggregate, their holdings generally have below-average valuations, compared to the market averages and to other similar investment opportunities. They examine the range of potential outcomes-incorporating both the risks and opportunities-for each investment by analyzing the company's valuation, growth opportunities, business strategies, and financial results. Portfolio diversification is an important tool in mitigating risk; they seek to maintain exposure to most major sectors of the economy as well as limit undue exposure to any one outcome.

**Process:** The focus of their research effort is on leveraging the industry expertise of the firm's global industry analysts to conduct in-depth fundamental company analysis using a three- to five-year time horizon. Dodge & Cox believes this in-depth industry knowledge is crucial for assessing the key underlying company fundamentals that, over time, determine the intrinsic value of the business. Research analysts have global industry coverage responsibilities.

	Return (Gross)	Benchmark
3 Mo	2.6%	0.3%
YTD	1.4%	1.2%
1 Yr	5.0%	7.4%
3 Yr	20.6%	17.3%
5 Yr	18.1%	17.3%
10 Yr	7.8%	7.9%
2014	10.9%	13.7%
2013	40.1%	32.4%
2012	22.2%	16.0%
2011	-3.3%	2.1%
2010	14.2%	15.1%

As of 6/30/2015

# Legato Capital

## Domestic Equity Small Cap Growth (Russell 2000 Growth)

**Role in Portfolio:** Diversified fund of funds portfolio constructed of small and mid cap growth managers

**Firm (Strategy) Inception:** 2004 (2008)

**Firm (Strategy) Assets Under Management:** \$1.5 bil (\$214 mil)

**Headquarters:** San Francisco, CA

**Estimated Annual Expense:** 0.90%

**People:** Victor Hymes, Adam Lawlor, Eric Pollack

**Philosophy:** Legato believes that, as the assets under management (AUM) of any investment manager increase, the probability of their producing competitive investment performance declines. This tends to be true across all asset classes, but is particularly evident in capacity constrained asset classes such as small and mid cap equity. The potential to add value declines as it becomes increasingly more difficult for managers to efficiently implement their strategy.

**Process:** The manager selection process combines both qualitative and quantitative manager research. Legato's qualitative research focuses on the investment process, portfolio management team, research capabilities, trade execution, business operations, compliance, risk management, integrity, and product suitability. The goal of Legato's quantitative screens is to identify investment companies that have the ability to produce alpha consistently over time. It is also very important that Legato understands the risk exposures of a particular strategy. Finally, Legato evaluates the style purity of investment managers to ensure these superior results were achieved within a disciplined, repeatable process.

	Return (Gross)	Benchmark
3 Mo	2.8%	2.0%
YTD	8.7%	8.7%
1 Yr	12.8%	12.3%
3 Yr	20.3%	20.1%
5 Yr	19.6%	19.3%
10 Yr	-	9.9%
2014	2.9%	5.6%
2013	47.2%	43.3%
2012	18.2%	14.6%
2011	-2.1%	-2.9%
2010	26.7%	29.1%

As of 6/30/2015

# Capital Prospects

## Domestic Equity Small Cap Value (Russell 2000 Value)

**Role in Portfolio:** Diversified fund of funds portfolio constructed of small and mid cap value managers

**Firm (Strategy) Inception:** 2002 (2006)

**Firm (Strategy) Assets Under Management:** \$1.3 bil (\$176 mil )

**Headquarters:** Stamford, CT

**Estimated Annual Expense:** 0.75%

**People:** Elizabeth Knope, Marilyn Freeman

**Philosophy:** As a manager-of-managers focusing exclusively on emerging managers (i.e., smaller, newer investment firms), Capital Prospects feels it is incumbent upon them to understand thoroughly the specific investment philosophy and portfolio decision-making process that distinguishes one manager from another. They do not believe that any one style or investment approach is superior to another and do believe that talented managers can be found across the entire investment spectrum. They believe that a well-diversified investment program, i.e., including a mix of managers that covers all components of the established benchmark, offers the best opportunity for outperformance over the long term.

**Process:** The research goal is to identify investment managers that are capable of generating investment insights that offer the potential for a performance edge over the competition. Additionally, the organization needs to be structured properly and have all the resources in place – or access to those necessary resources – to support future growth of the business and a continued robust investment management process. The stages of the process are: 1) review information provided by managers, 2) interview managers, and 3) quantitative analysis.

	Return (Gross)	Benchmark
3 Mo	-1.2%	-1.2%
YTD	2.4%	0.8%
1 Yr	3.4%	0.8%
3 Yr	19.6%	15.5%
5 Yr	17.8%	14.8%
10 Yr	-	6.9%
2014	5.7%	4.2%
2013	37.7%	34.5%
2012	23.9%	18.1%
2011	-4.1%	-5.5%
2010	26.8%	24.5%

As of 6/30/2015

# LSV Asset Management

## International Equity Large Cap Value (MSCI ACWI ex-US)

**Role in Portfolio:** Diversified portfolio of large cap international equities priced below their perceived intrinsic value

**Firm (Strategy) Inception:** 1994 (2004)

**Firm (Strategy) Assets Under Management:** \$92.2 bil (\$7.9 bil)

**Headquarters:** Chicago, IL

**Estimated Annual Expense:** 0.75% first \$25 mil; 0.65% next \$25 mil; 0.55% next \$50 mil; 0.45% thereafter

**People:** Josef Lakonishok

**Philosophy:** The fundamental premise on which LSV's investment philosophy is based is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors. These include: the tendency to extrapolate the past too far into the future, wrongly equating a good company with a good investment irrespective of price, ignoring statistical evidence and developing a "mindset" about a company.

**Process:** A universe of approximately 27,000 equity securities is screened for market capitalization greater than \$500 million (with no maximum limit) and for liquidity that yields an investable universe of approximately 3,200 securities. These securities are ranked by the proprietary quantitative model driven by a security's fundamental measures of value, past performance and indicators of near-term potential. The top 15% of stocks in each country are ranked by expected return (approximately 400 securities) are then optimized for risk control. LSV is approximately country neutral with country weights kept relative to the benchmark. The optimization is constrained by specific industry and company limitations to achieve diversification.

As of 6/30/2015

	Return (Gross)	Benchmark
3 Mo	1.9%	0.6%
YTD	6.4%	5.5%
1 Yr	-4.7%	-4.2%
3 Yr	13.3%	12.0%
5 Yr	10.2%	9.5%
10 Yr	5.5%	5.1%
2014	-4.9%	-4.9%
2013	24.2%	22.8%
2012	17.8%	17.3%
2011	-11.6%	-12.1%
2010	9.0%	7.8%

# Pyramis Global Advisors

## International Equity Growth (MSCI ACWI ex-US)

**Role in Portfolio:** Diversified portfolio of all cap international equities with sustainable long-term growth characteristics

**Firm (Strategy) Inception:** 2005 (1995 under Fidelity)

**Firm (Strategy) Assets Under Management:** \$220.2 bil (\$8.8 bil)

**Headquarters:** Smithfield, RI

**Estimated Annual Expense:** 0.25% base fee; 8% participation rate (rolling 36 months); 0.69% max fee

**People:** Brian Hoesly

**Philosophy:** The investment philosophy believes that independent, fundamental, bottom-up stock research can provide opportunities to purchase companies at a discount to their long-term fundamental fair value, and that identifying strong companies with above average earnings growth can lead to consistent market-beating performance. As the focus is on companies that possess a competitive advantage, Pyramis tends to have a relatively long-term holding period.

**Process:** The portfolio investment process combines active stock selection with active regional asset allocation. The portfolio managers use bottom-up, fundamental research to construct portfolios in the Europe, Japan, and the Pacific Basin ex Japan regions. In the first phase of the investment process, the portfolio managers consider all the stocks the analysts rate as buy for inclusion in the portfolio, which is then reduced to a manageable portfolio that incorporates the analysts best ideas and meets client guidelines. Country and industry group relative active weights are a residual of the stock selection process and are constrained to 5% of the benchmark weight while industry group weights are constrained to +/-10% of the benchmark weight.

As of 6/30/2015

	Return (Gross)	Benchmark
3 Mo	1.7%	0.6%
YTD	7.1%	5.5%
1 Yr	-1.5%	-4.2%
3 Yr	12.9%	12.0%
5 Yr	11.0%	9.5%
10 Yr	6.4%	5.1%
2014	-6.6%	-4.9%
2013	25.5%	22.8%
2012	20.6%	17.3%
2011	-11.6%	-12.1%
2010	10.2%	7.8%

# Dodge & Cox

## Domestic Core Fixed Income (Barclays Capital US Aggregate)

**Role in Portfolio:** Diversified portfolio constructed with high average quality fixed income investments

**Firm (Strategy) Inception:** 1930 (1978)

**Firm (Strategy) Assets Under Management:** \$281.3 bil (\$71.3 bil)

**Headquarters:** San Francisco, CA

**Estimated Annual Expense:** 0.40% first \$4 mil; 0.30% next \$6 mil; 0.20% next \$10 mil; 0.10% thereafter

**People:** Anthony Brekke, James Dignan, Thomas Dugan, Dana Emergy, Lucinda Johns, Charles Pohl, Larissa Roesch, Adam Robinson

**Philosophy:** Dodge & Cox's Fixed Income Philosophy is to construct and manage a high average quality, diversified portfolio of securities that are selected through bottom-up, fundamental analysis. They believe that by combining fundamental research with a long-term investment horizon it is possible to uncover and act upon inefficiencies in the valuation of market sectors and individual securities. When this fundamental research effort is combined with a disciplined program of risk analysis, they believe attractive returns are possible over the long-term.

**Process:** The focus of their research effort is on leveraging the industry expertise of their global industry analysts to conduct in-depth fundamental company analysis using a three- to five-year time horizon. They believe this in-depth industry knowledge is crucial for assessing the key underlying company fundamentals that, over time, determine the intrinsic value of the business. All investment decisions are based on the judgment and analysis of their team of investment professionals, not on outside recommendations. Research analysts have global industry coverage responsibilities and are all located together in their office in San Francisco to promote collaboration.

As of 6/30/2015

	Return (Gross)	Benchmark
3 Mo	-1.2%	-1.7%
YTD	0.3%	-0.1%
1 Yr	1.8%	1.9%
3 Yr	3.7%	1.8%
5 Yr	4.9%	3.4%
10 Yr	5.6%	4.4%
2014	6.2%	6.0%
2013	1.0%	-2.0%
2012	8.3%	4.2%
2011	5.6%	7.8%
2010	7.8%	6.5%



# PIMCO Fixed Income

## Domestic Core Fixed Income (Barclays Capital US Aggregate)

**Role in Portfolio:** Diversified portfolio constructed with high average quality fixed income investments

**Firm (Strategy) Inception:** 1971 (1993)

**Firm (Strategy) Assets Under Management:** \$1,521 bil (\$6.2 bil)

**Headquarters:** Newport Beach, CA

**Estimated Annual Expense:** 0.50% first \$25 mil; 0.375% \$25-\$50 mil; 0.25% over \$50 mil

**People:** Mark Kiesel, Scott Mather, Mihir Warah

**Philosophy:** The philosophy revolves around the principle of diversification. The firm believes that no single risk should dominate returns. By diversifying strategies, or relying on multiple sources of value, the firm is confident in its ability to generate a solid track record with a high degree of consistency. PIMCO seeks to add value through the use of “top-down” strategies such as the firm's exposure to interest rates, or duration, changing volatility, yield curve positioning, and sector rotation. The firm also employs “bottom-up” strategies involving analysis and selection of specific securities.

**Process:** PIMCO considers the full-spectrum of global fixed income sectors when evaluating individual securities for inclusion in its Total Return accounts. Specific portfolio investment restrictions are accounted for by the generalist portfolio manager assigned to the account. While the generalist portfolio managers are active participants in all phases of portfolio management including security selection and trading, security analysis is conducted primarily by PIMCO's specialists using proprietary models and analytics internally developed and maintained by the firm's financial engineers. The specialists are charged with determining relative value within their sectors.

	Return (Gross)	Benchmark
3 Mo	-1.2%	-1.7%
YTD	0.3%	-0.1%
1 Yr	1.6%	1.9%
3 Yr	1.9%	1.8%
5 Yr	3.8%	3.4%
10 Yr	-	-
2014	5.0%	6.0%
2013	-2.2%	-2.0%
2012	5.8%	4.2%
2011	8.6%	7.8%
2010	-	6.5%

As of 6/30/2015

# American Realty Advisors

## Value-Add Real Estate (NCREIF Property)

**Role in Portfolio:** Open-ended real estate fund focused on value-add return opportunities and enhanced yield

**Firm (Strategy) Inception:** 1988 (2009)

**Firm (Strategy) Assets Under Management:** \$6.7 bil (\$618.6 mil)

**Headquarters:** Glendale, CA

**Estimated Annual Expense:** 1.25% first \$10 mil; 1.20% next \$15 mil; \$1.10% next \$25 mil; 1.0% above next \$25 mil

**People:** Stanley Iezman, Scott Darling

**Philosophy:** The AMERICAN STRATEGIC VALUE REALTY FUND is an open-end value-added real estate commingled fund that offers the opportunity for institutional investors to participate in a real estate investment strategy that targets enhanced yield and value-added return opportunities, with a secondary goal of diversification to reduce overall investment risk. The Value Fund originates investments through direct property ownership, joint ventures, and senior and subordinate debt structures.

**Process:** American's investment process draws on the broad range of resources throughout the firm. The philosophy is focused on the goal of investing in the best opportunities for additional value creation in strong markets, irrespective of the short-term fluctuations of market conditions. As such, it has created a dynamic, research-based approach that involves expertise from investments, asset management, portfolio management, legal, appraisal, capital markets, construction management and senior management that together provide a competitive advantage to sourcing, underwriting, negotiating, and closing on assets that it believes will provide the best opportunities for client portfolios. American's investment system has three interactive phases: Strategic Planning, Operational Execution and Performance Evaluation.

As of 6/30/2015

	Return (Gross)	Benchmark
3 Mo	3.6%	3.1%
YTD	9.9%	6.8%
1 Yr	-	-
3 Yr	-	-
5 Yr	-	-
10 Yr	-	-
2014	-	-
2013	-	-
2012	-	-
2011	-	-
2010	-	-

# Greenfield Partners

## Core Real Estate (NCREIF ODCE +100 bps)

**Role in Portfolio:** Closed-end real estate fund focused on income generation through a broad investment mandate

**Fund Name:** Greenfield Acquisition Partners (GAP) VII

**Firm (Strategy) Inception:** 1997 (2013)

**Fund Commitment:** \$383 mil (plus \$305 mil in two co-investment portfolios)

**Headquarters:** Westport, CT

**Estimated Annual Expense:** 1.50% on committed and invested capital

**People:** Eugene A. Gorab

**Objective:** Broad real estate investment mandate: direct investment; restructuring of financial obligations; development, redevelopment and repurposing; and repositioning assets.

# Morgan Stanley

## Infrastructure (CPI +5%)

**Role in Portfolio:** Closed-end infrastructure fund focused on global diversification

**Fund Name:** North Haven Infrastructure Partners II

**Firm (Strategy) Inception:** 1975 (2015)

**Fund Commitment:** \$1.9 bil

**Headquarters:** New York, NY

**Estimated Annual Expense:** 1.5% under \$50 mil; 1.35% \$50 mil to \$100 mil; 1.25% \$100 mil to \$175 mil; 1.10% \$175 mil to \$250 mil; 0.95% \$250 mil or greater

**People:** Markus Hottenrott

**Objective:** The Fund intends to invest opportunistically in Infrastructure Assets on a global basis in order to assemble an investment portfolio with a gross internal rate of return of approximately 12-15%. The Fund's target rate of return is before any carried interest, fees, and expenses.

# Medley Capital

## Direct Lending (9% per annum)

**Role in Portfolio:** Closed-end direct lending fund

**Fund Name:** Medley Opportunity Fund (MOF) II

**Firm (Strategy) Inception:** 2005 (2013)

**Fund Commitment:** \$581 mil

**Headquarters:** New York, NY

**Estimated Annual Expense:** 1.5% management fee

**People:** Brook Taube, Richard Allorto, John Fredericks, Seth Taube, Jeff Tonkel

**Objective:** Direct lending to privately-held middle market companies, primarily through directly originated transactions, to help those companies expand their businesses, refinance, and make acquisitions. Portfolio generally consists of senior secured first lien loans and senior secured second lien loans. Often times receives warrants or other equity participation features.

# Raven Capital

## Direct Lending (9% per annum)

**Role in Portfolio:** Closed-end direct lending fund

**Fund Name:** Opportunity Fund; Opportunity Fund III

**Firm (Strategy) Inception:** (2013; 2015)

**Fund Commitment:** \$157.5 mil; 180 mil (initial close)

**Headquarters:** New York, NY

**Estimated Annual Expense:** 2.0% management fee

**People:** Josh Green

**Objective:** Raven utilizes an investment process to directly originate, underwrite and actively manage portfolio investments for institutional investors. Raven's experience and expertise investing in assets generates attractive current yields while protecting the downside for our investors.

Raven's investments are opportunistic, may include special situations, have low correlation to market rates or spread widening, and include both asset based first lien senior secured loans and the outright purchase of cash flowing assets. Raven distributes current income and mitigates risk through highly selective origination, stringent due diligence and underwriting, proven structuring methods, and active post-transaction management of portfolio investments.

# White Oak Global Advisors

## Direct Lending (9% per annum)

**Role in Portfolio:** Closed-end direct lending fund

**Fund Name:** Pinnacle Fund LP

**Firm (Strategy) Inception:** (2013)

**Fund Commitment:** \$364 mil

**Headquarters:** San Francisco, CA

**Estimated Annual Expense:** 1.5% management fee on commitment

**People:** Andre Hakkak, Barbara McKee

**Objective:** A direct lending fund targeting \$5 mil to \$50 mil investments in senior secured financing transactions with borrowers primarily located in the US. The target market for the Manager is business with enterprise values between \$50 mil and \$500 mil.

The Fund will seek to deliver attractive mezzanine-like returns with the risk profile of senior secured debt. The Fund will provide customized financing solutions, typically in the form of directly originated senior secured loans to corporate and asset-based borrowers.

# Appendix



# Date horizon of historical scenario analysis

Scenario	From	To
1972 - 1974 Oil Crisis (Dec. to Sep.)	December 1, 1972	September 30, 1974
1987 Market Crash (Oct. 14 to Oct. 19)	October 14, 1987	October 19, 1987
1989 - 1990 Nikkei Stock Price Correction	December 29, 1989	March 30, 1990
1992 - 1993 European Currency Crisis	September 1, 1992	August 13, 1993
1994 US Rate Hike	January 31, 1994	December 13, 1994
1997 - 1999 Oil Price Decline	January 8, 1997	February 16, 1999
2001 Dot-com Slowdown	March 10, 2001	October 9, 2002
2007 - 2008 Oil Price Rise	January 18, 2007	June 27, 2008
2007-2009 Subprime Mortgage Meltdown(Oct. to Feb.)	October 1, 2007	February 27, 2009
2009 July - January	July 1, 2009	December 31, 2009

Source: MSCI BarraOne

# 10 year return & risk assumptions

Asset Class	Index Proxy	Ten Year Return Forecast		Standard Deviation Forecast	Sharpe Ratio Forecast	Ten Year Historical Sharpe Ratio
		Geometric	Arithmetic			
Equities						
US Large	S&P 500	5.7%	6.7%	14.7%	0.25	0.47
US Small	Russell 2000	4.7%	6.5%	19.8%	0.13	0.40
International Developed	MSCI EAFE	9.5%	11.0%	18.2%	0.41	0.25
International Small	MSCI EAFE Small Cap	9.2%	11.0%	19.7%	0.36	0.32
Emerging Markets	MSCI EM	11.5%	13.9%	23.7%	0.40	0.40
Private Equity	Cambridge Private Equity	7.7%	10.2%	23.7%	0.24	1.07
Fixed Income						
Cash	30 Day T-Bills	2.1%	2.1%	0.6%	-	-
US TIPS	Barclays US TIPS 5 - 10	2.6%	2.8%	6.3%	0.07	0.47
US Treasury	Barclays Treasury 7 - 10 year	2.2%	2.4%	6.4%	0.01	0.65
Global Sovereign ex US	Barclays Global Treasury ex US	2.5%	2.8%	7.9%	0.05	0.18
Core Fixed Income	Barclays US Aggregate Bond	3.1%	3.2%	3.2%	0.31	0.96
Core Plus Fixed Income	Barclays US Corporate IG	3.8%	4.0%	5.9%	0.29	0.67
Short-Term Gov't/Credit	Barclays US Gov't/Credit 1 - 3 year	2.3%	2.3%	1.3%	0.17	1.09
Short-Term Credit	Barclays Credit 1 - 3 year	2.6%	2.6%	2.3%	0.22	0.88
Long-Term Credit	Barclays Long US Corporate	3.7%	4.3%	11.0%	0.15	0.55
High Yield Corp. Credit	Barclays High Yield	5.2%	5.8%	10.5%	0.30	0.61
Bank Loans	S&P/LSTA	3.7%	4.1%	8.7%	0.19	0.44
Global Credit	Barclays Global Credit	1.9%	2.2%	7.4%	-0.02	0.49
Emerging Markets Debt (Hard)	JPM EMBI Global Diversified	5.7%	6.1%	8.9%	0.41	0.72
Emerging Markets Debt (Local)	JPM GBI EM Global Diversified	6.2%	7.0%	12.9%	0.32	0.46
Private Credit	High Yield + 200 bps	7.8%	8.4%	10.5%	0.55	-
Other						
Commodities	Bloomberg Commodity	4.1%	5.7%	18.2%	0.11	-0.10
Hedge Funds	HFRI Fund of Funds	6.0%	6.4%	9.1%	0.43	0.29
Core Real Estate	NCREIF Property	5.1%	5.9%	13.2%	0.23	0.93
REITs	Wilshire REIT	5.1%	8.1%	26.4%	0.11	0.38
Inflation		2.1%	-	-	-	-

Both geometric and arithmetic return forecasts have been included. It is important that users of this information understand how we derived it. Our forecast process involves the use of a wide range of data inputs (of a variety of different types) to create geometric return forecasts for individual asset classes – this is the process described at length in this document. We use an industry standard formula to convert these to arithmetic return forecasts, and provide both for client use.

Investors wishing to produce expected geometric return forecasts for their portfolios should use the arithmetic return forecasts provided here as inputs into that calculation, rather than the single-asset-class geometric return forecasts. This is the industry standard approach, but requires a complex explanation only a heavy quant could love, so we have chosen not to provide further details in this document – we will happily provide those details to any readers of this who are interested.

More broadly, it is important that the user of these forecasts remembers that return forecasts (whoever provides them) are there to provide a guide to the likely future, no more. While we believe that the approach described in this document is an appropriate one to use for those purposes, and that the forecasts resulting from that approach are meaningful and fit for the uses to which they will be put, users of any such forecasts should always bear in mind the fact that the single most difficult thing to predict is the future, and approach that exercise with appropriate skepticism.

# Correlation assumptions

	Cash	US Large	US Small	Developed Large	Developed Small	EM	PE	TIPS	US Treasury	Global Sovereign	US Core	US Core Plus	Short –Term Govt/Credit	Short-Term Credit	Long-Term Credit	US HY	Bank Loans	Global Credit	EMD USD	EMD Local	Commodities	Hedge Funds	Real Estate	REITs	Inflation
Cash	1																								
US Large	-0.1	1																							
US Small	-0.1	0.9	1																						
Developed Large	0.0	0.9	0.8	1																					
Developed Small	0.0	0.8	0.8	1.0	1																				
EM	0.1	0.8	0.7	0.9	0.9	1																			
PE	-0.2	0.7	0.7	0.8	0.8	0.7	1																		
TIPS	0.0	0.2	0.1	0.2	0.3	0.3	0.2	1																	
US Treasury	0.0	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	0.6	1																
Global Sovereign	0.0	0.2	0.2	0.4	0.4	0.4	0.5	0.6	0.5	1															
US Core	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.8	0.9	0.6	1														
US Core Plus	-0.1	0.4	0.3	0.5	0.5	0.5	0.6	0.7	0.5	0.5	0.8	1													
Short –Term Govt/Credit	0.3	-0.1	-0.1	0.1	0.1	0.1	-0.2	0.6	0.6	0.6	0.7	0.6	1												
Short-Term Credit	0.0	0.3	0.3	0.5	0.5	0.5	-0.2	0.6	0.2	0.5	0.6	0.8	0.7	1											
Long-Term Credit	-0.1	0.3	0.2	0.4	0.4	0.4	0.1	0.6	0.5	0.5	0.8	1.0	0.4	0.6	1										
US HY	-0.1	0.7	0.7	0.8	0.8	0.7	0.6	0.4	-0.2	0.3	0.2	0.6	0.1	0.6	0.5	1									
Bank Loans	-0.1	0.6	0.6	0.6	0.6	0.6	0.2	0.2	-0.4	0.0	0.0	0.4	-0.1	0.5	0.3	0.9	1								
Global Credit	-0.1	0.6	0.5	0.8	0.8	0.7	0.7	0.6	0.2	0.8	0.6	0.8	0.5	0.8	0.7	0.7	0.5	1							
EMD USD	-0.1	0.6	0.5	0.7	0.7	0.7	0.5	0.7	0.3	0.5	0.6	0.8	0.4	0.7	0.7	0.8	0.6	0.8	1						
EMD Local	0.1	0.7	0.6	0.8	0.8	0.8	0.6	0.5	0.1	0.6	0.4	0.6	0.3	0.5	0.5	0.7	0.4	0.8	0.8	1					
Commodities	0.1	0.5	0.4	0.6	0.6	0.7	0.2	0.3	-0.2	0.4	0.1	0.3	0.1	0.4	0.2	0.5	0.4	0.6	0.5	0.6	1				
Hedge Funds	0.1	0.7	0.6	0.8	0.8	0.8	0.7	0.2	-0.3	0.1	0.0	0.4	0.0	0.4	0.2	0.6	0.6	0.6	0.5	0.6	0.7	1			
Real Estate	-0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.1	-0.1	0.1	0.0	0.2	-0.1	-0.1	0.1	0.2	0.0	0.2	0.2	0.3	0.0	0.3	1		
REITs	0.0	0.8	0.8	0.7	0.6	0.6	0.6	0.2	-0.1	0.3	0.2	0.4	0.0	0.3	0.4	0.7	0.5	0.6	0.6	0.6	0.3	0.4	0.4	1	
Inflation	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1	-0.3	0.0	-0.3	-0.2	-0.2	0.0	-0.3	0.2	0.4	0.0	0.0	0.1	0.3	0.2	0.1	0.1	1

Note: Correlation assumptions are based on the last ten years. Private Equity and Real Estate correlations are especially difficult to model – we have therefore used BarraOne correlation data to strengthen these correlation estimates.

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