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BOARD OF RETIREMENT MINUTES

February 24, 2009

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

Members Absent: Mike Lynch

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

Staff Present: Tom Watson, Retirement Administrator
Kelly Cerny, Executive Secretary
Hank Skau, Operations Manager
Deirdre McGrath, Deputy County Counsel
Donna Wood, Confidential Assistant III

Others Present: Wendell Birkhofer and Bob Thompson, Dodge & Cox
Paul Harte, SIS, Inc.
Doris Foster, Chief Executive Office
Monica Nino, Chief Executive Office

1. Meeting called to order at 2:00 p.m. by Gordon Ford, Chair

2. Roll Call

3. Announcements

   Mr. Skau announced the investment managers’ voting proxy records for the fourth quarter of 2008 are now available for review.

4. Public Comment

   None.

5. Consent Items

   Ms. Cerny noted that the February 11, 2009 Consent Item #5d.4. Service Retirements, Donna Hill’s service retirement date should be amended to 02-28-09.

   Mr. Ford requested Consent Item 5b. be removed from Consent Items for discussion.
5. **Consent Items (cont.)**

Motion was made by Maria De Anda and seconded by Mike Fisher to approve the following items as amended and listed below.

Motion carried.

a. Approval of the February 11, 2009 Administrative Minutes as amended above.

c. Receipt of the BNY Global Transition Management’s December 2008
   Reports on the Transition of StanCERA’s Small Cap Growth Equity Portfolio
   Management from Mazama Capital Management, Inc., to Legato Capital
   Advisors’, LLC, Manager of Managers Investment Management Structure

d. EFI Actuarial Response on Questions Posed Related to the 2009 Annual
   Retiree Cost-of-Living Adjustment (COLA) per Government Code
   Section 31670.1

**Items Removed from Consent for Discussion**

5b. Receipt of Standard & Poor’s January 9, 2009, Report, “An Update on
    Structured Investment Vehicles’ (SIVs) Outstanding Debt”

Mr. Ford noted that he mentioned concerns about SIVs in 2007 which resulted in
an educational session for the Board on SIVs. He recently requested staff obtain
the Standard & Poor’s report. He asked Mr. Harte for comments. Mr. Harte
replied SIVs are part of the overall financial crisis, however, there are no SIVs as
part of any of StanCERA’s portfolios. SIVs have known to be part of some
institutions' security lending short-term collateral pools. Mr. Ford mentioned a
2007 article that said SIVs were tied to banks. He inquired if there was a way to
determine if any of the banks holding StanCERA funds had SIVs. Mr. Harte said
this could be a huge project. Mr. Thompson from Dodge & Cox interjected that banks
were proactive by addressing SIVs and moving short term investment funds (STIFs) away
from SIVs in their lines of credit. Mr. Ford expressed his belief that SIVs continue to be
connected to banks. Mr. Thompson said he would work with Mr. Harte and examine the
individual bank statements to determine if the banks had SIVs tied to them and report
back to the Board.

Motion was made by Maria De Anda and seconded by Clarence Willmon to accept the
report.

Motion carried.
**Item #7d Heard Out of Order**

d. Updated Analysis on Dodge & Cox's Investment Holdings Managed for StanCERA in Light of Financial Market Events

Mr. Harte gave an overview of the analysis Board members received of Dodge & Cox's equity financial and automotive holdings as of September 15, 2008, and as of January 31, 2009. He stated StanCERA's portfolio with Dodge & Cox was underweight for the most part. The Board reviewed and discussed the analysis. Mr. Harte answered Board members' questions.

6. **Semi-Annual Performance Report by Dodge & Cox**

Wendell Birkhofer, Vice President, Portfolio Manager-Equity, and Bob Thompson, Vice President, Portfolio Manager-Fixed Income, were present to give StanCERA's equity and fixed income portfolio performance summaries for the period ending December 31, 2008. Mr. Birkhofer addressed the Board by saying this was the most difficult year he has seen in 21 years with Dodge & Cox. The portfolio has never been down over 40%. Mr. DeMartini expressed his lack of confidence in Dodge & Cox.

Mr. Fisher left at 2:17 p.m.

Mr. Birkhofer presented StanCERA's equity portfolio performance summary for the period ending December 31, 2008. Stocks were valued at over $145 million with an estimated annual income of $3.9 million. The total rates of return for the stock portfolio for the period ending December 31, 2008 were -23.5%, -43.0%, -11.9% and -1.9%, compounded for the three-months, one, three and five years, respectively.

Mr. Fisher returned at 2:21 p.m.

Mr. Fisher left at 2:22 p.m.

Mr. Birkhofer assured the Board that Dodge & Cox remains a stable firm while going through this industry turmoil. He said there has been no personnel layoffs as there have been at other firms. He also noted the firm has no debt, and has had no history of debt. Mr. Birkhofer said portfolio detractors were its weak returns from its financial and energy holdings, and the portfolio's lack of utilities holdings.

Mr. Fisher returned at 2:26 p.m.

Mr. Thompson presented StanCERA's fixed income portfolio for the period ending December 31, 2008. Assets totaled over $431 million with an estimated annual income of over $25 million. The rates of return for fixed income securities for the period ending December 31, 2008, were 3.36%, 0.12%, 3.72%, and 3.58%, for three-months, one, three, and five years, respectively for the fourth quarter ending December 31, 2008. The fixed income return trailed its benchmark, the Barclays Aggregate Bond Index, which returned
6. **Semi-Annual Performance Report by Dodge & Cox (cont.)**

4.57%. He distributed two additional charts detailing fixed income’s challenging 2008 U.S. bond market conditions, along with a corporate spread comparison by quality rating. He gave an overview of the relative return factors, such as the portfolio’s corporate sector overweight detracted significantly from relative returns given the unprecedented underperformance of the corporate sector. Correspondingly, the portfolio’s substantial Treasury underweight hampered relative returns given the Treasury rally during 2008.

Mr. Birkhofer and Mr. Thompson answered Board members’ questions. Mr. Birkhofer concluded by saying Dodge & Cox values the long client relationship with StanCERA. Mr. Ford said he appreciated the lessons they have learned.

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


Mr. Gharat left @ 3:27 p.m.

Mr. Harte reviewed the investment performance analysis for the quarter ending December 31, 2008. The composite fund returned -13.7% in the fourth quarter of 2008 and ranked in the 56th percentile among other public funds greater than $100 million. The fund led its policy index, which had a -15.1% during this time period. Longer term, the three and five-year returns of -5.1% and 0.4%, ranked below median among total public fund plans (-2.9% and 1.8%, respectively). This quarter was an extremely negative period with the Dow Industrial Average return during the first full week of the quarter being the worst in its 112 year history.

Mr. Gharat returned at 3:31 p.m.

b. Monthly Investment Performance Review for the Month Ending January 31, 2009

Mr. Harte presented the monthly performance review for the period ending January 31, 2009. StanCERA’s portfolio is $935 million, a decrease of -5.01% from the prior month. The overall rate of return for this fiscal year to date is -27.70%. This return is below the policy index of -26.78% and the assumed rate of 4.75% for the seven months ending January 31, 2009. The negative financial market brought the portfolio’s value of assets down $49 million from the previous month, and down $408 million over the past 12 months. Many of the investment managers remain on or near target. Mr. Harte recommends no rebalancing of asset allocations until the market settles. Mr. Harte answered Board members’ questions.
7. **Strategic Investment Solutions, Inc. (SIS) (cont.)**

c. Discussion and Action on the Selection of a Russell Top 200 Value Index Manager and Funding the Allocation

The Board reviewed and discussed the short list of candidates from the Russell Top 200 value index manager search. A total of two managers responded to the Request for Information, Barclays Global Investors (BGI), and State Street Global Advisors (SSgA).

Motion was made by Ron Martin and seconded by Wes Hall to select Barclays Global Investors (BGI) to manage a passive Russell Top 200 index portfolio for StanCERA, and begin the account set-up process so it may be funded the next time StanCERA’s fixed income allocation is rebalanced.

Motion carried.

**Item #7d Heard Out of Order**

8. **Correspondence**

a. Email from Paul Harte of Strategic Investment Solutions, Inc., Accompanied By an Investment Letter from Prima Capital for the Retirement Board’s Monitoring Of Commercial Real Estate Mortgage Investments

Mr. Harte reiterated to the Board this was the monthly update of Prima Capital’s performance in the market for commercial mortgage backed securities (CMBS) as previously requested by the Board.

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

Mr. DeMartini inquired if the Retirement Administrator had responded to a request from the Chief Executive Office to make a presentation regarding the potential upcoming changes to the employer and employee contribution rates. Mr. Watson responded he had received a request, and will be making a presentation at the Tuesday, March 10, 2009 Board of Supervisors meeting.

Mr. Watson informed the Board he has offered and given a verbal PowerPoint presentation to 13 management staff of Superior Court; 15 representatives of the local labor organization AFSCME/SCEA, and three representatives from the SEIU labor organization. These organizations represent County employees. In addition to the verbal presentations, the electronic written presentation and a letter from him were distributed to the Chief Executive Office staff, labor groups, and the employer members of StanCERA regarding the upcoming potential changes in the contribution rates.
9. **Members' Forum (Information and Future Agenda Requests Only)**

Mr. Skau informed Board members he had the Consumer Price Index (CPI) and the Employer Index for December 2008, if anyone was interested in reviewing them.


10. **Adjournment**

Meeting adjourned at 4:08 p.m.

Respectfully submitted,

Tom Watson

Tom Watson, Retirement Administrator

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

By: Deirdre McGrath, Deputy County Counsel