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

Members Absent: Mike Fisher

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

Others Present: Kelly Cerny, Natalie Elliott, Doris Foster-Chief Executive Office, Paul Harte-Strategic Investment Solutions (SIS), Deirdre McGrath, Hank Skau, Wendell Birkhofer and Bob Thompson-Dodge & Cox, and Tom Watson

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

2. Announcements

Tom Watson, Retirement Administrator, announced Board members had received the SACRS magazine, Winter 2008 edition. Mr. Watson noted that on Page 17 there is a full page article on StanCERA’s own Trustee, Wes Hall.

Hank Skau, Operations Manager, announced the 2007 fourth quarter investment managers’ voting proxies were available for review.

3. Public Comment

None.

4. Consent Items

Motion was made by Wes Hall and seconded by Steve Yauch to approve the following items as listed.

Motion carried.

a. Approval of the February 13, 2008 Administrative Minutes

b. Approval of the Retiree Annual Cost of Living Adjustment – Section 31870.1

c. Approval to Issue a Request For Proposal (RFP) for Actuarial Audits and Actuarial Consulting Services
5. **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 of July 1, 2007 through December 31, 2007.

Mr. Birkhofer presented StanCERA’s equity portfolio performance summary for the period ending December 31, 2007. Stocks were valued at over $240 million with an estimated annual income of $4.7 million. The total rates of return for the stock portfolio for the period ending December 31, 2007 were -5.0%, 0.5%, 9.8% and 16.7%, compounded for the three-months, one, three and five years, respectively. The total rates of return for the stock portfolio for the period ending January 31, 2008, were -5.5%, -10.7%, -7.1%, 8.5%, and 16.0%, for the one-month, three-months, one, three and five years, respectively. Growth managers performed better than the value and fixed income securities managers. Mr. Birkhofer noted Dodge & Cox’s stock selection during this time period was a factor. He reiterated that Dodge & Cox has been through this before during difficult economic periods and the firm uses a three to five year range to gauge outcomes of the market.

Mr. Thompson presented StanCERA’s fixed income portfolio for the period ending December 31, 2007. Assets totaled over $465 million with an estimated annual income of over $27 million. The rates of return for fixed income securities for the period ending December 31, 2007, were 1.66%, 5.39%, 4.54% and 4.93%, for three-months, one, three, and five years, respectively. The fixed income return trailed its benchmark, the Lehman Aggregate Index, 3.0%, and ranked in the bottom among core bond managers. The total rates of return for fixed income securities for the period ending January 31, 2008, are 1.19%, 2.11%, 6.47%, 4.76% and 5.09%, for the one-month, three-months, one, three and five years, respectively. Inflation increased to 4.1% versus 2.5% one year ago.

Mr. Thompson addressed Mr. Ford’s request for an update of Structured Investment Vehicles (SIVs) since Mr. Thompson’s previous presentation at the December 12, 2007 Board of Retirement meeting. Mr. Thompson stated the SIVs crisis has gone away in the past two months. Banks have come forward to take care of them commercially and the securities have been absorbed.

Ron Martin left at 3:03 p.m.

7. **Administrator – Heard Out of Order**

b. Discussion and Action on Dodge & Cox’s Letter Dated January 18, 2008, to Request an Exception to the Equity Diversification Rule in StanCERA’s Statement of Investment Policy

Mr. Watson gave a brief overview of the request from Dodge & Cox for an exception to a guideline in StanCERA’s Statement of Investment Policy. The request asked for a waiver on the guideline for the economic sector concentration. Currently, the policy states the equity portfolios may hold
Item 7b. Heard Out of Order (cont.)

7. **Administrator (cont.)**
   
   b. Discussion and Action on Dodge & Cox’s Letter Dated January 18, 2008, to Request an Exception to the Equity Diversification Rule in StanCERA’s Statement of Investment Policy (cont.)

   the greater of three times the benchmark percentage or 20% of the portfolio in any one economic sector. Dodge & Cox sees value of investing up to 25% of the equity portfolio in the consumer discretionary stocks. Mr. Watson noted that previously the Board has granted similar requests for waiving the 20% limit and allowing 25% in other sectors.

   Board members discussed the request with questions answered by Mr. Birkhofer and Mr. Thompson. Mr. Ford expressed his opposition to a waiver, requesting instead that the Board review changing the overall Statement of Investment Policy to include any changes for all sectors.

   Motion was made by Steve Yauch and seconded by Wes Hall to grant Dodge & Cox’s request for an exception to the equity diversification rule in StanCERA’s Statement of Investment Policy to 25%; direct the Administrator to sign the exception letter received January 18, 2008; and review possible changes to the Statement of Investment Policy’s percentage limit for all sectors.

   Motion carried.

   Jim DeMartini opposed.
   Gordon Ford opposed.
   Mike Lynch opposed.

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

   Paul reviewed the investment performance analysis for the quarter ending December 31, 2007. The composite fund returned -1.1% in the fourth quarter of 2007 and ranked in the 70th percentile among other public funds greater than $100 million. The median fund returned -0.8%. The fund trailed its policy index of -0.7% during this time period. Longer term, the three and five year returns of 9.2% and 12.5% ranked near the median among total public plans (9.6% and 12.4%, respectively).

   Tom Watson left at 3:23 p.m.

   Tom Watson returned at 3:28 p.m.
6. **Strategic Investment Solutions, Inc. (SIS) [cont.]**


   Paul Harte, SIS, presented the monthly performance review for the period ending January 31, 2008. January proved to be a poor month for performance. StanCERA's portfolio is $1.366 billion, a decrease of -5.51% from the prior month. The overall rate of return for this fiscal year to date is -4.57%. This return is below the policy index of -2.62% and the assumed rate of 4.75%. The financial market downturn has had a negative effect of a loss of $80 million on StanCERA's value of assets from the previous month and $20 million over the past 12 months. Investment managers remain on or near target. However, the volatility of the market with the housing and retail weaknesses, receding liquidity, and high energy prices are all contributors to the market downturn.

   c. Comparison of StanCERA's Asset Allocations to Other 1937 Act Retirement Systems

   Mr. Harte gave a brief summary of the written comparison of StanCERA's asset allocations and asset mixes to other similar 1937 Act retirement systems that use SIS, Inc. These included the county retirement systems of San Joaquin, Alameda and San Mateo. San Mateo's asset allocation is the most similar to StanCERA's, with 6% invested in real estate, while StanCERA has tentatively allocated 3% of its entire portfolio to be invested in real estate investment trust (REIT) securities.

7. **Administrator**

   a. Discussion and Action on the Draft Resolution to Commemorate 40 Years of Service from Dodge & Cox

   Mr. Watson noted the Board members had received a draft Resolution commemorating 40 years of service to StanCERA provided by Dodge & Cox. Dodge & Cox began equity securities investment management services in 1968, and was hired in 1983 as the first external fixed income securities manager. Included with the Resolution were the Minutes establishing the history of the services provided to StanCERA by Dodge & Cox. The Board reviewed and discussed the Resolution, requesting some changes. Mr. Watson addressed questions from the Board members.

   Motion was made by Wes Hall and seconded by Steve Yauch to accept the Resolution to commemorate 40 years of service from Dodge & Cox with the presented changes.

   The Board had further debate regarding the Motion.

   Motion was made by Darin Gharat, and seconded by Mike Lynch to table the Motion to accept the Resolution and bring the Resolution back at a future meeting.

   Motion carried.
7. **Administrator (cont.)**

Item 7b. Heard Out of Order

c. BMTI Services’ Complaint/Contact Log – September 1 – December 31, 2007

Mr. Skau noted Board members received the written report of BMTI Services’ complaint/contact log for the fourth quarter of 2007. He informed board members that six quality control letters were sent to retiree members to determine the level of service provided by BMTI. Four responses were returned, all with positive feedback. For this quarter, 218 items were logged. This was the most thus far, demonstrating BMTI’s commitment to addressing all the insurance needs of the retiree members.

8. **Correspondence**

a. Mazama Capital Management Client Communication Dated February 1, 2008 - New Appointment to Board of Directors

b. Mazama Capital Management, Inc., Client Communication Dated February 1, 2008 – New Staff Additions and Promotions

Mr. Watson gave a brief summary of the client communications the Board members had previously received. Stephen C. Brink was appointed to Mazama’s Board of Directors. He will retire from his role as director of research and member of the portfolio management team. Mr. Brink is a co-founder of Mazama Capital Management, Inc. Additionally, three internal promotions and one addition to the firm were also included.

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

Darin Gharat, Trustee, inquired as to the approximate cost of the retiree annual cost of living adjustment (COLA). Mr. Watson said this year it adds about $2 million to the retiree payroll for a one year period. It is fully funded with employee and employer retirement contributions, as well as being a legal requirement. Steve Yauch, Trustee, requested that the costs associated with the COLA, effective each April 1st, be included in next year’s presentation to the Board.

Mr. Yauch requested a status report on the vacant space for lease at 832 12th St., 6th floor, at the next Board of Retirement meeting.

Mike Lynch, Trustee, requested an analysis be performed of the law governing the INVESCO investment contract, concerning the differences between Georgia and California laws pertaining to the commingled trust. Ms. McGrath and Mr. Watson both explained the commingled trust is governed by Georgia law to the extent they are not pre-empted by federal law, such as ERISA (the federal Employee Retirement Income Security Act). Georgia is where INVESCO’s headquarters are based. Ms. McGrath
9. **Members’ Forum (Information and Future Agenda Requests Only) [cont.]**

said it was a location issue, because at this time we do not know what the legal issues would be, such that it would be worth spending time to research the differences between California and Georgia law. Mr. Watson reiterated that StanCERA’s Statement of Investment Policy provides for a commingled trust’s governing documents to supersede StanCERA’s specific requirements due to the inability of the trust to make exceptions for each investor client.

Mr. Gharat thanked Doris Foster of the Chief Executive Office, for attending the Board of Retirement meetings.

Wes Hall, Trustee, inquired as to who was attending the California Association of Public Retirement Systems’ (CALAPRS) General Assembly, March 2-4, 2008. Mr. Watson replied he was attending as well as Gordon Ford, Vice-Chair.

Mr. Harte informed the Board he will provide a performance review of Mazama Capital Management Inc., at the March 25, 2008, Board of Retirement meeting, along with possible changes to the Statement of Investment Policy, and a review of the Russell 2000 Value Index ETF (Exchange Traded Fund).

10. **Adjournment**

Meeting adjourned at 4:18 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: __________________________________
Deirdre McGrath, Deputy County Counsel