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BOARD OF RETIREMENT MINUTES

Members Present: Lyn Bettencourt, Maria De Anda, Jim DeMartini, Mike Fisher, Gordon Ford, Darin Gharat, Mike Lynch, Ron Martin, and Clarence Willmon

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

Staff Present: Tom Watson, Retirement Administrator
Kelly Cerny, Executive Secretary
Hank Skau, Operations Manager
Joyce Parker, I.T. Coordinator

Others Present: Fred Silva, General Legal Counsel
Marilyn Freeman, present & Elizabeth Knope via teleconference, Capital Prospects LLC
Victor Hymes, Lieve Mertens, & Fawad Razzaque, Legato Capital Management LLC
Paul Harte & Harshal Shah, Strategic Investment Solutions (SIS), Inc.
Doris Foster, Chief Executive Officer

1. Meeting called to order at 2:04 p.m. by Maria De Anda, Chair.

2. Roll Call

3. Announcements

Mr. Watson announced the resignation of Ms. Elliott, StanCERA’s Accountant. Ms. Elliott has taken a position with the Auditor-Controller’s Office as the Internal Audit Manager, effective July 3, 2010.

4. Public Comment

None.
5. **Consent Items**

Motion was made by Clarence Willmon and seconded by Lyn Bettencourt to approve the following items as listed.

Motion carried.

a. Approval of the June 9, 2010, Administrative Meeting Minutes

b. Approval of StanCERA’s Fiscal Year 2010-2011 Administrative Budget

c. Approval of StanCERA Office Closure Days for Fiscal Year 2010-2011

6. **Semi-Annual Performance Report by Capital Prospects LLC**

Marilyn Freeman, Principal and Manager, presented the semi-annual performance report for StanCERA’s small cap value equities emerging manager portfolio for the Russell 2000 value index. Elizabeth Knope, Principal and Manager, assisted with the presentation via a conference call. Ms. Freeman noted no organization changes have been made, or changes to the five managers.

StanCERA’s asset allocation funding began January 1, 2009, with $49.1 million and six managers in the program. As of May 31, 2010, the value of the fund is $61.8 million. For the 17 months since inception through May 31, 2010, the total portfolio has returned 26.02% net of fees, and 570 basis points above the Russell 2000 value index of 20.31% over the same period.

7. **Semi-Annual Performance Report by Legato Capital Management LLC**

Victor Hymes, Chief Executive Officer and Chief Investment Manager, Lieve Mertens, Senior Vice President and Portfolio Manager, and Fawad Razzaque, Portfolio Manager presented the semi-annual performance report on StanCERA’s small cap growth equities emerging manager portfolio for the Russell 2000 growth index.

Mr. Bettencourt left at 2:47 p.m.

Mr. Bettencourt returned at 2:50 p.m.

StanCERA’s total fund assets of the small cap growth emerging manager portfolio were $54.8 million as of March 31, 2010, with five managers in the program. Ms. Mertens noted that two managers were transitioned out and two new managers, CastleArk Management and Crosswinds Investments, were transitioned in as of February 2010. Since funding began December 22, 2008, through May 31, 2010 the total portfolio returned 31.03% gross of fees (0.90%), or 30.13% net of fees, with 155 basis points above the Russell 2000 value index of 28.58% over the same period. Mr. Ford expressed his appreciation for the top ten list of holdings and requested that perhaps more of the holdings could be listed in future reports.
8. **Strategic Investment Solutions (SIS), Inc.**

a. SIS, Inc.’s Monthly Performance Review for The Month Ending May 31, 2010

Mr. Harte presented the monthly performance review for the period ending May 31, 2010. He noted that May was the first down month since the rally started in March 2009. The Russell 3000 index declined 7.90%, the MSCI ACWI EX-US index declined -10.41%, and the Barclays U.S. Aggregate (fixed income) index only increased .84% for the month, making May 2010 a down month.

At 11 months of the fiscal year period, StanCERA’s portfolio is $1.2 billion. The total fund return was -5.61% for the month of May 2010, with the fiscal year to date return at 18.61%, 1.53% over the policy index return of 17.08%. The report reflects the $75 million transition from U.S. equities into fixed income managed by PIMCO.

b. Updated Asset Class Projected Returns

Mr. Harte shared various mixes of asset allocation that reflect differing returns and risks from the current target portfolio. Mr. Harte recommends no changes at this time to StanCERA’s current asset class allocation. Board members reviewed and discussed the projections. The Board requested additional information on investment education relating to new opportunities for asset allocation.

The Board requested Mr. Harte provide information on whether PIMCO holds BP debt that would be issued for the $20 billion set aside fund for damages.

c. Verbal Update on StanCERA’s Securities Lending Cash Collateral Portfolio with Regards to Recent European Banking Stability Concerns

Mr. Harte provided a verbal update from StanCERA’s custodian, Band of New York (BNY) Mellon on StanCERA’s securities lending cash collateral portfolio. The last couple months have witnessed an increase in volatility with banks in Greece, Ireland, Spain, Portugal, and Hungary. The European Central Bank (ECB) stepped in with $750 billion to support the banking system. Mr. Harte noted this is not a sovereign issue but more of a European bank issue as they hold a lot of the sovereign debt of these countries. ECB’s support stabilized the market. A positive is that for StanCERA this improved its securities lending short-term portfolio yield. BNY Mellon affirmed there is no sovereign debt in StanCERA’s portfolio. The portfolio’s exposure to European banks is less than 10% with no systemic risk to those banks. Board members expressed their concerns. The Board requested Mr. Harte to obtain more information from BNY Mellon on the securities lending fund for better transparency. Mr. Harte said a list of the counter parties, a list of where the second lending loans are outstanding and at what percentage would be acquired. Mr. Harte said a request to BNY Mellon for an alternative to this fund what would be the implication if the fund was ended or reduced.
8. **Strategic Investment Solutions (SIS), Inc. (Cont.)**
   
d. Review of the Upcoming Due Diligence Visit to Invesco on June 24, 2010

   Mr. Harte mentioned that StanCERA’s current asset allocation would be reviewed after the upcoming Due Diligence visit to Invesco on June 24, 2010.

   e. Review of the Transition of Large Cap Growth Equity Portfolio Management to BlackRock’s Russell 1000 Growth Index Fund as of June 25, 2010

   Mr. Harte informed the Board that StanCERA’s U.S. large cap growth equity portfolio formerly managed by Loomis Sayles, is now transitioning at the end of June into the Blackrock Russell 1000 growth index fund. Transition costs are limited.

   Recessed at 4:06 p.m.

   Reconvened at 4:11 p.m.

9. **Closed Session**

   Motion was made by Darin Gharat and seconded by Lyn Bettencourt to commence to Closed Session at 4:12 p.m.

   Motion carried.

   a. Conference with Legal Counsel – Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Subdivision (c) of Section 54956.9: One Case

   b. Conference with Legal Counsel – Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Subdivision (c) of Section 54956.9: One Case

   Ms. Stotts-Burnett left at 4:18 p.m.

   Mr. Bettencourt recused himself at 4:18 p.m.

   c. Conference with Legal Counsel – Pending Litigation - One Case: Michael O’Neal et al., v. StanCERA, Stanislaus County. Superior Court Case No. 648469, Government Code Section 54956.9(a)

   Motion was made by Darin Gharat and seconded by Mike Fisher to return to Open Session at 4:44 p.m.

   Motion carried.

   Mr. Bettencourt returned at 4:45 p.m.
10. **Members' Forum (Information and Future Agenda Request Only)**

Mr. Bettencourt requested information on the Governmental Accounting Standards Board’s (GASB) proposed new rules regarding public pension accounting of actuarial liabilities.

Mr. Watson informed Board members that they had received the State Association of County Retirement Systems’ (SACRS) and the UC Berkeley Center for Executive Education’s brochure for the Public Pension Investment Management Program. Mr. Watson noted this program is purely educational, with no sales pitches. He encouraged Board members’ attendance, if a Board member has not already taken the program.

11. **Adjournment**

Meeting adjourned at 4:54 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

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

By: Fréd A. Silva, General Legal Counsel