



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

October 28, 2008

Members Present: Maria De Anda, Jim DeMartini, Gordon Ford, Mike Fisher, Darin Gharat, Wes Hall, Mike Lynch, Ron Martin, and Clarence Willmon

Members Absent: None.

Alternate Member Present: Linda Stotts-Burnett, Alternate Retiree Representative

Others Present: Keith Bruch and Bhaskaran Swaminathan-LSV Asset Management via teleconference; Kelly Cerny, Doris Foster-County Chief Executive Office; Paul Harte-Strategic Investment Solutions (SIS), Inc; Brian Hoesly, Chris Steward, and Michael Strong-Pyramis Global Advisors via teleconference; Deirdre McGrath, Hank Skau, and Tom Watson

1. Meeting called to order at 1:00 p.m. by Mike Fisher, Chair.

2. **Announcements**

Gordon Ford, Ex-Officio, announced that an article of particular interest was recently forwarded to Board members by Tom Watson, Retirement Administrator. Mr. Ford noted that in the article, Los Angeles County's general fund contributed \$756 million in 2007 to its retirement system, and the amount is expected to rise to \$1.28 billion by 2011, due to the steep drops in stock market valuations. The article was from the Daily News, Los Angeles, entitled, "Taxpayers on the hook for county pension losses," dated October 22, 2008.

3. **Public Comment**

None.

4. **Consent Items**

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

Motion carried.

a. Approval of the October 8, 2008, Administrative Meeting Minutes

4. **Consent Items (cont.)**

b. StanCERA Complaint Log of July 1–September 30, 2008

c. BMTI Services' Complaint/Contact Log of July 1-September 30, 2008

5. **Semi-Annual Performance Report by Pyramis Global Advisors**

Brian Hoesly, Michael Strong, and Chris Steward, Institutional Portfolio Managers, of Pyramis Global Advisors gave the semi-annual presentation of StanCERA's international growth equity investment performance for the period ending September 30, 2008. The presentation was held via teleconference.

Mr. Hoesly noted the markets were volatile and were on the upside of the volatility by 10%, making it a difficult period for all markets through September 30, 2008. He noted that October was worse, down an additional 33%. Mr. Strong said there were no personnel changes or process changes at Pyramis since the last presentation to the Board. He informed the Board the Pyramis investment team of equity research professionals spans the continents with a total of 393 research professionals worldwide.

StanCERA's cumulative return (gross of fees) for international growth year to date is -31.47%, compared with the benchmark MSCI ACWI Ex-U.S. (Morgan Stanley Capital International All Country World Index Ex-U.S.) index rate of return of -29.85%. StanCERA's portfolio total net assets as of September 30, 2008 are \$105.2 million, with a negative return of -30.10% for the past 12 months. Mr. Strong reiterated that double-digit figures occurred in all markets and that asset allocation made no difference whatsoever for the overall negative global equity markets. He said the credit crisis has spread throughout the world. The hope is that in six months, there will be better news. Mr. Strong concluded by answering Board members' questions.

6. **Semi-Annual Performance Report by LSV Asset Management**

Keith Bruch, Partner and Director, Client Portfolio Services, and Bhaskaran Swaminathan, Partner, and Director of Research, gave the semi-annual presentation of StanCERA's international equity investment performance for the period ending September 30, 2008. The presentation was held via teleconference. Mr. Bruch gave a brief organizational, relationship, and market update of the portfolio. No organizational changes have been made in the past six months. Mr. Bruch mentioned it has been a challenging environment for all equity markets.

6. **Semi-Annual Performance Report by LSV Asset Management (cont.)**

As of September 30, 2008, StanCERA's international value equity portfolio totaled \$97.5 million. StanCERA's 2008 third quarter return was -21.7% (net of fees), slightly above the benchmark MSCI ACWI Ex US return of -21.9%, and the year to date return (net of fees) was -32.0%. The portfolio just reached its four year mark with good returns. However, the last 18 months were negative.

Mr. Swaminathan gave a brief overview of the history of down markets beginning with the 1920s to the current market. Mr. Bruch responded to Board members' questions.

D. Gharat left at 2:07 p.m.

7. **Presentation by Capital Prospects LLC of a Small Cap Value Emerging Multiple Manager Program**

Marilyn R. Freeman, Principle; and Elizabeth A. Knope, Principle; gave a presentation on Capital Prospects LLC's, small cap value emerging manager of managers investment programs. Ms. Freeman gave a brief history of Capital Prospects, an overview of its organizational structure, and the client profile. Ms. Freeman and Ms Knope formed and own Capital Prospects as of October 2002. Prior to the formation of the company, they both acquired extensive experience while at other firms, specializing in emerging manager of managers investment programs since 1992. Ms. Freeman has 30 years of investment experience and Ms. Knope 34 years. Ms. Freeman stated that Capital Prospects specializes in domestic emerging managers. Capital Prospect's preliminary assets under management (AUM) as of September 30, 2008, are \$588 million, with seven client relationships, and two additional clients awarded but not yet funded (an additional AUM of \$250 million).

D. Gharat returned at 2:10 p.m.

Ms. Knope presented the company's investment process, research universe, and investment strategy and objectives. She gave an overview of the manager evaluation process, and Capital Prospects' investment program management. Both qualitative and quantitative factors are used in the manager evaluation process.

Board members reviewed the written presentation. Ms. Freeman and Ms. Knope answered various questions.

8. **Presentation by Legato Capital Management LLC of a Small Cap Value Emerging Multiple Manager Program**

Victor L. Hymes, Chief Executive and Chief Investment Officer; and Adam Lawlor, Director of Research gave a presentation on its small cap value emerging multiple manager program.

Mr. Hymes gave an overview of the firm, organizational structure, and its investment philosophy. Legato Capital Management was formed in 2004. Mr. Hymes has 24 years of investment experience, and Mr. Lawlor 15 years experience.

8. **Presentation by Legato Capital Management LLC of a Small Cap Value Emerging Multiple Manager Program (cont.)**

Legato's AUM as of September 30, 2008 total \$821 million, with seven institutional clients.

Board members reviewed the written presentation. Mr. Hymes and Mr. Lawlor answered various questions.

9. **Discussion and Action on Selection of a Potential Emerging Multiple Manager Program**

The Board reviewed and discussed the material presented. Paul Harte, of SIS, Inc., answered Board members' questions.

Motion was made by Maria De Anda and seconded by Mike Lynch to select Capital Prospects, LLC, as StanCERA's emerging multiple manager of a small cap value equity portfolio effective January 1, 2009. This will replace the current investment in the Russell 2000 Value Index Exchange Traded Fund (ETF) i-shares.

Motion carried.

Jim De Martini, Mike Fisher, Gordon Ford, and Clarence Willmon opposed.

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

a. Discussion and Action on StanCERA's September 2008 Manager Structure Analysis

Mr. Harte gave a brief summary of the written report, reiterating possible alternative U.S. equity manager structures suitable for StanCERA.

Motion was made by Gordon Ford and seconded by Maria De Anda to prepare a Request for Information (RFI) for two firms, Barclay Global Investors, and State Street Corporation, for a potential passive Russell Top 200 Value Index allocation.

Motion carried.

b. Discussion and Action on Performance Based Fee Amendment for Mazama Capital Management Inc.

No action taken.

10. **Strategic Investment Solutions, (SIS) Inc. (cont.)**

c. Discussion and Action on Small Cap Growth Equity Portfolio Alternatives

Motion was made by Mike Lynch and seconded by Darin Gharat to terminate StanCERA's small cap growth equity portfolio investment management services agreement with Mazama Capital Management Inc., in accordance with the agreement, and select Legato Capital Management LLC, as StanCERA's emerging multiple manager of a small cap growth portfolio, effective January 1, 2009.

Motion carried.

Mike Fisher opposed.

d. Discussion and Action on Potential Additional Funding for the Global Real Estate Investment Trust (REIT) Portfolio – Invesco National Trust Company

No action taken.

e. Discussion and Action to Invite Prima Capital Advisors LLC for a Presentation of Commercial Mortgage Investments at the November 25, 2008, Retirement Board Meeting

The Board reviewed and discussed the written background material provided by Prima Capital Advisors LLC. The Board directed SIS, Inc. to invite Prima Capital Advisors LLC to the November 25, 2008 Retirement Board meeting for an educational presentation on commercial mortgage investments.

f. Monthly Investment Performance Review for the Month Ending September 30, 2008

Mr. Harte presented the monthly performance review for the period ending September 30, 2008. As of September 30, 2008, StanCERA's portfolio is \$1.2 billion, a -9.85% decrease from the prior month. The fiscal year to date return is -10.82%, below StanCERA's policy index of -8.44%.

Mr. Harte distributed printed material of major worldwide stock indices. As of October 28, 2008, all year-to-date percentage returns were more severely negative than the prior year. The returns range from a -34.91% to a -60.64% in U.S. dollars.

g. The October 8, 2008 Update on Recent Market Conditions

The Board reviewed SIS, Inc.'s October 8, 2008 update on the status of the down markets.

11. **Correspondence**

- a. Mazama Capital Management Inc.'s Email Dated September 15, 2008,
– Summary of 2008 Account Closures as of September 12, 2008

The Board reviewed Mazama's summary of account closures for the year through September 12, 2008.

- b. The Bank of New York Mellon's September 24, 2008, Press Release –
"The Bank of New York Mellon Provides Support to Clients"

The Board reviewed The Bank of New York Mellon's press release regarding its support to clients invested in money market mutual funds, cash sweep funds and similar collective funds impacted by the Lehman Brothers bankruptcy filing.

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

None.

13. **Adjournment**

Meeting adjourned at 5:07 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
JOHN P. DOERING, COUNTY COUNSEL

By: _____
Deirdre McGrath, Deputy County Counsel