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BOARD OF RETIREMENT MINUTES

June 10, 2009

Members Present: Maria De Anda, Jim De Martini, Gordon Ford, Darin Gharat, Wes Hall, Mike Lynch, and Clarence Willmon

Alternate Member Present: Linda Stotts-Burnett (Alternate Retiree Representative)

Members Absent: Mike Fisher, and Ron Martin

Staff Present: Tom Watson, Retirement Administrator
Michele Silva, Benefits Manager
Hank Skau, Operations Manager
Kelly Cerny, Executive Secretary
Joyce Parker, I.T. Coordinator
Natalie Elliott, Accountant

Others Present: Deirdre McGrath, Deputy County Counsel
Graham Schmidt & Greg Stump, EFI Actuaries
Doris Foster & Monica Nino, Chief Executive Office
Paul Harte, Strategic Investments Solutions, Inc., (via teleconference)

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

2. Roll Call

3. Announcements

Mr. Ford reminded those present that there are strong opinions so please keep to the issues and not people.

Mr. Ford announced that Item #9, will be heard out of order, after Item #5. Mr. Harte, SIS, Inc. would be speaking via teleconference on Item #9. Item #10a. will be heard after Item #6.

Mr. Watson announced the investment managers’ voting proxy reports for the first quarter of 2009 are available for viewing.
4. **Public Comment**

Pat Glattke and Lyn Bettencourt, Retirees, expressed their support for Mr. Watson to remain as the Retirement Administrator.

Gary Kailes, Retiree, asked the Board to postpone its decision of moving $60 million from the non-valuation funds to the valuation funds until next year.

Michael O'Neal, President, Retired Employees of Stanislaus County (RESCO), expressed the full support of the Board of RESCO for Mr. Watson to remain as Retirement Administrator.

5. **Consent Items**

Motion was made by Maria De Anda and seconded by Wes Hall to approve the following items as listed and presented.

Motion carried.

a. Approval of the May 26, 2009, Administrative/Investment Meeting Minutes

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

   1. Barbara Goodner, DCSS, Effective 06-23-09
   2. Beverly Hagen, BHRS, Effective 05-27-09
   3. James Kelly, Alliance Worknet, Effective 06-05-09
   4. Robin Renwick, CEO-Personnel, Effective 06-02-09
   5. Robert Roton, Sheriff, Effective 06-03-09
   6. Margaret Venezio, CSA, Effective 06-05-09
   7. David White, BHRS, Effective 06-27-09

c. Approval of Death Benefits

   1. Martha Apodaca, Deceased May 29, 2009, Active Member, Option Pursuant to Government Code Sections 31781, 31781.1 or 31781.3

   2. Shelly Nichols, Deceased May 28, 2009, Active Member, Option Pursuant to Government Code Section 31781

d. BMTI Services Complaint Log of January 1 through March 31, 2009
Item #9. Heard Out of Order

9. **Discussion and Action on the Barclays Global Investors (BGI) Contract**

Mr. Ford introduced Mr. Harte of SIS, Inc., via teleconference. Mr. Harte gave a brief overview of his June 8, 2009, memorandum to the Board, and the current market status of BGI. Mr. Harte said the transfer of $20 million from Dodge & Cox to fund Legato Capital Management ($10 million); Delaware Investments ($5 million); and Loomis Sayles and Company ($5 million) occurred June 8, 2009. He recommended the Board wait until the June 23, 2009 Board of Retirement Investment meeting to decide whether to fund BGI due to the potential sale of its investment branch.

Mr. Harte answered Board members questions. Mr. Lynch inquired as to why the transfer occurred only recently when the Board approved the transfer at its March 24, 2009 meeting. Mr. Harte responded he was not sure why this happened. Mr. Ford mentioned that Mr. Harte’s memorandum covered several issues, however, the BGI contract was the only issue to be discussed on this Agenda. Mr. Watson said the transfers could have been split out between the current managers and BGI, however since the Board approved it as one item that is how it was processed. Ms. De Anda said there is a concern with the contract process that will be addressed going forward.

Mr. Ford expressed concern with StanCERA’s portfolio with Dodge & Cox. Mr. Harte said he had received a response from Dodge & Cox, and it would be addressed at the June 23, 2009, Board of Retirement Investment meeting.

Motion was made by Maria De Anda and seconded by Wes Hall to accept the recommendation to wait until the Board of Retirement’s June 23, 2009 Investment meeting to make a decision whether to fund BGI.

Motion carried.

6. **EFI Actuaries’ Presentation of Interest Crediting Options**

   a. Discussion and Action on the Modification of Interest Crediting to Non-Valuation Reserves to Reflect Investment Experience

      i. Reserve Credit Policy – Current Practice & Alternative

      ii. StanCERA Current Reserve Credit Policy Analysis

      iii. StanCERA Alternative Reserve Credit Policy Analysis

Mr. Schmidt and Mr. Stump gave a brief PowerPoint presentation on StanCERA’s current reserve crediting policy, and an alternative reserve crediting policy. A written analysis of StanCERA’s current reserve crediting policy on the non-valuation reserve balance not affected by current losses but assumed interest of 8.16% not posted was reviewed and discussed.

Mr. Schmidt reviewed the written analysis of an alternative reserve credit policy regarding a contra account to be shared by the valuation and non-valuation reserves. He explained the use of establishing a contra account. Mr. Schmidt
6. EFI Actuaries’ Presentation of Interest Crediting Options (Cont.)

a. Discussion and Action on the Modification of Interest Crediting to Non-Valuation Reserves to Reflect Investment Experience (cont.)

and Mr. Stump answered the Board members various questions. Mr. Schmidt noted that adopting the alternative reserve crediting policy does not change StanCERA’s accounting procedures, it just adds one more directive. He restated there is a difference between an accounting policy and an investment policy. Mr. Stump added the current reserve crediting policy is asymmetric.

Motion was made by Darin Gharat and seconded by Clarence Willmon to accept the alternative reserve crediting policy of establishing a contra account to be shared by the valuation and non-valuation reserves as presented.

Motion carried.

M. Lynch opposed.
J. DeMartini opposed.

Item #10a. Heard Out of Order

10. Administrator

a. Discussion and Action on Direction for the Retiree Revocable Health Benefits Subsidy Actuarial Study

Mr. Schmidt informed Board members this was an item discussed at previous meetings. He reminded Board members that Buck Consultants performed an actuarial study in 2006 on the non-valuation reserves and the benefits to be paid out of these reserves. Given the recent changes to the reserve value it should be determined whether the current reserves are sufficient to continue to pay out benefits. Waiting until June 30, 2009, when an accurate amount for the reserve will be available would be prudent in order to determine if the non-valuation reserve is still sufficient to pay these benefits.

Mr. Watson interjected that EFI Actuaries was originally instructed to provide a study on the maximum $370 per month retiree Revocable Health Benefits Subsidy. EFI began working on this study along with the regular actuarial valuation as of June 30, 2008 that has been finished and approved. He mentioned that given the dramatic decline in assets for the past 12-month period and the potential for the Board to suspend the Revocable Health Benefits Subsidy in 2010, the Board may want to consider whether to continue the study as is, modify it or, cancel the study until further notice.

Mr. Schmidt recommended that suspending the study until after the June 30, 2009, actuarial report would allow the Board to have a better understanding of whether the non-valuation reserves can still fund this benefit. Mr. Stump noted that all the research currently done on this study would still be valid at a later date.
Public Comment on Item #10a.

Mr. Bettencourt and Mr. Kailes, Retirees, addressed the Board with requests to place this decision on hold until the future of the retiree Revocable Health Benefit is known.

Item #10a. Heard Out of Order (Cont.)

10. Administrator (Cont.)

a. Discussion and Action on Direction for the Retiree Revocable Health Benefits Subsidy Actuarial Study (cont.)

Board members reviewed and discussed the direction in which to go with the actuarial study on the retiree Revocable Health Benefits Subsidy.

Motion was made by Darin Gharat and seconded by Clarence Willmon to direct EFI Actuaries to suspend the Retiree Revocable Health Benefits Subsidy Actuarial Study until further notice.

Motion carried.

Public Comment on Item #7.

Wally Morrow, Retiree, addressed the Board regarding Mr. Watson’s tenure with the County of Stanislaus, and with the Board of Retirement. He expressed his full support of Mr. Watson as the Retirement Administrator. He acknowledged Mr. Watson’s expertise and experience and requested the Board to refuse Mr. Watson’s resignation.

Mr. Kailes addressed the Board to compliment StanCERA staff for the positive treatment he received during his counseling sessions for retirement. It is a credit to the Retirement Administrator to have such a fine staff.

Ms. Stotts-Burnett, Alternate Retiree Representative, also acknowledged Tom’s years of service, integrity, experience, expertise and intelligence. She noted all the positive changes that occurred within StanCERA after Mr. Watson’s appointment. Former administration was in disarray, and the administration now operates in an efficient and congenial manner. Ms. Stotts-Burnett apologized for not speaking up at the previous Board meeting when mean-spirited and inappropriate remarks were made about Mr. Watson.

7. Closed Session

Motion was made by Wes Hall and seconded by Darin Gharat to commence to Closed Session at 3:00 p.m.

M. Silva, H. Skau, N. Elliott, and J. Parker recused themselves at 3:00 p.m.

a. Conference with Legal Counsel-Anticipated Litigation

Initiation of Litigation Pursuant to Subdivision (c) of Section 54956.9: One Case

K. Cerny left at 3:21 p.m. for Item #7b.
T. Watson left at 3:30 p.m. for Item #7b.
D. McGrath was asked to leave by the Board for the remainder of Item #7b. at 3:30 p.m.
7. **Closed Session (Cont.)**

   
   i. Public Employment - Title: Retirement Administrator
   
   ii. Public Employment Appointment - Title: Retirement Administrator

   T. Watson returned at 4:15 p.m.

   L. Stotts-Burnett left at 4:20 p.m.

   M. Silva, H. Skau, N. Elliott, and J. Parker, K. Cerny, and D. McGrath returned at 4:20 p.m.

   Upon returning to Regular Session at 4:20 p.m., Mr. Ford read the findings of the Closed Session pursuant to Government Code Section 5497.1(a)(5):

   Under Item #7b. there was a motion, and second that the Board of Retirement not accept the Retirement Administrator’s resignation. The motion passed. The Retirement Administrator rescinded his resignation letter.

   Darin Gharat, Maria De Anda, Wes Hall and Clarence Willmon voted in favor of the motion. Jim DeMartini, Gordon Ford and Mike Lynch voted against.

   Mr. Ford notified all present and StanCERA staff to refer all future questions and inquiries regarding this item directly to him.

8. **Committee Reports & Recommendations and Action**

   **STANDING COMMITTEES**

   a. Due Diligence Committee – Maria De Anda, Chair

   i. Draft Minutes of the May 26, 2009 Due Diligence Committee Meeting

      Ms. De Anda said as she mentioned at the previous Board meeting the Committee will use Skype, a type of video-conferencing, for the final three Due Diligence visits of 2009. This will be done from the offices of StanCERA as a cost savings measure. These visits will be with Pyramis Global Advisors, Capital Prospects LLC, and Loomis Sayles and Company. Prior to the visits, SIS, Inc. will continue to provide the investment managers with questions and outlines to be answered and used.

      Ms. DeAnda said SIS, Inc., will be a proxy for the Board and perform onsite visits to Delaware Investments and Legato Capital Management located in San Francisco.

   ii. Schedule of 2009 Due Diligence Visits

      Board members reviewed the schedule of 2009 Due Diligence visits.
Item #9. Heard Out of Order

10. Administrator (Cont.)

Item #10a. Heard Out of Order

b. Verbal Report on Asset Re-Balancing

Mr. Watson gave a verbal update on asset-rebalancing. On March 24, 2009, the Board of Retirement approved a re-balancing of assets between fixed income and equity securities of $55 million. The re-balancing was approved to have $55 million in fixed income securities sold and $5 million transferred to Loomis Sayles & Company; $5 million to Delaware Investments; $10 million to Legato Capital Management; and $35 million to the new allocation to BGI’s Russell Top 200 Value Index fund.

The new BGI contract was still being reviewed in late May. On May 28, 2009, the contract appeared to be close to finalization and staff was instructed to prepare letters for May 29, 2009, to effect the re-balancing. The letters stated Dodge & Cox would raise the $55 million through the sale of fixed income securities by Friday, June 5, 2009 (one week) and then the transfers could be made Monday, June 8, 2009. On June 4, 2009, it appeared that the BGI contract would not be finalized and instructions for the re-balancing were changed to have the $20 million transferred to the current investment managers as of June 8, 2009, and the $35 million that Dodge & Cox raised sit in cash, pending the finalization of the BGI contract. The $20 million has been transferred as listed above, but the $35 million for the BGI Russell Top 200 Value Index Fund has not been transferred.

c. Verbal Update on the Reed Smith (Temporary Fiduciary Counsel) Billings

Mr. Watson gave a verbal update on the billings of the temporary fiduciary Counsel, Reed Smith, LLP.

When the Board of Retirement approved the hiring of temporary fiduciary counsel (Reed Smith – Harvey Leiderman and Jeff Rieger) on March 11, 2009, the Board set a limit of $20,000 for this cost based on counsel and staff recommendations.

A billing of $8,292.00 was received on or about April 15, 2009, for services rendered in March, 2009, and paid on April 29, 2009. A billing of $24,774.50 received on May 26, 2009, generated a phone call to Mr. Leiderman. This conversation found he was not under the impression there was a $20,000 limit for services. There was nothing in the contract that specified this dollar limit. It was also found there were more charges -- perhaps $2,000 -- for the month of May 2009, related to the final wrap-up of the actuarial information being relayed to the Board of Supervisors on May 15, 2009, for its action on June 2, 2009. StanCERA has not yet received the May 2009 billing from Reed Smith.
10. **Administrator (Cont.)**

c. Verbal Update on the Reed Smith (Temporary Fiduciary Counsel) Billings (cont.)

Counsel and staff have reviewed the March and April billings and do not find anything unusual or duplicated. The billings appear correct. One attorney from Reed Smith did attend the Retirement Board and Committee meetings of March 24, April 8, April 14, April 24, and April 28, 2009. There were also telephone conversations and emails between meetings with counsel, EFI Actuaries, and review of applicable StanCERA documents (actuary reports, policies, etc.) and to perform legal analysis and research. Counsel calculated that approximately 29.3 hours were used addressing meeting days and 37.1 hours were used in between.

The Retirement Administrator planned on approving for payment up to the $20,000 authorized by the Board of Retirement. The average of the April 2009 and May 2009 billing statements will be brought back to the Board of Retirement for action at its June 23, 2009, meeting.

Mr. Willmon inquired as to why the $20,000 limit was not in the contract. Ms. McGrath said it was a contractual and business oversight.

Mr. Lynch informed Board members he was against hiring the fiduciary counsel, however he found them to be of great assistance and thought the Board's previous decision to hire them was a correct decision.

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

Mr. Ford shared with the Board a letter dated May 4, 2009, from the California Legislative Analyst's Office (LAO) to the Attorney General. It is in regards to a possible personal income tax (PIT) to be levied on the California income of individuals who reside in the state who receive more than a $40,000 taxable pension income. It would also include a possible excise tax on nonresidents or people who move out of the state whose vested pension benefits from a California employer exceed $50,000 per year.

Mr. Gharat requested a future agenda item directing staff to benchmark other 1937 Act systems on the costs associated with hiring full-time independent counsel for StanCERA.

8. **Adjournment**

Meeting adjourned at 4:31 p.m.

Respectfully submitted,

[Signature]

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:

[Signature]

Deirdre McGrath, Deputy County Counsel