



STANISLAUS COUNTY
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BOARD OF RETIREMENT MINUTES

Amended

April 22, 2008

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

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

Members Absent: *Jim DeMartini and Mike Lynch*

Others Present: Keith Bruch-LSV Asset Management; Kelly Cerny, Natalie Elliott, Paul Harte-Strategic Investment Solutions, (SIS) Inc., Victor Hymes and Adam Lawlor-Legato Capital Management LLC.; Deirdre McGrath, Chris Steward-Pyramis Global Advisors; Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Mike Fisher, Chair

2. **Announcements**

None.

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 April 9, 2008, Administrative Meeting Minutes
- b. Approval of a Change in the Commercial Real Estate Broker
- c. Report on the Retirement Administrator's Goals as of March 31, 2008

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

Amended

Linda Stotts Burnett arrived at 2:02 p.m.

Mr. Keith Bruch, Partner and Director, Client Portfolio Services, gave the semi-annual presentation of StanCERA's international value equity investment performance for the period ending March 31, 2008. Mr. Bruch gave a brief organizational, relationship, and market update of the portfolio.

As of March 31, 2008, StanCERA's international value equity portfolio value is \$133.6 million. Mr. Bruch noted that in 2007, the spread by which growth beat value stocks was the largest since the inception (33 years) of the MSCI EAFE (Morgan Stanley Capital International and Europe, Australasia, Far East Indices); and in the large cap developed international markets, growth stocks continue to outperform value stocks in 2008. StanCERA's 2008 first quarter return was -9.3% (net of fees), below the benchmark MSCI ACWI Ex US return of -9.1%. The period of January 1, 2007 through December 31, 2007 saw a return of 11.3%.

Mr. Bruch answered Board members questions, and noted the market has been a struggle. However, LSV is focused on its continued practice of managing the portfolio for the long term.

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

Chris Steward, Institutional Portfolio Manager, gave the semi-annual presentation of StanCERA's international growth equity investment performance for the period ending March 31, 2008. Mr. Steward noted a personnel change at Pyramis. Board members previously received notice of this change in a letter dated April 7, 2008. Eileen Dibb replaces Kirk Neureiter as the Japan portfolio manager of international growth equity. Mr. Neureiter will return to the United States to undertake a different role within Fidelity Investments. Pyramis Global Advisors is a Fidelity Investments Company.

StanCERA's cumulative return (net of fees) for international growth year to date is -11.29%, compared with the benchmark MSCI ACWI Ex US index rate of return of -9.15%. StanCERA's total net assets as of March 31, 2008, are \$140.2 million, with a return of 4.70% for the past 12 months. Pyramis sees a good outlook for international growth equity in the future, after the tailwind of a decline. Pyramis believes it is a reasonable time to stay with international equity.

7. **Educational Presentation of Emerging Managers by Legato Capital Management, LLC**

Victor Hymes, Chief Executive Officer and Chief Investment Officer, along with Adam Lawlor, Director of Research and Portfolio Manager, gave an educational presentation to the Board on emerging managers.

Mr. Hymes gave an overview the definition of emerging managers. Mr. Lawlor gave a summary of the typical characteristics, advantages, challenges, of utilizing emerging managers. Emerging managers are generally those with assets less than \$2 billion. Legato Capital achieves risk-adjusted performance through a disciplined process utilizing rigorous qualitative research coupled with quantitative

Amended

7. **Educational Presentation of Emerging Managers by Legato Capital Management, LLC (cont.)**

measures to produce consistent alpha. Legato Capital Management serves as a Manager of Managers (MOM). A MOM may hire a variety of investment managers suited to a firm's asset classes. The MOM offers specialized due diligence, reduces administrative burden to the client by having one relationship with a MOM, and adds a fiduciary buffer by allowing the MOM discretion over manager selection. This enables continuous portfolio risk controls and rebalancing, along with manager development.

Maria De Anda arrived at 3:27 p.m.

Mr. Lawlor gave a brief summary of attributes of successful emerging managers. To utilize an emerging manager allows for the increase of alpha by using a specialist with dedicated research resources, and the MOM structure, to diversify business and investment risk.

Board members thanked Mr. Hyme and Mr. Lawlor for the educational presentation.

8. **Strategic Investment Solutions, Inc. (SIS) Monthly Performance Review for the Month Ending March 31, 2008**

Paul Harte, SIS, Inc., presented the monthly performance review for the period ending March 31, 2008. StanCERA's portfolio is \$1.33 billion, a -1.35% decrease from the prior month. The overall rate of return for this fiscal year to date is -6.99%, under StanCERA's policy index of -3.96%. Growth stocks are beating value stocks. Investment managers remain within target. Mr. Harte said the month of April is rallying.

Board recessed at 3:52 p.m.

Steve Yauch left at 3:56 p.m.

Board reconvened at 3:56 p.m.

9. **Administrator**

a. Presentation and Discussion of the 2008-2009 StanCERA Administrative Budget

Tom Watson, Retirement Administrator, gave a summary of his memorandum to the Board dated April 15, 2008, and the proposed administrative budget. The proposed budget has a 3.2% decrease from the prior fiscal year's total budget. Among the proposed decreases are the reduction of costs for extra-help and part-time staff, disability retirement, tax legal services, medical exams, staff travel and education, and transfers to Risk Management. The base budget remains consistent with last year's budget.

Board members reviewed and discussed the proposed decreases. Particularly, the feasibility of continued funding of the CEO-Risk Management's Disability

9. **Administrator (cont.)**

a. Presentation and Discussion of the 2008-2009 StanCERA Administrative Budget (cont.)

Management Program. Mr. Watson stated other 1937 Act systems have noted this is a unique expenditure to StanCERA and not part of administering 1937 Act retirement benefits. A recommendation for fiscal year 2008-2009 is to not include funding for this program. The support for this program could be reviewed each year with a decision to support the program or not as budget allocations allow. Gordon Ford, Vice-Chair, said he supports the program as it appears cost effective. Darin Gharat, Trustee, and Ron Martin, Trustee, stated it was no longer a responsibility of funding for StanCERA. Board members thought StanCERA's initial funding of the program has served its purpose, along with assisting in the funding of the Job Task Analysis (JTA) descriptions for job classifications. Deirdre McGrath, Deputy Counsel, mentioned that with the stricter Worker's Compensation laws in effect for four years, the number of disability claims reduced statewide. The Board asked staff to notify CEO-Risk Management of the direction this funding may be taking. Mr. Watson said this proposed administrative budget is for the Board's review and will be brought back to the Board for further review in June.

b. Update on the Draft StanCERA Disaster Recovery Plan

Hank Skau, Operations Manager, gave the Board a brief overview of StanCERA's 55-page draft Disaster Recovery Plan. StanCERA management has reviewed the document and changes were incorporated. The County Office of Emergency Services has also reviewed the Plan. OES comments are the Plan is "well thought out." OES made several minor observations and recommendations that will be incorporated into the Plan. Documenting procedures for each of the various work functions in StanCERA is not yet incorporated into the Plan. This step will be completed after the Tyler software is complete and work manuals and procedures may be modified. Mr. Skau said it is expected the Plan will be finalized by fiscal year 2009-2010 along with the completion of new desk manuals. County Counsel will review the Plan for any legal ramifications. Testing of various phases of the Plan will begin in fiscal year 2008-2009, once the Tyler software is completely installed.

c. StanCERA Complaint Log of January 1, 2008 through March 31, 2008

Mr. Skau noted Board members received the complaint log for the first quarter of 2008. A total of four complaints were logged, down four complaints from the previous quarter. Staff continues to refer retiree health insurance-related calls to BMTI Services. Board members commended staff for their handling of members' complaints and issues.

9. **Administrator (cont.)**

d. Discussion and Action on the Actuarial Consulting and Audit Services Contracts

Mr. Watson gave a brief overview of the written recommendations of the RFP (Request for Proposal) Evaluation Committee for actuarial consulting and actuarial auditing services for StanCERA. Four firms submitted proposals for actuarial consulting services and two firms submitted proposals for actuarial auditing services. All proposals were reviewed by a committee made up of Board members and staff. EFI received the highest score for actuarial consulting services, and Milliman, Inc. received the highest score for actuarial audit services.

Motion was made by Darin Gharat and seconded by Maria De Anda to hire the firm of EFI Actuaries to perform StanCERA's actuarial consulting services, and to hire the firm of Milliman, Inc., to perform StanCERA's actuarial audit services.

Motion carried.

10. **Correspondence**

a. Pyramis Global Advisors' Letter Dated April 7, 2008 – Japan Sub-Portfolio Personnel Change

Mr. Watson noted Board members had received Pyramis Global Advisors' letter dated April 7, 2008, regarding the personnel changes, noted above in Item #6.

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

Mr. Ford thanked staff for providing the statistical data he requested from the March 25, 2008, State Association of County Retirement Systems' (SACRS) Economic Impact Report Training on March 25, 2008.

12. **Adjournment**

Meeting adjourned at 4:33 p.m.

Respectfully submitted,

Hank Skau, Operations Manager

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

By: _____
Deirdre McGrath, Deputy County Counsel