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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

June 23, 2009

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

**Members Absent:** *Jim DeMartini & Ron Martin*

**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  
Natalie Elliott, Accountant

**Others Present:** Ed Burroughs, Assistant County Counsel  
Marilyn Freeman & Elizabeth Knope, Capital Prospects LLC  
Victor Hymes & Lieve Mertens, Legato Capital Management LLC  
Paul Harte, Strategic Investment Solutions, (SIS) Inc.  
Doris Foster & Monica Nino, Chief Executive Office

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

2. **Roll Call**

3. **Announcements**

Mr. Ford announced Mr. Burroughs is sitting as Counsel for Ms. McGrath who is attending the National Association of Public Pension Attorneys (NAPPA) Conference.

Mr. Watson apologized to Mr. Harte on behalf of the Board for any negative comments or impressions he may have received at the past Investment Board meeting.

4. **Public Comment**

None.

5. **Consent Items**

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

Motion carried.

- a. Approval of the June 10, 2009, Administrative Meeting Minutes
- b. Approval to Post Zero (or No) Interest on Accounts for the Six Months Ending June 30, 2009
- c. Retirement Administrator's Report on Attendance at the National Conference on Public Employee Retirement Systems' (NCPERS) 2009 Annual Conference

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

Marilynn Freeman, Principal and Manager, and Elizabeth Knope, Principal and Manager, presented the first semi-annual performance report for StanCERA's small cap value equities emerging manager portfolio for the Russell 2000 value index.

Ms. Freeman gave a brief overview of the firm's history, philosophy, and personnel. StanCERA's asset allocation funding began January 1, 2009, and as of April 30, 2009, the value of the fund is \$49.3 million with six managers in the program. As of May 2009, the fund value is \$50.5 million.

The presentation noted all the managers employ varying degrees of quantitative, fundamental, and technical analysis, for the objective of a balanced mix to be achieved.

Ms. Knope gave a brief breakdown of the sector allocation and StanCERA's portfolio performance. For the four months since inception, StanCERA's fund outperformed the benchmark by 710 basis points (net of fees) with five of the six managers adding value. Stock selection accounted for the largest share of excess return with notable contributions within industrials, consumer discretionary, financial and technology stocks. Industry/sector positioning and factor positioning also added value. Overall the portfolio is well-diversified, with a higher rate of return on equity than the benchmark. Ms. Knope concluded by informing the Board that the descriptions of the small cap value emerging managers are listed at the end of the written presentation.

Ms. Freeman informed the Board that Capital Prospects was looking forward to the Board's Due Diligence Committee's upcoming first visit via video conferencing in September. Ms. Freeman expressed her hope the Committee would reconsider and visit onsite at Capital Prospects in Connecticut, but respected the Board's prudence with travel costs.

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

Victor Hymes, Chief Executive Officer and Chief Investment Manager, and Lieve Mertens, Portfolio Manager, presented the first semi-annual performance report on StanCERA's small cap growth equities emerging manager portfolio for the Russell 2000 growth index. Inception of the fund began December 22, 2008.

Mr. Hymes gave a brief overview of the firm, its personnel, its philosophy, objective, and strategy. StanCERA's total fund assets of the small cap growth emerging manager portfolio were \$26 million as of March 31, 2009, with five managers in the program.

Ms. Mertens gave a summary of the first quarter. The portfolio outperformed its benchmark, posting a return of -7.45% versus -9.74% for the Russell 2000 growth index benchmark. Since inception, the portfolio outperformed its benchmark, posting a return of -5.49% versus -7.79%. The portfolio underperformed the benchmark during January, and outperformed the benchmark during February and March. The outperformance was split between sector allocation (70%), and stock selection (30%). Ms. Mertens noted that as of June 8, 2009, \$10 million was transitioned to Legato Capital to rebalance StanCERA's overall investment portfolio.

Mr. Hymes acknowledged Mr. Harte's upcoming visit on behalf of the StanCERA Due Diligence Committee to Legato Capital located in San Francisco. The visit will occur in July 2009.

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

a. SIS, Inc.'s Monthly Performance Review for The Month Ending  
May 31, 2009

Mr. Harte presented the monthly performance review for the period ending May 31, 2009, at 11 months of the fiscal year period. StanCERA's portfolio is \$1.05 billion, a 5.60% increase from the prior month, adding \$55.5 million to the portfolio. The overall rate of return for this fiscal year to date is -17.76%, only -0.33% less than the policy index return of -17.43%. Mr. Harte said May was a good solid month, with good relative performance. There was improvement on market value and relative performance.

b. StanCERA Quarterly Manager Performance Review List through  
March 31, 2009

The Board reviewed the written summary of the StanCERA Investment Manager Review list for performance through March 31, 2009. All managers except Loomis Sayles & Company are in good standing for this time period. Mr. Lynch inquired as to why a three-and five-year period is used for the review. Mr. Harte responded it gives an overall representation of the manager's performance. The Board reviewed and discussed the list. The Board directed staff to notify Loomis Sayles & Company that they are under review status effective immediately.

8. **Strategic Investment Solutions (SIS), Inc. (Cont.)**

- c. Discussion and Action on Barclays Global Investors' (BGI) Russell Top 200 Value Index Fund Investment
  - i. BGI's Institutional Client Letter Dated June 11, 2009
  - ii. BGI's Press Release Dated June 12, 2009
  - iii. SIS Inc.'s Memorandum Dated June 12, 2009, – BGI's Russell Top 200 Value Index Fund Contract Issues
  - iv. BGI Letter Dated June 10, 2009 – Received June 16, 2009

Mr. Harte gave an overview of the BGI documents. It included a summary of his memorandum to the Board dated June 12, 2009, addressing two issues that were discussed at the previous Board meeting. The issues were the rumor of the sale of BGI, and the securities lending within BGI's passive funds. Mr. Harte informed Board members he had an extended conference call with BGI regarding their securities lending practices on Wednesday, June 10, 2009. BGI confirmed the Russell Top 200 value index fund is not offered in a commingled fund format without securities lending. Mr. Harte answered Board members' questions. He noted that BGI's securities lending practice has been excellent both on the lending side and the collateral investment side.

Motion was made by Wes Hall and seconded by Clarence Willmon to invest \$35 million in the Russell Top 200 value index with BGI effective July 1, 2009.

Motion carried.

- d. Discussion and Action on Dodge & Cox Letter Dated June 5, 2009 – StanCERA's Current Portfolio Holdings of Below Investment Grade Bonds
  - i. Dodge & Cox Exhibits of the StanCERA Portfolio's Current Holdings of Below Investment Grade Bonds
  - ii. SIS, Inc.'s Dodge & Cox Email Dated June 9, 2009 – Follow-up on Below Investment Grade Bonds

Mr. Harte gave a brief summary of Dodge & Cox's letter dated June 5, 2009, and the exhibits of the below investment grade bonds. The letter requested a timeframe of June 30, 2009, for Dodge & Cox to get the below investment grade bonds to under 10% prior to StanCERA's withdrawal of funds from its fixed income portfolio for rebalancing its equities portfolio. Board members noted this was another request from Dodge & Cox for a variance from StanCERA's Investment Policy over the past few years. Board members reviewed and discussed the letter of request.

8. **Strategic Investment Solutions (SIS), Inc. (Cont.)**

- d. Discussion and Action on Dodge & Cox Letter Dated June 5, 2009 – StanCERA's Current Portfolio Holdings of Below Investment Grade Bonds (cont.)

Motion was made by Darin Gharat and seconded by Maria De Anda to sign the Dodge & Cox letter dated June 5, 2009, for the request to allow Dodge & Cox until June 30, 2009, to get the below investment grade bonds under 10%; and direct staff to notify Dodge & Cox to adhere to the guidelines set forth in the StanCERA Investment Policy in the future.

Motion carried.

Gordon Ford opposed.  
Mike Lynch opposed.

- e. Discussion and Action on Prima Capital Advisors LLC Letter Dated June 10, 2009, on Commercial Mortgage Investing

Board members reviewed and discussed Prima Capital's letter dated June 10, 2009.

No action taken.

9. **Administrator**

- a. Presentation and Discussion of the Draft FY 2009-2010 Administrative Budget

Mr. Watson gave a summary of the written administrative budget for fiscal year 2009-2010. Total estimated expenditures for fiscal year 2008-2009 are about 9% lower than the original budgeted amounts. Board members examined the various line-items of the budget. A total of \$2,139,817 is requested for the fiscal year 2009-2010 administrative expenses. The line-items for salaries and benefits include 11 full-time staff members with no part-time or extra-help staff. Already-determined by the County cost-of-living and merit increases are included. A reduction in the Retirement Administrator's base salary to \$4,800 biweekly and the elimination of the car allowance of \$400 a month is also included. The \$4,500 funding of phase three of the five phases of the Chief Executive Office-Risk Management's Job Task Analysis is also included.

Board members voiced opposition to the reduction of the Retirement Administrator's base salary and car allowance. Mr. Watson said this was in keeping with other County department heads who are taking a 5% salary reduction. It is a gesture of goodwill in light of the difficult economic times. Mr. Gharat inquired as to the percentage of the proposed salary reduction. Mr. Watson responded it is approximately 10%. Ms. Stotts-Burnett and Mr. Hall commended Mr. Watson for this gesture of goodwill.

The Board directed staff to rework the budget to reflect only a 5% reduction in the Retirement Administrator's salary. The final budget will be brought back to the July 8, 2009, Board meeting for approval.

9. **Administrator (Cont.)**

b. Discussion and Action on the Reed Smith LLP Law Firm Billings

Mr. Watson gave an overview of a memorandum dated June 16, 2009, regarding the billings of the Reed Smith law firm. The Board approved hiring Reed Smith attorneys Mr. Leiderman and Mr. Rieger, as temporary fiduciary counsel at the March 11, 2009, Board meeting. The attorneys were utilized for issues related to the use of prior years' excess earnings in relation to the retirement system's funded status and retiree ad hoc benefits.

The Board approved payment of attorney fees not to exceed \$20,000 without further Board approval. The Board approved this amount based on a written recommendation from counsel and staff. The written recommendation was based on a verbal quote from Mr. Leiderman. The attorneys performed fiduciary counsel for StanCERA from March through May 2009.

The entire cost of services is \$34,810.50. \$14,810.50 remains to be paid pending Board approval. Counsel and staff reviewed the billings and do not find anything unusual or duplicated. The billings appear to be correct and valid.

Motion was made by Mike Lynch and seconded by Darin Gharat to approve the payment of all Reed Smith billings for services rendered and the payment be made from StanCERA's Legal Contingency Reserve, a non-valuation asset reserve, as the services were performed in relation to the use of prior years' excess earnings.

Motion carried.

c. Discussion and Action on Stanislaus County Counsel's Letter to the Board of Retirement Dated June 17, 2009

Mr. Watson gave a brief summary of the documents Board members received regarding County Counsel's letter to the Board to withdraw as counsel to StanCERA effective September 30, 2009. Board members received from staff a written recommendation and a draft position description for General Counsel. It was noted the Board authorized a position of independent General Counsel a few years ago but never filled the position due to utilizing the services of County Counsel.

Board members reviewed and discussed the information presented. Mr. Ford asked that the position description is revised to have the Counsel report to the Board of Retirement. Mr. Watson answered Board members questions. Mr. Watson informed Board members that the larger 1937 Act retirement systems with assets over \$7 billion retain independent in-house counsel. Customarily, systems with lower assets do not have independent in-house counsel. StanCERA has only used County Counsel as its general counsel.

9. **Administrator (Cont.)**

- c. Discussion and Action on Stanislaus County Counsel's Letter to the Board of Retirement Dated June 17, 2009 (cont.)

Mr. Gharat shared he had done some research on the history of the creation of the position of general counsel for StanCERA. His research found that in 2005 the Board of Supervisors approved a Board agenda item regarding organizational changes to the classified positions at StanCERA. The Board agenda item included the addition of a position for General Counsel. Mr. Gharat expressed concern this Board agenda item did not specifically authorize or grant approval by resolution for StanCERA to hire General Counsel.

Mr. Gharat cited Government Code Sections 31529 and 31529.5, which mandate general counsel for the Board of Retirement is done by a Board of Supervisors' resolution. The statute further states that only "...after consultation with county counsel, that the county counsel cannot provide the Board [of Retirement] with legal services due to a conflict of interest or other compelling reason."

Mr. Gharat requested that County Counsel provide written or verbal clarification that the recent letter received from County Counsel, and the 2005 action of the Board of Supervisors, is in compliance with these mandates, before the Board of Retirement moves forward on the issue of independent counsel.

Mr. Burroughs said he would convey the information to Mr. Doering, County Counsel. Mr. Doering would provide either a written response or meet with the Board of Retirement.

Motion was made by Darin Gharat and seconded by Mike Lynch to: 1) request written or verbal clarification from County Counsel regarding whether the recent letter and the Board of Supervisors' 2005 action is in compliance with Government Code Sections 31529 and 31529.5, as the statutes are not specifically stated in the 2005 action; 2) after consultation with County Counsel and the Board of Retirement on this issue the Board of Retirement would make a decision on how it should move forward with counsel.

Motion carried.

10. **Correspondence**

- a. Email Update from Prima Capital Advisors LLC, Dated June 4, 2009
- i. The Wall Street Journal Article, "*In Commercial-Property Market, Hope for Revival Takes Hit*," Dated May 27, 2009
- b. Loomis Sayles & Company's Email Dated June 16, 2009, and Large Cap Growth Update through May 31, 2009

Board members reviewed the correspondence from Prima Capital Advisors and Loomis Sayles & Company.

11. **Closed Session**

Motion was made by Darin Gharat and seconded by Mike Fisher to commence to Closed Session at 3:47 p.m.

K. Cerny, N. Elliott, J. Parker and H. Skau left at 3:47 p.m.

- a. Public Employee Performance Evaluation - Title: Retirement Administrator Pursuant to Government Code Section 54957(b)(1)

Returned to Regular Session at 4:26 p.m.

K. Cerny, N. Elliott, J. Parker and H. Skau returned at 4:28 p.m.

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

Mr. Lynch announced that the Strategic Planning Objectives Committee set a meeting for 10:00 a.m. Wednesday, August 12, 2009. The Committee will meet to review the assumed actuarial rate of return (AAROR).

Mr. Lynch requested a possible educational workshop be held for all employer, employee, and retiree organizations, on retirement system funding and sustainability.

Mr. Gharat thanked Mr. Watson for the apology to Mr. Harte for the unprofessional environment at the past Investment Board meeting. He commended Mr. Harte for his work and dedication to StanCERA.

Mr. Gharat commended StanCERA staff for their show of support, solidarity, and professionalism especially during these tumultuous times. Their dedication to the members, the County, and the retirement system is also appreciated.

Mr. Hall concurred with Mr. Gharat. He commended Mr. Watson on the budget, and for coming forward to offer to decrease his salary in light of the recent economic downturns.

13. **Adjournment**

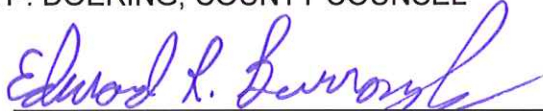
Meeting adjourned at 4:40 p.m.

Respectfully submitted,



Tom Watson, Retirement Administrator

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

By:   
Edward R. Burroughs, Assistant County Counsel