AGENDA

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

April 11, 2012
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.

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.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items
   a. Approval of the March 27, 2012 Investment Meeting Minutes
   b. Receipt of the Executive Director’s 2012 1st Quarter Update of Goals and 2010-2012 Strategic Action Plan
5. **Consent Items (Cont.)**

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

   1. Deborah Brasher, Superior Courts, 03-31-12
   2. Debra Bush, CSA, Effective 04-25-12
   3. Mary Green, CSA, Effective 03-30-12
   4. Kirk Gustafson, CEO, 03-31-12
   5. Leticia Huntley, CSA Effective 03-31-12
   6. James Hurley, BHRS, Effective 03-31-12
   7. Darlene Keuning, HSA, Effective 03-13-12
   8. Undine Larson, Sheriff, Effective 03-31-12
   9. Laurie Sergent Luna, Probation, Effective 03-30-12
   10. Donald Oppman, Assessor, Effective 03-31-12
   11. Wayne Staylon, Regional 911, Effective 03-21-12
   12. John Webb, Probation, Effective 03-24-12

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

   1. Suzanne Yarberry, CSA, Effective 03-03-12

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

   1. James Stephens, City of Ceres, Service-Connected, Effective 08-20-11

6. **Executive Director**

   a. Discussion and Action on the State Association of County Retirement Systems’ (SACRS) Nominating Committee’s Final Recommended Ballot for the 2012-2013 SACRS Board of Directors at the May 11, 2012 Annual SACRS’ Business Meeting  View

   b. Board Study Session – The Discount Rate  View
7. Closed Session

Pursuant to Government Code Section 54956.9(a) regarding litigation, the following matter(s) will be heard in closed session.

a. Conference with Legal Counsel – Pending Litigation – One Case:  
In Re Bank of New York Mellon Corporation False Claims Act Foreign Exchange Litigation, Ex rel. FX Analytics v. The Bank of New York Mellon Corporation  
U. S. District Court, Northern District, Case No. 3:11-cv-05683-JCS

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

c. Conference with Legal Counsel – Pending Litigation – One Case:  
O’Neal et al v. Stanislaus County Employees’ Retirement Association Court of Appeal of the State of California Fifth Appellate District Case No. F061439

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

9. Adjournment
PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

March 27, 2012

Members Present: Maria De Anda, Jim DeMartini, Darin Gharat, Jeff Grover, Ron Martin, Michael O’Neal, Jegan Raja*, and Donna Riley

*Jegan Raja, Assistant Treasurer- Tax Collector representing G. Ford, Treasurer-Tax Collector

Members Absent: Mike Lynch and Gordon Ford*

Alternate Member Absent: Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director
Kelly Cerny, Executive Secretary
Kathy Herman, Operations Manager
Dawn Lea, Benefits Manager
Kathy Johnson, Accountant
Joyce Parker, I.T. Coordinator

Others Present: Fred Silva, General Legal Counsel
Kevin Brown, Delaware Investments
Drew Stepanek & Manoj Patel, RREEF Real Estate
Paul Harte & Nathan Pratt, Strategic Investment Solutions (SIS), Inc.
Doris Foster & Stan Risen, Chief Executive Office

1. Meeting called to order at 2:00 p.m. by Jim DeMartini, Chair

2. Roll Call

3. Announcements

None.

4. Public Comment

None.
5. **Consent Items**

Ms. Cerny announced that on the March 14, 2012 Minutes, under Consent Items, Item #5b, Linda Carter revoked her retirement date of 03-30-12.

Motion was made by Maria De Anda and seconded by Jeff Grover to approve the following items as listed and amended.

Motion carried.

a. Approval of the March 14, 2012, Administrative Meeting Minutes as listed and amended.

6. **Semi-Annual Performance Report by Delaware Investments**

Mr. Kevin Brown, Vice President, Senior Investment Specialist, gave the semi-annual presentation on StanCERA’s large cap growth portfolio. As of December 31, 2011, net returns were 11.80%, while the Russell 1000 Growth index benchmark was 10.61%. As of February 29, 2012, the portfolio value is $116.6 million. The portfolio returned 13.56%, 29.91%, and 4.58% for the periods of one year, three years, and five years, respectively.

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

a. Educational Presentation – An Introduction to Infrastructure by RREEF Infrastructure

   Drew Stepanek, Client Relations, and Manoj Patel, Portfolio Manager and Co-Head of Global Infrastructure Securities, of RREEF Infrastructure gave an educational presentation to the Board on an introduction to infrastructure.

b. Monthly Investment Performance Review for the Month Ending February 29, 2012

   Mr. Harte presented the monthly performance review for the period ending February 29, 2012. StanCERA’s portfolio is $1.41 billion, an increase of 3.15% from the prior month. The overall rate of return for this fiscal year to date is 1.78%, below the policy index of 3.17% and the assumed rate rate of 5.38%.

c. Report on “Top 10 Holdings” of StanCERA Investment Managers

d. Research Affiliates Response to StanCERA’s Questions Re: Enhanced RAFI Long Short Strategy

e. Discussion and Action on the Implementation of a Stop Loss on the RAFI Long Short Fund

   Motion was made by Jeff Grover and seconded by Maria De Anda to implement a stop loss of $10,000,000 on the RAFI fund and create a standing agenda item each month allowing the Board to take action regarding the disposition of the RAFI fund.

   Motion carried.
8. **Executive Director Report**

   a. Discussion and Action on Potential Acquisition of a Board Portal System for Board of Retirement Meetings

   Motion was made by Darin Gharat and seconded by Jim DeMartini to approve the proposed goals and requirements as stated.

   Roll Call Yes: J. DeMartini, D. Gharat, J. Grover, J. Raja and D. Riley

   Roll Call No: M. De Anda and M. O'Neal

   R. Martin abstained.

   Vote: 5-2; 1 abstention.

   Motion carried.

   b. Discussion and Action on a Potential Change of Custodial Bank

   No action taken.

   c. Discussion and Action Regarding an Update on the Vacant Office Space at 832 12th St., 6th Floor

   Motion was made by Darin Gharat and seconded by Michael O'Neal to authorize the Executive Director to finalize the lease agreement and execute it accordingly.

   Motion carried.

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

   Vice-Chair Gharat thanked staff for their diligence in processing an extraordinary number of retirement applications this month.

   Trustee Grover requested a Due Diligence Committee meeting be held to set the schedule for this year's due diligence visits.

10. **Adjournment**

    Meeting adjourned at 4:03 p.m.
Retirement Board Meeting
April 11, 2012

TO: Retirement Board

FROM: Rick Santos, Executive Director

SUBJECT: 2012 1st Quarter Update on Executive Director’s Goals & Strategic Action Plan

I. RECOMMENDATION: Approve Progress on Director’s Goals and Strategic Action Plan

II. ANALYSIS: This is the first quarter update on the Director’s Goals for 2012 and an update on the progress for the Organizational Strategic Action Plan for 2010-2012. The information is being presented as one item since the Director’s Goals are explicitly tied to the Strategic Action Plan. As such, the documents share similar information. The link between the Director’s Goals and the Strategic Action Plan is noted in Attachment 2.

Both documents use color coding to quickly discriminate between tasks that have either been completed or have had progress made (green), and those that have seen no progress or have not yet been completed (red).

Strategic Action Plan (Attachment 1)

This document is divided into two sections; tasks that are ongoing in nature, and those that have a specific resolution. Only tasks that are ongoing or have not been completed are part of this document. Many of the tasks in the Strategic Action Plan have been completed and as such, are not a part of this document. Tasks that are ongoing will simply list the action taken during the previous quarter. This information will then be updated each subsequent quarter and the prior quarter’s action removed. Those tasks that have a specific resolution will list whether the item has been completed and if so, it will be removed in subsequent quarters.

Executive Director’s Goals (Attachment 2)

This document lists the goals set forth by the Executive Director in January 2012. As with the Strategic Action Plan document, it currently lists progress made in the previous quarter. However, unlike the Strategic Plan document, since most of the goals have specific resolutions that will take until the end of the year to complete, this document’s action list will continue to grow.

Rick Santos, Executive Director

Attachments
SAP Tasks on going in nature

1) Periodically review and revise the investment policy as needed
   ➢ No further progress to report

2) Periodically review and revise assumptions as needed
   ➢ No further progress to report

3) Conduct regular discussions with Strategic Investment Solutions (SIS)
   ✓ Monthly Investment Meetings
   ✓ Staff consults with SIS on a regular basis
     o Investment fees
     o Return calculations
     o Asset allocation
     o Capital market expectations

4) Periodically discuss key investment decisions with experts as needed
   ✓ Monthly SIS reports
   ✓ Monthly Investment Manager reports

5) Maintain current information on website
   ✓ Current quarter information
     o COLA Reporting
     o Actuarial information
     o Board Agenda information
     o Board minutes
     o Board audio

6) Maintain educational sessions for interested stakeholders
   ✓ Board study sessions
     o Maturity risk
     o Contribution and funding risk
   ✓ Staff educational sessions
     o Various training opportunities (internal and external)
   ✓ Stakeholder visits
     o County Executive Staff
     o County Board of Supervisors
     o City of Ceres and Special District’s decision makers

7) Explore other sources of communication with Plan Sponsors and Members
   ✓ Regular emails regarding upcoming Board Agenda items

8) Gather and report benchmarking data against other Systems
   ✓ Report out discount rate information
   ✓ Gather contingency reserve information
   ✓ Gather tier 2 information
SAP Tasks on going in nature – cont.

9) Analyze benchmarking data
   ➢ No further progress to report

10) Communicate with peers in other pension Systems
    ✓ Staff attendance at CALAPRS seminars
    ✓ Director attendance at CALAPRS round table
    ✓ Director ongoing email and telephone communication with other System Leaders

11) Continue to contract with established knowledgeable attorneys
    ✓ Contract with Terry Rein, Real Estate Attorney

12) Explore opportunities to offer educational sessions at StanCERA
    ✓ Director continually working with SIS and Investment strategists for sessions on risk mitigation

13) Identify high quality educational opportunities and inform Board Members
    ✓ Deliverance of the 2012 Master Calendar of Educational Opportunities
    ✓ Information presented on NCPERS Annual Conference

14) Ensure that StanCERA processes are completed on time and to standards
    ✓ All major processes completed on time
      o Board agenda and minute production
      o 1st quarter retiree payrolls
      o 1st quarter member refunds
      o Disability retirement applications (10 outstanding)

15) Staff and Board to attend approved educational opportunities
    ✓ Staff
      o CALAPRS sponsored events
      o CFA events
      o Internal Strategic Planning Offsite

    ✓ Board
      o Public Funds Summit
      o LaCERA Trustees’ Roundup
      o CALAPRS General Assembly

16) Search out other System’s websites for best practices and ideas for the future
    ➢ No further progress to report

17) Enhance website based on research of other System’s websites
    ➢ No further progress to report

18) Track and resolve post-implementation Tyler issues as needed
    ➢ No further progress to report
SAP Tasks with a specific resolution

1) Conduct due diligence
   ➢ Incomplete; Due diligence Committee Meeting scheduled for May 22

2) Complete action items within Operational Audit
   ✓ Complete; Items completed and approved by Governance Committee on March 27

3) Archive BOR agendas and minutes
   ➢ Incomplete; Completed through 1992

4) Explore and make recommendations regarding document imaging
   ➢ Incomplete

5) Develop and implement a system for reporting Strategic Action quarterly updates
   ✓ Complete; System implemented with this quarterly report
Attachment 2 – 2012 Executive Director Goals Quarter 1
Progress Update

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts, employee groups and RESCO (SAP Goal 2, Strategy A)
   ✓ Relayed information about actuarial valuation and Board Study sessions to stakeholders
   ✓ Met with County Executive Staff, County BOS, Staff from Ceres and Special Districts
   ✓ Presentation on pension risk
   ✓ Presentation on contribution and funding risk
   ✓ New Employee Orientation completed in February 2012

2. Complete internal staffing and reorganization (SAP Goal 3, Strategy B)
   ✓ Acquired new CAIV position January
   ✓ Hired Benefit Specialist in February

3. Complete policy and procedural requirements recommended by Operational Auditor (SAP Goal 3, Strategy C)
   ✓ IT Risk Audit completed and approved by the IG Committee on March 27

4. Complete Organizational understanding of pension risk and the potential development and implementation of new funding strategies and philosophies (SAP Goal 1, Strategies A, B & C; Goal 2, Strategy B; Goal 3, Strategy A)
   ✓ Completed study session on plan maturity risk
   ✓ Completed study session on contribution and funding risk

5. Complete ongoing educational opportunities for Staff (SAP Goal 3, Strategy B)
   ✓ Completed staff educational sessions on pension risk and maturity risk
   ✓ Staff Event: CALAPARS Benefit Roundtable – February 3
   ✓ Staff Event: CSDA Board Secretary Training
   ✓ Staff Event: GFOA Staff Curriculum Training

6. Continue ongoing development and understanding of Organizational processes and procedures (SAP Goal 3, Strategy B)
   ✓ Ongoing work with general disability counsel on routine organization issues that involve 1937 Act Law
   ✓ Face-to-face networking with other 37 Act System CEO’s
   ✓ Involved with updates and revisions of internal processes

7. Complete Cost/Benefit analysis on document imaging system (SAP Goal 4, Strategy B)
   ➢ No progress to report

8. Explore and potentially execute “paperless” Board meetings (SAP Goal 4, Strategy C)
   ✓ Brought agenda item to the Board on March 27 regarding “paperless” option
9. Director Professional Development (SAP Goal 3, Strategy B)
   ✓ CFA Economic Forecast January 25, 2012
   ✓ Administrator’s Roundtable January 27, 2012

10. Oversee administrative functions
    ✓ All Board agenda and minute production complete for 1st quarter
    ✓ All Committee agenda production complete for 1st quarter
    ✓ Board and Staff travel arrangements complete
    ✓ Completion of Winter newsletter
    ✓ Complete 1st quarter update on Executive Director goals
    ✓ Complete 1st quarter retiree payrolls on time
    ✓ 1st quarter member refunds current
    ✓ 10 outstanding disability retirement applications as of March 31
SACRS MEMORANDUM

April 1, 2012

Attn: SACRS Administrators

From: Raymond McCray, SACRS Nominating Committee Chair
      SACRS Nominating Committee

Re: SACRS Board of Director Elections 2012-2013 – Final Ballot

Per SACRS Bylaws, Article VI ~ Section 2 – Election, Qualification and Term of Office

“The officers of SACRS shall be regular members of SACRS. The officers shall be elected by
majority vote of the quorum of delegates and alternate delegates present at the first meeting in
each calendar year and shall hold office for one (1) year and until a successor is elected.”

Per SACRS Bylaws, Article VI ~Section 4 - Officer Elections

“...The Board of any regular member County Retirement System may submit write-in candidates
to be included in the Nominating Committee’s final ballot provided the Nominating Committee
receives those write-in candidates prior to March 25th.

The Nominating Committee will report a final ballot to each regular member County Retirement System prior to April 1.

The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee’s recommended ballot and final ballot to each trustee and placing the election of SACRS Officers on his or her Board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee...”

Below is the final ballot/slate – As in the past, a voting delegate may entertain a motion to vote by
individual officer positions or by complete ballot/slate. Please be sure to authorize your voting delegate to
vote either way.

Continued
The elections will be held at the upcoming SACRS Spring Conference May 8 – 11, 2012 at the Squaw Creek Resort in Olympic Valley, CA. Elections will be held during the Annual Business meeting on Friday, May 11th, 2012 at 9:15 a.m.

Please distribute the ballot/slate to all standing/eligible board members for approval and authorization for your voting delegate. As stated above, Administrators are required to send acknowledgement of completion to our office at sulema@sacrs.org.

**SACRS Nominating Committee Recommended 2012-2013 Nominees/Candidates:**

- **President**  
  Doug Rose, San Diego CERA

- **Vice President**  
  Yves Chery, Los Angeles CERA

- **Treasurer**  
  Tom Ford, Sonoma CERA

- **Secretary**  
  John Kelly, Sacramento CERS

If you have any questions or require assistance, please contact me directly at 209-468-2163 or raym1@sbcglobal.net. Thank you for your prompt attention to this timely matter.

Sincerely,

**Raymond McCray**

Raymond McCray, San Joaquin County  
SACRS Nominating Committee Chair

CC: SACRS Board of Directors  
SACRS Nominating Committee Members  
Sulema H. Peterson, SACRS Administrator

Attachment

RMC:shp
The Discount Rate

StanCERA Study Session #3
April 11, 2012
What is a Discount Rate?

Rate of interest used to determine the *value* or *cost* today of a payment made tomorrow.

Definition of Cost
1. “an amount paid”
2. “an outlay or expenditure”

Definition of Value
1. “relative worth of some good”
2. “the monetary worth of something”
Two Basic Perspectives

1. Financial Economics
   - **Value** based calculation
   - Liability driven
   - Uses interest rates (yield curve)

2. Funding
   - **Cost** based calculation
   - Contribution driven
   - Uses expected return on portfolio
Financial Economics

Premise
- Government pensions are a “sure thing”
- Value should be based on a similar asset
- Government bonds are a similar asset
  1. Timing
  2. Amount
  3. Strength of promise ("sure thing")

Conclusion
- Use the yield curve to value the liabilities
The Treasury Yield Curve

Trade off between yield and maturity

Yield Curve on March 20 2012

Maturity

Yield

0.00% 0.10% 0.15% 0.22% 0.41% 0.62% 1.22% 1.78% 2.38% 3.13% 3.46%

1 Month 3 Month 6 Month 1 Year 2 Year 3 Year 5 Year 7 Year 10 Year 20 Year 30 Year
Proponents doing a poor job of explaining the concept

- FE’s aren’t saying traditional portfolios can’t earn the equity risk premium
- Just report the economic value of liabilities

They’ve not addressed the liquidity issue

- Pension benefits can’t be sold
- Government bonds can
- Interest rate is lower because of liquidity
Funding

Premise
- Asset returns are predictable over long periods
- Sponsor will be able to make contributions

Conclusion
- Use expected return to set contributions
- Contributions + “Returns” = Benefits
- Contributions = Benefits – “Returns”
Funding – Problems

- Liability number fails to capture price of risk
  - Employees would pay much more privately
  - Sponsor not compensated for insuring benefits

- Assets may not earn what’s expected
  - Then liabilities are being understated
  - Contributions are too low
Financial Economics Versus Funding

Consider a $1,000 liability due in 1 year
- How much should I set aside today?
- Depends on my appetite and capacity for risk

<table>
<thead>
<tr>
<th>Asset</th>
<th>Return</th>
<th>Investment Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>10%</td>
<td>$909</td>
</tr>
<tr>
<td>Bond</td>
<td>1%</td>
<td>$990</td>
</tr>
</tbody>
</table>

Price to eliminate risk = $81
- Can I make up the difference if equity underperforms?
Which Measure is Right?

- It depends on your perspective
- Financial Economics
  - Report the risk adjusted value of liabilities
  - Comparing pension systems
  - Bargaining purposes
- Funding
  - Calculation of contributions (ARC) IF assets earn what’s expected
Why Change the Discount Rate?

Financial Economics
- Change in interest rates – as interest rates go, so goes your liabilities

Funding
- Capital market outlook has changed
  1. Inflation
  2. Equity risk premium
  3. Prospects for economic growth
- Plan sponsor wishes to change risk profile