



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12th Street, Suite 600  
Modesto, CA 95354  
MAIL: P.O. Box 3150 Modesto 95353-3150

Phone (209) 525-6393  
Fax (209) 558-5976  
[www.stancera.org](http://www.stancera.org)  
e-mail: [retirement@stancera.org](mailto:retirement@stancera.org)

## AGENDA

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

**April 23, 2013**  
**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](http://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.

**AUDIO:** All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at <http://www.stancera.org/sections/aboutus/agendas>.

**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 April 10, 2013 Administrative Meeting Minutes [View](#)

b. StanCERA Complaint Log of January 2013 through March 2013 [View](#)

6. Semi-Annual Performance Report by LSV Asset Management [View](#)
7. Semi-Annual Performance Report by Pyramis Global Advisors [View](#)
8. Correspondence
  - a. Discussion and Action Correspondence from Dodge & Cox Regarding Their Ability to Invest in Over-the-Counter (OTC) Equity Securities Traded on Foreign Exchanges [View](#)
9. Strategic Investment Solutions (SIS), Inc.
  - a. Monthly Performance Review for the Month Ending March 31, 2013 [View](#)
  - b. Report on “Top 10 Holdings” by StanCERA Investment Managers as of March 31, 2013 [View](#)
  - c. Update on Direct Lending Fund Candidate Review [View](#)
10. Committee Reports and Recommendations for Action

STANDING COMMITTEES

- a. Internal Governance Committee [View](#)
  - i. Discussion and Action to Accept the Recommendation of the Internal Governance Committee for Request for Proposal (RFP) for Actuarial Services.
11. Executive Director
  - a. Presentation, Discussion and Action on StanCERA’s Draft 2013-2014 Fiscal Year Administrative Budget [View](#)
  - b. Update on Implementation of Payroll System for StanCERA.
  - c. Bonds and Pension Liability – Session 1 [View](#)

12. Closed Session

- a. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC,  
Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
Government Code Section 54956.9(d)(4)
- b. Conference with Legal Counsel – Pending Litigation – One Case:  
O'Neal et al v. Stanislaus County Employees' Retirement Association  
Stanislaus County Superior Court Case No. 648469  
Government Code Section 54956.9(d)(1)
- c. Conference with Legal Counsel – Pending Litigation – One Case:  
O'Neal et al v. Stanislaus County Employees' Retirement Association  
Stanislaus County Superior Court Case No. 683548  
Government Code Section 54956.9(d)(1)
- d. Conference with Legal Counsel – Pending Litigation – One Case:  
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County  
Superior Court Case No. 1-11-CV202224  
Government Code Section 54956.9(d)(1)

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

14. Adjournment



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
Mail: P.O. Box 3150 95353-3150

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

April 10, 2013

**Members Present:** Gordon Ford, Mike Lynch, Jim DeMartini, Darin Gharat, Jeff Grover and Ron Martin, Donna Riley and Michael O'Neal

**Members Absent:** Maria De Anda

**Absent Alternate Member** Joan Clendenin, Alternate Retiree Representative

**Staff Present:** Rick Santos, Executive Director  
Kellie Gomes, Executive Board Secretary  
Kathy Herman, Operations Manager  
Dawn Lea, Benefits Manager

**Others Present:** Fred Silva, General Legal Counsel  
Paul Harte and Nate Pratt, Strategic Investment Solutions (SIS), Inc.  
Doris Foster, County Chief Executive Office

1. Meeting Called to Order

Meeting called to order at 2:00p.m. by Darin Gharat, Chair.

2. Roll Call

3. Announcements

Executor Director Rick Santos announced that San Diego County Employees' Retirement Association had terminated its contract with Legato Capital Management. The main reason stated for the termination was due to the cash needs to pursue another investment strategy.

Kathy Herman, Operations Manager, announced that Capital Prospects sent a memo describing a move from Ten Asset Management to Haber Trilix Advisors. The move was predicated on achieving economies of scale within Ten. Our manager at Ten, however, moved over to Haber to manage our portfolio, so the move ultimately should be seamless to StanCERA.

Paul Harte, Strategic Investment Solutions (SIS), Inc. announced some early March return numbers:

Portfolio Value: \$1.547 billion  
March Return: 2.14%  
Fiscal Year To Date Return: 14.2%



4. Public Comment

None.

5. Consent Items

Motion was made by Michael O'Neal and seconded by Jeff Grover to approve the following Items:

Motion carried.

- a. Approval of the March 26, 2013 Investment Meeting Minutes
- b. Executive Director Goals Quarter 1 2013 Update and Strategic Action Plan
- c. Notice of Elections – Seat 2

5. Consent Items (Cont.)

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

- 1. Jennie Campos-Ford, Alliance Worknet, Effective 03-30-2013
- 2. Gwendolyn Edmonson, Alliance Worknet, Effective 03-30-2013
- 3. Connie Field, BHRS, Effective 03-29-2013
- 4. Aaron Gallagher, District Attorney, Effective 04-07-2013
- 5. Vickie Mackenzie, Assessor, Effective 03-23-2013
- 6. Steve Tomlinson, BHRS, Effective 03-30-2013
- 7. Earl Watkins, Probation, Effective 03-23-2013

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

- 1. Jonathan Coley, Environment Resources, Effective 11-28-2012
- 2. Cherlyn Davis, CSA, Effective 03-01-2013
- 3. Richard Gonzales, Sheriff, Effective 03-20-2013
- 4. Robin Jurevich, Assessor, Effective 03-27-2013
- 5. Thomas Myers, Probation, Effective 04-23-2012
- 6. Veronica Naranjo, BHRS, Effective 12-14-2012
- 7. Michael Roehlk, Sheriff, Effective 02-15-2013
- 8. Daphne Short, CSA, Effective 03-07-2013
- 9. Lorna Trujillo, CSA, Effective 02-24-2012
- 10. Jeanine Tucker, Courts, Effective 03-01-2013
- 11. Steve Watson, Sheriff, Effective 03-19-2013
- 12. Shanette Williams, BHRS, Effective 02-15-2013

6. Executive Director

a. New Legislation Update

None

b. Discussion and Action on the State Association of County Retirement System' (SACRS) Nominating Committee's Final Ballot for the Board of Directors' Elections at the May 17, 2013 Business Meeting

Motion was made by Donna Riley and seconded by Michael O'Neal to approve SACRS Nominating Committee's Final Ballot for the Board of Directors' Elections at the May 17, 2013 Business Meeting

c. Discussion and Action to Appoint a StanCERA representative to Raven Capital Management's Advisory Committee Seat.

Motion was made by Mike Lynch and seconded by Jim DeMartini to Nominate Jeff Grover as the primary StanCERA representative to Raven Capital Management's Advisory Committee Seat

Jeff Grover abstained

Motion Carried

Second Motion was made by Mike Lynch and seconded by Michael O'Neal to nominate the Executive Director of StanCERA, Rick Santos, as the secondary StanCERA representative to Raven Capital Management's Advisory Committee Seat.

Motion Carried

7. Closed Session

Motion was made by Jeff Grover and seconded by Donna Riley to enter into closed session at 2:09 pm

Motion Carried.

Motion was made by Michael O'Neal and seconded by Jeff Grover to return from closed session at 2:43 pm

Motion Carried

7. Closed Session (Cont.)

Ms. Gomes read the findings of the Closed Session:

- a. Discussion and Action Regarding Investment in Medley Opportunity Fund II  
Roll Call Vote Required. Government Code Section 54956.81

Motion was made by Ron Martin and seconded by Donna Riley to authorize Paul Harte of SIS, Rick Santos, Executive Director of StanCERA, and Scott Smith of Hansen and Bridgett to negotiate a Side Letter agreement with Medley Opportunity Fund II. The Board authorized Rick Santos to enter into all necessary agreements with Medley provided that Medley agrees to the terms specified by the Board.

Roll Call Yes: Mike Lynch, Jim DeMartini, Darin Gharat, Jeff Grover, Ron Martin, Donna Riley and Michael O'Neal

Roll Call No: Gordon Ford

Motion Carried

- b. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC,  
Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
Government Code Section 54956.9(d)(4)

No Report

- c. Conference with Legal Counsel – Pending Litigation – One Case:  
O'Neal et al v. Stanislaus County Employees' Retirement Association  
Stanislaus County Superior Court Case No. 648469  
Government Code Section 54956.9(d)(1)

No Report

- d. Conference with Legal Counsel – Pending Litigation – One Case:  
O'Neal et al v. Stanislaus County Employees' Retirement Association  
Stanislaus County Superior Court Case No. 683548  
Government Code Section 54956.9(d)(1)

No Report

- e. Conference with Legal Counsel – Pending Litigation – One Case:  
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County  
Superior Court Case No. 1-11-CV202224  
Government Code Section 54956.9(d)(1)

No Report

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

9. Adjournment

Meeting adjourned at 2:53p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rick Santos".

Rick Santos, Executive Director

A handwritten signature in blue ink, appearing to read "Fred A. Silva".

APPROVED AS TO FORM:  
FRED A. SILVA, GENERAL LEGAL COUNSEL



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
P.O. Box 3150 Modesto, CA 95353-3150

4/23/13  
Item 5.b

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

## PRESENTATION FOR BOARD OF RETIREMENT MEETING ON APRIL 23, 2013

TO: Retirement Board  
FROM: Kathy Herman, Operations Manager  
SUBJECT: StanCERA Complaint Log

There were twenty-seven (27) retiree complaints logged between January 15, 2013, and March 31, 2013. All of these relate to health care insurance being managed by RESCO Insurance (Patrick McTighe). A summary of these complaints follows:

Number of Complaints	Caller Status	Nature of Complaints
13	Retiree	Failure of RESCO Insurance to deduct monthly premiums from retiree paychecks.
6	Retiree	Failure of RESCO Insurance to provide timely callbacks after numerous telephone messages were left on their answering machine.
3	Retiree	Failure of RESCO Insurance to update insurance coverage with care providers even though payroll deductions had occurred.
3	Retiree	Unease with the failure of RESCO Insurance to have a physical location.
1	Retiree	Failure of RESCO Insurance to provide timely follow up to personal conversations and correspondence.
1	Retiree	Failure of RESCO Insurance to collect correct premium.

This is a decrease of 42 complaints from the previous report.

  
Kathy Herman, Operations Manager

  
Rick Santos, Executive Director

(mew)

**Stanislaus County Employees'**  
**Retirement Association**

April 23, 2013

Keith Bruch, CFA  
Partner & Director, Client Portfolio Services  
(312) 460-2336

Bhaskaran Swaminathan, Ph.D.  
Partner & Director of Research  
(312) 327-5103

# Organizational Update

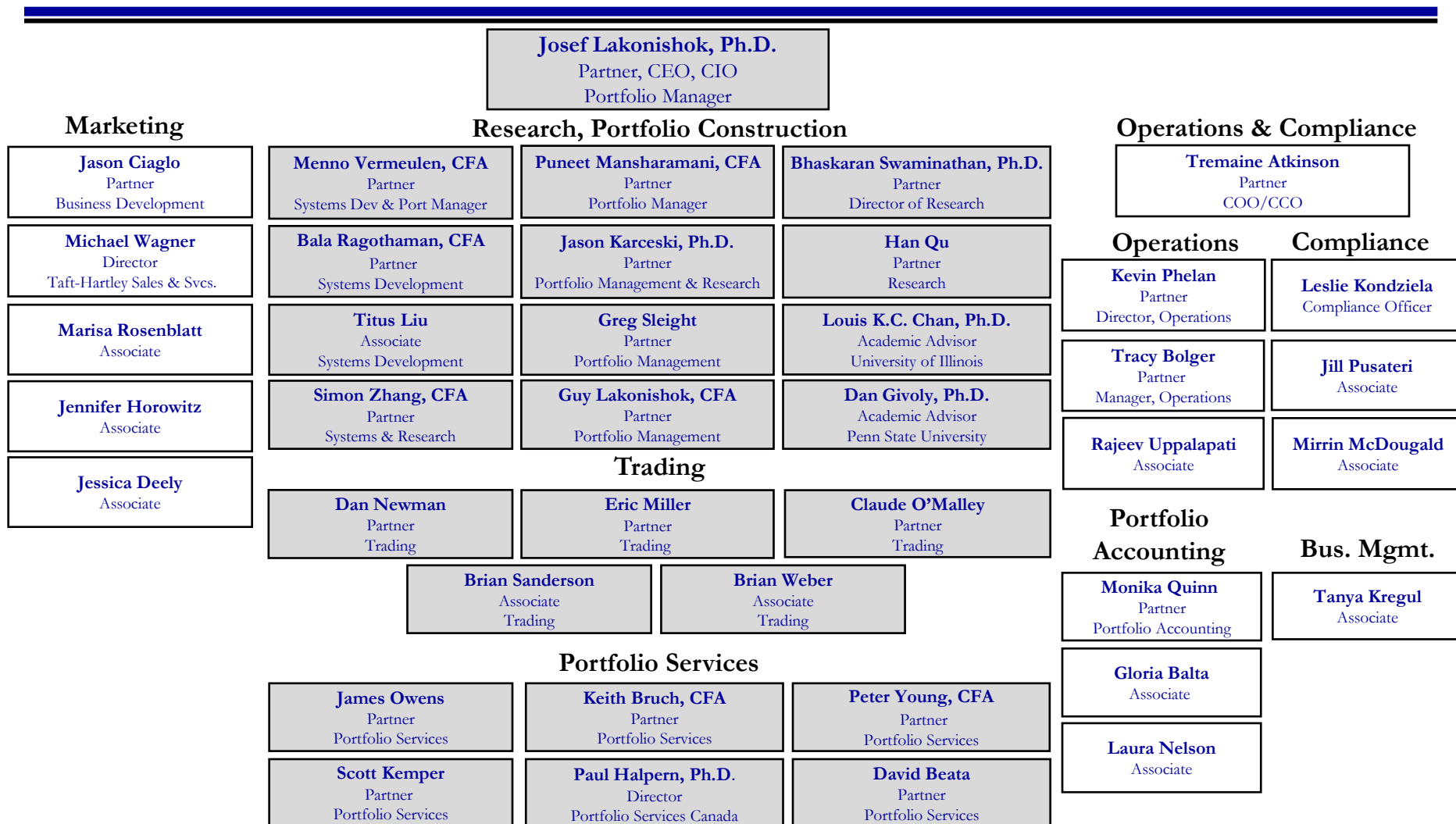
---

- ◆ LSV'S KEY ORGANIZATIONAL STRENGTHS:
  - ◆ ACADEMIC FOUNDATION
  - ◆ 25+ YEARS OF RESEARCH
  - ◆ SUCCESSFULLY APPLIED MODELS FOR OVER 15 YEARS
  - ◆ VALUE EQUITY FOCUS – OUR SOLE BUSINESS
  - ◆ CONSISTENCY OF PEOPLE, PHILOSOPHY & PORTFOLIO
  - ◆ EMPLOYEE OWNERSHIP
  
- ◆ ALL STRATEGIES BUILT FROM SAME INVESTMENT MODEL
  - ◆ \$69.7 BILLION IN FIRMWIDE ASSETS UNDER MANAGEMENT
  - ◆ \$16.4 BILLION IN INTERNATIONAL LARGE CAP VALUE ASSETS
  - ◆ LIMITED CAPACITY OFFERINGS

<u>U.S.</u>	<u>Non-U.S.</u>	<u>Global</u>
Large Cap Value	Developed Large Cap Value	Developed Global Value
Mid Cap Value	All-Country Large Cap Value	All-Country Global Value
Small/ Mid Cap Value	Developed Small Cap Value (Closed)	Global Small Cap Value (Closed)
Small Cap Value (Closed)*	Emerging Markets Value (Closed)	Managed Volatility
Micro Cap Value (Closed)*	Emerging Small Cap Value (Closed)	Concentrated Value
Enhanced Strategies	Regional Strategies - Lg/Sm Cap	
Managed Volatility	Europe, Asia, Canada, Japan, Australia	
Concentrated Value	Enhanced Strategies	
	Concentrated Value	

\* Select Strategies Open to Existing Clients

# Organizational Structure





## Research and Investment Team

Name	Years of Experience/LSV	Role and Responsibilities	Education
Josef Lakonishok	36/19	CEO, CIO Founding Partner Portfolio Manager	Ph.D. Cornell University, Finance MS Cornell University, Statistics MBA/BA Tel-Aviv University, Economics & Statistics
Menno Vermeulen, CFA	22/18	Partner Portfolio Manager Systems Development	MS Erasmus University-Rotterdam, Econometrics
Puneet Mansharamani, CFA	15/13	Partner Portfolio Manager	MS Case Western Reserve University, Engineering BS Delhi University, Engineering
Bhaskaran Swaminathan	24/8	Partner Director of Research	Ph.D. University of California at Los Angeles, Finance MBA University of Denver, Finance; BE College of Engineering, Guindy, Madras, India, Mechanical Engineering
Jason Karceski	20/5	Partner Portfolio Management Research	Ph.D. University of Illinois, Finance; MBA University of North Florida; BS California Institute of Technology, Electrical Engineering
Han Qu	20/19	Partner Research	MS University of Illinois, Finance MS University of Illinois, Statistics BS Shanghai University, Computer Science
Simon Zhang, CFA	15/15	Partner Systems & Research	MBA/MS University of Illinois, Finance & MIS Civil Engineering MS Tongji University, Shanghai, Engineering Management BS Shanghai Institution of Building Material, Engineering
Bala Ragothaman, CFA	16/7	Partner Systems Development	MS University of Iowa, Computer Science and Networks BS PSG College, Bharathiar University, Computer Engineering
Titus Liu	12/3	Associate Systems Development	MBA University of Chicago, Finance, Econometrics & Accounting BS University of Illinois, Electrical Engineering
Greg Sleight	7/7	Partner Portfolio Management	MBA University of Chicago, Econometrics, Econ. & Analytic Fin. BS University of Illinois, Material Science & Engineering
Guy Lakonishok, CFA	13/5	Partner Portfolio Management	MBA University of Chicago, Analytical Finance & Accounting BS Washington University, Electrical Engineering
Dan Givoly, CPA (Isr.)	29/8	Academic Advisor; Ernst & Young Professor of Accounting; Chairman, Department of Accounting, Pennsylvania State University	Ph.D. New York University, Accounting & Finance MBA Tel-Aviv University; BA Hebrew University, Jerusalem Economics & Statistics
Louis Chan	31/13	Academic Advisor Professor Finance, University of Illinois	Ph.D. University of Rochester, Finance & Applied Economics BS University of Hawaii, Business Administration

## Client Portfolio Services Team

Name	Years of Experience/LSV	Role and Responsibilities	Education
James Owens	24/13	Partner Portfolio Services	BA Iowa State University, Finance
Keith Bruch, CFA	25/10	Partner Portfolio Services	MBA University of Chicago, Finance BA Northwestern University, Economics
Peter Young, CFA	25/9	Partner Portfolio Services	BS Wake Forest University, Business/Mathematics
Scott Kemper	17/7	Partner Portfolio Services	MBA University of Chicago BA DePauw University
Jason Ciaglo	15/5	Partner Business Development	MBA University of Chicago BA University of California-Berkeley, English
Michael Wagner	26/2	Director Taft-Hartley Sales & Services	MBA Loyola University, Finance BS Elmhurst College, Marketing
Paul Halpern	42/9	Director, Client Portfolio Services, Canada Director, Capital Markets Institute The University of Toronto, Rotman	Ph.D. University of Chicago MBA University of Chicago Bcomm University of Toronto
Tremaine Atkinson	25/15	Partner Chief Operating Officer Chief Compliance Officer	BA University of California-San Diego, Economics

## Relationship Summary

### Stanislaus County Employees' Retirement Association

Investment Strategy:	International Large Cap Value Equity		<u>Portfolio Growth</u>
Inception Date:	September 14, 2004	<b>Beginning Value - 9/14/04:</b>	<b>\$ 81,163,381</b>
Initial Funding:	\$81,163,381	Net Contributions/Withdrawals:	\$ (27,100,000)
Custodian:	Mellon	Return on Investment:	\$ 79,673,031
Consultant:	Strategic Investment Solutions	<b>Ending Value - 3/31/13:</b>	<b><u>\$ 133,736,412</u></b>
Benchmark:	MSCI ACWI Ex U.S.		
Restrictions:	None		

#### Objectives/Investment Process:

The objective of our International Large Cap Value Equity strategy is to outperform the benchmark by approximately 250 basis points (gross of fees) per annum over a full investment cycle. LSV will attempt to meet this performance objective with a tracking error of approximately 5-6% relative to the Index.

The process used to select stocks is a **quantitative** approach developed by our founding partners through years of academic research on a variety of investment and investor behavior topics. The process ranks a broad universe of stocks on a combination of **value and momentum** factors and seeks to invest approximately 150-175 stocks in the most attractive securities possible within our strict risk parameters to control the portfolio's tracking error relative to the benchmark. The resulting portfolio will be **broadly diversified** across industry groups and **fully invested** (cash balances are typically less than 1% of the portfolio). Initial positions must be in stocks with a market capitalization greater than \$500 million.

# Market Update

	Periods Ending 3/31/13					
<u>Large Cap International Indices</u>	<u>1Q13</u>	<u>1 Yr</u>	<u>2 Yrs</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>10 Yrs</u>
MSCI EAFE	5.1%	11.3%	2.4%	5.0%	-0.9%	9.7%
MSCI EAFE Value	3.5%	11.0%	1.2%	3.5%	-1.7%	9.9%
MSCI ACWI Ex-U.S.	3.2%	8.4%	0.3%	4.4%	-0.4%	11.0%
MSCI World Ex-U.S.	4.7%	10.4%	1.5%	4.8%	-0.7%	10.0%
MSCI EAFE (Local)	9.7%	16.7%	5.8%	4.3%	0.7%	7.5%
<b>MSCI EAFE Value vs Growth Spread:</b>	<b>-3.2%</b>	<b>-0.4%</b>	<b>-2.4%</b>	<b>-3.0%</b>	<b>-1.6%</b>	<b>0.5%</b>
<u>Small Cap International Indices</u>						
S&P Developed ex US Small Cap	6.8%	10.9%	1.4%	7.7%	1.1%	13.0%
S&P Developed ex US Small Cap Value	6.4%	10.8%	1.1%	7.5%	0.9%	13.5%
<b>Value vs Growth Spread:</b>	<b>-0.7%</b>	<b>-0.3%</b>	<b>-0.6%</b>	<b>-0.4%</b>	<b>-0.4%</b>	<b>1.0%</b>
<u>Emerging Markets Indices</u>						
MSCI Emerging Markets	-1.6%	2.0%	-3.6%	3.3%	1.1%	17.1%
MSCI Emerging Markets Value	-2.4%	-1.1%	-5.0%	2.4%	1.6%	18.5%
<b>Value vs Growth Spread:</b>	<b>-1.5%</b>	<b>-6.1%</b>	<b>-2.8%</b>	<b>-1.7%</b>	<b>1.0%</b>	<b>2.9%</b>
<u>Comparative U.S. Indices</u>						
S&P 500	10.6%	14.0%	11.2%	12.7%	5.8%	8.5%
Russell 2000	12.4%	16.3%	7.8%	13.5%	8.2%	11.5%

All returns are in USD; periods longer than one year are annualized.

# International Value Equity Investment Performance

## Periods Ended March 31, 2013

Assets Managed: \$133,736,412

<u>LSV International Value Equity</u>	<u>1Q13</u>	<u>6 Mo</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>Return Since Inception*</u>
Stanislaus County Portfolio- Gross	4.3%	10.3%	9.5%	5.9%	0.7%	3.1%	7.7%
Stanislaus County Portfolio- Net	4.2%	10.0%	8.9%	5.3%	0.0%	2.5%	7.0%
MSCI ACWI Ex US	3.2%	9.2%	8.4%	4.4%	-0.4%	2.6%	7.0%
MSCI ACWI Ex US Value	1.8%	8.4%	7.6%	3.3%	-0.6%	2.2%	6.6%

## Calendar Years

<u>LSV International Value Equity</u>	<u>YTD 2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004*</u>
Stanislaus County Portfolio- Gross	4.3%	16.8%	-12.3%	13.4%	48.6%	-47.9%	12.0%	32.2%	16.0%	16.9%
Stanislaus County Portfolio- Net	4.2%	16.0%	-12.9%	12.7%	47.7%	-48.3%	11.4%	31.4%	15.3%	16.7%
MSCI ACWI Ex US	3.2%	16.8%	-13.7%	11.2%	41.5%	-45.5%	16.7%	26.7%	16.6%	15.6%
MSCI ACWI Ex US Value	1.8%	17.0%	-13.2%	7.8%	44.3%	-45.5%	12.3%	29.8%	16.4%	16.2%

\*Inception Date: 9/15/2004

Note: All returns are in USD; indices shown net of withholding taxes. Periods greater than one year are annualized.

Value Equity

Investment Specialists

## Portfolio Characteristics

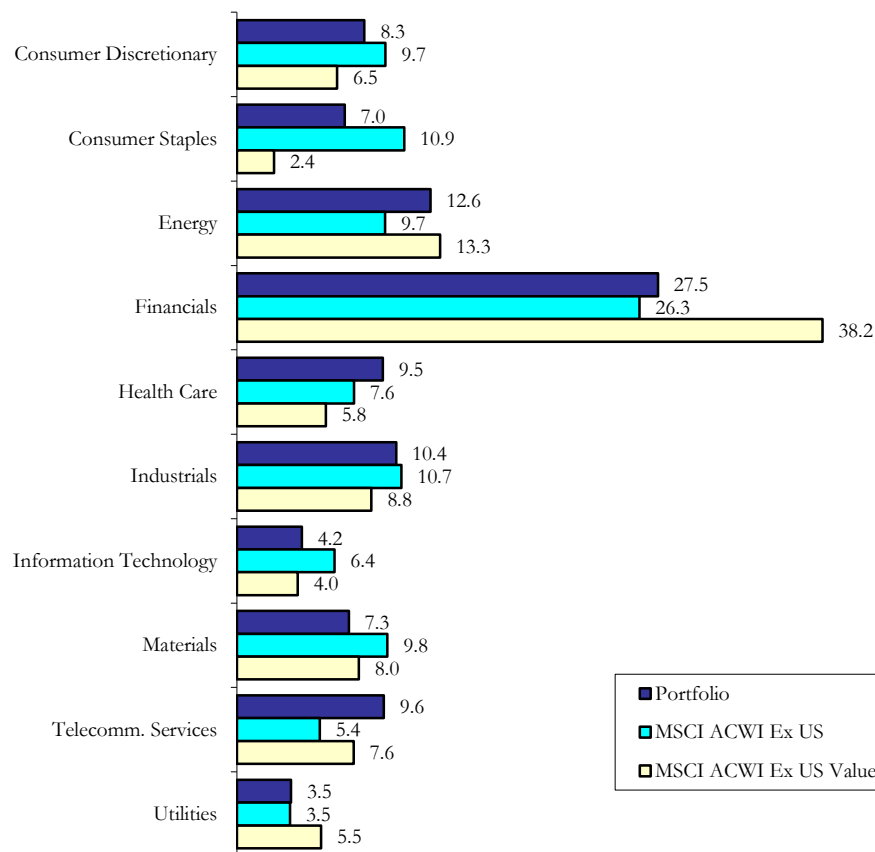
### International Large Cap Value

As of 3/31/13

	<b>Stanislaus <u>Portfolio</u></b>	<b>MSCI ACWI <u>Ex US</u></b>	<b>MSCI ACWI <u>Ex US Value</u></b>
<b>Price / Earnings (FY1)</b>	10.6x	13.9x	11.7x
<b>Price / Earnings (FY2)</b>	9.8x	12.5x	10.9x
<b>Price / Cash Flow</b>	5.5x	8.6x	6.5x
<b>Price / Book</b>	1.2x	1.6x	1.2x
<b>Dividend Yield</b>	3.9%	3.1%	3.9%
<b>Weighted Average Market Cap</b>	\$38.4 billion	\$55.8 billion	\$58.2 billion
<b>Weighted Median Market Cap</b>	\$15.1 billion	\$31.4 billion	\$34.2 billion

# Portfolio Characteristics

## Diversification by Sector as of 3/31/13



## Top Ten Holdings as of 3/31/13

Description	% of Portfolio
ROYAL DUTCH SHELL	2.3%
SANOFI	2.3%
ASTRAZENECA	1.8%
CHINA PETROLEUM & CHEMICAL CORP	1.5%
ALLIANZ SE	1.4%
OLD MUTUAL PLC	1.3%
BT GROUP	1.3%
SWISS RE	1.3%
LEGAL & GENERAL GP	1.3%
BASF	1.3%

## Country Weights

Developed <u>Countries</u>	Stanislaus <u>Portfolio</u>	MSCI ACWI <u>Ex US</u>	MSCI ACWI <u>Ex US Value</u>	Emerging <u>Countries</u>	Stanislaus <u>Portfolio</u>	MSCI ACWI <u>Ex US</u>	MSCI ACWI <u>Ex US Value</u>
Australia	5.30	6.40	6.65	Brazil	3.13	2.91	2.72
Austria	1.23	0.19	0.24	Chile	0.56	0.46	0.48
Belgium	0.64	0.84	0.47	China	4.60	4.19	4.36
Canada	7.51	7.55	7.92	Colombia	0.00	0.28	0.28
Denmark	0.00	0.80	0.24	Czech Republic	0.00	0.06	0.05
Finland	0.59	0.54	0.76	Egypt	0.00	0.06	0.07
France	6.85	6.44	7.55	Hungary	0.00	0.05	0.06
Germany	5.86	5.85	5.57	India	0.82	1.53	1.53
Greece	0.25	0.04	0.02	Indonesia	0.25	0.70	0.69
Hong Kong	1.97	2.19	2.10	Korea (South)	3.33	3.43	3.37
Ireland	0.02	0.20	0.20	Malaysia	0.68	0.81	0.81
Israel	0.86	0.37	0.40	Mexico	1.20	1.29	1.36
Italy	2.17	1.36	2.00	Morocco	0.00	0.02	0.02
Japan	14.91	14.46	14.53	Peru	0.00	0.14	0.10
Netherlands	1.68	1.68	1.41	Philippines	0.00	0.25	0.24
New Zealand	0.00	0.09	0.09	Poland	0.00	0.34	0.31
Norway	1.38	0.62	0.98	Russia	2.36	1.36	1.29
Portugal	0.00	0.12	0.14	South Africa	3.20	1.64	1.69
Singapore	0.94	1.27	1.35	Taiwan	1.71	2.50	2.39
Spain	2.19	1.91	3.16	Thailand	0.56	0.64	0.64
Sweden	1.41	2.28	2.13	Turkey	<u>2.01</u>	<u>0.50</u>	<u>0.51</u>
Switzerland	5.28	6.38	3.78	<b>Total</b>	<b>24%</b>	<b>23%</b>	<b>23%</b>
UK	<u>14.56</u>	<u>15.28</u>	<u>15.32</u>				
<b>Total</b>	<b>76%</b>	<b>77%</b>	<b>77%</b>				

Value Equity



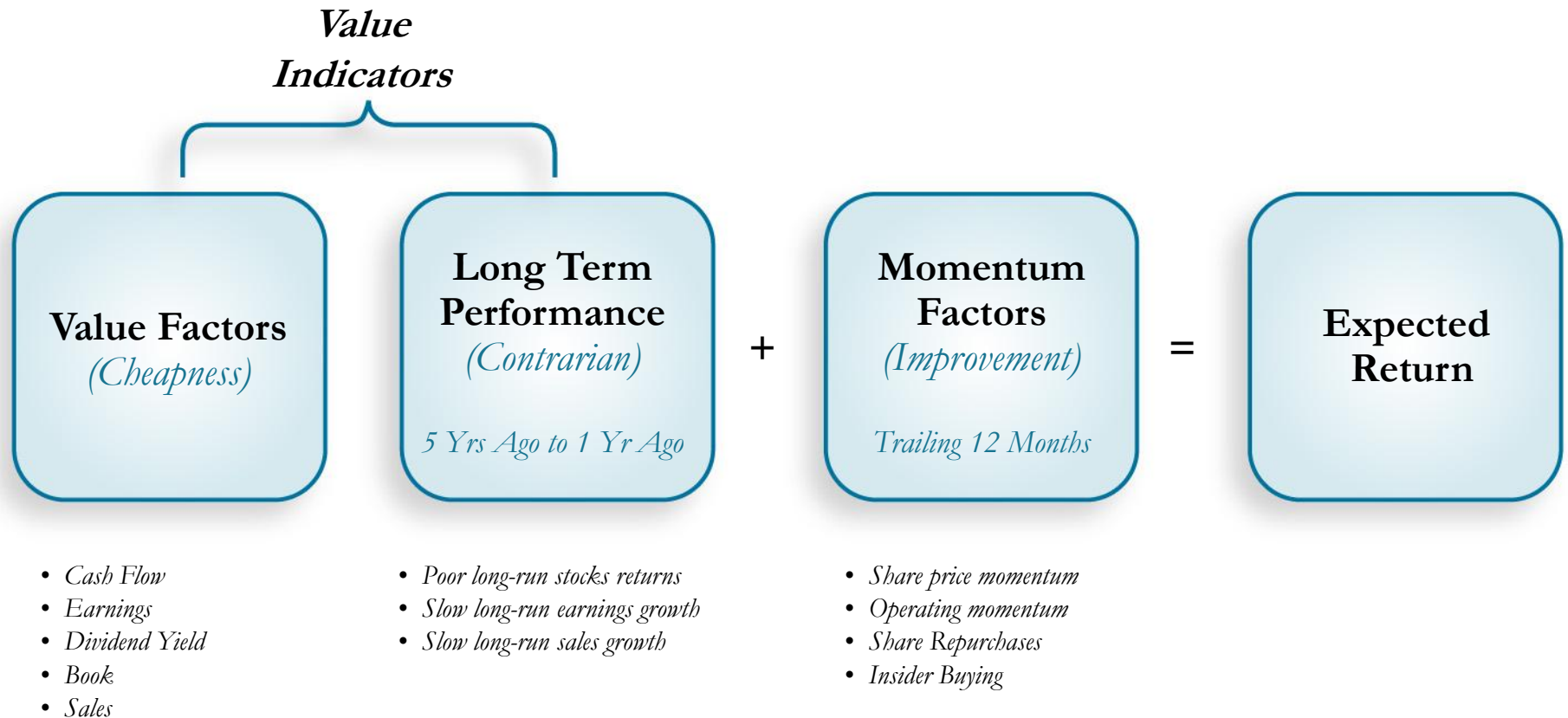
# Portfolio Holdings by Country

COUNTRY	% PORT.	COUNTRY	% PORT.	COUNTRY	% PORT.
<b>AUSTRALIA</b>	<b>5.3%</b>	<b>CANADA (continued)</b>		<b>GREECE</b>	<b>0.3%</b>
National Australia Bank Limited	1.1%	Research In Motion Limited	0.3%	Hellenic Telecommunications Organization	0.2%
Macquarie Group Limited	1.0%	Corus Entertainment Inc.	0.2%	Heracles General Cement Company S.A.	0.0%
Lend Lease Corporation Ltd	0.9%				
Metcash Limited	0.5%	<b>CHILE</b>	<b>0.6%</b>	<b>HONG KONG</b>	<b>2.0%</b>
Dow ner Edi Limited	0.4%	Empresa Nacional De Telecomunicaciones	0.6%	Johnson Electric Holdings Limited	0.6%
Bank Of Queensland Limited	0.3%			Dah Chong Hong Holdings Limited	0.5%
Arrium Limited	0.3%	<b>CHINA</b>	<b>4.6%</b>	Yue Yuen Industrial (Holdings) Limited	0.4%
Seven Group Holdings Limited	0.3%	China Petroleum & Chemical Corporation	1.5%	Kingboard Chemical Holdings Limited	0.3%
Boart Longyear Limited	0.1%	Bank Of China Limited	1.2%	China Shineway Pharmaceutical Group Ltd.	0.2%
Mount Gibson Mining Limited	0.1%	Tianneng Pow er International Limited	0.5%		
Panoramic Resources Limited	0.1%	China Railw ay Construction Corporation	0.5%	<b>INDIA</b>	<b>0.8%</b>
Paperlinx Limited	0.0%	Weiqiao Textile Company Limited	0.3%	Tata Motors Limited	0.5%
		China Shanshui Cement Group Limited	0.3%	Tata Steel Limited	0.3%
<b>AUSTRIA</b>	<b>1.2%</b>	Chongqing Rural Commercial Bank Co., Ltd	0.2%		
Omv Aktiengesellschaft	1.0%	Global Bio-Chem Technology Group Company	0.0%	<b>INDONESIA</b>	<b>0.2%</b>
At&S Austria Technologie & Systemtechnik	0.2%			Pt Timah (Persero) Tbk.	0.2%
		<b>FINLAND</b>	<b>0.6%</b>		
<b>BELGIUM</b>	<b>0.6%</b>	Huhtamaki Oyj	0.6%	<b>ISRAEL</b>	<b>0.9%</b>
Delhaize Group	0.6%			Elbit Systems Ltd.	0.5%
		<b>FRANCE</b>	<b>6.8%</b>	Teva Pharmaceutical Industries Limited	0.4%
<b>BRAZIL</b>	<b>3.1%</b>	Sanofi	2.3%		
Companhia De Saneamento Basico Do Estado	1.2%	Total Sa	0.9%	<b>ITALY</b>	<b>2.1%</b>
Banco Do Brasil S.A.	0.8%	Societe Generale	0.7%	Eni S.P.A.	1.2%
Petroleo Brasileiro S.A. - Petrobras	0.5%	Bnp Paribas	0.7%	Parmalat Spa	0.5%
Vale S.A.	0.5%	Scor Se	0.6%	Enel Societa Per Azioni	0.3%
Centrais Electricas Brasileiras Sa	0.1%	Arkema	0.6%	Finmeccanica S.P.A.	0.1%
		Thales	0.4%	Banco Popolare Societa Cooperativa	0.0%
<b>CANADA</b>	<b>7.4%</b>	Axa	0.4%		
Magna International Inc.	1.2%	Vivendi	0.3%	<b>JAPAN</b>	<b>14.8%</b>
Canadian Imperial Bank Of Commerce	1.2%			Marubeni Corporation	1.1%
Metro Inc.	0.9%	<b>GERMANY</b>	<b>5.8%</b>	Kddi Corporation	1.1%
Westjet Airlines Ltd.	0.8%	Allianz Se	1.4%	Otsuka Holdings Co.,Ltd.	0.9%
Empire Company Limited	0.7%	Basf Se	1.3%	Nippon Telegraph And Telephone Corp	0.9%
National Bank Of Canada	0.6%	Bayer Aktiengesellschaft	0.8%	Sumitomo Mitsui Financial Group, Inc.	0.8%
Celestica Inc.	0.4%	Daimler Ag	0.7%	Sumitomo Corporation	0.8%
Agrium Inc.	0.4%	Rw e Aktiengesellschaft	0.4%	Kyorin Seiyaku Holdings Kabushihiki Kaish	0.7%
Calfrac Well Services Ltd.	0.4%	EOn Se	0.4%	Itochu Corporation	0.7%
Atco Ltd.	0.3%	Rheinmetall Aktiengesellschaft	0.4%	Mizuho Financial Group, Inc.	0.7%
		Deutsche Bank Aktiengesellschaft	0.4%	Mitsubishi Ufj Financial Group, Inc.	0.6%

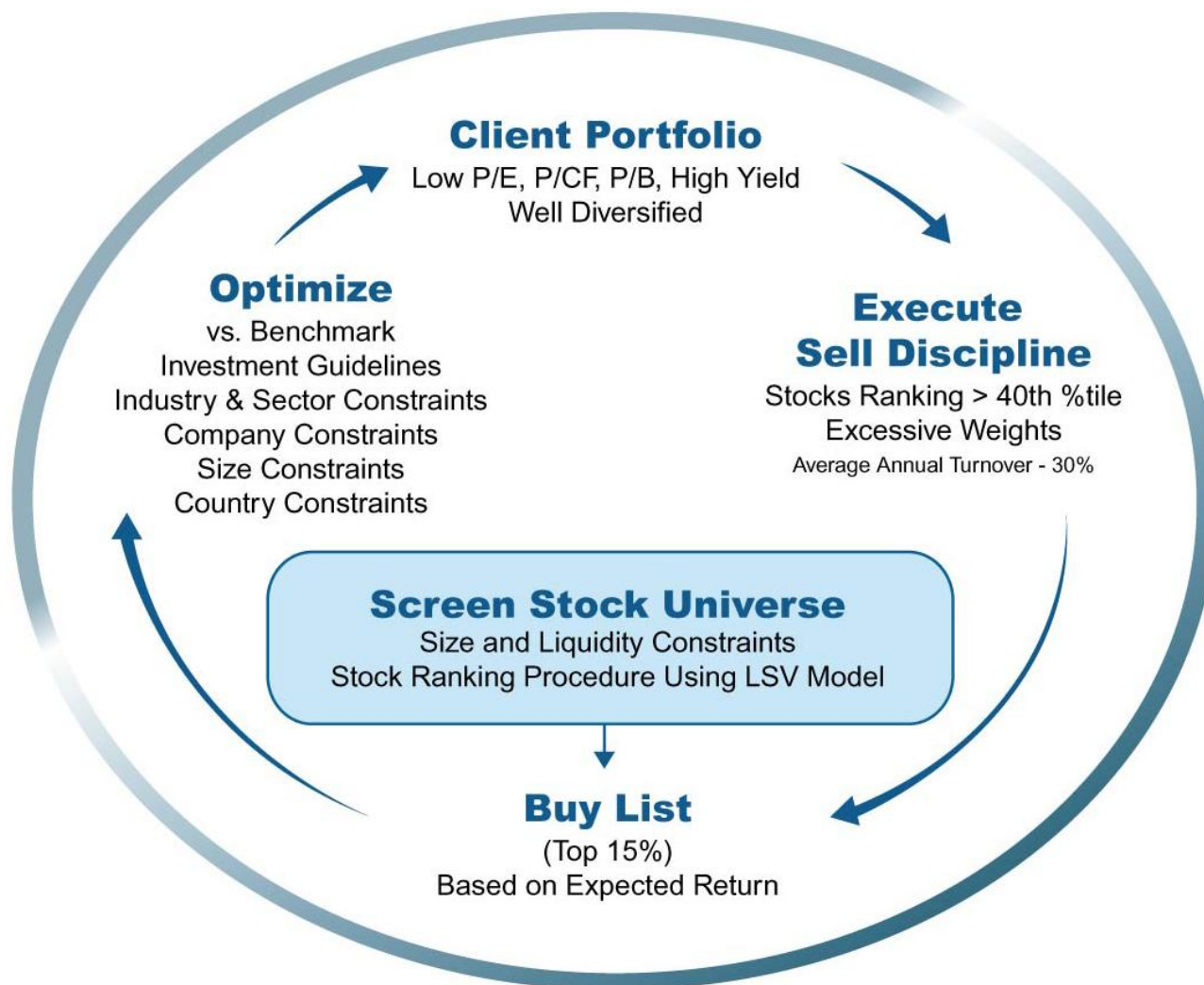
# Portfolio Holdings by Country

COUNTRY	% PORT.	COUNTRY	% PORT.	COUNTRY	% PORT.
<b>JAPAN (continued)</b>		<b>NORWAY</b>	<b>1.4%</b>	<b>TAIWAN</b>	<b>1.7%</b>
Seino Holdings Co., Ltd.	0.6%	Dnb Asa	0.7%	Vanguard International Semiconductor Cor	0.6%
Ntt Docomo, Inc	0.6%	Statoil Asa	0.5%	Giga-Byte Technology Co., Ltd.	0.4%
The Yokohama Rubber Co., Ltd.	0.6%	Stolt-Nielsen M.S. Ltd.	0.2%	Compal Electronics, Inc.	0.4%
Brother Industries, Ltd.	0.5%			Tripod Technology Corporation	0.3%
Nichirei Corporation	0.5%	<b>RUSSIAN FEDERATION</b>	<b>2.3%</b>		
Jx Holdings, Inc.	0.5%	Mining And Metallurgical Company Norilsk	0.7%	<b>THAILAND</b>	<b>0.6%</b>
Geo Holdings Corporation	0.5%	Mobile Telesystems Ojsc	0.7%	The Bangchak Petroleum Public Company	0.6%
North Pacific Bank, Ltd.	0.4%	Oao Gazprom	0.5%		
Kyow a Exeo Corporation	0.4%	Open Joint Stock Company "Oil Company "	0.4%	<b>TURKEY</b>	<b>2.0%</b>
Fuji Machine Mfg. Co., Ltd.	0.3%			Tofas Turk Otomobil Fabrikasi A.S.	1.0%
Miraca Holdings Inc.	0.3%	<b>SINGAPORE</b>	<b>0.9%</b>	Ford Otomotiv Sanayi Anonim Sirketi	0.6%
Hitachi Capital Corporation	0.3%	United Overseas Bank Limited	0.5%	Selcuk Ecza Deposu Ticaret Ve Sanayi A.S	0.4%
Eizo Corp	0.3%	Golden Agri-Resources Ltd.	0.4%		
Maeda Road Construction Co., Ltd.	0.3%			<b>UNITED KINGDOM</b>	<b>14.4%</b>
Hanw a Co., Ltd.	0.3%	<b>SOUTH AFRICA</b>	<b>3.2%</b>	Astrazeneca Plc	1.8%
Yodogawa Steel Works, Ltd.	0.2%	Imperial Holdings Limited	1.0%	Royal Dutch Shell Plc	1.6%
Nippon Electric Glass Co., Ltd.	0.2%	Mmi Holdings Limited	0.7%	Old Mutual Public Limited Company	1.3%
		Mtn Group Limited	0.7%	Bt Group Plc	1.3%
<b>KOREA, REPUBLIC OF</b>	<b>3.3%</b>	Exxaro Resources Limited	0.4%	Legal & General Group Plc	1.3%
Kt Corporation	0.8%	Astral Foods Limited	0.3%	Vodafone Group Public Limited Company	1.2%
Bs Financial Group Inc.	0.6%	Eqstra Holdings Limited	0.0%	Bp P.L.C.	1.1%
Korea Exchange Bank	0.6%			Bae Systems Plc	0.8%
Sk Telecom Co., Ltd.	0.6%	<b>SPAIN</b>	<b>2.2%</b>	J Sainsbury Plc	0.8%
Dgb Financial Group Co., Ltd.	0.5%	Repsol, S.A.	0.8%	Royal Dutch Shell Plc	0.7%
Daishin Securities Co., Ltd.	0.2%	Banco Santander, S.A.	0.6%	Barclays Plc	0.6%
		Telefonica, S.A.	0.5%	Wm Morrison Supermarkets P L C	0.5%
<b>MALAYSIA</b>	<b>0.7%</b>	Banco Bilbao Vizcaya Argentaria, S.A.	0.4%	Glaxosmithkline Plc	0.4%
Kuching Port Authority	0.7%			Alent Plc	0.3%
		<b>SWEDEN</b>	<b>1.4%</b>	Vesuvius Plc	0.3%
<b>MEXICO</b>	<b>1.2%</b>	Boliden Ab	0.7%	Aviva Plc	0.3%
Gruma, S.A.B. De C.V.	1.2%	Nordea Bank Ab (Publ)	0.6%	Greene King Plc	0.3%
		Trelleborg Ab	0.1%		
<b>NETHERLANDS</b>	<b>1.7%</b>			<b>CASH</b>	<b>0.8%</b>
Koninklijke Dsm N.V.	0.8%	<b>SWITZERLAND</b>	<b>5.2%</b>	<b>TOTAL</b>	<b>100%</b>
Aegon N.V.	0.4%	Swiss Reinsurance Company Ltd.	1.3%		
Ing Groep N.V.	0.3%	Novartis Ag	1.3%		
Koninklijke Kpn N.V.	0.2%	Credit Suisse Group Ag	1.0%		
		Zurich Insurance Group Ag	0.7%		
		Baloise-Holding Ag	0.6%		
		Oc Oerlikon Corporation Ag, Pfaffikon	0.5%		

# Expected Return Model



# Rebalancing Process



## How Cheap Are Cheap Stocks?

---

<u>LSV Strategy</u>	<u>Price/Earnings</u>	<u>Price/Cash Flow</u>	<u>Price/Book</u>	<u>Dividend Yield</u>
U.S. Large Cap Value	11.0x	7.0x	1.5x	2.2%
U.S. Mid Cap Value	11.0x	6.6x	1.4x	2.3%
U.S. Small Cap Value	11.8x	6.6x	1.3x	1.9%
U.S. Micro Cap Value	12.0x	6.8x	1.2x	1.9%
International Large Cap Value	10.9x	6.0x	1.2x	3.8%
International Small Cap Value	11.1x	6.4x	1.0x	3.2%
Emerging Markets Value	9.5x	6.0x	1.1x	3.8%

# Global Equity Valuations

---

<u>Market Index</u>	<u>Price/Earnings</u>	<u>Price/Cash Flow</u>	<u>Price/Book</u>	<u>Dividend Yield</u>
<b>S&amp;P 500</b>	14.5x	10.6x	2.3x	2.1%
<b>Russell Mid Cap</b>	17.1x	11.3x	2.4x	1.6%
<b>Russell 2000</b>	19.5x	13.3x	2.1x	1.3%
<b>MSCI World ex U.S.</b>	14.3x	8.9x	1.6x	3.2%
<b>S&amp;P Developed ex US Small Cap</b>	16.5x	10.6x	1.4x	2.5%
<b>MSCI Emerging Markets</b>	12.5x	7.7x	1.6x	2.6%

# Representative Client List

## Public Clients

Alberta Investment Management Corporation  
 Arizona State Retirement System  
 AustralianSuper  
 Bayerische Versorgungskammer (BVK)  
 Baltimore County Employees' Retirement System  
 Bristol County Retirement System  
 Chicago Firemen's Annuity & Benefit Fund  
 City and County of San Francisco Employees' Retirement System  
 City of Gainesville Police Officers' & Firefighters' Ret. Plan  
 City of Kansas City Employee's Retirement System  
 City of Richmond  
 City of Stamford, CT Employees' Retirement Fund  
 City of St. Louis Employees Retirement System  
 Denver Employees Retirement Plan  
 District of Columbia Retirement Board  
 Fairfax County Employees' Retirement System  
 Firefighters' Retirement System of Louisiana  
 Frederick County Employees' Retirement Plan  
 Howard County (MD) Master Trust  
 Illinois Municipal Retirement Fund  
 Illinois State Board of Investment  
 Kansas City Police Employees' Retirement System  
 Louisiana State Employees' Retirement System  
 Metropolitan Water Reclamation District  
 Minnesota State Board of Investment  
 Municipal Police Employees' Ret. System of Louisiana  
 Municipal Employees' Annuity & Benefit Fund of Chicago  
 New Hampshire Retirement System  
 New Jersey Transit Corporation  
 New York State Teachers' Retirement System  
 New Zealand Superannuation Fund  
 Nexcom

## Public Clients (Cont.)

North Dakota State Investment Board  
 Ohio Highway Patrol Retirement System  
 Ohio Public Employees Retirement System  
 Ohio School Employees' Retirement System  
 Parochial Employees' Retirement System of Louisiana  
 Pennsylvania Municipal Retirement System  
 RTD (Denver) Salaried Employees' Pension Trust  
 Sacramento County Employees' Retirement System  
 San Antonio Fire and Police Pension Fund  
 South Carolina Retirement System Investment Commission  
 Stanislaus County Employees' Retirement Association  
 State of Idaho Endowment Fund  
 State of Michigan Retirement Systems  
 State of Wisconsin Investment Board  
 Teachers' Retirement System of Illinois  
 Teachers' Retirement System of Louisiana  
 Virgin Islands Government Employees' Retirement System  
 Virginia Retirement System  
 West Virginia Investment Management Board

## Taft Hartley Clients

1199 National Benefit & Pension Fund  
 Automobile Mechanics Local 701  
 Bricklayers & Trowel Trades International Pension Fund  
 Carpenters Labor Management Pension Trust Fund  
 Carpenters Pension Fund of Illinois  
 Carpenters Pension Trust of St. Louis  
 Central Pennsylvania Teamsters Pension Fund  
 Chicago Laborers  
 Empire State Carpenters  
 I.A.T.S.E. National Pension Fund  
 I.B.E.W. Local #103  
 I.B.E.W. Local #134  
 I.U.O.E. Local 302 & 612  
 I.U.O.E. Local 825

## Taft Hartley Clients (Cont.)

Laborers' National Pension Fund  
 Mid-Atlantic Regional Council of Carpenters  
 National Asbestos Workers Pension Fund  
 National Roofing Industry Pension Fund  
 New England Healthcare Workers  
 New York City District Council of Carpenters  
 Northern Illinois Plumbers Local 501  
 Northwest Indiana Carpenters  
 S.E.I.U. Local 25  
 Sheet Metal Workers Local 73  
 Teamsters Joint Council No. 83 of Virginia  
 Twin City Pipe Trades  
 U.A. Plumbers & Pipefitters Nat'l Pension Fund Staff Plan  
 U.M.W.A. 1974 Pension Trust  
 U.F.C.W. International Union-Industry Pension Fund  
 U.F.C.W. Midwest Pension Fund

## Not-For-Profit & Eleemosynary

Archdiocese of Cincinnati  
 Archdiocese of New York  
 Diocese of Buffalo  
 Evangelical Lutheran Church in America  
 Ministers and Missionaries Benefit Board  
 National Geographic Society  
 Pacific Salmon Commission  
 The Salvation Army  
 The Seeing Eye, Inc.  
 Sisters of St. Francis of Philadelphia  
 United Church of Canada  
 YMCA

# Representative Client List

## Corporate Clients

ACT, Inc. (American College Testing)  
Altria Group  
AMP Capital Investors  
Anadarko Petroleum Corporation  
AT&T  
Bank of America  
BASF  
Bridger Coal Company - Reclamation Trust  
Caterpillar Inc.  
Chrysler Group  
Cox Enterprises, Inc.  
Daimler NA  
Deere & Company  
Desjardins Global Asset Management  
Diebold, Inc.  
Dominion  
Duke Energy  
FM Global  
Harbor Capital  
Harsco Corporation  
Hess Corporation  
Hoogovens Pensioenfond  
Kinder Morgan  
Kraft Foods  
L-3 Communications Corporation  
Lufkin Industries, Inc.  
LyondellBasell  
Marsh & McLennan Companies, Inc.

## Corporate Clients (Cont.)

NCR Corporation  
Nissan North America  
Olin Corporation  
OnePath  
PacifiCorp  
Pensioenfond Vervoer  
Prudential  
Raytheon Company  
SEI Investments  
Shell Pensioenfond  
Stagecoach PLC  
Telstra Super Pty, Ltd  
Thomson Reuters  
Towers Watson  
Twin Disc, Inc.  
Wells Fargo Funds  
Westpac Staff Superannuation Plan  
Wilmington Trust Investment Advisors

## Endowment & Foundation Clients

Alma College Endowment  
Ancilla Systems, Inc.  
Buffalo Fine Arts Academy  
Roy J. Carver Charitable Trust  
Chagnon Foundation  
College of the Ozarks  
Cullen Foundation  
DePaul University  
Irving S. Gilmore Foundation

## Endowment & Foundation Clients (Cont.)

Jewish Healthcare Foundation  
John D. & Catherine T. MacArthur Foundation  
McConnell Foundation  
McGill University  
New Jersey Health Foundation  
Saint Louis University  
Stanford University  
Texas Presbyterian Foundation  
Triad Foundation  
University of Guelph  
University of Manitoba  
York University

## Health Care

Advocate Health Care  
Christiana Care Health Services  
CHRISTUS Health  
Covenant Health  
Dignity Health  
Froedtert Health  
Kaiser Foundation Hospitals  
Methodist Hospital System  
Methodist Le Bonheur Healthcare  
Trinity Health  
WellSpan Health System



# Pyramis Global Advisors

## International Growth

April 23, 2013

**PRESENTATION TO:**  
Stanislaus County Employees' Retirement Association



**Michael Strong**  
*Lead Portfolio Manager*

**Chris Steward, CFA**  
*Institutional Portfolio Manager*

**Brian Higgins**  
*Senior Account Executive*

**Sue Curran**  
*Senior Vice President,  
Relationship Manager*  
401-292-4722  
[sue.curran@pyramis.com](mailto:sue.curran@pyramis.com)

# Table of Contents

---

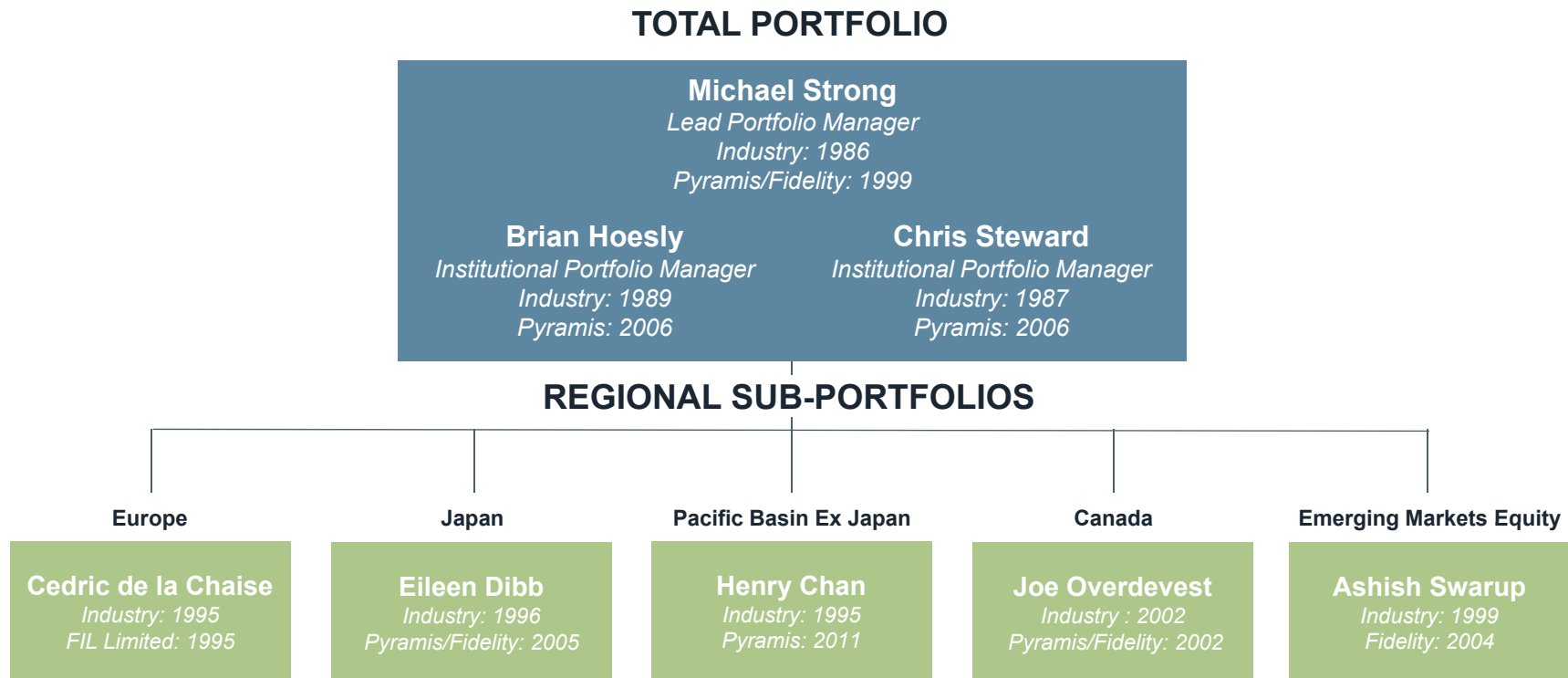
1. Pyramis International Growth Investment Process
2. Market Environment
3. Investment Performance & Positioning
4. Appendix
  - A. Important Information
  - B. Biographies

See "Important Information" for a discussion of performance data, some of the principal risks related to any of the investment strategies referred to in this presentation and other information related to this presentation.



# Pyramis International Growth Investment Process

# Pyramis International Growth—Investment Team



Research resources described herein include the combined resources of Pyramis and Fidelity Investments.

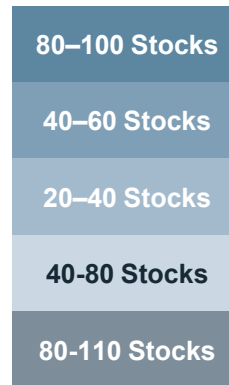
# Pyramis International Growth—Investment Process

## ELIGIBLE UNIVERSE OF ANALYST RATED NON-US STOCKS



Buy and Hold  
Rated Stocks

## BEST IDEAS BY REGION



Asset  
Allocation

## INTERNATIONAL GROWTH PORTFOLIO

Approximately  
350 Stocks

3 Institutional Portfolio Managers

5 Portfolio Managers

241 Research Professionals

### Research Analysts

Evaluate the companies

- Proprietary research
- Fundamental analysis
- Stock ratings

### Portfolio Managers

Select the stocks

- Professional experience
- Regional expertise
- Market insight
- Risk management

### Institutional Portfolio Managers

Allocate and manage the portfolio

- Global asset allocation
- Portfolio construction and compliance
- Client Service

Driven by Fundamental Bottom-Up Research

For illustrative purposes only.  
Research resources described herein include the combined resources of Pyramis and Fidelity Investments.

For Institutional Use Only

201303-12965

# Fidelity's Global Research Resources



## Research Resources

- Local market coverage
- Proprietary research
- Research professionals manage industry/country funds
- Main investment offices in Smithfield, Boston, Miami, Toronto, Montreal, London, Hong Kong, and Tokyo

## Pyramis and Fidelity Equity Research Analysts and Associates\*

Europe	25
Asia	35
Americas	176
<b>Total</b>	<b>236</b>

## FIL Limited Equity Research Analysts and Associates\*

Europe	68
Asia	67
<b>Total</b>	<b>135</b>

\*As of December 31, 2012

# Step 1: Proprietary Research

## Fundamental Research

- Company meetings
- Written notes
- Face-to-face
- Analyst ratings
- Analyst model portfolio



Technical Rating Not Rated	Stock Price	EUR 25.05	Rating	UND EUNA
AMF Active Wt 6.8%	Price Target	EUR 30.00	Mid Cap	Industrials
AMF Risk Wt 1.0%	% Up/Down	30%	Sector	Aerospace & Defense
AMF Port Wt 7.7%	Distance (months)	0	Subsidiary	CUMMINS, JONATHAN (0-720-3000)
Automatic: the stock will most be expensive				

### 2011 numbers still way too low

Market Data - Close of Business, December 09, 2010	Country: USA		Currency: EUR
Dividend Yield	1.1%	% of MNC1 AC WORLD (INDUSTRY/ENERGY)	0.00%
Book Value Per Share	10.00	% Owned / % Allowed	2.0% / 10.0%
Net Debt/Capital	20%	Shares Outstanding (m)	360.2

### Business Description

Cummins is a multinational group with a number of businesses including a strong position in aero-engines through its (100%) joint venture with (100%) a leading position in aircraft wheels, brakes and landing gear, engine nacelles, defence electronics and security equipment. The group was formed in 2010 through the merger of

### Investment Thesis

- 1) A strong recovery in aerospace aftermarket, a maturing installed base, boost from a weaker Euro and the improving cost structure of the business should all drive strong profit growth medium term.
- 2) Cummins is a high-quality aerospace asset at a still reasonable price.
- 3) Valuation looks great value despite earnings forecasts being too low and the very strong medium term profit growth outlook. Now is a great time to re-enter the name.

### Notes & Outlook

I have upgraded my cummins recommendation back to a 1 as analyst forecasts remain way too low, profit momentum is very strong, and the valuation still looks good value.

### Management putting out a confident message ahead of year end

Cummins has been speaking to a few people over the last few days ahead of year end, and there are 2 clear messages being given to investors / brokers. Firstly that the group has seen a significant uptick in civil aftermarket sales over the last 2 months and secondly management is very relaxed about FY 2011 forecasts at around €100m (comment).

### Strong aftermarket revenues coming through - bullish for the civil sector

The aftermarket has taken much longer to come through than expected during this cycle, but it seems to finally be happening, with (comment) implying (comment) (the main engine programme) will exit 2010 at a strong double digit growth rate.

This is clearly bullish for all the aftermarket exposed operations including (comment) (comment) (comment). It also implies strong growth in profits in 2011, as the aftermarket business tends to be the most profitable part of any aerospace business.

### Comment forecasts for 2011 still look way too low

Last looking at what the company has been saying about 2010, and looking at 2011 forecasts, it seems clear that the 2011 forecasts remain far too conservative.

Please stick with me while I take you through the maths, but basically consensus for 2011 EBIT is around €1,000m, versus €100m EBIT in 2010.

Now just the movement in the hedging rate (down to 81.30) still well above current rate should add around €100m of EBIT into profits next year. In addition, profits from acquired businesses, mainly the (comment) propulsion and L-1 security acquisitions should add around €70m to EBIT.

So if we add the circa €100m additional profit from currency and acquisition only the 2011 EBIT number, we get around €1,000m, which is only a smidgeon away from 2011 consensus number of €1,000m.

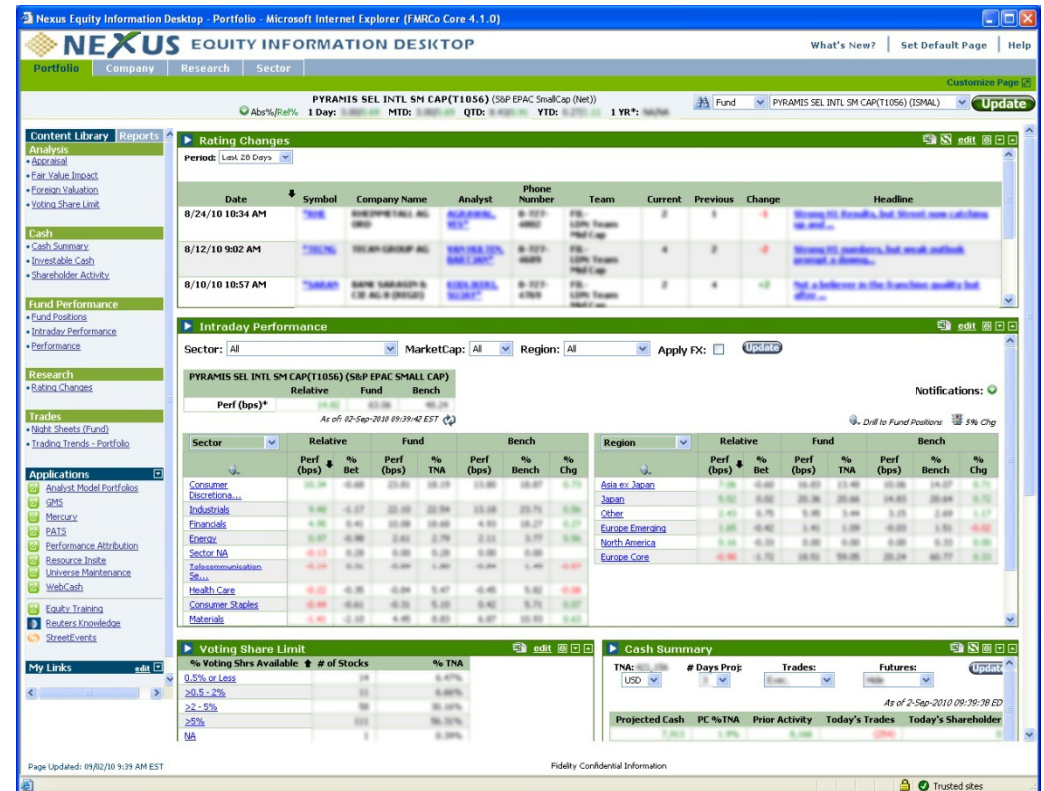
For illustrative purposes only.

# Step 2: Stock Selection

## Identify Best Ideas

### Selection Process:

- Total return target based on proprietary 2–3 yr forward earnings potential and target valuation metrics
- Fundamental prospects:
  - Top line growth: volume, pricing
  - Operating profit margin evolution
  - Porter Competitive Analysis
  - Secular story tied to company
  - Potential for increasing cash flow
  - Management quality and use of capital
  - Balance sheet strength
  - Strategy and economics of M&A
  - Ownership structure
- Target valuation metrics for company fundamentals



For illustrative purposes only.



# Step 3: Portfolio Construction

## Disciplined Portfolio Construction and Risk Management

### Buy/Sell Discipline:

- Region, sector and liquidity exposures
- Return potential to target price = “upside”
- Seek to exit positions when full valuations are reached, investment thesis deteriorates or better potential elsewhere
- Monitor investment thesis
- Realization of catalysts
- Monitor liquidity and trade execution

Fund View - Global/Intl						
Short Name	TE %	Beta	Fund Bas...	Market Capit...	ROA	LT Debt/Capital
ISMAL	4.90%	0.97%	USD			
FOEP	1.46%	0.98%	USD	40,839,007,458.7057	4.6996	35.8479
FCISC	3.53%	0.98%	CAD	1,724,474,848.1426	5.0154	22.8263
CHEVGRP	1.78%	0.98%	USD	42,015,566,237.1832	5.4190	35.5692
PYSEMP	3.78%	0.99%	USD	21,517,999,397.5417	6.7952	22.0237

Trade	Risk Decomp	Risk Factor Model	GICS Sector	GICS Industry Group	GICS Industry	GICS Sub-Indus
Fund Factor Return & Exposure View: Risk Model - GEM2						
Factor	Fund Exp	Long Fund Exp	BM Exp	Rel Exp	Factor Returns %	
Momentum	0.1243	0.1243	0.1511	-(0.0268)	-0.0224	
Volatility	0.0615	0.0615	0.1153	-(0.0538)	0.267	
Value	-(0.0865)	-(0.0865)	-(0.1893)	0.1028	-(0.6610)	
Size	-(1.7663)	-(1.7663)	-(1.6640)	-(0.1023)	1.227	

Trade	Risk Decomp	Risk Factor Model	GICS Sector	GICS Industry Group	GICS Industry	GICS Sub-Indus
Fund GICS Sector View						
GICS Sector	Fund Stoc...	BM Stoc...	Fund %	BM %	Rel %	Fund Ctr...
Energy	12	172	4.41	5.79	-(1.38)%	-(0.03)%
Materials	27	414	11.71	13.12	-(1.41)%	-(0.19)%
Industrials	43	736	21.02	22.68	-(1.66)%	-(0.20)%
Consumer Discretionary	35	583	17.83	17.66	0.16%	-(0.22)%
Consumer Staples	12	195	7.15	5.36	1.78%	-(0.06)%
Health Care	10	191	5.92	5.55	0.37%	-(0.04)%
Financials	32	535	16.88	17.03	-(0.14)%	-(0.14)%
Information Technology	19	358	9.88	9.18	0.70%	-(0.04)%
Telecommunication Services	3	28	1.35	1.32	0.03%	-(0.01)%
Utilities	6	68	2.99	2.20	0.79%	-(0.02)%
Undefined	0	9	0.00	0.09	-(0.09)%	0.00%
Cash	1	0	0.85	0.00	0.85%	0.00%

For illustrative purposes only.

9 For Institutional Use Only

201303-12965

# Pyramis International Growth—Investment Parameters

Factors	Parameters
Regional weights	Benchmark weight $\pm$ 5.0%
Country weights	Benchmark weight $\pm$ 5.0%
Industry group weights	Benchmark weight $\pm$ 10.0%
Security weights	Benchmark weight $\pm$ 3.0%
Market capitalization	Benchmark weighted average $\pm$ 15.0%

Benchmark: MSCI AC World ex US (N) Index

For Institutional Use Only

201303-12965



# Market Environment

# 1Q13 Market Summary

- European financial crisis is back: Cyprus banking crisis and Italian elections
- Expectations in Japan are running high with further policy action coming
- Chinese policies and growth remain uncertain
- US continues modest economic improvement

Past performance is no guarantee of future results.

12 For Institutional Use Only

201303-12965

# Outlook

## Macroeconomic events and policy responses remain prominent

- Cyprus brings Euro-zone and ECB to the forefront, again
- Success and sustainability of Japan's growth and Yen policies being monitored
- Pro-growth and pro-reform stance of new Chinese government needs clarity
- US budgetary and debt ceiling concerns loom

## Risks

- Additional event risk in Europe: Cyprus contagion?
- Japanese upper house election
- New Chinese government is slow to execute
- US economy falters and government policy risks



# Investment Performance & Positioning

# Pyramis International Growth—Investment Results (Gross)

As of March 31, 2013

Portfolio/Index	Cumulative Return (%)					Annualized Return (%)		
	1Q13	6-Month	1-Year	3-Year	5-Year	Since Inception	Inception Date	TNA (M)
Stanislaus IG (G)	4.32	10.49	10.85	6.32	0.93	2.72	5/11/2006	\$139.91
Stanislaus IG (N)	4.19	10.21	10.29	5.80	0.42	2.21		
MSCI AC World ex US (N)	3.17	9.20	8.36	4.41	(0.39)	1.47		
<b>Active Return — Gross</b>	<b>1.15</b>	<b>1.29</b>	<b>2.49</b>	<b>1.91</b>	<b>1.32</b>	<b>1.25</b>		
<b>Active Return — Net</b>	<b>1.02</b>	<b>1.01</b>	<b>1.93</b>	<b>1.39</b>	<b>0.81</b>	<b>0.74</b>		
Stanislaus IG — Europe	3.69	11.22	14.24	8.62	1.41	3.76		
MSCI Eur/MSCI Eur & ME (N)	2.74	9.85	10.39	4.60	(2.20)	0.50		
<b>Active Return</b>	<b>0.95</b>	<b>1.37</b>	<b>3.85</b>	<b>4.02</b>	<b>3.61</b>	<b>3.26</b>		
Stanislaus IG — Japan	14.22	19.87	15.59	6.81	0.66	(3.03)		
MSCI Japan (N)	11.63	18.08	8.54	3.35	(0.52)	(3.06)		
<b>Active Return</b>	<b>2.59</b>	<b>1.79</b>	<b>7.05</b>	<b>3.46</b>	<b>1.18</b>	<b>0.03</b>		
Stanislaus IG — Pac Basin ex Japan	6.01	11.49	15.17	5.47	4.68	8.54		
MSCI Pac Basin ex Japan (N)	7.02	13.51	19.82	9.66	5.98	7.89		
<b>Active Return</b>	<b>(1.01)</b>	<b>(2.02)</b>	<b>(4.65)</b>	<b>(4.19)</b>	<b>(1.30)</b>	<b>0.65</b>		
Stanislaus IG — Canada	3.56	6.66	9.46	7.44	—	8.46	12/2/2009	\$10.56
MSCI Canada (N)	0.88	1.55	3.44	2.96	—	4.26		
<b>Active Return</b>	<b>2.68</b>	<b>5.11</b>	<b>6.02</b>	<b>4.48</b>	<b>—</b>	<b>4.20</b>		
Stanislaus IG — Emerging Markets	(1.03)	4.18	0.59	1.73	(2.01)	2.67	5/11/2006	\$32.33
MSCI Emerging Markets (N)	(0.90)	4.55	2.63	3.50	1.22	4.98		
<b>Active Return</b>	<b>(0.13)</b>	<b>(0.37)</b>	<b>(2.04)</b>	<b>(1.77)</b>	<b>(3.23)</b>	<b>(2.31)</b>		

Client data shown.

(N) = Net Dividend Withholding Taxes

Performance shown is gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. Past performance is no guarantee of future results.



# Pyramis International Growth—Top Contributors and Detractors

Six Months Ended March 31, 2013

## TOP CONTRIBUTORS

Security	Portfolio Average Weight (%)	Benchmark Average Weight (%)	Relative Weight (%)	Relative Return (%)	Sector	Country
Fuji Heavy Industries	0.6	0.0	0.5	80.0	Consumer Discretionary	Japan
Petroleo Brasileiro	0.0	0.4	(0.4)	(30.8)	Energy	Brazil
KBC Groupe	0.5	0.0	0.5	36.5	Financials	Belgium
PPR	0.5	0.1	0.4	35.2	Consumer Discretionary	France
UBS	0.9	0.4	0.6	16.9	Financials	Switzerland

## TOP DETRACTORS

Security	Portfolio Average Weight (%)	Benchmark Average Weight (%)	Relative Weight (%)	Relative Return (%)	Sector	Country
Saipem	0.5	0.1	0.4	(45.1)	Energy	Italy
Franco-Nevada	0.3	0.0	0.3	(32.0)	Materials	Canada
Lanxess	0.5	0.0	0.5	(23.8)	Materials	Germany
China Food	0.1	0.0	0.1	(49.2)	Consumer Staples	China
Novartis	0.0	0.9	(0.9)	9.9	Health Care	Switzerland

Past performance is no guarantee of future results. Holdings data shown does not represent all of the securities purchased, sold or recommended to clients and may change at any time. Portfolio weights are rounded and a zero weight represents either no holding or a very small weight.

Benchmark: MSCI AC World ex US (N) Index

Client data shown.





# Pyramis International Growth—Sector Attribution

## Six Months Ended March 31, 2013

Sector	Relative Weight (%) Rescaled	Stock Selection (Bps)	Sector Selection (Bps)	Total Contribution (Bps)
Consumer Discretionary	2.4	40.5	16.8	57.3
Financials	(1.1)	56.4	(8.0)	48.5
Telecommunication Services	(1.2)	27.9	9.7	37.6
Materials	(1.4)	16.5	20.6	37.1
Utilities	(1.4)	10.6	13.6	24.2
Energy	(1.6)	(13.7)	20.4	6.8
Health Care	1.2	(7.3)	7.5	0.2
Information Technology	0.8	(4.9)	3.9	(1.1)
Industrials	1.5	(8.4)	5.6	(2.8)
Consumer Staples	0.8	(53.6)	3.1	(50.5)

Benchmark: MSCI AC World ex US (N) Index  
 Past performance is no guarantee of future results.  
 Client data shown.

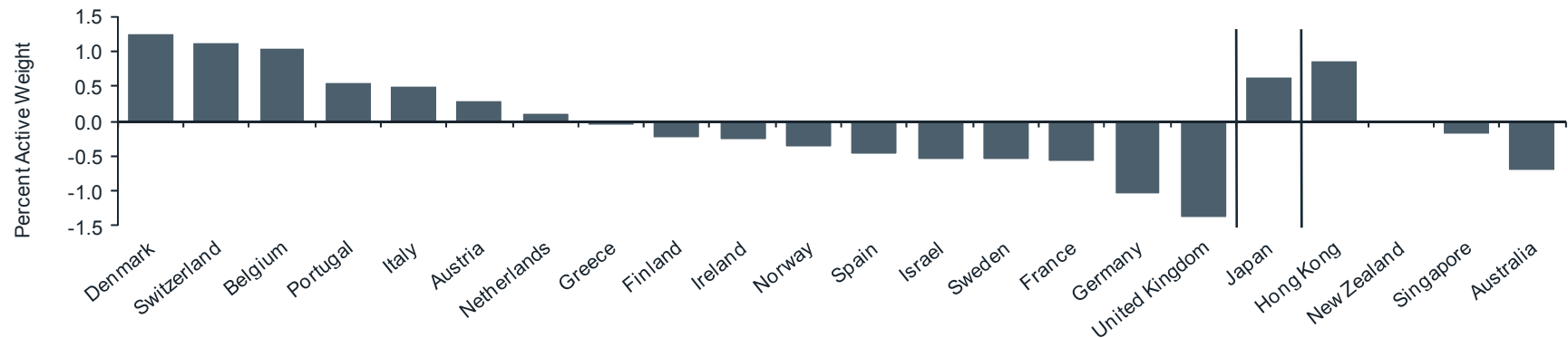
# Pyramis International Growth—Regional and Country Allocations

As of March 31, 2013

## REGIONAL ALLOCATION

	Portfolio Weight (%)	MSCI AC World ex US (N) Index (%)	Difference
Europe	44.4	44.7	(0.3)
Japan	15.4	14.8	0.7
Pacific ex Japan	12.1	10.0	2.2
Canada	7.7	7.5	0.2
Emerging Markets	20.3	23.1	(2.8)

## ACTIVE WEIGHT VERSUS INDEX\* (%)

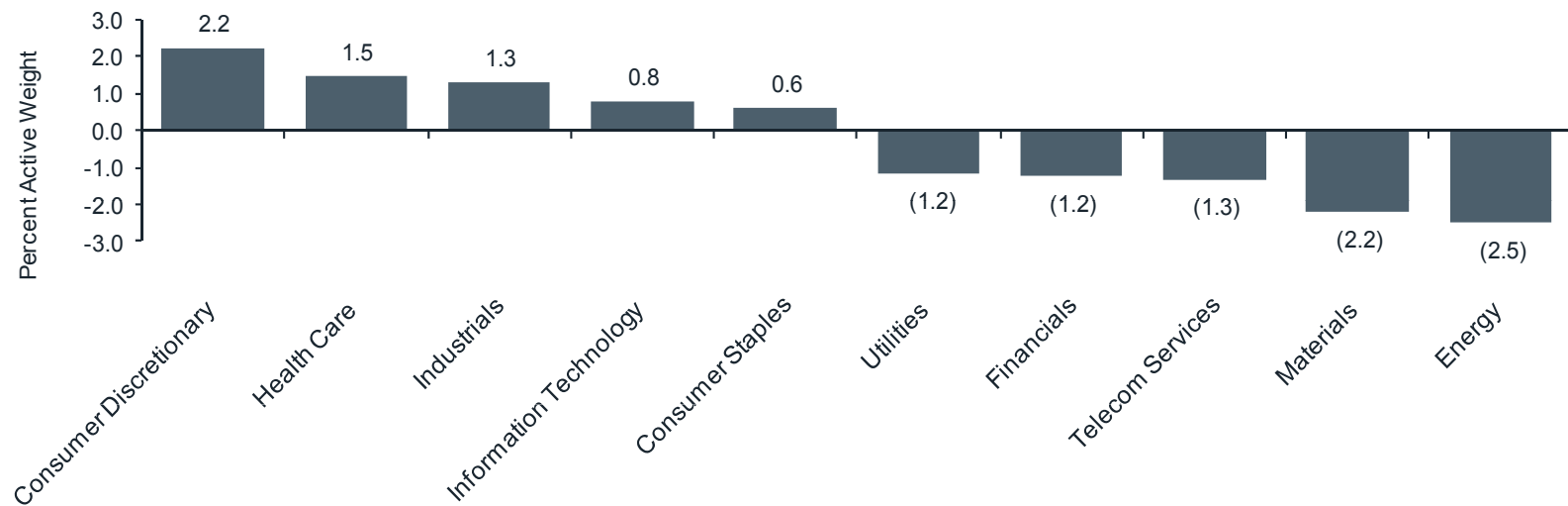


\*Relative to the MSCI AC World ex US (N) Index  
Client data shown.

# Pyramis International Growth—Sector Active Weights

As of March 31, 2013

## ACTIVE WEIGHT VERSUS INDEX\* (%)



\*Relative to the MSCI AC World ex US (N) Index  
Client data shown.

# Pyramis International Growth—Top 10 Active Weights

As of March 31, 2013

Holdings	Top 10 Positive Active* (%)
Sanofi	0.7
WPP	0.6
Ricoh	0.6
ORIX	0.6
Fuji Heavy Industries	0.5
Bayer	0.5
UBS	0.5
Reed Elsevier	0.5
Allianz	0.5
Wolseley	0.5
<b>Total</b>	<b>5.3</b>

Holdings	Top 10 Negative Active* (%)
Samsung Electronics	(1.0)
Novartis	(1.0)
<b>Total</b>	<b>(0.6)</b>
Banco Santander	(0.4)
Bank of Nova Scotia	(0.4)
Unilever	(0.4)
China Mobile	(0.4)
Petroleo Brasileiro	(0.4)
Rio Tinto	(0.4)
AstraZeneca	(0.4)
<b>Total</b>	<b>(5.4)</b>

\*Relative to the MSCI AC World ex US (N) Index

Past performance is no guarantee of future results. Not representative of manager's entire portfolio or all recommendations.

Not a recommendation or offer to buy or sell securities.

Client data shown.



# Appendix

# Important Information

**Read this important information carefully before making any investment. Speak with your relationship manager if you have any questions.**

## Risks

Past performance is no guarantee of future results. An investment may be risky and may not be suitable for an investor's goals, objectives and risk tolerance. Investors should be aware that an investment's value may be volatile and any investment involves the risk that you may lose money.

The value of a strategy's investments will vary day to day in response to many factors, including in response to adverse issuer, political, regulatory, market or economic developments. The value of an individual security or a particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

The performance of international strategies depends upon currency values, political and regulatory environments, and overall economic factors in the countries in which they invest. Foreign markets, particularly emerging markets, can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from the U.S. market. Foreign exchange rates also can be extremely volatile. The risks are particularly significant for strategies that focus on a single country or region.

The securities, derivatives and currency markets of emerging market countries are generally smaller, less developed, less liquid, and more volatile than the securities, derivatives and currency markets of the United States and other developed markets and disclosure and regulatory standards in many respects are less stringent. There also may be a lower level of monitoring and regulation of markets in emerging market countries and the activities of investors in such markets and enforcement of existing regulations may be extremely limited. Government enforcement of existing market regulations is limited, and any enforcement may be arbitrary and the results may be difficult to predict. Emerging market countries are more likely than developed market countries to experience political uncertainty and instability, including the risk of war, terrorism, nationalization, limitations on the removal of funds or other assets, or diplomatic developments that affect investments in these countries. In many cases, governments of emerging market countries continue to exercise significant control over their economies. In addition, there is a heightened possibility of expropriation or confiscatory taxation, imposition of withholding taxes on interest payments, or other similar developments that could affect investments in those countries.

These materials contain statements that are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Pyramis does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

# Important Information, continued

## Performance Data

Unless otherwise indicated performance data shown is client data. Performance data is generally presented gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. All results reflect realized and unrealized appreciation and the reinvestment of dividends and investment income, if applicable. Taxes have not been deducted. In conducting its investment advisory activities, Pyramis utilizes certain assets, resources and investment personnel of FMR Co., which does not claim compliance with the Global Investment Performance Standards (GIPS®).

Index or benchmark performance shown does not reflect the deduction of advisory fees, transaction charges and other expenses, which if charged would reduce performance. Investing directly in an index is not possible.

\* \* \* \*

The business unit of Pyramis Global Advisors (Pyramis) consists of: Pyramis Global Advisors Holdings Corp., a Delaware corporation; Pyramis Global Advisors Trust Company, a non-depository trust company (PGATC); Pyramis Global Advisors, LLC, a U.S. registered investment adviser (PGA LLC); Pyramis Global Advisors (Canada) ULC, an Ontario registered investment adviser; Pyramis Global Advisors (UK) Limited, a U.K. registered investment manager (Pyramis-UK); Pyramis Global Advisors (Hong Kong) Limited, a Hong Kong registered investment adviser (Pyramis-HK); Pyramis Global Advisors (Japan) KK, a Japan registered investment manager and investment advisory and agency services provider (Pyramis-Japan); Pyramis Distributors Corporation LLC, a U.S. registered broker-dealer; and Fidelity Investments Canada ULC, an Alberta corporation (FIC). Investment services are provided by PGATC, PGA LLC, Pyramis Global Advisors (Canada) ULC, Pyramis-UK, Pyramis-Japan and/or Pyramis-HK.

"Fidelity Investments" refers collectively to FMR LLC, a US company, and its subsidiaries, including but not limited to Fidelity Management & Research Company (FMR Co.), and Pyramis. "FIL Limited" refers collectively to FIL Limited, a non-US company, and its subsidiaries. "Fidelity" refers collectively to Pyramis and Fidelity Investments.

Certain data and other information in this presentation have been supplied by outside sources and are believed to be reliable as of the date of this document. Data and information from third-party databases, such as those sponsored by eVestment Alliance and Callan, are self-reported by investment management firms that generally pay a subscription fee to use such databases, and the database sponsors do not guarantee or audit the accuracy, timeliness or completeness of the data and information provided including any rankings. Rankings or similar data reflect information at the time rankings were retrieved from a third-party database, and such rankings may vary significantly as additional data from managers are reported. Pyramis has not verified and cannot verify the accuracy of information from outside sources, and potential investors should be aware that such information is subject to change without notice. Information is current as of the date noted.

Pyramis has prepared this presentation for, and only intends to provide it to, institutional, sophisticated and/or qualified investors in one-on-one or comparable presentations. Do not distribute or reproduce this report.

Third party trademarks and service marks are the property of their respective owners. All other trademarks and service marks are the property of FMR LLC or its affiliated companies. Pyramis does not provide legal or tax advice and we encourage you to consult your own lawyer, accountant or other advisor before making an investment.

**Not FDIC Insured • No Bank Guarantee • May Lose Value**



# Biographies

## **Chris Steward, CFA**

### *Institutional Portfolio Manager*

Chris Steward is an institutional portfolio manager at Pyramis Global Advisors, a Fidelity Investments company. He is a member of the portfolio management teams for the Pyramis International Growth and Select International Small Cap strategies.

Prior to joining Pyramis in 2006, Chris was a vice president and portfolio advisor at Wellington Management. In that role, he conducted investment reviews with prospects and clients on a broad range of equity, fixed income, and asset allocation products. Chris also worked with the global asset allocation group at Putnam Investments, where he served as a portfolio manager for five years in the global bond group at Scudder, Stevens & Clark, and was an analyst in various capacities with the Federal Reserve Bank of New York for five years.

Chris earned a Bachelor of Arts degree from Vassar College and a Master of Arts degree in Economics from Cambridge University in England. In addition to being a Chartered Financial Analyst charterholder, Chris also has authored and co-authored numerous texts on international investing, one of which was a required reading for Level III of the CFA program.

## **Brian Hoesly, CFA**

### *Institutional Portfolio Manager*

Brian Hoesly is an institutional portfolio manager at Pyramis Global Advisors, a Fidelity Investments company. He is a member of the portfolio management teams for the Pyramis International Growth, International Value, Global Equity Market Neutral and U.S. Equity Market Neutral strategies.

Prior to joining Pyramis in 2006, Brian was vice president at Wellington Management, working with clients invested in multiple strategies, including international equities and asset allocation. He actively conducted portfolio reviews on a wide array of strategies articulating performance, process, holdings, and investment themes on behalf of portfolio management teams.

Prior to that, he served in the product and investment areas of Mellon Trust, the global data research group at Interactive Data Corporation, and with Kidder, Peabody & Co., Inc. He has more than 19 years of investments industry experience.

Brian earned a Bachelor of Science degree from the University of Wisconsin and a Master's degree in Business Administration from Boston University. He is a Chartered Financial Analyst charterholder and a member of the Boston Securities Analysts Society.



# Biographies

## **Eileen M. Dibb, CFA**

### *Portfolio Manager*

Eileen Dibb is a portfolio manager at Pyramis Global Advisors, a Fidelity Investments company. In this role, she manages the Pyramis Japan Growth strategy and the Japan portion of the Pyramis International Growth strategy.

Prior to assuming her current role at Pyramis, Eileen was responsible for researching and analyzing Asian stocks for a global equity portfolio managed by Fidelity Investments. Prior to joining Fidelity in 2005, she was a vice president and a regional analyst at Wellington Management Company, where she managed dedicated Japan portfolios. Prior to joining Wellington in 1999, she was an international equity analyst at DuPont Pension Fund, beginning in 1997. Eileen also served in a number of roles at The Dai-ichi Mutual Life Insurance Company from 1992 through 1996. She has been in the industry since 1996.

Eileen earned her bachelor of arts degree in international relations and Japanese studies from Bucknell University and her master of business administration degree from the Wharton School at the University of Pennsylvania. She completed a program of study at the Center for Japanese Studies at Nanzan University in Nagoya, Japan and is fluent in Japanese. She is a Chartered Financial Analyst charterholder and a former board member of the Boston Security Analysts Society.

## **Henry Chan, CPA, CFA**

### *Portfolio Manager*

Henry Chan is a portfolio manager at Pyramis Global Advisors, a Fidelity Investments company. In this role, he is responsible for managing investment strategies focused on the Pacific Basin region.

Prior to joining Pyramis in 2011, Henry was a portfolio manager responsible for Asian investment policy at Baring Asset Management beginning in 2004, where he was head of the Asia investment team with specialist research responsibilities on Greater China markets. He had the lead role in Baring's Asian institutional mandates and flagship retail products. At the specialist level, Henry managed the Greater China Fund Inc, a US listed closed end fund, and co-managed the Baring China Absolute Return Fund and Baring Korea Trust. Prior to joining Baring Asset Management, he worked at Invesco, formerly LGT, where he handled a number of Pacific Basin, including Japan, and Asia ex Japan portfolios. He has specialist experience in a number of markets including Taiwan, Hong Kong, China, Korea, and Japan. He was also the lead fund manager of INVESCO Asia NET Fund, INVESCO GT Taiwan Fund, and a number of Greater China portfolios.

Henry earned his bachelor's degree from the London School of Economics and Political Science. He is a Certified Professional Accountant and a Chartered Financial Analyst charterholder. He speaks fluent English, Cantonese, and Mandarin.

# Biographies

## **Michael C. Strong**

### *Institutional Portfolio Manager*

Michael Strong is an institutional portfolio manager at Pyramis Global Advisors, a Fidelity Investments company. He is lead portfolio manager for the Pyramis International Growth strategy.

Prior to assuming his current role, Mike was an investment director responsible for Fidelity's institutional international equity strategies. Prior to joining Fidelity in 1998, he spent almost 10 years as a senior investment consultant at Watson Wyatt in London. Prior to that, he was the investment manager for Ford Motor Company's European Pension Plans.

Mike earned a Bachelor of Arts degree in economics from the University of Manchester, England.

## **Cedric de la Chaise**

### *Portfolio Manager, European Equities*

Cedric is a Portfolio Manager in the European Equities Group at FIL Limited. Based in London, he is responsible for managing pan-European equity portfolios on behalf of institutional clients. Prior to assuming his current role, he was an assistant portfolio manager for Fidelity's European Growth fund. Previously, Cedric served as sector leader for the Consumer Team and managed the Global Consumer Sector Fund, was a sector leader for European Financials, and worked as an equity analyst covering European media, insurance, retailers, and micro-cap stocks. He joined FIL Limited in 1995.

Cedric earned his M.Sc. from Warwick Business School.

# Biographies

## **Joe Overdevest**

### *Portfolio Manager*

Joe Overdevest is a portfolio manager for the Canadian Focused Equity strategy, the Canadian equity sub-portfolio of Pyramis International Growth strategy, and Fidelity Global Fund. He is a co-portfolio manager of Fidelity Global Natural Resources Fund and the equity sub-portfolio of the Fidelity Canadian Asset Allocation Fund. He is also co-portfolio manager of Pyramis Canadian Systematic Equity at Pyramis Global Advisors, a Fidelity Investments company.

Prior to assuming his current role, Joe was a research analyst with Team Canada, the research and portfolio management team for investment products sold through Fidelity Investments Canada ULC. Previous areas of coverage include: Canadian oil and gas, diversified financials, telecommunications, retail, consumer durables, and automotive parts.

Joe earned a Bachelor of Business Administration honors degree from Wilfrid Laurier University.

## **Ashish Swarup**

### *Portfolio Manager*

Ashish Swarup is a portfolio manager at Fidelity Investments.

Ashish assumed his current position in the firm's London offices in September 2010 as part of the Global Emerging Markets team. He currently manages the Pyramis Emerging Markets All Cap strategy, the Fidelity Emerging Markets Discovery Fund, the Emerging Markets sleeve of Fidelity Total International Fund and the Fidelity Emerging Markets Fund for Fidelity Investments Canada. Previously, he managed the Emerging Markets sleeve of Fidelity Diversified International and served as an assistant portfolio manager for Fidelity International Limited (FIL) on their Global Emerging Markets Fund. Ashish joined FIL in 2004 as a research analyst responsible for covering consumer and diversified stocks in Eastern Europe, Russia, the Middle East and Africa.

Ashish earned his Bachelor of Engineering degree in electronics and communication from the India Institute of Technology (IIT). He earned his post-graduate diploma in management from the Indian Institute of Management (IIM), and his Master's of Business Administration from INSEAD in Fontainebleau, France.

# Biographies

## **Brian Higgins**

### *Senior Account Executive*

Brian Higgins is a senior account executive at Pyramis Global Advisors, a Fidelity Investments company. In this role, Brian is responsible for account management and serves as the day-to-day contact for public and private institutional clients, as well as endowment and foundation clients.

Prior to assuming his current role, Brian held various positions at Fidelity Pricing and Cash Management Services and Fidelity Management Trust Company. Prior to joining Fidelity in 1999, he served in the accounting operations group at First Data Investor Services Group, 440 Financial and State Street Bank. He has more than 18 years of investment industry experience.

Brian earned a Bachelor of Arts degree from Stonehill College. He holds the Financial Industry Regulatory Authority (formerly NASD) Series 7 and 63 licenses.

## **Sue Curran**

### *Senior Vice President, Relationship Manager*

Sue Curran is senior vice president, relationship manager at Pyramis Global Advisors, a Fidelity Investments company. In this role, she is responsible for overall management of institutional client relationships, including many large public and corporate pension funds, throughout the U.S.

Sue joined Fidelity in 2001. Prior to assuming her current role, she was a director at Deutsche Asset Management responsible for covering public funds in the Western region of the U.S. Before joining Deutsche Asset Management, she was a vice president of public funds at Bank of America. Prior to that, she held various management and sales positions at Merrill Lynch.

Sue earned her bachelor of arts degree from Wheaton College. She holds the Financial Industry Regulatory Authority (formerly NASD) Series 7 and 63 licenses.



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

4/23/13

Item# 8.a

**For the Retirement Board meeting  
Held on April 23, 2012**

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Correspondence; Dodge & Cox letter regarding their ability to invest in over-the-counter (OTC) equity securities traded on foreign exchanges
- II. RECOMMENDATION: Do not give Dodge & Cox permission to invest in "pink sheet" securities which are traded on over-the-counter markets.
- III. ANALYSIS: On April 15, 2013 StanCERA staff received a letter (Attachment 1) from Dodge & Cox regarding their ability to invest in domestic and foreign equity securities traded on international, over-the-counter exchanges.

Recently, the Panasonic Corporation decided that on April 22, 2013, they will delist their company from the New York Stock Exchange (NYSE). Panasonic has cited low trading volume and costs associated with the low volume as reasons to delist. Panasonic is currently located in Japan and produces and sells electronic products worldwide. Their shares will continue to trade on over-the-counter markets.

OTC markets are simply electronic quotation systems where buyers and sellers place their quotes electronically and there is no physical exchange where buyers and sellers come together (much like the NYSE). Further, Dodge & Cox makes reference to the fact that certain types of securities traded in OTC markets are referred to as "pink sheet" securities. Staff notes that the following can be found on the Securities and Exchange Commission's (SEC) website:

*"The terms "Pink" or "Pink Sheets" comes from the color paper they (bid/ask quotes) were historically printed on. They are published electronically today by OTC Markets Group Inc., a privately owned company. OTC Markets Group Inc. is not registered with the SEC in any way and it is not a FINRA Broker-Dealer. OTC Markets Group Inc. does not require companies whose securities are quoted upon their systems to meet any listing requirements."*

As of December 31, 2012, Dodge & Cox held 128,907 shares in StanCERA's portfolio. Those shares as of April 16, 2013 were worth \$7.29 each or around \$940,000 in total. Dodge & Cox wishes to continue trading these shares in the OTC markets and notes that there are restrictions in StanCERA's current Investment Policy Statement that may necessarily prevent that. They are asking StanCERA for permission to trade in these types of markets and implicitly, continue trading in Panasonic stock.

Staff has also consulted with Paul Harte from SIS regarding the issue. Mr. Harte has some reservations regarding pink sheet securities. His concerns are:

- Pricing relationships between markets trading the same security
- Bid/ask spreads and volumes

Mr. Harte believes that Dodge & Cox should be using American Depositary Receipts (ADR's) if they wish to invest internationally.

Currently, this type of transaction is not permitted by our Investment Policy Statement and staff's recommendation is to not give Dodge & Cox permission to engage in these types of transactions. If the Board approves staff's recommendation, Dodge and Cox will ultimately liquidate StanCERA's entire position in Panasonic.

- IV. RISK: Unknown at this time. Restrictions on any type of investment could hamper diversification potential; however, the risks associated with this type of investment may outweigh those benefits.
- V. STRATEGIC PLAN: Goal 1, Strategy C: Investment Information. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.
- VI. BUDGET IMPACT: None



---

Rick Santos, Executive Director



---

Kathy Herman, Operations Manager

# DODGE & COX

Investment Managers

April 15, 2013

Board of Trustees  
StanCERA  
c/o Rick Santos, Executive Director  
P. O. Box 3150  
Modesto, CA 95353-3150

RE: Stanislaus County Employees Retirement Association - Equity  
Dodge & Cox Account No. 827

Dear Trustees:

We are writing to request permission to invest in domestic and foreign equity securities that are traded over-the-counter ("OTC").

OTC securities include "pink sheet" securities, which are quoted on an electronic quotation system known as Pink Sheets. OTC securities may be issued by companies that either choose not to list on an exchange or do not meet applicable listing requirements. For example, a company may elect to delist in order to avoid administrative costs associated with Sarbanes-Oxley Act compliance (some large foreign companies have delisted their ADRs for this reason, including AKZO NOBEL, a stock that was once widely held in our equity portfolios). A company may also be required by the stock exchange to delist, at least temporarily, due to delinquent filings, low trading volume, low share price, or other reasons. According to Panasonic, it is delisting from the NYSE on April 22, 2013 because the trading volume is low and doesn't merit the cost to list. OTC securities issued by foreign companies are subject to certain Securities and Exchange Commission requirements when offered in the U.S.

We expect that at any given time only a very small number of OTC securities will meet our investment criteria, and for those that do, we would like the flexibility to invest when valuations appear attractive. We use the same investment process for OTC securities that we do for any other potential investment, and will apply your investment guidelines and restrictions, as amended, to such securities. Like listed securities, OTC securities are subject to our fundamental research process, which involves careful analysis of the company's future earnings prospects and application of our price discipline and valuation criteria. We seek well-established companies, which we believe have positive earnings prospects not reflected in current prices. A current example is the unlisted ADR of Roche Holding, a major Swiss pharmaceutical and biotech company.

ESTABLISHED 1930

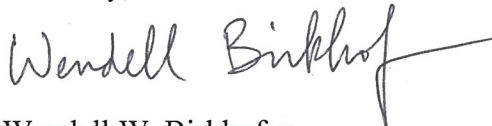
555 California Street / 40th Floor / San Francisco, California 94104 / 415-981-1710



We appreciate your consideration of this change to your investment guidelines. If you have any questions, please do not hesitate to contact me at 415.981.1710.

**If we do not receive a signed copy of this letter by April 22, 2013, we will proceed to divest of Panasonic in your separate account.**

Sincerely,

A handwritten signature in dark ink, reading "Wendell Birkhofer". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Wendell W. Birkhofer  
Vice President

***By signing below, I have consented to amend the investment guidelines for the above Account to permit OTC equity securities, including ADRs:***

***By:*** \_\_\_\_\_

***Name:***

***Title:***

***Date:*** \_\_\_\_\_

cc: Paul Harte, Strategic Investment Solutions, Inc.



# MARKET UPDATE

FOR MARCH 2013

## U.S. EQUITY

U.S. equity investors seem to be remaining optimistic with the U.S. housing sector recovering and companies hiring more workers. Healthy profits for corporations and continuing stimulus from the Federal Reserve have contributed to a boost in asset prices.

The month of March was once again a strong positive one and capped an excellent quarter for equities. The Russell 1000 Growth Index was up +3.8% for the month and the Russell 1000 Value Index was up +4.0%. The Russell 2000 Growth Index was up +5.1% and the Russell 2000 Value was also up +4.2%. The S&P 500 Index ended the month up +3.8%. The Russell 3000 Index was up +11.1% for the first quarter of 2013.

The S&P 500 Index has a trailing P/E ratio of 18.5 and a forward 12-month estimate P/E ratio of 14.1 and dividend yield of 2.1%.

FedEx Corp. and Caterpillar were two leading U.S. companies that each lowered 2013 forecasts in March.

Corporate merger highlights for the month included: A. Schulman made a \$560 million offer to acquire Ferro Corp.; Industrial pump maker Gardner Denver has agreed to sell itself to KKR for about \$3.7 billion; Dominion Resources will sell three fossil-fuel fired merchant generation power stations for about \$650 million to Energy Capital Partners; Ally Financial will sell agency mortgage servicing rights to Ocwen Financial for about \$585 million; Liberty will acquire 27% of Charter Communications, the 4<sup>th</sup> largest U.S. cable operator, for about \$2.6 billion; Private equity firms are joining forces in the auction of BMC Software, raising the possibility of it being taken private in a deal that would top \$6 billion; and, American Realty Capital Properties raised its bid for Cole Credit Property Trust III to about \$6.7 billion.

## FIXED INCOME

The International Monetary Fund predicts that recent spending cuts could reduce U.S. growth by -0.5% in 2013. The Federal Reserve modestly lowered GDP forecasts for 2013 to a range between 2.3% and 2.8% from their prior estimate of 2.3% to 3.0%.

The ADP National Employment Report showed private employers added 198,000 jobs in February, beating expectations for an increase of 170,000. The March

unemployment report was disappointing as payrolls only rose by 88,000 (well below consensus estimate of 190,000). The retail sector was weak.

Long-term interest rates were little changed in the month of March. The bellwether 10-year Treasury note ended the month yielding 1.85% down from 1.89% at the close of February. At month-end, the 30-year bond yield was 3.10% with the 3-month T-bill at 0.08%. The Barclays Capital US Aggregate Index was up by +0.08% in March.

Foreign holdings of U.S. Treasury securities rose for a 13<sup>th</sup> straight month in January to a record \$5.6 trillion; China holds the most at \$1.3 trillion.

Americans have regained the \$16 trillion they lost to the Great Recession, with household wealth now topping the pre-recession peak of \$64.7 trillion.

On the economic front, the following key data was released in March:

## THE GOOD

\*U.S. manufacturing expanded in February at the fastest pace since June 2011.

\*U.S. auto sales rose significantly in February versus a year ago with GM up 7%, Ford up 9%, Chrysler and Toyota up 4% and VW up 3%.

\*The Institute for Supply Management reported that its services index rose in February to 56.0 from 55.2 in January, the highest level since February 2012.

\*The Commerce Dept. reported that orders for core capital goods, which includes computers, rose 7.2% in January from December, the largest gain in more than a year.

\*Retail sales increased 1.1% in February, the largest rise since September, after a revised 0.2% gain in January.

\*The producer price index grew a seasonally adjusted 0.7% in February from January; wholesale prices have risen just 1.7% in the past 12 months.

\*Factory output rose at a seasonally adjusted 0.8% in February, aided by a strong increase in auto output.

\*The Commerce Dept. reported that housing starts rose 0.8% in February to a 917,000 unit annual rate.

\*The Conference Board's index of leading indicators rose 0.5% in February to 94.8. The gauge is designed to anticipate economic conditions three to six months out.

\*U.S. sales of previously occupied homes rose in February to their fastest rate in more than three years.

\*The Commerce Dept. reported that durable goods orders jumped 5.7% in February, reversing January 3.8% plunge.

\*The S&P/Case Shiller composite index on single family home prices rose at an 8.1% annual pace in January, its largest rise since June 2006.

\*Personal income rebounded by 1.1% in February.

## THE NOT SO GOOD

\*Spending on U.S. construction projects fell 2.1% in January, the largest amount in 18 months.

\*The Commerce Dept. reported that factory orders declined 2% in January from December.

\*Productivity fell at a 1.9% annual rate in the fourth quarter, the weakest pace since the 4<sup>th</sup> quarter of 2008.

\*The Commerce Dept. reported that business inventories increased 1.0% in January, the largest increase since May 2011, after rising 0.3% in December.

\*The U.S. ran a budget deficit of \$203 billion in February, down 12% from the same month one year ago.

\*The U.S. current account deficit narrowed in the final three months of 2012, but widened for the year to its highest imbalance since 2008 at \$475 billion.

The Conference Board's March consumer confidence index fell to 59.7 from a revised reading of 68.0 in February.

## NON-U.S. MARKETS

The Bank of Canada left its policy rate unchanged at 1.00%, where it has been since September 2010.

The Bank of England made no changes to monetary policy. The decision left the policy rate at 0.50% (where it has been since March 2009) and the asset purchase target at £375 billion (where it has been since last July). Industrial production unexpectedly dropped 1.2% in January.

Unemployment in the Eurozone hit a record high of 11.9% in January. The European Central Bank (ECB) left monetary policy unchanged, keeping its minimum bid rate at 0.75%, the marginal lending rate at 1.50% and the deposit rate at 0.00%.

Italy's GDP contracted -0.9% in the fourth quarter, the six consecutive quarterly decline (a cumulative fall of -3.7%).

Spain's year-end debt burden rose to a record 84% of GDP; it stands at \$1.14 trillion, up 20% from last year.

France's plan to raise taxes on the wealthy is being scaled back after a second legal opinion said the proposed marginal rate of 75% was unfair.

Cyprus averted imminent financial collapse after it agreed to reform its troubled banking sector and inflict large losses on wealthy depositors in troubled banks to secure a €10 billion bailout from Europe.

Japan's economy did better than first thought in the last quarter of 2012, eking out a slight expansion instead of shrinking. The Bank of Japan (BoJ) left monetary policy unchanged in March. The target interest rate was kept at 0.0%-0.1%, monthly purchases of government securities at ¥1.8 trillion, and the asset purchase program at ¥76 trillion. Core machinery orders plunged -13.1% in January.

China's economy should expand 8.5% in 2013 and more in 2014, according to the OECD.

Non-U.S. equities were slightly higher in March. The MSCI ACWI Ex-U.S. was up +0.20% (US dollars) in March. Developed stocks (EAFE) were up +0.82% while Emerging Markets fell by -1.7% for the month.

## CONCLUSION

Global growth rates have stabilized in recent months although there are large divergences between countries. Easy monetary policies contributed to acceleration in U.S. and Chinese growth rates in 2012 and in recent months growth rates in economies with large trade ties to these countries such as Japan and emerging Asia have begun to benefit.

European growth has not improved as monetary and fiscal policies continue to be tight relative to economic conditions. This ongoing contraction in Europe remains in contrast with the rest of the developed world.

The U.S. economy has seen a gradual normalization of cyclical expansion. Strong housing is leading the move.

The improvement in home and asset prices has helped to create an improvement in household balance sheets. Borrowing conditions have improved and rates remain extremely low. Corporations have strong, healthy balance sheets. This has all been going on when the U.S. may be at its peak of its fiscal tightening, such that underlying growth may even be healthier than what we are witnessing today.

Global growth has slowed progressively over the last two years but may be on the verge of reaccelerating over the next two. Inflation remains close to current levels and below the 2.0% U.S. Federal Reserve targets. Monetary policy continues to be unusually accommodative.

## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Mar-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	3.92	11.07	11.07	14.56	10.81	12.97	6.32	5.14	9.15
Russell TOP 200 Index	3.69	10.12	10.12	13.20	11.53	12.23	5.28	4.83	7.75
Russell TOP 200 Growth Index	3.66	8.77	8.77	9.06	11.51	12.71	7.09	6.22	7.80
Russell TOP 200 Value Index	3.73	11.45	11.45	17.49	11.53	11.72	3.40	3.40	7.74
S&P 500 Index	3.75	10.61	10.61	13.96	11.22	12.67	5.81	5.01	8.53
Russell 1000 Index	3.86	10.96	10.96	14.43	11.10	12.93	6.15	5.20	8.97
Russell 1000 Growth Index	3.75	9.54	9.54	10.09	10.55	13.06	7.30	6.08	8.62
Russell 1000 Value Index	3.96	12.31	12.31	18.77	11.56	12.74	4.85	4.19	9.18
Russell Mid-Cap Index	4.25	12.96	12.96	17.30	10.08	14.62	8.37	6.19	12.27
Russell Mid-Cap Growth Index	3.99	11.51	11.51	12.76	8.51	14.23	7.98	5.94	11.53
Russell Mid-Cap Value Index	4.48	14.21	14.21	21.49	11.47	14.96	8.53	6.11	12.57
Russell 2000 Index	4.62	12.39	12.39	16.30	7.75	13.45	8.24	4.59	11.52
Russell 2000 Growth Index	5.10	13.21	13.21	14.52	7.38	14.75	9.04	5.20	11.61
Russell 2000 Value Index	4.16	11.63	11.63	18.09	8.09	12.12	7.29	3.87	11.29
DJ US REIT Index	2.66	7.04	7.04	13.19	13.36	16.94	6.07	4.13	12.10
DJ-UBS US Commodity Index TR	0.67	-1.13	-1.13	-3.03	-9.90	1.42	-7.11	-1.16	3.67
DJ-UBS US Gold Index TR	0.99	-5.01	-5.01	-5.26	4.54	11.91	10.70	14.35	15.86

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Mar-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	0.25	3.27	3.27	8.87	0.76	4.87	0.07	3.10	11.41
MSCI AC World Index	1.88	6.63	6.63	11.19	5.34	8.35	2.63	4.01	9.92
MSCI EAFE Index	0.88	5.23	5.23	11.79	2.89	5.49	-0.40	2.10	10.19
MSCI Emerging Markets index	-1.70	-1.57	-1.57	2.30	-3.26	3.59	1.39	6.73	17.41
ML Global Government Bond Ex. U.S. Index	-0.31	-4.80	-4.80	-4.52	0.34	4.03	3.13	6.19	5.51
Euro	-1.78	-2.60	-2.60	-3.57	-4.88	-1.73	-4.12	0.85	1.64
Japanese Yen	-1.87	-8.04	-8.04	-12.47	-6.11	-0.21	1.15	3.30	2.35
UK Pound Sterling	0.03	-6.59	-6.59	-4.96	-2.67	0.03	-5.24	-1.88	-0.40

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Mar-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.02	0.02	0.02	0.12	0.09	0.11	0.34	1.61	1.75
BarCap Aggregate Bond Index	0.08	-0.12	-0.12	3.77	5.73	5.52	5.47	5.94	5.02
ML U.S. Corp/Govt Master Index	0.08	-0.16	-0.16	4.75	6.57	6.17	5.50	6.03	5.07
ML U.S. Corporate Master Index	0.07	0.05	0.05	7.79	8.43	8.16	7.75	6.96	6.05
BarCap Mortgage Backed Securities Index	0.12	-0.05	-0.05	1.97	4.07	4.17	5.15	5.78	4.98
ML U.S. High Yield Master Index	1.03	2.87	2.87	13.05	9.31	10.90	11.19	9.01	9.81
JPM EMBI Global	-0.75	-2.30	-2.30	10.45	11.51	10.55	9.81	9.18	10.59

## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Mar-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	3.92	11.07	11.07	14.56	10.81	12.97	6.32	5.14	9.15
Russell TOP 200 Index	3.69	10.12	10.12	13.20	11.53	12.23	5.28	4.83	7.75
Russell TOP 200 Growth Index	3.66	8.77	8.77	9.06	11.51	12.71	7.09	6.22	7.80
Russell TOP 200 Value Index	3.73	11.45	11.45	17.49	11.53	11.72	3.40	3.40	7.74
S&P 500 Index	3.75	10.61	10.61	13.96	11.22	12.67	5.81	5.01	8.53
Russell 1000 Index	3.86	10.96	10.96	14.43	11.10	12.93	6.15	5.20	8.97
Russell 1000 Growth Index	3.75	9.54	9.54	10.09	10.55	13.06	7.30	6.08	8.62
Russell 1000 Value Index	3.96	12.31	12.31	18.77	11.56	12.74	4.85	4.19	9.18
Russell Mid-Cap Index	4.25	12.96	12.96	17.30	10.08	14.62	8.37	6.19	12.27
Russell Mid-Cap Growth Index	3.99	11.51	11.51	12.76	8.51	14.23	7.98	5.94	11.53
Russell Mid-Cap Value Index	4.48	14.21	14.21	21.49	11.47	14.96	8.53	6.11	12.57
Russell 2000 Index	4.62	12.39	12.39	16.30	7.75	13.45	8.24	4.59	11.52
Russell 2000 Growth Index	5.10	13.21	13.21	14.52	7.38	14.75	9.04	5.20	11.61
Russell 2000 Value Index	4.16	11.63	11.63	18.09	8.09	12.12	7.29	3.87	11.29
DJ US REIT Index	2.66	7.04	7.04	13.19	13.36	16.94	6.07	4.13	12.10
DJ-UBS US Commodity Index TR	0.67	-1.13	-1.13	-3.03	-9.90	1.42	-7.11	-1.16	3.67
DJ-UBS US Gold Index TR	0.99	-5.01	-5.01	-5.26	4.54	11.91	10.70	14.35	15.86

March  
a strong  
month  
for US  
Equities  
especially  
Sm. Caps!

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Mar-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	0.25	3.27	3.27	8.87	0.76	4.87	0.07	3.10	11.41
MSCI AC World Index	1.88	6.63	6.63	11.19	5.34	8.35	2.63	4.01	9.92
MSCI EAFE Index	0.88	5.23	5.23	11.79	2.89	5.49	-0.40	2.10	10.19
MSCI Emerging Markets index	-1.70	-1.57	-1.57	2.30	-3.26	3.59	1.39	6.73	17.41
ML Global Government Bond Ex. U.S. Index	-0.31	-4.80	-4.80	-4.52	0.34	4.03	3.13	6.19	5.51
Euro	-1.78	-2.60	-2.60	-3.57	-4.88	-1.73	-4.12	0.85	1.64
Japanese Yen	-1.87	-8.04	-8.04	-12.47	-6.11	-0.21	1.15	3.30	2.35
UK Pound Sterling	0.03	-6.59	-6.59	-4.96	-2.67	0.03	-5.24	-1.88	-0.40

Non-US  
equities  
lag  
strong US &  
a factor

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Mar-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.02	0.02	0.02	0.12	0.09	0.11	0.34	1.61	1.75
BarCap Aggregate Bond Index	0.08	-0.12	-0.12	3.77	5.73	5.52	5.47	5.94	5.02
ML U.S. Corp/Govt Master Index	0.08	-0.16	-0.16	4.75	6.57	6.17	5.50	6.03	5.07
ML U.S. Corporate Master Index	0.07	0.05	0.05	7.79	8.43	8.16	7.75	6.96	6.05
BarCap Mortgage Backed Securities Index	0.12	-0.05	-0.05	1.97	4.07	4.17	5.15	5.78	4.98
ML U.S. High Yield Master Index	1.03	2.87	2.87	13.05	9.31	10.90	11.19	9.01	9.81
JPM EMBI Global	-0.75	-2.30	-2.30	10.45	11.51	10.55	9.81	9.18	10.59

Bond  
returns  
muted

HY

rallied  
in March

A

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING MARCH 31, 2013**  
**PRELIMINARY BASIS**

**SUMMARY OF INVESTMENTS**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			TARGET	RANGE
DOMESTIC EQUITIES	703,114,107	45.4% ✓	41.9%	36.9% - 46.9%
INTERNATIONAL EQUITIES	270,934,858	17.5% ✓	19.0%	16.0% - 22.0%
FIXED INCOME	537,705,652	34.8% ✓	37.6%	33.9% - 41.3%
REAL ESTATE SECURITIES	22,669,753	1.5% ✓	1.5%	1.0% - 2.0%
SECURITY LENDING	(921,258)	-0.1%	0.0%	0.0% - 0.0%
CASH (equity managers only)	13,797,191	0.9%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,547,300,304	100.0%	100.0%	

	CURRENT	TARGET
DODGE & COX - LARGE CAP VALUE	10.5%	9.8%
BlackRock - R1000 VALUE INDEX	6.6%	6.0%
DELAWARE - LARGE CAP GROWTH	8.7%	7.3%
BlackRock - R1000 GROWTH INDEX	5.2%	5.0%
CAPITAL PROSPECTS	5.3%	4.5%
LEGATO CAPITAL	4.6%	4.0%
BNY - S&P 500 INDEX	5.3%	5.3%
LSV ASSET MGMT - INTL EQ	8.7%	9.5%
PYRAMIS - INTL EQ	9.0%	9.5%
DODGE & COX FIXED INCOME	27.5%	30.1%
PIMCO	7.2%	7.5%
BlackRock - US REAL ESTATE SECURITIES INDEX	1.5%	1.5%
SECURITY LENDING	-0.1%	0.0%
TOTALS	100.0%	100.0%

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING MARCH 31, 2013**  
PRELIMINARY BASIS

**GROWTH OF ASSETS AND CHANGES IN ALLOCATION**

ASSET CLASS	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
<b>MARKET VALUE</b>					
DOMESTIC EQUITIES	703,114,107	673,701,363	4.37%	610,586,972	15.15%
INTERNATIONAL EQUITIES	270,934,858	269,478,681	0.54%	247,728,617	9.37%
FIXED INCOME	537,705,652	537,874,085	-0.03%	526,019,093	2.22%
SPECIAL SITUATIONS	22,669,753	22,074,420	2.70%	34,079,562	-33.48%
SECURITIES LENDING	(921,258)	(921,258)	0.00%	(2,476,383)	62.80%
CASH (equity managers only)	13,797,191	16,930,101	-18.50%	11,359,897	21.46%
TOTAL PORTFOLIO	1,547,300,304	1,519,137,392	1.85%	1,427,297,758	8.41%
<b>ASSET ALLOCATION (ACTUAL)</b>					
DOMESTIC EQUITIES	45.44%	44.35%	1.1%	42.78%	2.7%
INTERNATIONAL EQUITIES	17.51%	17.74%	-0.2%	17.36%	0.2%
FIXED INCOME	34.75%	35.41%	-0.7%	36.85%	-2.1%
REAL ESTATE SECURITIES	1.47%	1.45%	0.0%	2.39%	-0.9%
SECURITY LENDING	-0.06%	-0.06%	0.0%	-0.17%	0.0%
CASH (equity managers only)	0.89%	1.11%	-0.2%	0.80%	0.1%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%

\* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

Page 2

2



**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING MARCH 31, 2013**  
PRELIMINARY BASIS

**MANAGER ALLOCATION**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	POLICY RANGE
<b>DOMESTIC EQUITIES</b>				
DODGE & COX - LARGE CAP VALUE	162,851,058	10.5%	✓ 9.8%	7.8% - 11.8%
BLACKROCK - R1000 VALUE INDEX	102,347,352	6.6%	✓ 6.0%	5.0% - 7.0%
DELAWARE - LARGE CAP GROWTH	133,895,700	8.7%	✓ 7.3%	5.8% - 8.8%
BLACKROCK - R1000 GROWTH INDEX	79,964,232	5.2%	✓ 5.0%	4.0% - 6.0%
CAPITAL PROSPECTS - SMALL CAP VALUE	81,342,812	5.3%	✓ 4.5%	3.5% - 5.5%
LEGATO CAPITAL - SMALL CAP GROWTH	71,337,759	4.6%	✓ 4.0%	3.0% - 5.0%
BNY - S&P 500 INDEX	82,209,372	5.3%	✓ 5.3%	4.3% - 6.3%
<b>TOTAL DOMESTIC EQUITIES</b>	<b>713,948,285</b>	<b>46.1%</b>	<b>41.9%</b>	
<b>FIXED INCOME</b>				
DODGE & COX	425,532,175	27.5%	✓ 30.1%	27.6% - 32.6%
PIMCO	112,173,477	7.2%	✓ 7.5%	6.0% - 9.0%
<b>TOTAL FIXED INCOME</b>	<b>537,705,652</b>	<b>34.8%</b>	<b>37.6%</b>	
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT	134,034,910	8.7%	✓ 9.5%	8.0% - 11.0%
PYRAMIS	139,862,961	9.0%	✓ 9.5%	8.0% - 11.0%
<b>TOTAL INTERNATIONAL EQUITIES</b>	<b>273,897,872</b>	<b>17.7%</b>	<b>19.0%</b>	
<b>REAL ESTATE SECURITIES</b>				
BlackRock - US RE SECURITIES INDEX	22,669,753	1.5%	✓ 1.5%	1.0% - 2.0%
<b>TOTAL SPECIAL SITUATIONS</b>	<b>22,669,753</b>	<b>1.5%</b>	<b>1.5%</b>	<b>0.0% - 3.0%</b>
<b>SECURITIES LENDING</b>	<b>(921,258)</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.0% - 0.0%</b>
<b>TOTAL STANCERA PORTFOLIO</b>	<b>1,547,300,304</b>	<b>100.0%</b>	<b>100.0%</b>	

3



**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING MAR. 31, 2013**  
**PRELIMINARY**

TOTAL FUND				
	CASH	BONDS	EQUITIES	TOTAL
<b>DOMESTIC EQUITIES</b>				
DODGE & COX LARGE CAP VALUE	3,428,518		159,422,540	162,851,058
BLACKROCK R1000 VALUE INDEX	0		102,347,352	102,347,352
DELAWARE LARGE CAP GROWTH	2,621,368		131,274,333	133,895,700
BLACKROCK R1000 GROWTH INDEX	0		79,964,232	79,964,232
CAPITAL PROSPECTS SMALL CAP VALUE	2,334,024		79,008,788	81,342,812
LEGATO CAPITAL SMALL CAP GROWTH	2,450,041		68,887,718	71,337,759
BNY S&P 500 INDEX	226		82,209,145	82,209,372
TOTAL DOMESTIC EQUITIES	10,834,178		703,114,107	713,948,285
<b>FIXED INCOME</b>				
DODGE & COX	8,546,567	416,985,608		425,532,175
PIMCO	8,010,194	104,163,284		112,173,477
TOTAL FIXED INCOME	16,556,760	521,148,892		537,705,652
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT.	1,370,852		132,664,058	134,034,910
PYRAMIS	1,592,162		138,270,800	139,862,961
TOTAL INTERNATIONAL EQUITIES	2,963,014		270,934,858	273,897,872
<b>REAL ESTATE SECURITIES</b>				
BLACKROCK US REAL ESTATE SECURITIES INDEX	0		22,669,753	22,669,753
TOTAL SPECIAL SITUATIONS	0		22,669,753	22,669,753
<b>SECURITIES LENDING</b>	(921,258)			(921,258)
<b>TOTAL STANCERA PORTFOLIO</b>	29,432,694	521,148,892	996,718,718	1,547,300,304

1.9%      33.7%      64.4%      100.0%

4

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING MARCH 31, 2013**  
**PRELIMINARY BASIS**

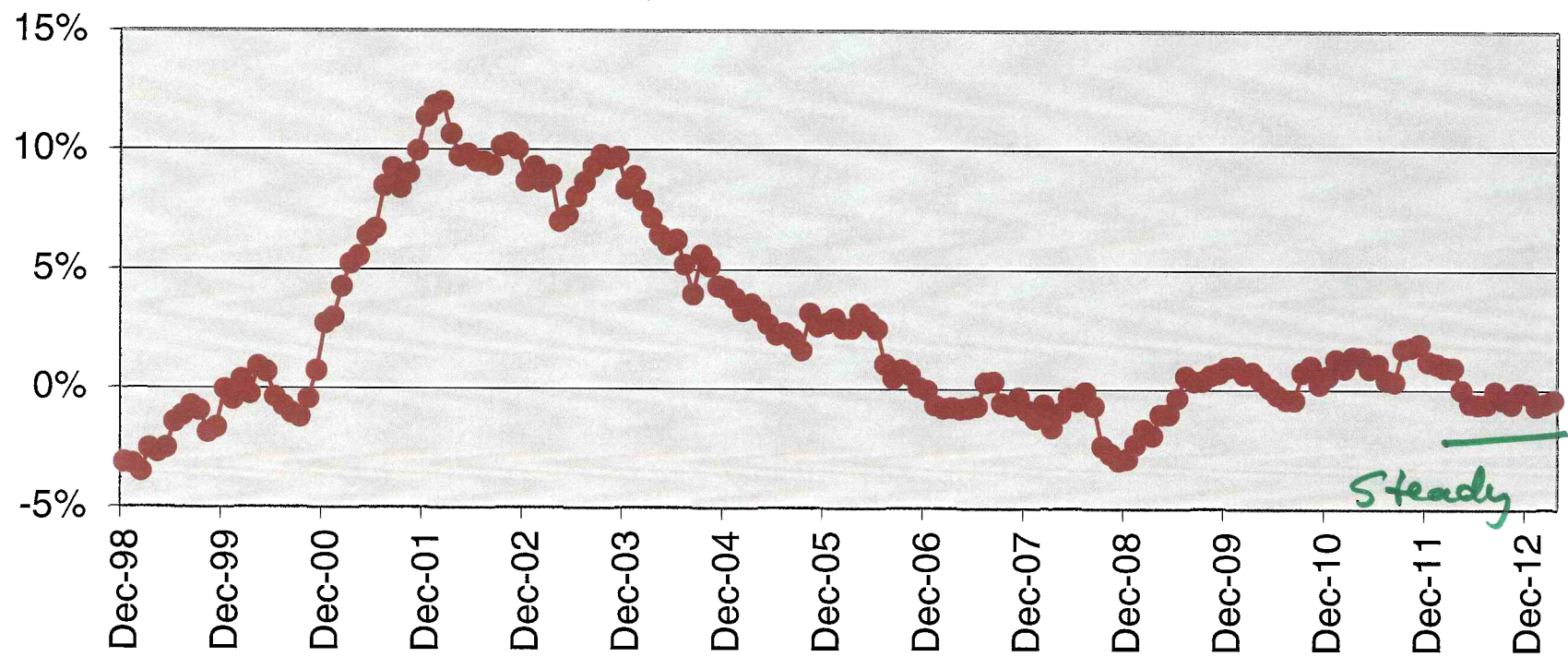
**CURRENT PERFORMANCE**

	MARKET VALUE	MARCH	ALPHA	FEBRUARY	ALPHA	FISCAL YTD	ALPHA
<b>DOMESTIC EQUITIES</b>							
<b>DODGE &amp; COX - LARGE CAP VALUE</b>	159,422,540	4.47%	0.51%	0.70%	-0.74%	23.65%	2.19%
RUSSELL 1000 VALUE		3.96%		1.44%		21.46%	
<b>BLACKROCK R1000 VALUE INDEX</b>	102,347,352	3.96%	0.00%	1.44%	0.00%	21.48%	0.02%
RUSSELL 1000 VALUE		3.96%		1.44%		21.46%	
<b>DELAWARE LARGE CAP GROWTH</b>	131,274,333	3.21%	-0.54%	1.07%	-0.17%	17.08%	2.27%
RUSSELL 1000 GROWTH		3.75%		1.24%		14.81%	
<b>BLACKROCK R1000 GROWTH INDEX</b>	79,964,232	3.76%	0.01%	1.25%	0.01%	14.79%	-0.02%
RUSSELL 1000 GROWTH		3.75%		1.24%		14.81%	
<b>CAPITAL PROSPECTS</b>	79,008,788	4.96%	0.80%	1.03%	-0.11%	29.34%	7.58%
RUSSELL 2000 VALUE		4.16%		1.14%		21.76%	
<b>LEGATO CAPITAL</b>	68,887,718	5.54%	0.44%	1.84%	0.78%	20.53%	1.32%
RUSSELL 2000 GROWTH		5.10%		1.06%		19.21%	
<b>BNY - S&amp;P 500 INDEX</b>	82,209,145	3.73%	-0.02%	1.38%	0.02%	17.20%	-0.02%
S&P 500		3.75%		1.36%		17.22%	
<b>TOTAL DOMESTIC EQUITY</b>	703,114,107	4.15%	0.23%	1.16%	-0.17%	20.55%	2.26%
Russell 3000 Index		3.92%		1.33%		18.29%	
<b>FIXED INCOME</b>							
<b>DODGE &amp; COX</b>	425,532,175	0.24%	0.16%	0.44%	-0.06%	4.46%	2.77%
BARCLAYS US AGGREGATE BOND		0.08%		0.50%		1.69%	
<b>PIMCO</b>	112,173,477	0.28%	0.20%	0.56%	0.06%	2.88%	1.19%
BARCLAYS US AGGREGATE BOND		0.08%		0.50%		1.69%	
<b>TOTAL FIXED INCOME</b>	537,705,652	0.25%	0.17%	0.47%	-0.03%	4.18%	2.49%
BARCLAYS US AGGREGATE BOND		0.08%		0.50%		1.69%	
<b>INTERNATIONAL INVESTMENTS</b>							
<b>LSV ASSET MGMT</b>	132,664,058	0.73%	0.48%	-0.94%	0.12%	19.70%	2.21%
MSCI ACWI ex-US		0.25%		-1.06%		17.49%	
<b>PYRAMIS</b>	138,270,800	0.86%	0.61%	-0.89%	0.17%	19.01%	1.52%
MSCI ACWI ex-US		0.25%		-1.06%		17.49%	
<b>TOTAL INTERNATIONAL EQUITY</b>	270,934,858	0.80%	0.55%	-0.91%	0.15%	19.39%	1.90%
MSCI ACWI ex-US		0.25%		-1.06%		17.49%	
<b>REAL ESTATE SECURITIES</b>							
<b>BlackRock US RE Index</b>	22,669,753	2.70%	-0.01%	0.84%	0.04%	9.56%	0.01%
DOW JONES US SELECT RE INDEX		2.71%		0.80%		9.55%	
<b>SECURITIES LENDING</b>							
<b>BNY MELLON</b>	(921,258)						
<b>CASH and SHORT-TERM INVESTMENTS</b>							
<b>CASH</b>	13,797,191	0.01%	0.00%	0.01%	0.00%	0.09%	0.00%
90-day US Treasury Bill		0.01%		0.01%		0.09%	
<b>Total StanCERA Fund</b>	1,547,300,304	2.15%	0.35%	0.54%	0.00%	14.25%	2.47%
Policy Index		1.80%		0.54%		11.78%	
Actuary Rate of Assumption (8.00%)		0.67%	1.45%	0.67%	-0.13%	6.00%	8.25%
Actuary Rate of Inflation (3.50%)		0.29%	1.86%	0.29%	0.25%	2.63%	11.63%

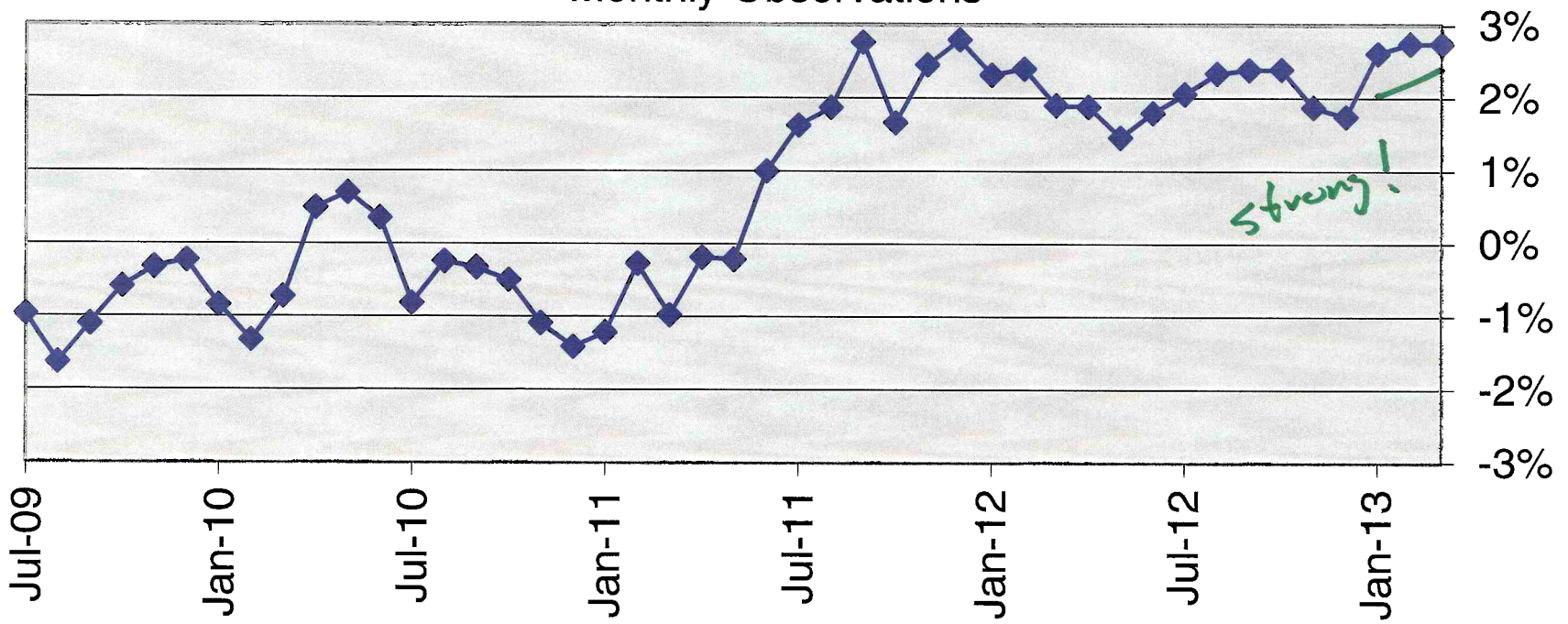
Active  
mgrs.  
all  
producing  
Alpha!

Wow!

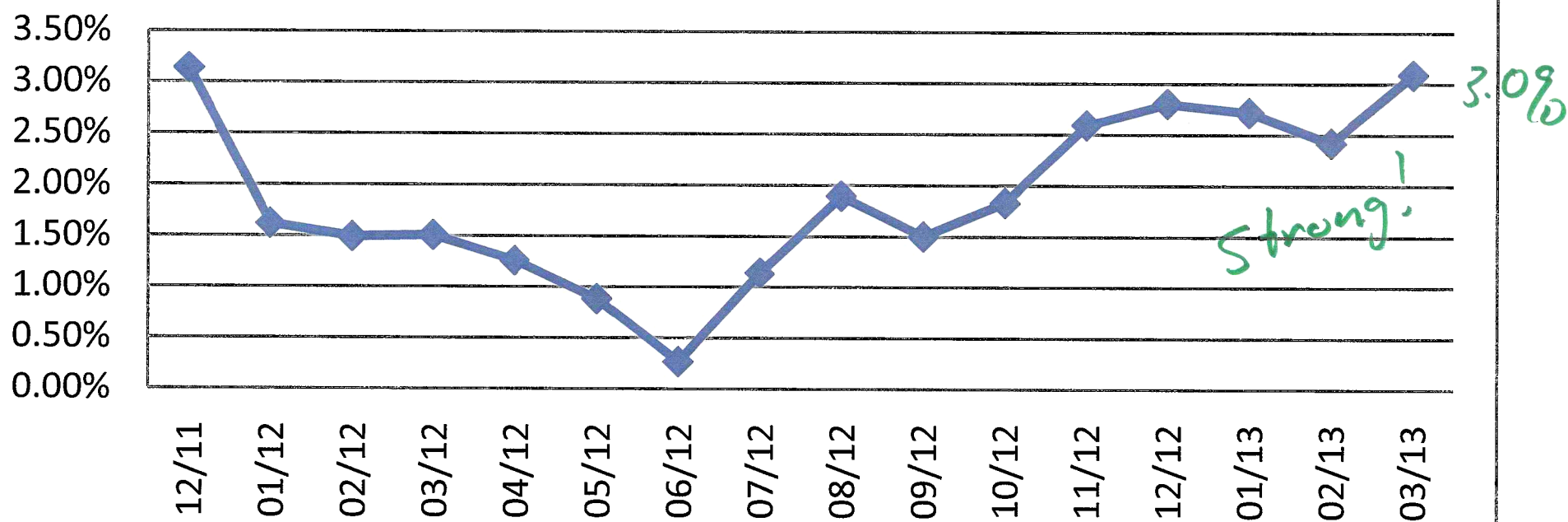
Dodge & Cox Equity  
Rolling 3-Years Annualized Alpha  
Monthly Observations



Delaware  
Rolling 3-Years Annualized Alpha  
Monthly Observations

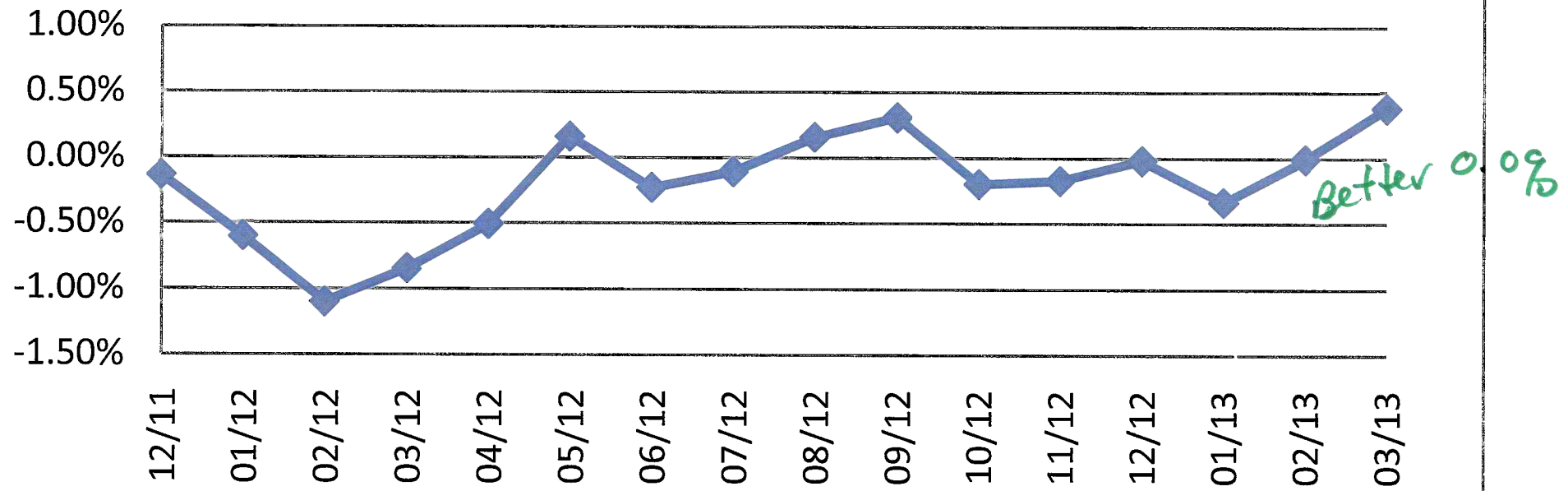


Capital Prospects  
Rolling 3-Year  
Alphas  
Monthly Observations

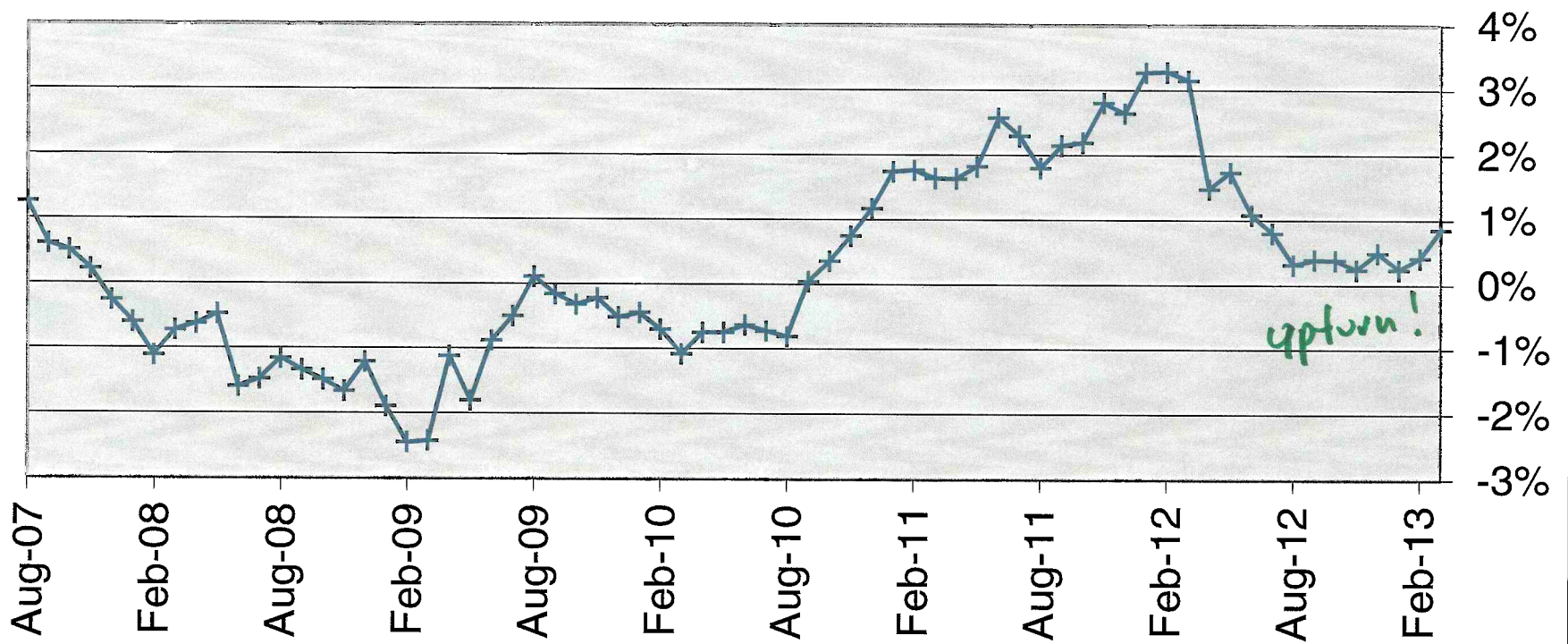




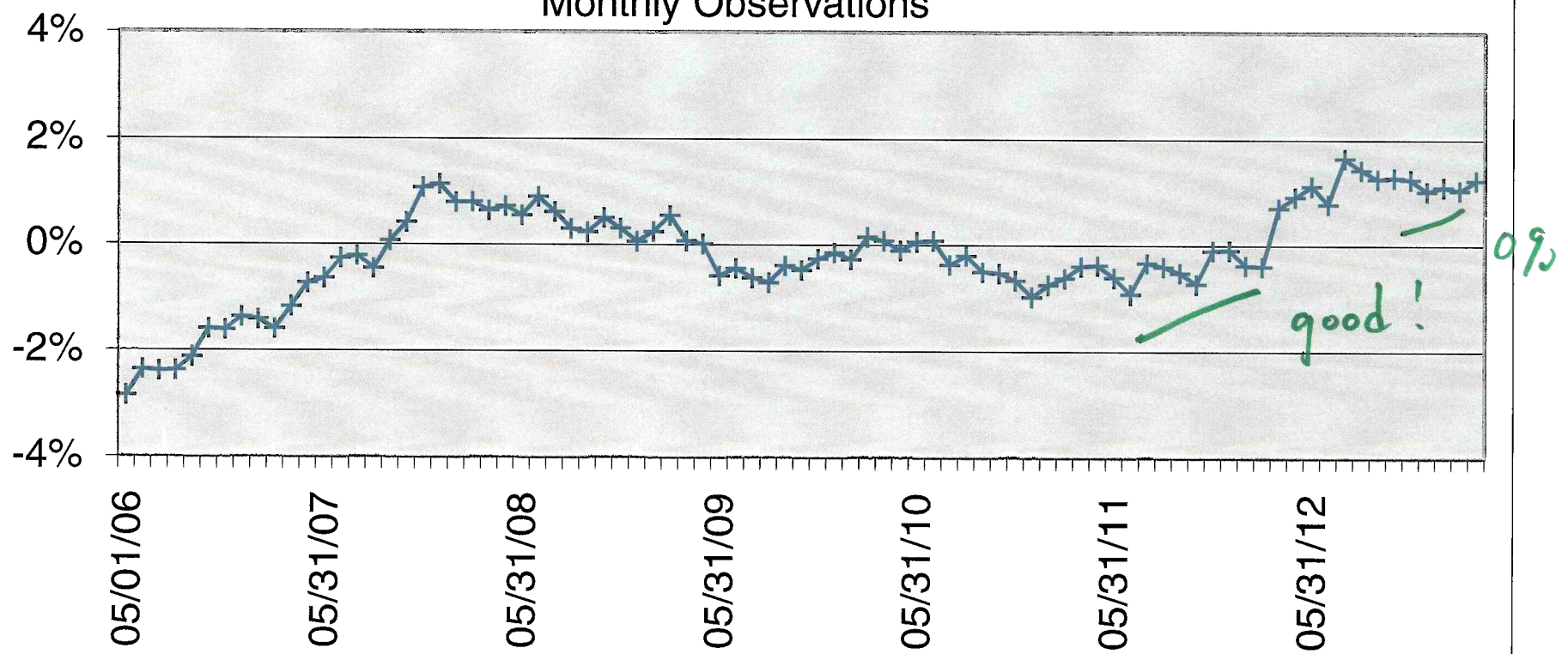
Legato Rolling  
3-Year Alphas  
Annualized  
Monthly Observations



LSV  
Rolling 3-Years Annualized Alpha  
Monthly Observations

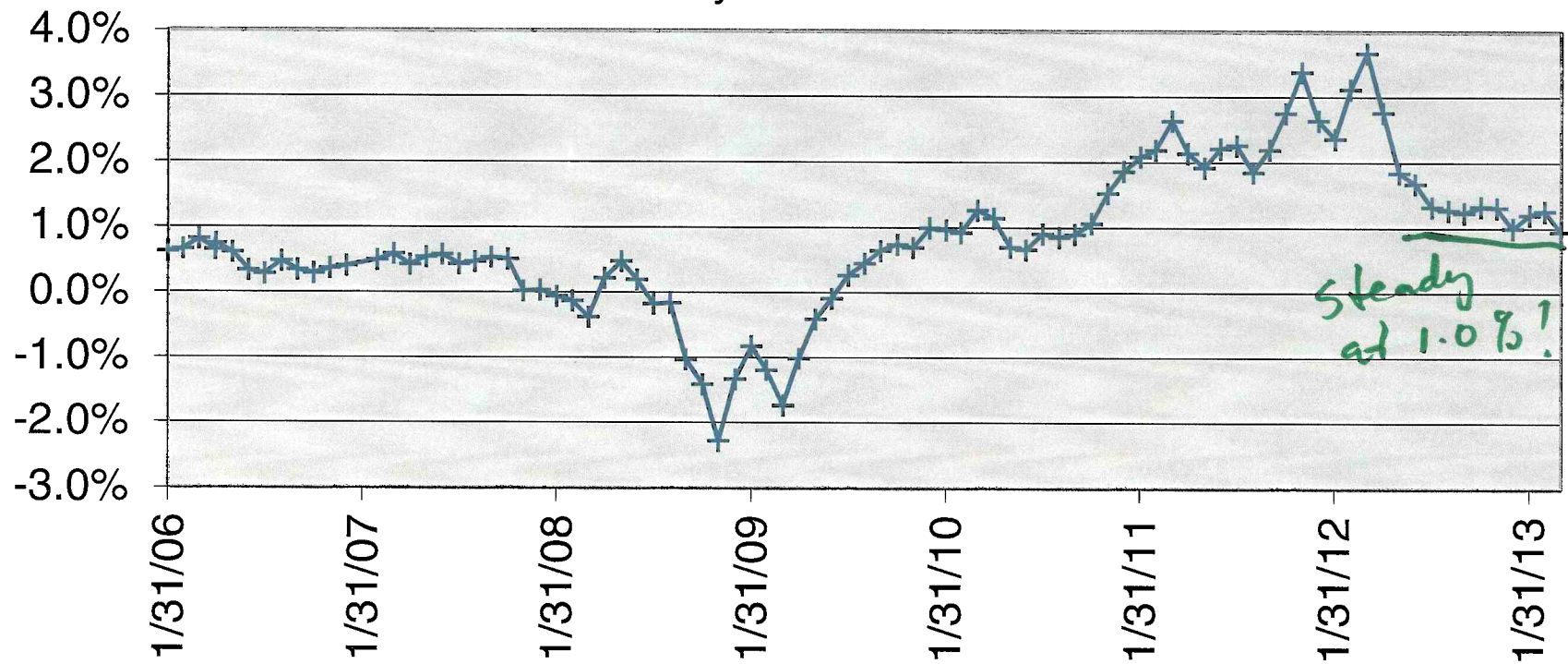


Pyramis (May 2006)  
Rolling 3-Years Annualized Alpha  
Monthly Observations





Dodge & Cox Fixed Income  
Rolling 3-Year Alphas Annualized  
Monthly Observations



4/23/13

Item# 9.b

STANCERA  
Price Monitor Position Report

BlackRock  
Passive Large Cap Growth Manager  
Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	9,303	\$4,118,158	5.15%	0.27%	442.66	426.24	-3.71%	-4.12%
INTL Business Machines	IBM	11,209	\$2,390,931	2.99%	0.15%	213.30	212.00	-0.61%	-1.02%
Microsoft Corp.	MSFT	79,098	\$2,262,988	2.83%	0.15%	28.61	28.97	1.26%	0.85%
Google Inc.	GOOG	2,668	\$2,119,052	2.65%	0.14%	794.19	793.37	-0.10%	-0.51%
Coca-Cola Co.	KO	40,338	\$1,631,270	2.04%	0.11%	40.44	42.37	4.77%	4.37%
Philip Morris Intl.	PM	16,647	\$1,543,310	1.93%	0.10%	92.71	94.97	2.44%	2.03%
Verizon Communications	VZ	31,072	\$1,511,324	1.89%	0.10%	48.64	50.46	3.74%	3.34%
Oracle Corp	ORCL	40,563	\$1,311,413	1.64%	0.08%	32.33	33.42	3.37%	2.97%
Pepsico Inc.	PEP	16,375	\$1,295,421	1.62%	0.08%	79.11	80.00	1.13%	0.72%
Qualcomm Inc.	QCOM	17,560	\$1,175,474	1.47%	0.08%	66.94	65.81	-1.69%	-2.09%
TOP TEN HOLDINGS			\$19,359,341	24.21%	1.25%	Russell 1000 Growth:		0.41%	

Total Portfolio Value  
Total StanCERA Value

**\$79,964,232**  
\$1,547,300,304

STANCERA  
Price Monitor Position Report

BlackRock  
Passive Large Cap Value Manager  
Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
EXXON MOBIL CORP	XOM	55,882	\$5,035,490	4.92%	0.33%	90.11	86.61	-3.88%	-4.02%
GENERAL ELECTRIC CO	GE	130,148	\$3,009,012	2.94%	0.08%	23.12	23.10	-0.09%	-0.22%
CHEVRON CORP	CVX	24,118	\$2,865,726	2.80%	0.08%	118.82	117.01	-1.52%	-1.66%
PFIZER INC	PFE	98,234	\$2,835,022	2.77%	0.18%	28.86	30.94	7.21%	7.07%
AT&T INC	T	71,694	\$2,599,623	2.54%	0.17%	36.26	37.94	4.63%	4.50%
PROCTER & GAMBLE CO	PG	32,673	\$2,517,745	2.46%	0.16%	77.06	80.10	3.94%	3.81%
BERKSHIRE HATHAWAY INC	BRK/B	22,198	\$2,313,050	2.26%	0.06%	104.20	107.16	2.84%	2.71%
JPMORGAN CHASE & CO	JPM	48,169	\$2,272,111	2.22%	0.06%	47.17	48.49	2.80%	2.66%
WELLS FARGO & CO	WFC	60,318	\$2,231,172	2.18%	0.06%	36.99	37.06	0.19%	0.05%
JOHNSON & JOHNSON	JNJ	26,613	\$2,169,764	2.12%	0.14%	81.53	83.44	2.34%	2.21%
TOP TEN HOLDINGS			\$27,848,714	27.21%	1.33%	Russell 1000 Value		<b>0.14%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$102,347,352**  
\$1,547,300,304

STANCERA  
Price Monitor Position Report

Capital Prospects  
Active US Small Cap Value Manager  
Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000V	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
Hillenbrand, Inc	HI	49,552	\$1,252,679	1.54%	0.08%	0.10%	25.28	24.17	-4.39%	-1.72%
Regal Beloit Corp	RBC	14,561	\$1,187,605	1.46%	0.08%	0.00%	81.56	73.98	-9.29%	-6.62%
Belden Inc	BDC	20,631	\$1,065,591	1.31%	0.07%	0.17%	51.65	47.24	-8.54%	-5.87%
Gulfport Energy Corp	GPOR	22,009	\$1,008,651	1.24%	0.07%	0.26%	45.83	47.77	4.23%	6.91%
Polyone Corporation	POL	38,655	\$943,577	1.16%	0.06%	0.00%	24.41	22.90	-6.19%	-3.51%
Hanesbrands Inc	HBI	20,711	\$943,577	1.16%	0.06%	0.00%	45.56	46.52	2.11%	4.78%
Littelfuse, Inc	LFUS	12,828	\$870,368	1.07%	0.06%	0.11%	67.85	66.80	-1.55%	1.13%
PHH Corp	PHH	39,264	\$862,234	1.06%	0.06%	0.09%	21.96	20.59	-6.24%	-3.57%
A. O. Smith Corp	AOS	10,061	\$740,220	0.91%	0.05%	0.21%	73.57	68.98	-6.24%	-3.57%
Allete, Inc	ALE	15,100	\$740,220	0.91%	0.05%	0.14%	49.02	49.28	0.53%	3.20%
TOP TEN HOLDINGS			\$9,614,720	11.82%	0.62%	1.08%	Russell 2000 Value:		<b>-2.67%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$81,342,812</b>
---------------------

\$1,547,300,304

STANCERA  
Price Monitor Position Report

Delaware Investments Advisers  
Active Large Cap Growth Portfolio  
Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000G	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
Visa Inc.	V	45,975	\$7,808,931	5.83%	0.50%	1.15%	169.84	164.71	-3.02%	-3.43%
EOG Resources Inc.	EOG	54,950	\$7,037,960	5.26%	0.45%	0.45%	127.88	119.15	-6.83%	-7.23%
QUALCOMM Inc.	QCOM	100,700	\$6,741,381	5.03%	0.44%	1.49%	66.94	65.81	-1.69%	-2.09%
Crown Castle International Corp.	CCI	94,600	\$6,588,472	4.92%	0.43%	0.26%	69.64	74.03	6.30%	5.90%
Kinder Morgan Inc.	KMI	169,490	\$6,556,337	4.90%	0.42%	0.25%	38.68	38.37	-0.80%	-1.21%
MasterCard Inc. Cl A	MA	12,100	\$6,548,169	4.89%	0.42%	0.76%	540.52	531.58	-1.65%	-2.06%
Allergan Inc.	AGN	57,400	\$6,408,114	4.79%	0.41%	0.44%	111.63	113.12	1.33%	0.93%
Adobe Systems Inc.	ADBE	144,025	\$6,267,792	4.68%	0.41%	0.16%	43.52	45.28	4.04%	3.64%
Walgreen Co.	WAG	126,425	\$6,028,386	4.50%	0.39%	0.00%	47.68	49.06	2.89%	2.49%
Celgene Corp.	CELG	48,450	\$5,616,255	4.19%	0.36%	0.66%	115.91	122.50	5.69%	5.28%
TOP TEN HOLDINGS			\$65,601,797	48.99%	4.24%	5.63%	Russell 1000 Growth:		<b>0.41%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$133,895,700**  
\$1,547,300,304

## STANCERA

## Price Monitor Position Report

Dodge &amp; Cox Equity

Active US Large Cap Value Manager

Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000V	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
WELLS FARGO & CO	WFC	160,072	\$6,058,059	3.72%	0.39%	2.20%	36.99	37.06	0.19%	0.05%
COMCAST CORP-CLASS A	CMCSA	140,063	\$6,025,489	3.70%	0.39%	0.70%	42.01	41.41	-1.43%	-1.56%
MERCK & CO. INC.	MRK	122,500	\$5,553,221	3.41%	0.36%	1.60%	44.23	46.96	6.17%	6.04%
TIME WARNER INC	TWX	93,532	\$5,520,651	3.39%	0.36%	0.70%	57.62	59.73	3.66%	3.53%
HEWLETT-PACKARD CO	HPQ	225,005	\$5,488,081	3.37%	0.35%	0.60%	23.84	21.03	-11.79%	-11.92%
GENERAL ELECTRIC CO	GE	230,000	\$5,439,225	3.34%	0.35%	2.90%	23.12	23.10	-0.09%	-0.22%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$5,211,234	3.20%	0.34%	0.40%	54.95	53.33	-2.95%	-3.08%
SANOFI-ADR	SNY	98,255	\$5,146,093	3.16%	0.33%	0.00%	51.08	54.37	6.44%	6.31%
NOVARTIS AG-ADR	NVS	67,000	\$4,885,532	3.00%	0.32%	0.00%	71.24	73.65	3.38%	3.25%
MICROSOFT CORP	MSFT	165,000	\$4,836,676	2.97%	0.31%	0.00%	28.61	28.97	1.26%	1.12%
TOP TEN HOLDINGS			\$54,164,262	33.26%	3.50%	9.10%	Russell 1000 Value:		<b>0.14%</b>	

Total Portfolio Value

**\$162,851,058**

Total StanCERA Value

\$1,547,300,304

## STANCERA

## Price Monitor Position Report

Legato Capital Management

Active US Small Cap Growth Manager

Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000G	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
Ultimate Software Group Inc.	ULTI	9,000	\$937,440.00	1.31%	0.06%	0.43%	104.16	97.65	-6.25%	-3.27%
Beacon Roofing Supply Inc.	BECN	21,940	\$848,200.40	1.19%	0.05%	0.28%	38.66	35.84	-7.29%	-4.31%
Portfolio Recovery Associates Inc.	PRAA	6,371	\$808,607.32	1.13%	0.05%	0.33%	126.92	120.47	-5.08%	-2.10%
Triumph Group Inc.	TGI	10,141	\$796,068.50	1.12%	0.05%	0.00%	78.50	78.61	0.14%	3.12%
CoStar Group Inc.	CSGP	7,184	\$786,360.64	1.10%	0.05%	0.47%	109.46	109.07	-0.36%	2.63%
Semtech Corp.	SMTC	22,011	\$779,189.40	1.09%	0.05%	0.36%	35.40	32.81	-7.32%	-4.33%
Health Management Associates Inc. Cl A	HMA	59,624	\$767,360.88	1.08%	0.05%	0.00%	12.87	10.74	-16.55%	-13.57%
Encore Capital Group Inc.	ECPG	25,262	\$760,386.20	1.07%	0.05%	0.08%	30.10	28.12	-6.58%	-3.60%
Fresh Market Inc.	TFM	16,106	\$688,853.62	0.97%	0.04%	0.00%	42.77	40.39	-5.56%	-2.58%
Maximus Inc.	MMS	8,467	\$677,105.99	0.95%	0.04%	0.42%	79.97	76.07	-4.88%	-1.89%
TOP TEN HOLDINGS			\$ 7,849,572.95	11.01%	0.51%	2.37%	Russell 2000 Growth:		<b>-2.98%</b>	

Total Portfolio Value

**\$71,337,759**

Total StanCERA Value

\$1,547,300,304

STANCERA  
Price Monitor Position Report

BNY - S&P 500 Index  
Passive S&P 500 Index Fund  
Positions as of March 31, 2013

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	3/31/2103 \$ PX	4/16/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	5,293	\$2,342,967	2.85%	0.15%	442.66	426.24	-3.71%	-4.05%
Exxon Mobil Corp	XOM	25,545	\$2,301,862	2.80%	0.15%	90.11	86.61	-3.88%	-4.23%
General Electric Co	GE	60,804	\$1,405,780	1.71%	0.09%	23.12	23.10	-0.09%	-0.43%
Johnson & Johnson	JNJ	16,637	\$1,356,455	1.65%	0.09%	81.53	83.44	2.34%	2.00%
Chevron Corp	CVX	11,347	\$1,348,234	1.64%	0.09%	118.82	117.01	-1.52%	-1.87%
Intl Business Machines Corp	IBM	6,128	\$1,307,129	1.59%	0.08%	213.30	212.00	-0.61%	-0.95%
Pfizer	PFE	45,007	\$1,298,908	1.58%	0.08%	28.86	30.94	7.21%	6.86%
Procter & Gamble	PG	16,749	\$1,290,687	1.57%	0.08%	77.06	80.10	3.94%	3.60%
Microsoft	MSFT	44,826	\$1,282,466	1.56%	0.08%	28.61	28.97	1.26%	0.92%
Google Inc.	GOOG	1,563	\$1,241,362	1.51%	0.08%	794.19	793.37	-0.10%	-0.45%
TOP TEN HOLDINGS			\$15,175,850	18.46%	0.98%	S&P 500 Index:		<b>0.34%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$82,209,372</b>
---------------------

\$1,547,300,304



STANCERA  
Price Monitor Position Report

LSV Asset Management  
International Large Cap Value  
Positions as of March 31, 2013

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	3/31/2103 \$ PX*	4/16/2013 \$ PX*	Position % Change	Relative % Change
ROYAL DUTCH SHELL	RDS/A	London	47,723	\$3,109,610	2.32%	0.20%	1.28%	65.16	65.02	-0.21%	-0.42%
SANOFI S.A.	SNY	Paris	60,615	\$3,096,206	2.31%	0.20%	0.75%	51.08	54.37	6.44%	6.23%
ASTRAZENECA PLC	AZN	London	47,736	\$2,385,821	1.78%	0.15%	0.38%	49.98	51.12	2.28%	2.07%
CHINA PETROLEUM&CHEMICAL CORP	SNP	Hong Kong	17,540	\$2,050,734	1.53%	0.13%	0.14%	116.92	110.00	-5.92%	-6.13%
ALLIANZ SE	ALV.DE	Germany	17,838	\$1,889,892	1.41%	0.12%	0.38%	105.95	107.20	1.18%	0.97%
OLD MUTUAL PLC	OML.L	London	8,993	\$1,822,875	1.36%	0.12%	0.09%	202.70	199.50	-1.58%	-1.79%
BT GROUP PLC	BT	London	43,052	\$1,809,471	1.35%	0.12%	0.20%	42.03	42.28	0.59%	0.38%
SWISS RE LTD	SR9.SG	Germany	27,749	\$1,769,261	1.32%	0.11%	0.18%	63.76	59.11	-7.29%	-7.50%
LEGAL & GENERAL GROUP PLC	LGEN.L	London	10,523	\$1,755,857	1.31%	0.11%	0.10%	166.86	162.51	-2.61%	-2.82%
BASF SE	BAS.DE	Germany	24,916	\$1,702,243	1.27%	0.11%	0.50%	68.32	68.12	-0.29%	-0.50%
TOP TEN HOLDINGS				\$21,391,972	15.96%	1.38%	4.00%	MSCI ACWI ex-U.S.		<b>0.21%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$134,034,910</b>
----------------------

\$1,547,300,304

\*Company quotes are provided directly in USD

STANCERA  
Price Monitor Position Report

Pyramis Global Advisors  
Active Non-US Growth Manager  
Positions as of March 31, 2013

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	3/31/2103 PX*	4/16/2013 PX*	Position % Change	Relative % Change
NESTLE SA (REG)	7123870	Switzerland	31129	\$2,255,935	1.61%	0.15%	1.42%	72.50	69.20	-4.55%	-4.76%
SANOFI	5671735	Paris	19348	\$1,968,754	1.41%	0.13%	0.74%	79.27	82.35	3.89%	3.68%
HSBC HOLDINGS PLC (UK REG)	540528	London	169274	\$1,805,032	1.29%	0.12%	1.19%	10.67	10.29	-3.54%	-3.75%
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	55239	\$1,786,161	1.28%	0.12%	1.26%	32.35	30.97	-4.28%	-4.49%
ROCHE HLDGS GENUSSSCHEINE	7110388	Swiss	6689	\$1,560,538	1.12%	0.10%	0.99%	233.38	240.10	2.88%	2.67%
BAYER AG	5069211	Germany	13792	\$1,424,650	1.02%	0.09%	0.52%	103.33	104.24	0.88%	0.67%
VODAFONE GROUP PLC	B16GWD5	London	486838	\$1,378,937	0.99%	0.09%	0.85%	2.83	2.88	1.77%	1.56%
BRITISH AMER TOBACCO PLC (UK)	287580	London	24200	\$1,295,594	0.93%	0.08%	0.63%	53.56	53.62	0.11%	-0.10%
BP PLC	798059	London	185066	\$1,291,928	0.92%	0.08%	0.81%	6.98	6.76	-3.11%	-3.32%
SAP AG	4846288	Germany	16069	\$1,289,185	0.92%	0.08%	0.45%	80.26	76.51	-4.68%	-4.89%
TOP TEN HOLDINGS				\$16,056,714	11.73%	1.04%	8.84%	MSCI ACWI ex-US:		<b>0.21%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$139,862,961**  
\$1,547,300,304

\*Company quotes are provided in foreign currency and then converted to USD

Subsequent to the April 10, 2013 Board Meeting, the following questions were raised that were answered by Medley Capital:

Paul,

In response to your questionnaire. Please find below questions and answers from the StanCERA Board member that were raised this morning.

1. Confirmation of this being a final closing?

Yes, this is the final closing.

2. Who are the other partners (LPs) of Medley Opportunity Fund that you are able to share with us?

Please see attached list of investors.

3. Please confirm if whether any other Medley entities outside of individual employees are partners of MOF II? That is, is the listed NYSE stock an investor (MCC)? Is MOF I an investor? **None.**

4. Investment approval process including a formal memorandum on each investment. Are these memo accessible to the LPs?

All investment memos, in addition to the full investment diligence and legal documentation, are available to LP's upon request with reasonable notice.

5. How does one price the "true up" of StanCERA as a final closing LP vs. earlier LPs? Is there a premium to be paid? How is that determined and what is that rate?

The True-up is "priced" based upon the required capital contribution as if the subsequent LP were an investor from Day 1. There is no premium paid, (or discount) unless the General Partner has determined that there has been a "material discount" or a "significant event" relating to the respective investment.

As of 12/31/12, the total portfolio was fair valued at 100.6% of cost and there were no material or significant events that would require adjustments to the true-up contribution. Therefore, the expectation is that the final closing investors true-up capital contribution will be done at cost.

The relevant section is in the LPA, section 2.5(b).

6. Please confirm if we are going into a "Cayman Islands" fund? What exactly does that mean and what are the ties to the Cayman Islands if that is the type of fund we are going into? Being a California account we are tax-exempt.

No offshore account.

7. Can you list all of the Medley Corporations and how they tie to one another? MCC, feeder funds into I and II, onshore and offshore, etc. Any type of chart diagramming MOF II would be helpful.

Please see attached Organization chart.

Please let me know if you have any further questions. Thank you for your support.

Take care,

Scott

Scott von Stein

Consultant is satisfied that all of the issues and questions raised by the StanCERA Board have been answered in a satisfactory way. StanCERA shall proceed with their \$30 million commitment and sign the appropriate subscription documents.



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

**For the Retirement Board meeting  
Held on April 23, 2013**

4/23/13  
Item# 10.a.i

TO: Internal Governance Committee  
Chair: Maria DeAnda, Joan Clendenin and Donna Riley

FROM: Luiana Irizarry

- I. SUBJECT: Actuarial Audit Services
- II. RECOMMENDATION: Hire *The Segal Company* on a temporary basis to perform the Audit of the 2012 Actuarial Valuation and 2009-2012 Experience Study
- III. ANALYSIS: StanCERA has recently received communications (attachment A) that Milliman will be unable to perform the actuarial audit for StanCERA's 2012 Actuarial Valuation and 2009-2012 Experience Study due to certain internal risk management requirements. This assignment would have been the last audit Milliman would complete prior to StanCERA placing a Request for Proposal (RFP) for another actuarial audit firm.

Staff recently spoke to the Segal Company regarding their ability to complete this project on time and at around the same cost quoted by Milliman. In the past, The Segal Company conducted a similar review of StanCERA's data and they are confident in their ability to complete this task at around the same time and price as Milliman would have. Should the Committee agree to engage Segal in this project, staff will secure a firm bid and projected completion date and seek the Committee's assistance if those terms appear to be unreasonable.

Upon completion of the above audit, staff intends to conduct an RFP, at its regularly scheduled time, and bring back to committee for evaluation and selection of the next contracted Actuarial firm.

- IV. RISK: None
- V. STRATEGIC PLAN: Goal 1, Strategy C: Investment Information. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.
- IV. BUDGET IMPACT: None

Luiana Irizarry, Investment/Accounting Technician

Rick Santos, Executive Director



1301 Fifth Avenue  
Suite 3800  
Seattle, WA 98101-2605  
USA

Tel +1 206 624 7940  
Fax +1 206 623 3485

milliman.com

April 16, 2013

**Via E-Mail Only**

Mr. Rick Santos  
Executive Director  
StanCERA  
832 12th Street, Suite 600  
Modesto, CA 95353

Re: Actuarial Audit

Dear Rick:

Per our discussion, Milliman will be unable to perform the actuarial audit of the most recent actuarial experience study and actuarial review for StanCERA. Milliman has certain internal risk management requirements designed to protect the viability of our firm and our continuing ability to provide the highest quality consulting advice to our clients. Due to the on-going litigation against StanCERA's prior actuary, both by StanCERA and related outside parties, this project does not meet our internal risk assessment guidelines.

I apologize for any inconvenience. If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Nick Collier".

Nick J. Collier, ASA, EA, MAAA  
Consulting Actuary

NJC/nlo



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
P O Box 3150  
Modesto, CA 95353-3150

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

**April 23, 2013 Board of Retirement Meeting**

4/23/13

Item# 11.a

TO: The Board of Retirement  
FROM: Kathy Herman, Operations Manager

- I. SUBJECT:** Presentation of StanCERA's Draft Fiscal Year 2013-2014 Administrative Budget (**Attachment I**)
- II. RECOMMENDATION:** Direct Staff to finalize the Administrative Budget for review and action on the June 12, 2013 meeting.
- III. ANALYSIS:**

Please find attached the Draft Fiscal Year 2013-2014 (FY13/14) StanCERA Administrative budget figures. The Fiscal Year 2013-2014 budget includes expenditure for multiple law-suits a Strategic Planning Facilitator as well as increased costs in insurance.

**Review of the Current Year's (FY 2012-2013) Administrative Budget and Expenditures**

Total estimated expenditures are in line with the original budget. Staffing changes continued into the year with the retirement of the Executive Assistant and the transfer of the Retirement Accountant to another department. Training and transition of staff will continue into the next fiscal year. The pension reform act signed into law in September added additional workload as well expenses, fortunately staff was able to stay within the budget.

\$111,000 has already been spent on current litigation issues this year. These open lawsuits are driving up other legal fees as well.

Utilities rose during the fiscal year and were adjusted by the County. Staff continued to be cautious with office supplies, software and equipment purchases. Travel and education costs for Retirement Board members and staff were well below the budgeted amounts.

12<sup>th</sup> Street security costs were higher than expected due to off-hour construction monitoring.

**FY 2013 – 2014 Budget Limitation**

Government Code section 31580.2 within the 1937 Act was amended effective January 1, 2011 to allow for expenditures for administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability or \$2,000,000. The accrued actuarial liability of StanCERA as of June 30, 2012 was \$1,888,713,204. The total accrued actuarial liability of 0.21% is \$3,966,298. We have shown the costs related to the IT Coordinator, computer technology software, hardware and consulting services separately in this budget (see "Budget Code Section 31580.2 (2)(b)" column in **Attachment I**.

## ANALYSIS CONT.

### **FY 2013 – 2014 Administrative Budget Request**

A total of \$2,392,870 is requested for all administrative expenses in FY13/14 including costs related to computer technology. The total of administrative expenses (excluding computer technology costs) of \$2,109,363 is 0.11% of the accrued actuarial liability as of June 30, 2012, below the 0.21% legal limit. The 6<sup>th</sup> Floor lease revenue will offset increased 6<sup>th</sup> floor expenses.

Salaries include eleven full-time staff and one part-time or extra help staff. See **Attachment II** for the organizational chart. Ten full-time staff members will take a **6% deduction** in pay for the fiscal year. **Excluded** now for three years are bonuses, professional development and other items relating to compensation that are in line with Stanislaus County personnel policies.

The budget for Employee Benefits will not decrease. Retirement and health care cost are increasing again in Fiscal Year 2013-2014.

We are budgeting \$10,000 for Computer Software Support, which are in line with last year's expenditures. The contractual costs for annual maintenance \$44,100 and disaster recovery \$11,025 with Tyler Technologies for our pension system are included.

The estimated legal costs include \$65,000 for Disability Counsel, \$150,000 for General Legal Counsel based on current expenditure levels, \$125,000 to continue the O'Neal vs StanCERA lawsuit, \$50,000 to continue the Nasrawi vs StanCERA lawsuit, and another \$50,000 to pursue another lawsuit. This is an increase of \$35,000.

Costs related to the processing of disability retirement applications (medical exams, hearing costs, etc.) are anticipated to be around \$35,000 for the year, in line with last year's budgeted amount. Staff continues to explore different options to decrease the turnaround time for disability claims while maintaining costs.

The SBT (additional IT support) budgeted amount, \$25,837, is provided by SBT and we anticipate that this figure provided for FY 13/14 is within a reasonable range of costs at this time. The breakout of amounts includes the \$4,768 for telecommunications and \$21,069 for computer-related services.

The budgeted amount for Other Professional Services of \$40,000 is to cover the cost of the Strategic Planning Facilitator, and any possible expenses related to a Custody Bank search.

The \$10,000 amount budgeted for office supplies is in line with this years estimated expenditures.

We regularly budget \$6,000 each year for the replacement of personal computers or other computer equipment and supplies to keep staff current with modern technology consistent with the Retirement Board's Strategic Plan goal.

The estimated amount budgeted for Central Services & Mail Room is provided by Stanislaus County. The services include auditor (payroll and disbursement), purchasing, risk management (safety and insurance programs) and personnel (recruitment and policy).



## **ANALYSIS CONT.**

### **FY 2013 – 2014 Administrative Budget Request- Cont.**

The amounts budgeted for the 12<sup>th</sup> Street janitorial, maintenance and utilities is projected by the County. These “12<sup>th</sup> Street” costs include only building common areas. Janitorial, maintenance and utilities costs for the entire 6<sup>th</sup> floor are now recognized in its appropriate account. 12<sup>th</sup> street utilities were expected to go up now that the entire building is occupied.

The Other County Services (A-87) budget is provided by the County to true up capital charges and costs from the previous year.

The Contract Services budget of \$14,378 includes services related to confidential shredding, alarm service and web site services.

This year we are segregating 12<sup>th</sup> Street Security. It was previously included with other 12<sup>th</sup> street charges.

The 6<sup>th</sup> Floor budget of \$20,000 includes the costs of regular janitorial services provided by United Building Services, some potential for extraordinary cleaning that may be needed (e.g. carpet cleaning or window washing) as well as additional cost due to the lease of the vacant space. This budget item will ultimately be offset by the estimated lease revenue of \$52,346.

We have budgeted for Communications and Printing a total of \$36,496 which includes payroll advice notices, the Popular Annual Financial Report, semi-annual member statements, two elections and distribution of StanCERA’s newsletter via U.S. Postal services to active members (employees). Payroll distribution is no longer an option for active members.

Publications include mostly the Wall Street Journal (WSJ) subscriptions but can also include SACRS materials such as 1937 Act law manuals or other publications. A budgeted amount of \$2,500 is in line with this fiscal year’s estimated expenditures.

Copier Expenses of \$15,000 are being budgeted separately. This includes leases, maintenance and supplies.

The Other Office Expense budgeted at \$16,000 for FY13/14 no longer includes copier expenses. It does include document storage expenses as well as other items needed for securing critically important historical documents such as Retirement Board minutes in paper format as well as electronically.

Trustee and Staff education continues to be a priority. With StanCERA’s needs for education in investment, tax, actuarial and benefits arenas, maintaining this budget allows for Board members and staff to receive appropriate training and is in line with the Retirement Board’s Strategic Plan goal to keep current and up to date.

The Meeting Allowance budget has been raised to \$21,840 for FY 2013 – 2014 to reflect the actual costs experienced this past fiscal year with some allowance for additional special meetings.

## **ANALYSIS CONT.**

### **FY 2013 – 2014 Administrative Budget Request – Cont.**

The \$58,316 budgeted for Insurance includes the estimated cost of Automobile Liability, General Liability and Fiduciary insurances in FY 2013 – 2014. The Fiduciary Insurance annual coverage cost will increase. It will be based on the 6/30/2012 fund balance and past experience.

The costs of Memberships (SACRS, CALAPRS and NCPERS) seem to have leveled out and the budgeted amount of \$10,000 reflects the estimated expenditures for FY 2012-2013.

The depreciation of \$188,463 includes depreciation of the Tyler computer project of \$125,625, the condominium interest (office) of \$42,030 and various pieces of office and recording equipment of \$5,835. In addition, \$15,273 is also being included for deprecation on tenant improvements reflected in the 6/30/2012 Comprehensive Annual Financial Report.

Section 31596.1 of the CERL states that the following expenses shall not be considered a cost of administration of the retirement system, but shall be considered as a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the Board. These expenses are reported in the Audited financial statements presented to the Board of Retirement in the Comprehensive Annual Financial Report.

- Actuarial Fees
- Investment Consultant Fees
- Attorney Fees –directly related to an investment
- Investment Manager Fees
- Custodial Bank Fees

## **IV. RISK:**

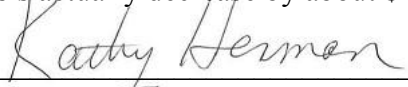
Government Code section 31580.2 allows for expenditures for administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability or \$2,000,000. In FY13/14, we continue to exercise prudence in budgeting administrative expenses and are submitting a budget which is only 0.11% of the accrued actuarial liability and well below the allotted legal amount.

## **V. STRATEGIC PLAN:**

Goal 3 – StanCERA will maintain excellence in governance and customer service through continuous organizational improvement.

## **VI. BUDGET IMPACT:**

Overall, the draft budget on an expense basis will increase by \$12,887 whereas on a cash flow basis actually decrease by about \$10,873 from Fiscal Year 2012-2013.

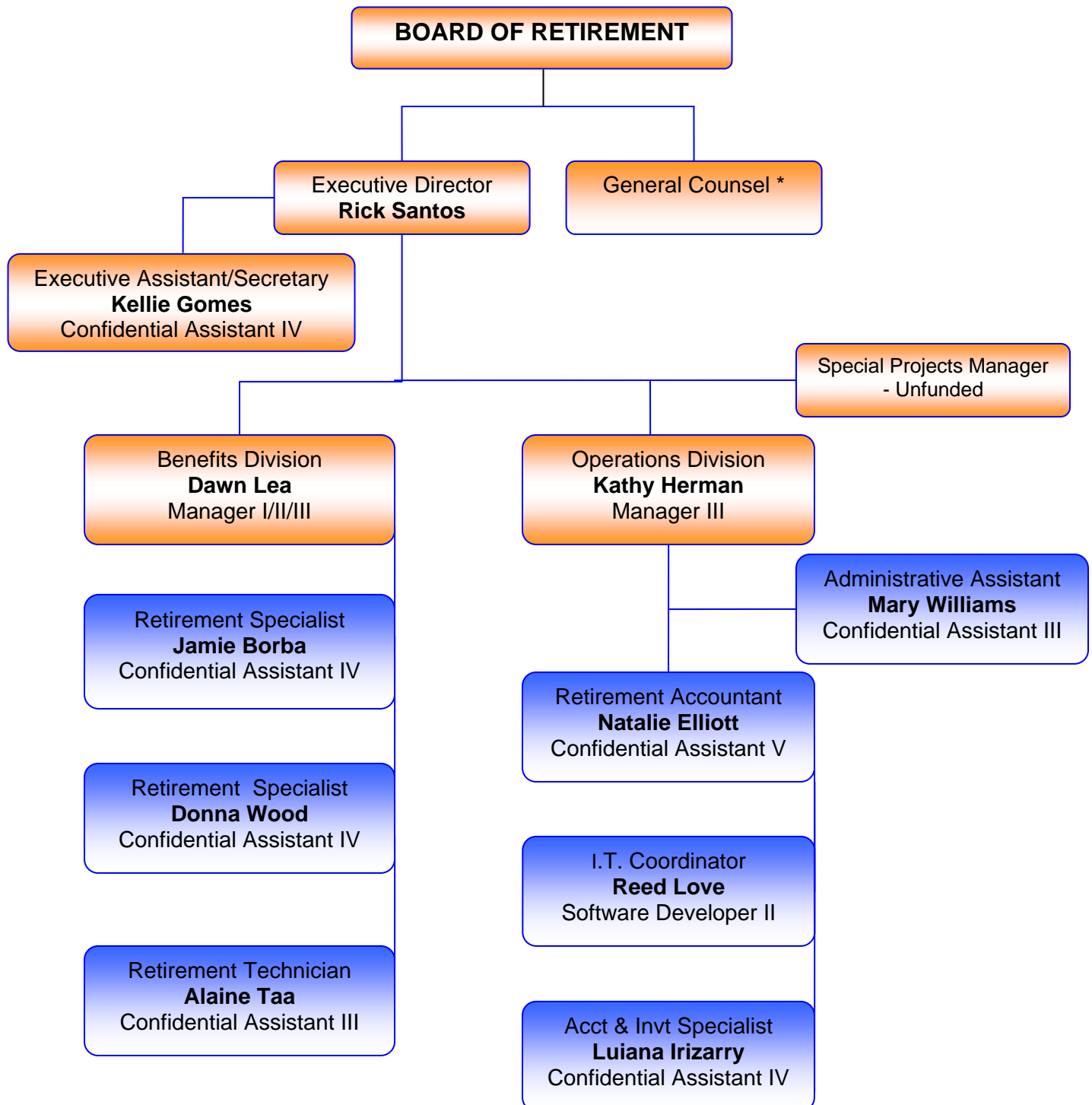
  
Kathy Herman, Operations Manager

  
Rick Santos, Executive Director

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION FISCAL YEAR 2013-2014 DRAFT ADMINISTRATIVE BUDGET						
FUND/ORG: 6100/0064410		FY 12/13 Budget Including I.T.	FY 12/13 ESTIMATED	FY 13/14 BUDGET REQUEST	CODE SECTION 31580.2(2)(b)	TOTAL
ACCT	DESCRIPTION					
EXPENDITURES:						
SALARIES & BENEFITS						
745201	SALARIES AND WAGES	738,718	707,630	750,087		750,087
745202	EMPLOYEE BENEFITS	381,121	329,219	355,556		355,556
745203	I.T. Specialist	102,046	66,997		71,687	71,687
SALARIES & FRINGE TOTAL		1,221,885	1,036,848	1,105,644	71,687	1,177,331
SERVICES & SUPPLIES						
745211	COMPUTER SOFTWARE SUPPORT	10,000	9,824		10,000	10,000
745211a	ANNUAL TYLER MAINTENANCE	42,000	38,988		44,100	44,100
745211b	ANNUAL TYLER DISASTER MAINT.	10,500	10,129		11,025	11,025
745213	Outside Legal Counsel					
745213a	Legal Counsel - Disability	65,000	54,518	65,000		65,000
745213b	Legal Counsel - O'Neil vs StanCERA	200,000	75,722	125,000		125,000
745213c	Legal Counsel - General	150,000	122,289	150,000		150,000
745213d	Legal Counsel - Nasrawi vs Stancera	0	51,860	50,000		50,000
745213e	Legal Counsel - StanCERA vs Buck		27,632	50,000		50,000
745214	MEDICAL EXAMS, REVIEWS, HEARINGS	35,000	6,060	30,000		30,000
745215	STANCO SBT DEPT	21,099	18,891	4,768	21,069	25,837
745216	OTHER PROFESSIONAL SERVICES	10,000	1,115	40,000		40,000
745231	OFFICE SUPPLIES	14,000	8,941	10,000		10,000
745232	EQUIPMENT & COMPUTER SUPPLIES	6,000	4,890	6,000		6,000
745233	CENTRAL SERVICES & MAIL ROOM	35,620	33,245	37,500		37,500
745234	12th Street - County Projections					
745234a	12th Street Janitorial	1,200	449	1,200		1,200
745234b	12th Street Maintenance	24,127	29,180	30,000		30,000
745234c	12th Street Utilities	36,414	32,334	39,967		39,967
745234d	Other County Services ( A-87)	6,583	14,016	14,717		14,717
745234e	12th Street Security		19,238	20,200		20,200
						-
745235	Contract Services	45,000	13,693	14,378		14,378
745236	6th Floor Maint, Janitorial, etc. (RJ)	54,618	38,663	20,000		20,000
745237	Communications & Printing	31,500	34,758	36,496		36,496
745238	Publications	2,500	2,241	2,500		2,500
745239	Other Office Expense	25,000	16,230	16,000		16,000
745239a	Copier Expenses		14,138	15,000		15,000
745250	Fiduciary Travel	30,000	16,734	30,000		30,000
745251	Fiduciary Education	27,910	4,761	20,000		20,000
745252	Staff Education & Travel	22,000	10,592	22,000		22,000
745253	Fiduciary Meeting Allowance	16,000	20,800	21,840		21,840
745254	Insurance	52,537	52,537	58,316		58,316
745255	Memberships	10,000	9,348	10,000		10,000
745299	Depreciation	173,491	171,715	62,838	125,625	188,463
SERVICES & SUPP. TOTAL		1,158,099	965,533	1,003,720	211,819	1,215,539
TOTAL BUDGET		2,379,983	2,002,382	2,109,363	283,506	2,392,870
PERCENTAGE OF MAXIMUM		56%	54%	53%	N/A	60%
MAXIMUM ALLOWABLE = BASED ON 0.21% (.0021 or 21 bp) OF ACTUARIAL ACCRUED LIABILITY		3,691,207 1,757,717,511		3,966,298 1,888,713,204		
Valuation Year ACTUAL BASIS POINTS		6/30/11 0.11%		06/30/12 0.11%		
6th Floor Lease Revenue		43,618	50,091	52,346		52,346
CAPITAL EXPENDITURES						
84420	COMPUTER / AV EQUIPMENT	7,000	0	7,000		7,000
84790	SOFTWARE DEVELOPMENT (Tyler)	0	0	0	0	0
TOTAL CAPITAL EXPENDITURES		7,000	0	7,000	0	7,000
TOTAL CASH OUT-FLOW (excludes depreciation)		2,169,874	1,780,576	2,001,180	157,881	2,159,061

**ORGANIZATIONAL CHART**

Effective 2013



\* Retirement Board utilizes private general legal counsel for administrative legal services.  
Private attorneys provide legal assistance for disability retirement applications.



STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

For the Retirement Board meeting  
Held on April 23, 2013

4/23/13  
Item #11c

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Bonds and Pension Liabilities – Session 1 of 2
- II. RECOMMENDATION: None
- III. ANALYSIS: Today's presentation attempts to set the stage for determining *when* an appropriate or optimal time may be for the Organization to begin reducing pension risk. As such, this study session focuses on how interest rates and fixed income (bonds) play an important role in that decision. Today's session is the first of two. While the concepts discussed today are very basic, if an Organization were to ever undertake funding policies that differ from traditional views, it is essential that the entire Organization understand and support these principles. Session 1 will focus on the following:

- What is a bond?
- What risks exist by investing in bonds?
- Do these risks even matter for pension plans?
- What can be done to reduce/eliminate pension risk?
- What does it cost to reduce/eliminate pension risk?

As this presentation will show, current market conditions make it difficult for public pension plans to begin addressing and eliminating pension risk. However, it will be shown that there have been opportunities in the past where market conditions have been quite favorable.

Staff will be presenting another session in the near future that will focus on the following:

- What are optimal market conditions for StanCERA that would make de-risking the pension plan an attractive opportunity?
- How does StanCERA explain these opportunities to our plan sponsors?
- External obstacles that may impede the decision to de-risk

- IV. RISK: None
- V. STRATEGIC PLAN: Goal 1, Strategy C: Investment Information. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.
- VI. BUDGET IMPACT: None

Rick Santos, Executive Director

# Bonds and Pension Liabilities Session 1

StanCERA Study Session

April 23, 2012

# Session 1 Questions/Topics

- What is a bond?
- Relationship between bond price and interest rates
- What is interest rate risk?
- Why pension plans take on interest rate risk
- How bonds can be used to eliminate pension risk
- The cost to eliminate pension risk
- Session 2 topics

# A Bond

- An asset that pays a fixed series of cash flows at known points in time in the future

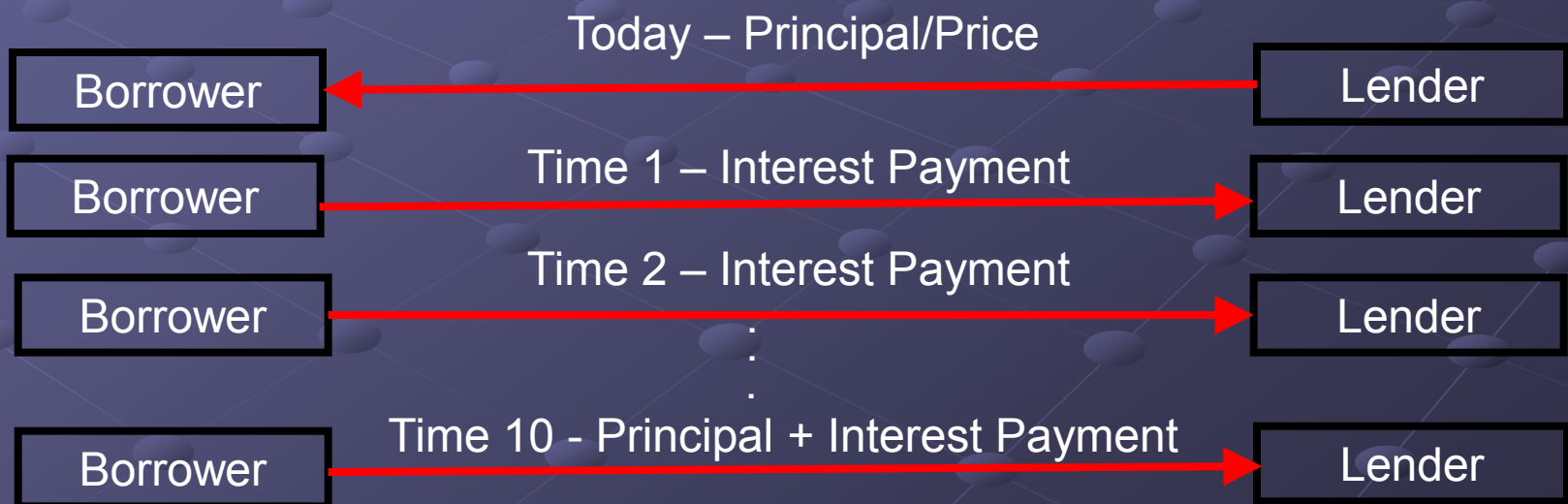
## Bond Cash Flow Schedule

<u>Time</u>	<u>Cash Flow</u>
7/1/2013	\$25,000
1/1/2014	\$25,000
7/1/2014	\$25,000
1/1/2015	\$25,000
7/1/2015	\$25,000
1/1/2016	\$25,000
7/1/2016	\$25,000
1/1/2017	\$25,000
7/1/2017	\$25,000
1/1/2018	\$1,025,000



# A Bond

- Borrower (seller) receives set principal/price up front
- Lender (investor) is entitled to a fixed series of cash flows at known intervals



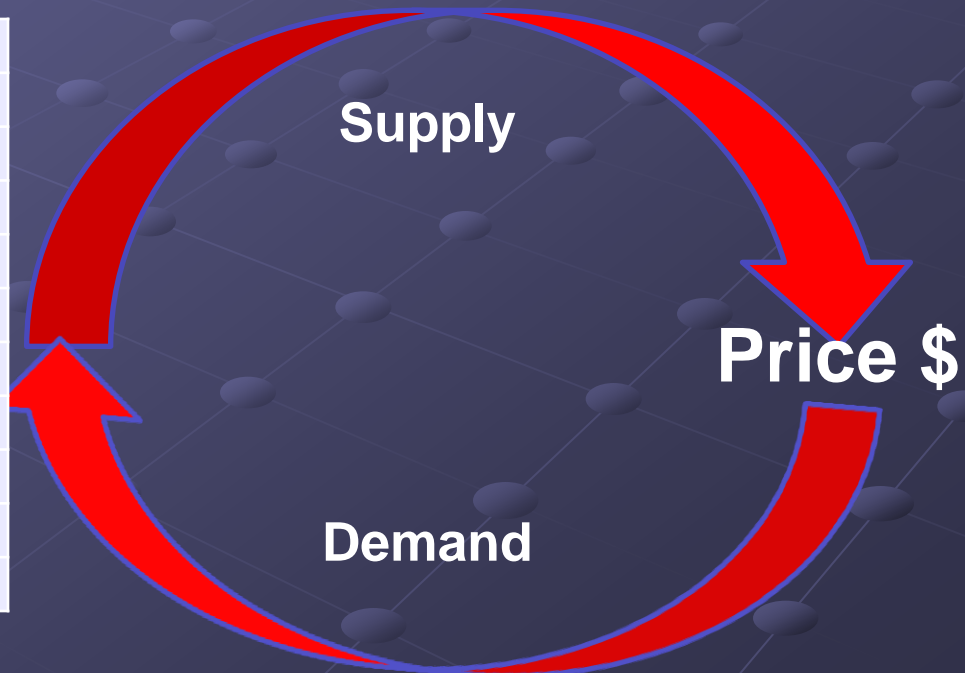
# A Bond

- Series of cash flows is a commodity or good that has a price determined by supply and demand

## Asset

<u>Time</u>	<u>Cash Flow</u>
7/1/2013	\$25,000
1/1/2014	\$25,000
7/1/2014	\$25,000
1/1/2015	\$25,000
7/1/2015	\$25,000
1/1/2016	\$25,000
7/1/2016	\$25,000
1/1/2017	\$25,000
7/1/2017	\$25,000
1/1/2018	\$1,025,000

## Market Forces



# A Bond

- The more an investor is willing to pay for the future cash flows, the lower his return

## Asset

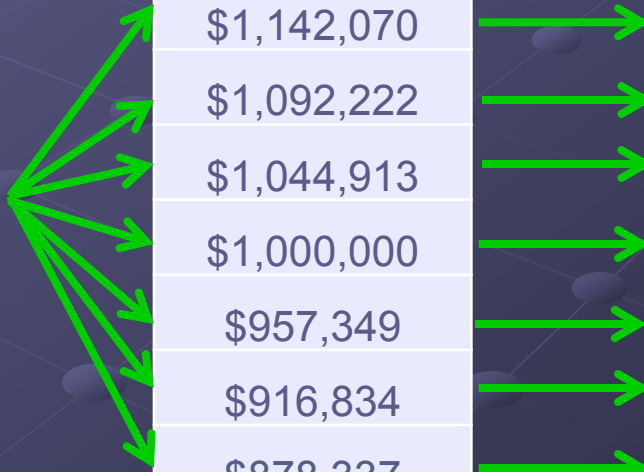
<u>Time</u>	<u>Cash Flow</u>
7/1/2013	\$25,000
1/1/2014	\$25,000
7/1/2014	\$25,000
1/1/2015	\$25,000
7/1/2015	\$25,000
1/1/2016	\$25,000
7/1/2016	\$25,000
1/1/2017	\$25,000
7/1/2017	\$25,000
1/1/2018	\$1,025,000

## Markets

<u>Price</u>
\$1,142,070
\$1,092,222
\$1,044,913
\$1,000,000
\$957,349
\$916,834
\$878,337

## Yield

<u>Return or Yield</u>
2.0%
3.0%
4.0%
5.0%
6.0%
7.0%
8.0%



# Relationship Between Bond Price and Interest Rates

## ● Inverse

- Higher price = Lower return
- Lower price = Higher return

Interest Rates and Bond Prices



# Bond Price and Interest Rates

## Example 1

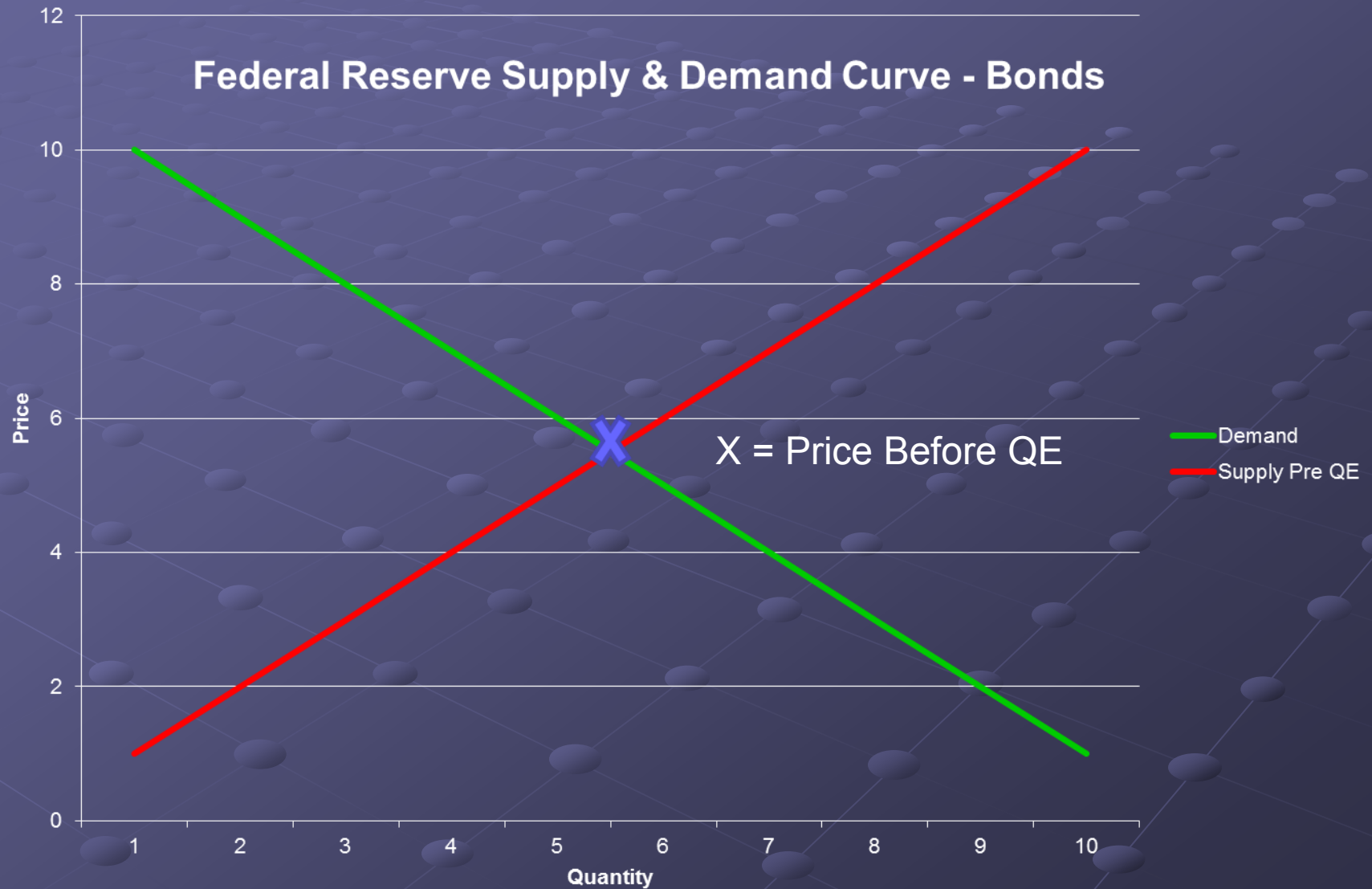
### ● Federal Reserve Bond Buying Program – Quantitative Easing (QE)

1. Spur economic growth by keeping interest rates low
2. Buy bonds in the open market decreasing supply
3. Investors bid up the price to compete for the remaining bonds
4. An investor willing to pay a higher price for the same bond, will realize reduced returns



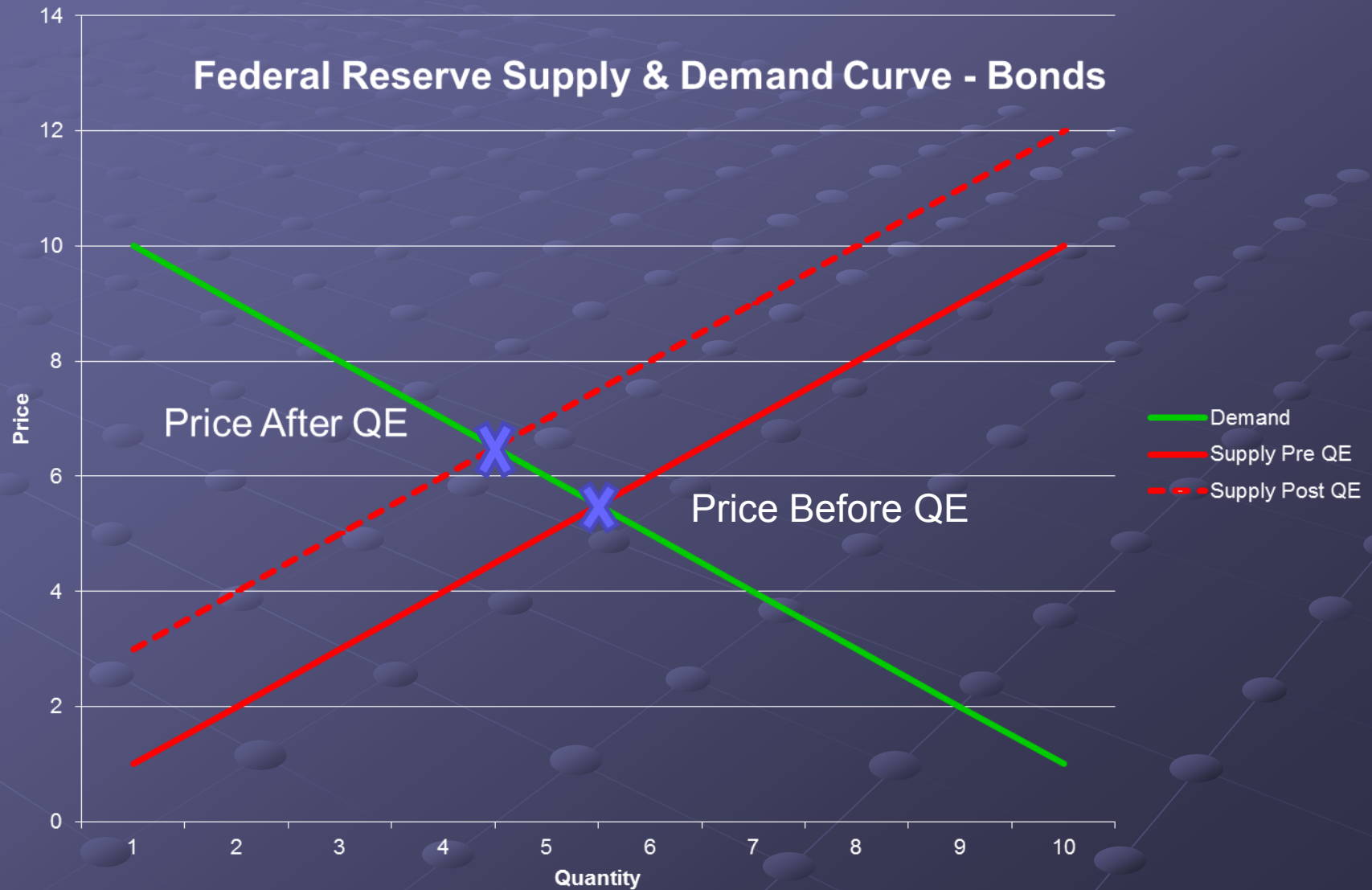
# Bond Price and Interest Rates

## *Before QE*



# Bond Price and Interest Rates

## *Post QE*



# Bond Price and Interest Rates

## Example 2

### ● Assume:

- Investor holds XYZ bond that pays 6%
- XYZ announces accounting scandal
- Quality of future earnings is diminished

### ● Result:

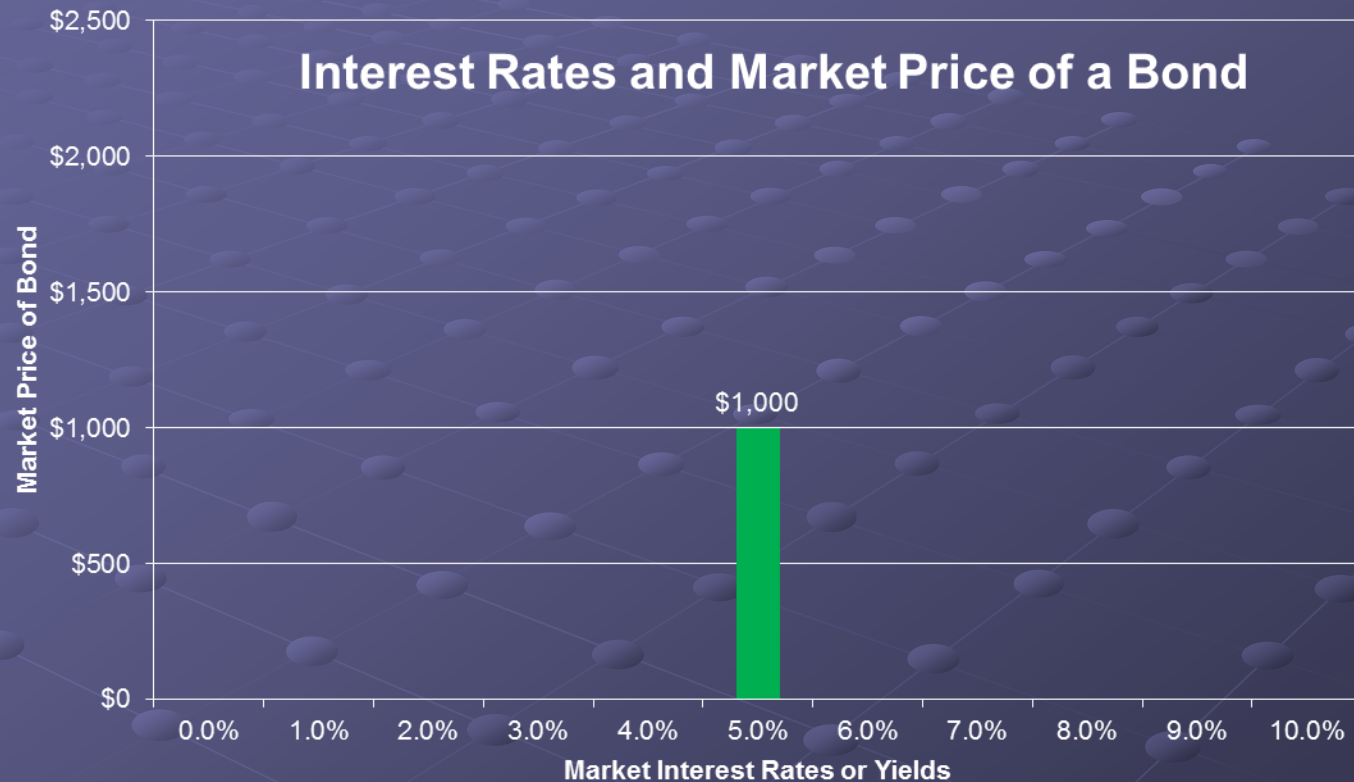
- Some investors may want to sell that bond
- Supply increases
- Market bids down the price of the cash flows
- New buyers realize higher returns



# Interest Rate Risk

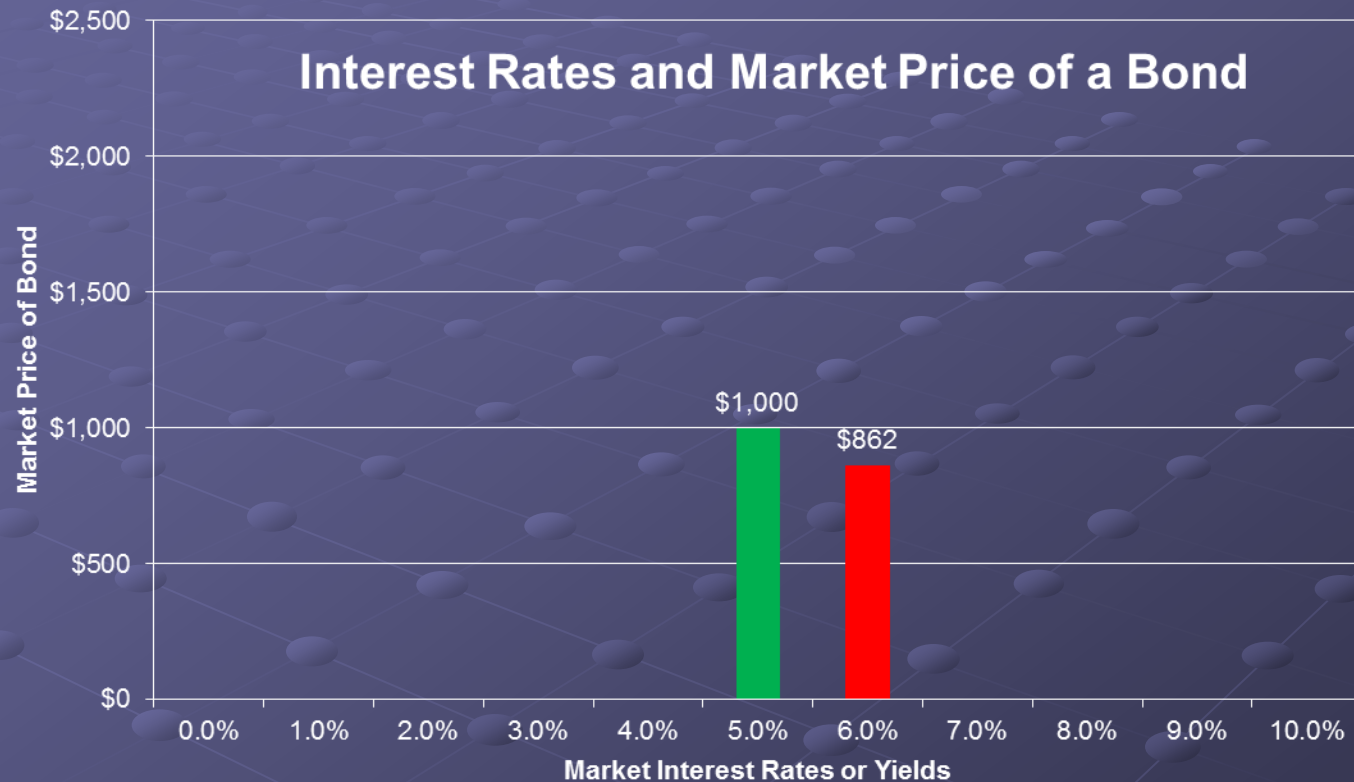
- Investor can buy a bond with the intent of selling before maturity
- Interest Rate Risk
  - Unknown future cash flows
    - Unless investor knows future sale date, cash flows received are unknown
  - Bond price at sale date
    - Doesn't know how markets will change
  - Without knowing sale date and price changes, future return is unknown

# Interest Rate Risk



● Purchase a bond that yields 5%

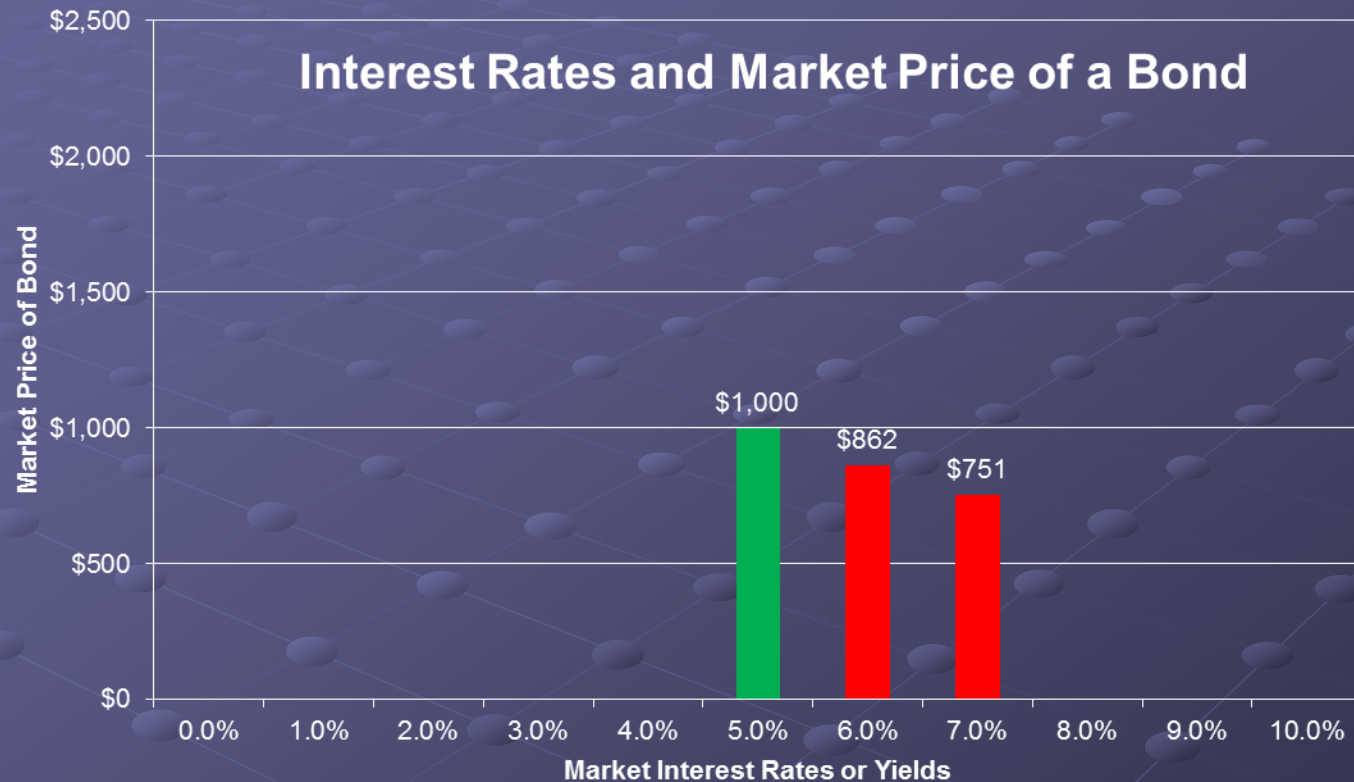
# Interest Rate Risk



● Rates increase to 6%

● Loss = \$138

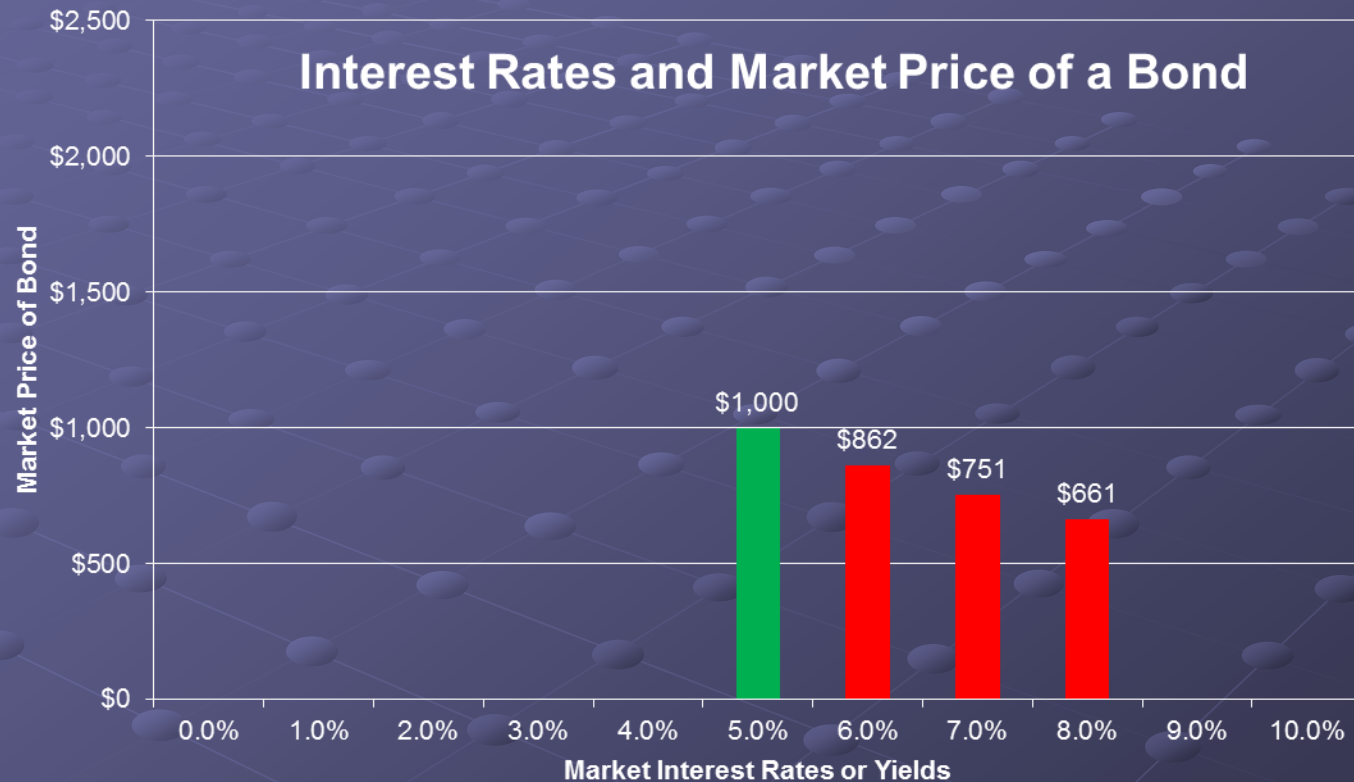
# Interest Rate Risk



● Rates increase to 7%

● Loss = \$249

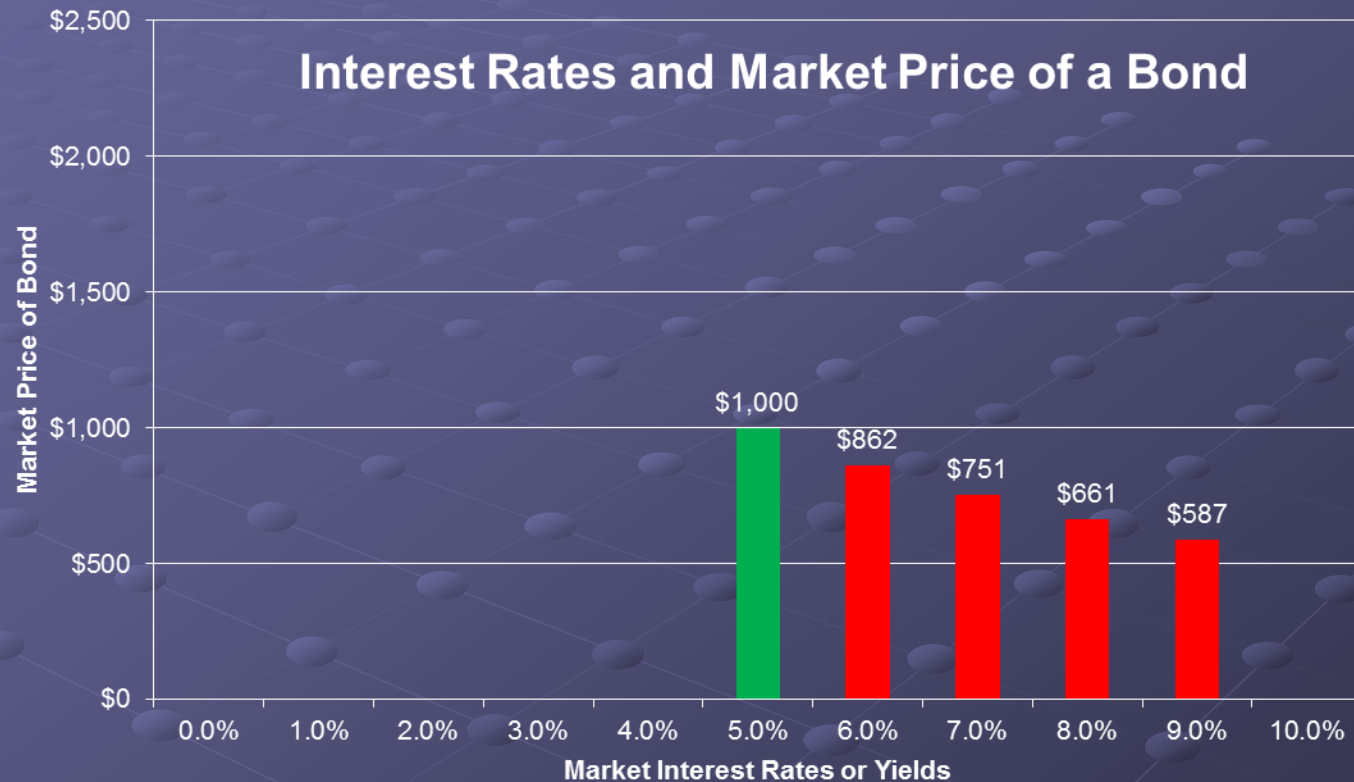
# Interest Rate Risk



● Rates increase to 8%

● Loss = \$339

# Interest Rate Risk

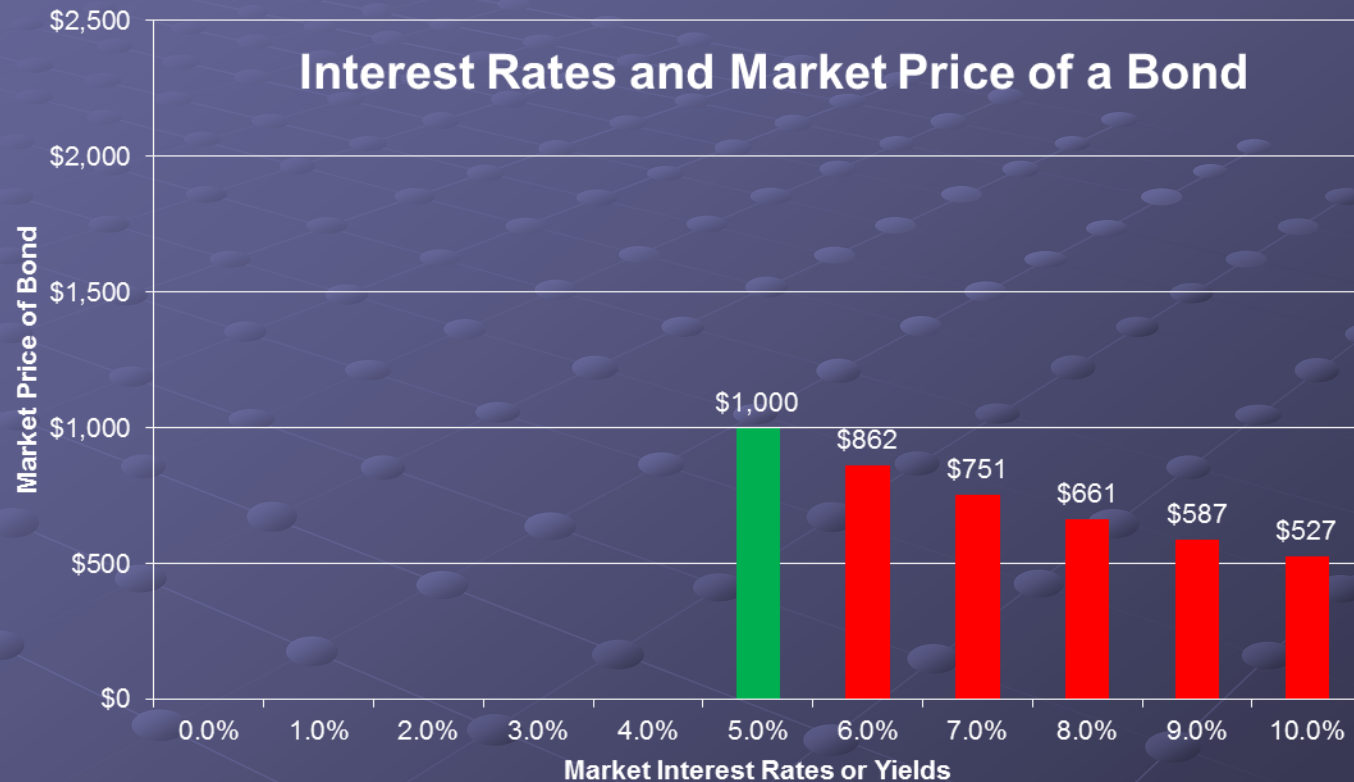


● Rates increase to 9%

● Loss = \$413



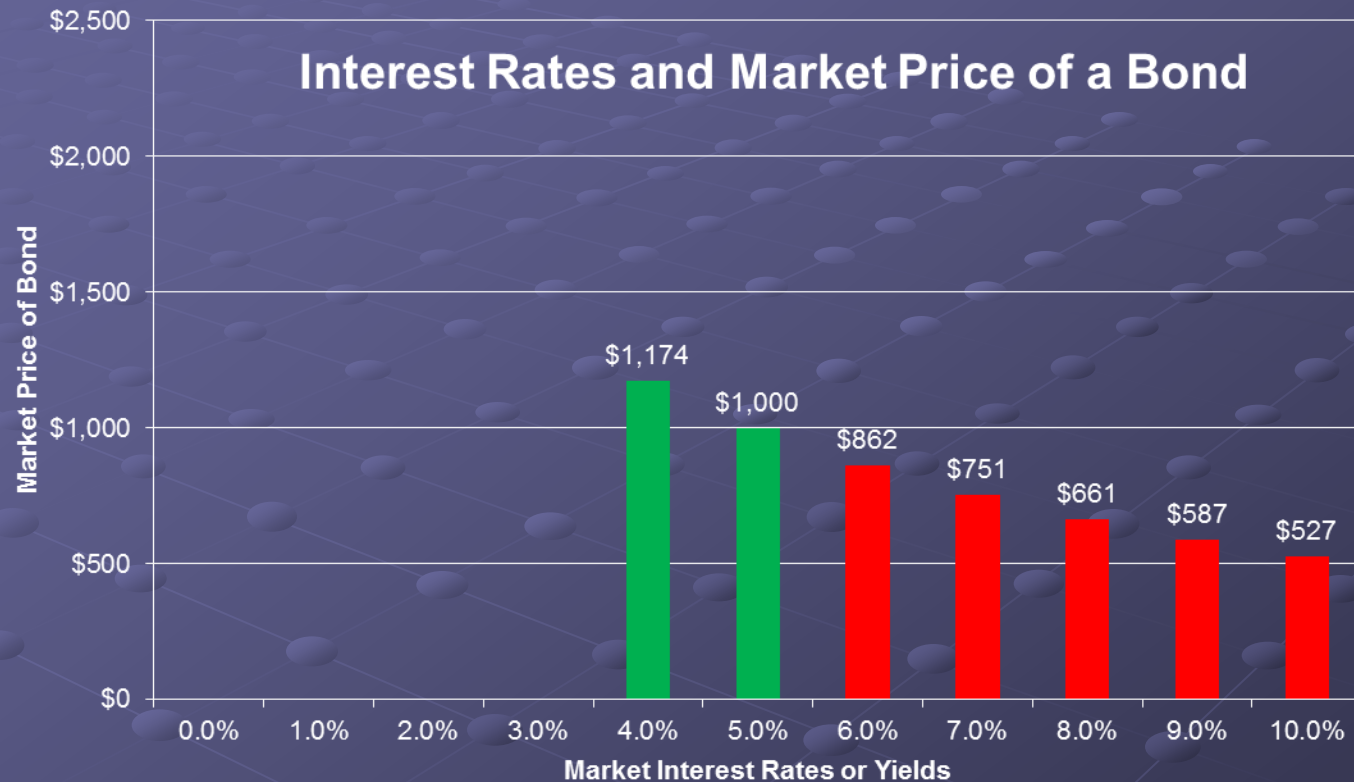
# Interest Rate Risk



● Rates increase to 10%

● Loss = \$473

# Interest Rate Risk

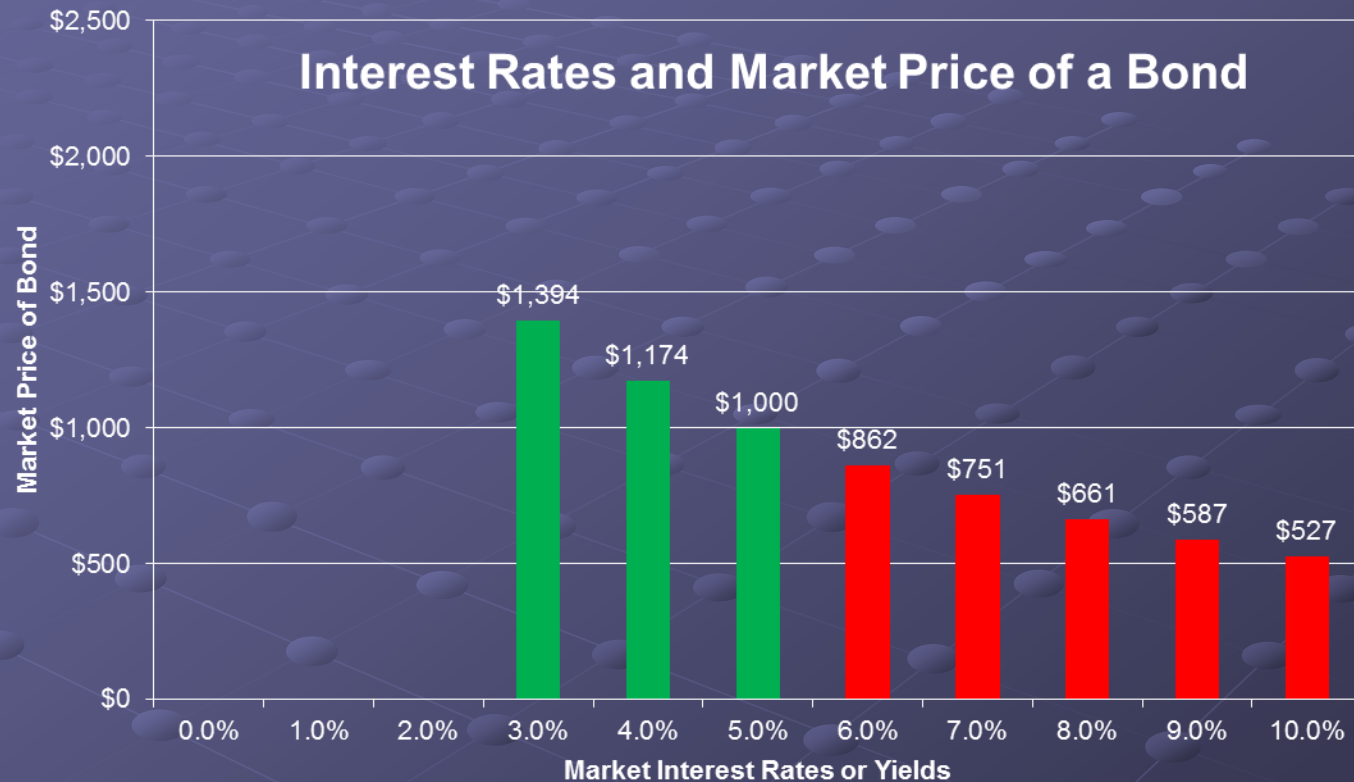


- Rates decrease to 4%

- Gain = \$174



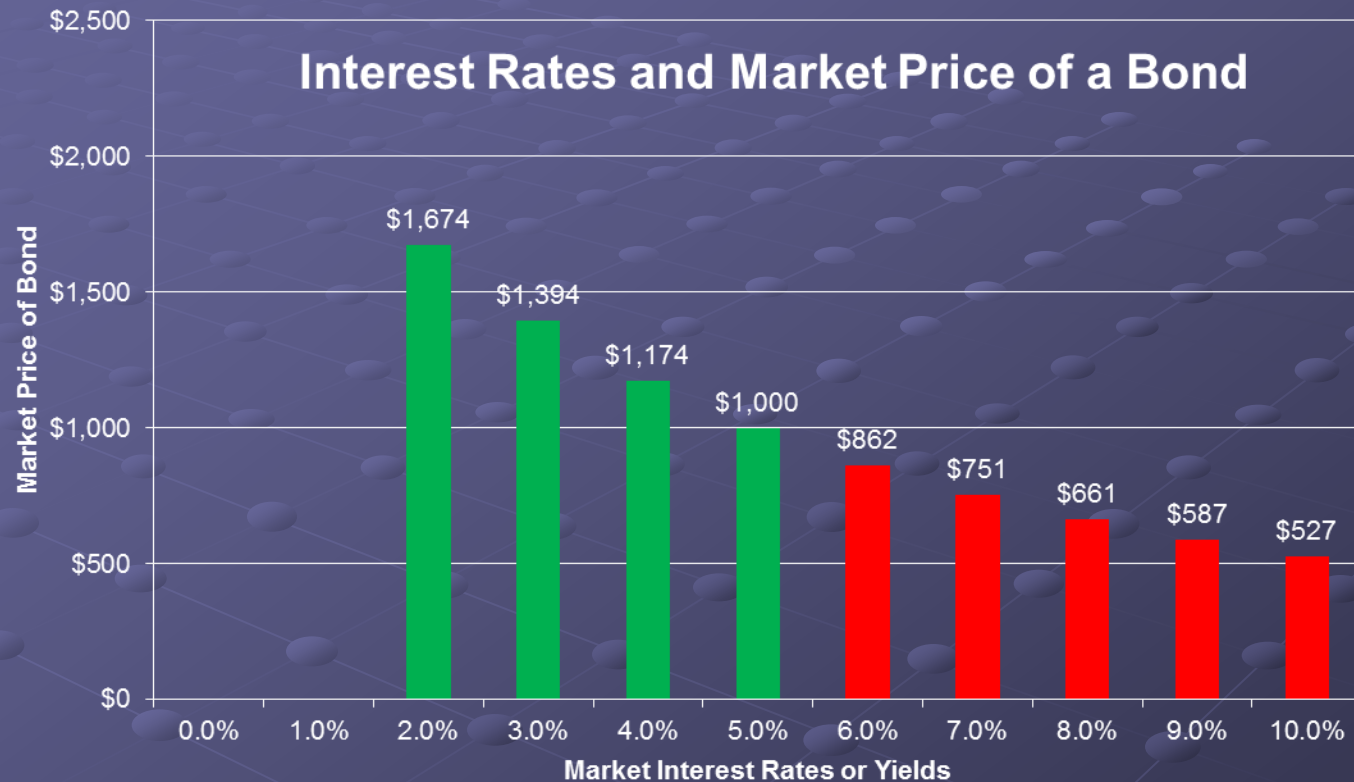
# Interest Rate Risk



● Interest rates decrease to 3%

● Gain = \$394

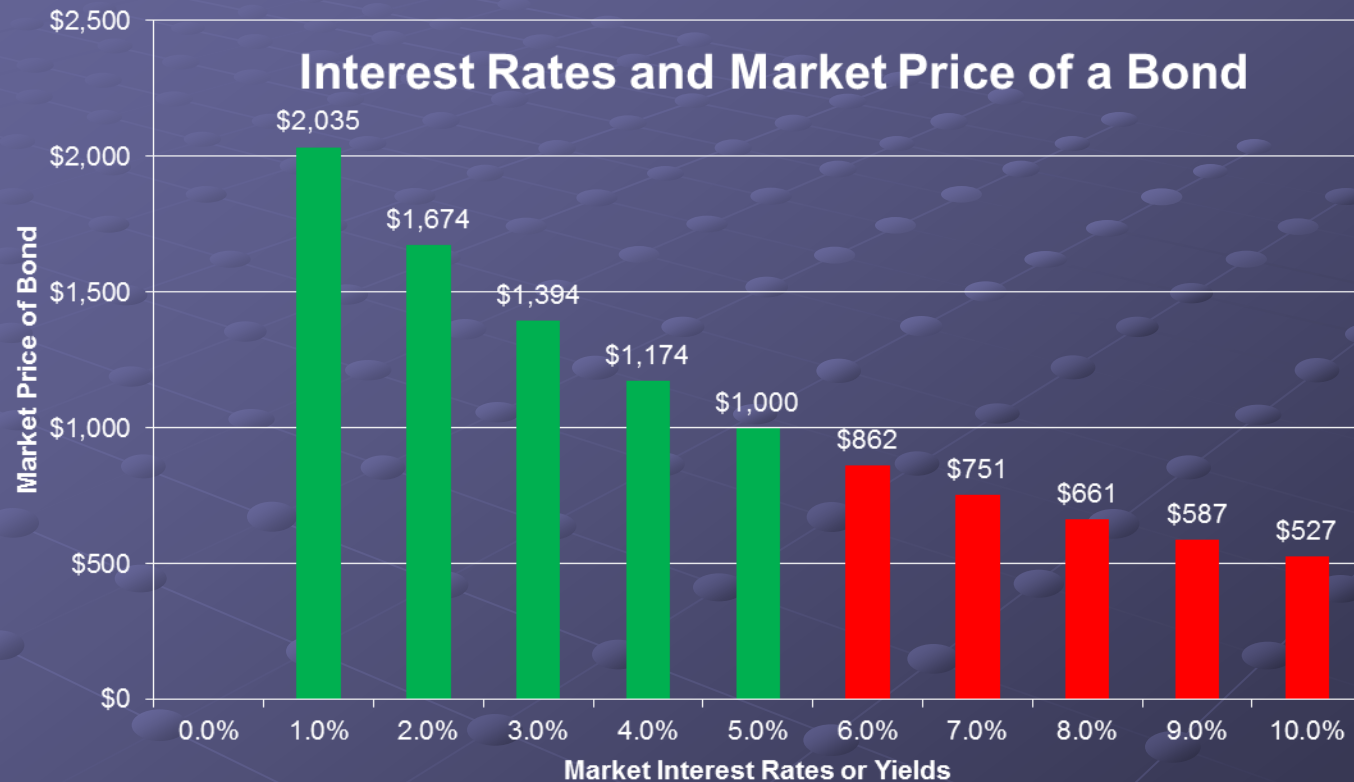
# Interest Rate Risk



● Rates decrease to 2%

● Gain = \$674

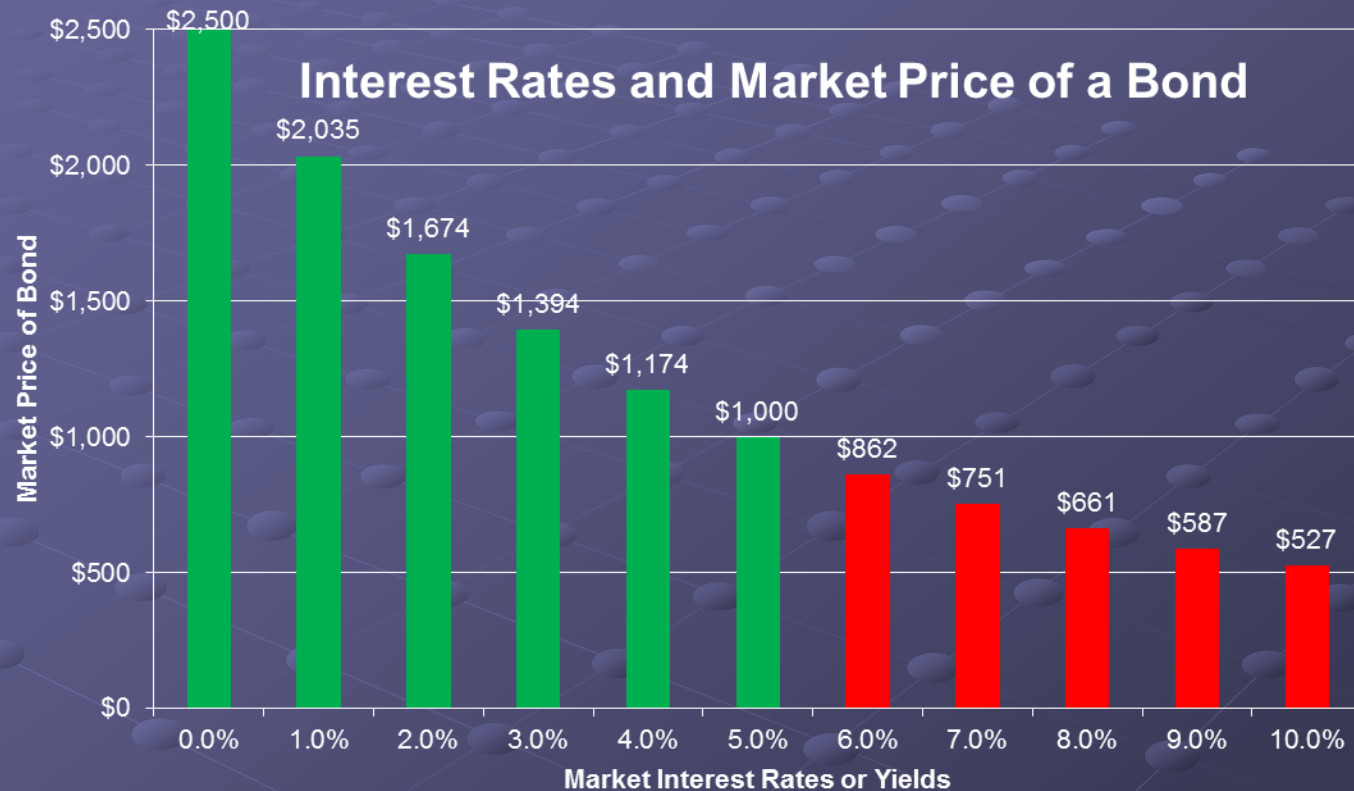
# Interest Rate Risk



● Rates decrease to 1%

● Gain = \$1,035

# Interest Rate Risk



● Rates decrease to 0%

● Gain = \$1,500



On the Other Hand....

# Interest Rate Risk

- Investor can hold the bond to maturity
  - Knows the future cash flows he will receive
  - Return or yield is thus fixed
  - Interest rate risk is eliminated
- For pension plans, taking interest rate risk is a choice
  - Interest rate risk means uncertain future unfunded liabilities



# Pension Benefits

- Pension plans have known, future benefits they must pay

StanCERA Future Cash Out Flows

<u>Year</u>	<u>Future Benefits</u>
2013	\$94,293,800
2014	100,257,000
2015	106,624,000
2016	113,436,000
2017	120,505,000
2018	127,843,000
2019	135,459,000

- Assets that pay cash flows at known times can be used to match benefit payments

# Pension Risk

- Pension risk is any risk that interferes with the ability of the plan to pay benefits
- If plans buy bonds dedicated to the payment of future benefits, those liabilities can be “wiped off the books”
- The change in the market price of the bonds (interest rate risk) no longer matters since they’re being held to maturity



# Why Governmental Plans Take on Interest Rate Risk

## ● Actuarial Asset Smoothing

- Minimizes variability in the unfunded liability

## ● Longer Amortization Periods

- Plan sponsors take longer to pay off shortfalls

# Why Governmental Plans Take on Interest Rate Risk

- Historical emphasis on total returns
  - Plans view risk only in terms of the ability of the portfolio to throw off high returns
  - The ability to fund future benefits is secondary

# Why Governmental Plans Take on Interest Rate Risk

## ● They can...

- If markets underperform, actuaries simply raise plan sponsor costs
- Historically high government growth rates continue to “fuel” the plan
- Slower growth, higher benefit levels and lower revenues make it much more difficult

# Why Governmental Plans Take on Interest Rate Risk

## ● Low Interest Rates

- Markets are currently paying a high price for fixed, future cash flows
- Price to fund future benefits is extremely expensive today
- Plans are not in the position to require sponsors to pay much more

# What is Today's Cost to Substantially Reduce Pension Risk?

- 20 years of benefit payments account for 80% of all current StanCERA liabilities
- Assumptions
  - Government Yield Curve April 4, 2013
  - 1% Corporate/International Yield Premium

<u>Date</u>	<u>Price Today</u>	<u>Shortfall</u>	<u>20 Year ER Rate Increase</u>
Today	\$2,343,499,363	\$796,499,363	17.20%



# Cost to Reduce Pension Risk at “Yesterday’s” Prices



# Plan Sponsor Rate Increase as a % of payroll for 20 Years to Eliminate Pension Risk at “Yesterday’s” Prices



# Session 2

- Relying on traditional pension investing may not be sufficient
- Higher interest rates may mean opportunities
- There have been several opportunities in the past



# Session 2

## ● Questions/Obstacles

1. At what level of interest rates might it be attractive to start reducing pension risk?
2. What level of plan sponsor costs are supportable?
3. Will StanCERA be concerned with “peer return” risk?
4. How will StanCERA explain the opportunities to plan sponsors?