

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

832 12th Street, Suite 600

ATION Fax (209) 558-5976 www.stancera.org

Phone (209) 525-6393

Modesto, CA 95354 e-mail: retirement@stancera.org

MAIL: P.O. Box 3150 Modesto 95353-3150

AGENDA

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

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.

- Meeting Called to Order
- 2. Roll Call
- 3. Announcements
- 4. Public Comment
- 5. Consent Items
 - a. Approval of the June 25, 2013 Investment Meeting Minutes View
 - b. StanCERA Complaint Log for April 2013 through June 2013 View
 - c. Executive Director Goals Update Quarter 2 2013 and Strategic Action Plan View

5. Consent Items (Cont.)

- d. Approval of Service Retirement(s) Sections 31499.14, 31670, 31662.2 & 31810
 - 1. Blair Bradley, DER, Effective 07-27-2013
 - 2. Jeanne Chaffin, SUPERIOR COURTS, Effective 07-13-2013
 - 3. Linda Downs, BHRS, Effective 07-02-2013
 - 4. Douglas Fontan, DISTRICT ATTORNEY, Effective 07-02-2013
 - 5. Gregory Guerra, PW ROADS, Effective 07-04-2013
 - 6. Mary Hagemeister, ESMAD, Effective, 07-01-2013
 - 7. Gary Hayward, PW ROADS, Effective 07-11-2013
 - 8. Gary Hinshaw, CEO, Effective 07-13-2013
 - 9. Kenneth Mah, CSA, Effective 07-06-2013
 - 10. Raplh Miller, DCSS, Effective 07-20-2013
 - 11. Michael Myers, SHERIFF , Effective 07-27-2013
 - 12. Mark Neri, CITY OF CERES, Effective 06-24-2013
 - 13. Shari Pace, SUPERIOR COURTS, Effective 07-13-2013
 - 14. Peggy Richards, DISTRICT ATTORNEY, Effective 06-14-2013
 - 15. Marjorie Riley, HSA, Effective 07-20-2013
 - 16. Anabel Scott, HSA, Effective 07-27-2013
 - 17. Linda Torres, BHRS, Effective 07-26-2013
 - 18. Karen Weaver, CSA, Effective 07-06-2013
 - 19. Calvin Xavier, PW ROADS, Effective 04-16-2013
- e. Approval of Deferred Retirement(s) Section 31700
 - 1. Derek Cray, CITY OF CERES, Effective 12/07/2012
 - 2. Karina Garcia, CSA, Effective 07/06/2013
 - 3. Jose Juarez, BHRS, Effective 06/04/2013
 - 4. Shawn May, SHERIFF, Effective 10/13/2011
 - 5. Elizabeth Alberto Vargas, CSA, Effective 06/22/2013
- f. Approval of Disability Retirement **Section 31724**
 - 1. Gene Braham, SHERIFF, Service Connected, Effective 08/13/12
 - 2. Katherine Fast, CSA, Non-Service Connected, Effective 07/24/13
 - 3. Jorge Longoria-Gonzalez, SHERIFF, Service Connected, Effective 04/03/12
- 6. <u>Strategic Investment Solutions (SIS), Inc.</u>
 - a. Monthly Performance Review for the Month Ending June 30, 2013 View
 - b. Report on "Top 10 Holdings" of StanCERA Investment Managers as of June 30, 2013 <u>View</u>
 - c. Presentation on Fixed Income Part 3 View

7. Executive Director

- a. Due Diligence Report Update View
- b. Legislative Update: SB 13 Dawn Lea View

8. <u>Closed Session</u>

- 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: Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate District, Case No. H038894 Government Code Section 54956.9(d)(1)
- 9. <u>Members' Forum (Information and Future Agenda Requests Only)</u>
- 10. Adjournment



STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12th 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

June 25, 2013

Members Present: Gordon Ford, Maria De Anda, Donna Riley, Ron Martin,

Darin Gharat, Michael O'Neal

Members Absent: Jeff Grover, Jim DeMartini, Mike Lynch

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

Jeanine Bean, Superior Court

Meeting Called to Order

Meeting called to order at 2:04p.m. by Darin Gharat, Chair.

2. Roll Call

3. Announcements

Kellie Gomes announced a necessary change in retirement date for a member for the minutes of the June 12 administration meeting.

Rick Santos, Director reminded Trustees that we will be missing 4 members for our July 10th Administration meeting due to our Due Diligence trip. If any of the 5 remaining Trustees may not be able to attend the July 10th meeting, they should contact Kellie as soon as possible. If we do not have a quorum, we will have to have an Admin/Investment meeting combo on the July 23rd.

4. Public Comment

None

5. Consent Items

Motion was made by Maria De Anda and seconded by Donna Riley to approve the following items with the correction made to Kenneth Slamon Jr.'s retirement date to read 6/18/13 and not 6/17/13 as reflected in the June 12 minutes:

Motion carried

- a. Approval of the June 12, 2013 Administrative Meeting Minutes
- 6. Semi-Annual Performance Report by Capital Prospects LLC
 - a. StanCERA Exhibit: Capital Prospects Quarterly Value Added

Presenters: Marilyn Freeman, CCO Principal Manager

Elizabeth Knope Principal manager, EEO Officer

Investment Style: Small Cap Value

Initial funding and date: \$49.1 million 1/2009

• Ending Value on 5/31/13: \$83.5 million

Recent Quarter Return Ending 3/31/13 (Net): 12.7%

1 Year Return: 23.9%3 Year Return: 15.1%

• Since Inception Return: 19.9%

7. <u>Semi-Annual Performance Report by Legato Capital Management LLC</u>

a. StanCERA Exhibit: Legato Capital Management Quarterly Value Added

Presenters: Victor Hymes CEO-CIO

Doug Porter, CFA, CAIA, FRM -Senior Vice President

Investment Style: Small Cap Growth

Initial funding and date: \$28.3 million 1/2009

• Ending Value on 5/3/13: \$74.3 million

Recent Quarter Return Ending 3/31/13 (Net): 13.8%

1 Year Return: 17.6%3 Year Return: 15.0%

• Since Inception Return: 21.2%

8. Strategic Investment Solutions (SIS), Inc.

a. Monthly Performance Review for the Month Ending May 31, 2013

Monthly performance -.32% Fiscal YTD - 16.48% Fiscal YTD alpha -2.81% Total fund value as of May 31, 2013: \$1,571,902,645

- b. Report on "Top 10 Holdings" by StanCERA Investment Managers as of May 31, 2013.
- c. Presentation on Fixed Income Part 2

9. <u>Executive Director</u>

 a. Discussion and Action Regarding BNYM Amendment to Securities Lending Agreement

Motion was made by Ron Martin and seconded by Maria De Anda to accept the BNYM Amendment to the Securities Lending Agreement.

Motion carried

- b. CALAPRS Administrator's Roundtable Rick Santos provided an update
- c. CALAPRS Benefit's Roundtable Dawn Lea provided an update
- d. CALAPRS Attorney's Roundtable Fred Silva provided an update

10. 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: Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate District, Case No. H038894 Government Code Section 54956.9(d)(1)

10. Closed Session (Cont.)

d. Discussion and Action Regarding Investment in White Oak Rollcall Vote Required. Government Code Section 54956.81)

Motion was made by Maria De Anda and seconded by Michael O'Neal to authorize Paul Harte, Strategic Investment Solutions (SIS), Rick Santos, Director of StanCERA and Scott Smith of Hanson and Brigett to negotiate a Side Letter Agreement with White Oak. The Board authorized Rick Santos to enter into all necessary agreements with White Oak provided that White Oak agrees to the additional terms specified by the Board.

Roll Call Yes: Maria DeAnda, Donna Riley, Michael O'Neal, Darin Gharat,

and Ron Martin

Roll Call No: Gordon Ford

Members Absent: Jeff Grover, Jim DeMartini, Mike Lynch

Motion was made by Maria De Anda and seconded by Ron Martin to enter into closed session at 4:00 pm. Motion carried. Trustee Michael O'Neal and Trustee Joan Clendenin recused themselves.

Motion was made by Maria De Anda and seconded by Ron Martin to return from closed session at 4:41pm. Motion carried.

Nothing further to report out

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

Trustee Gharat gave a final farewell to Trustee Ron Martin for his years of dedicated service to the StanCERA Board. Staff presented Trustee Martin with a commemorative clock, his trustee portrait, and a gift card.

12. Adjournment

Meeting adjourned at 5:07p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:

FRED A. SILVA, GENERAL LEGAL COUNSEL

Fred A. Silva, General Legal Counsel



STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12th 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

PRESENTATION FOR BOARD OF RETIREMENT MEETING ON JULY 23, 2013

DATE:

July 1, 2013

TO:

Retirement Board

FROM:

Kathy Herman, Operations Manager

SUBJECT:

StanCERA Complaint Log

There were one hundred sixty-nine (169) retiree complaints logged between April 1, 2013, and June 30, 2013. A summary of these complaints follows:

Number of Complaints	Caller Status	Nature of Complaints
1	Retiree	RESCO Insurance sent an invoice to a retiree for unpaid insurance premiums that were already deducted from their paycheck.
1	Retiree	RESCO Insurance failed to deduct monthly premiums from a retiree's paycheck.
1	Retiree	RESCO Insurance failed to reimburse retirees for their cancelled insurance coverage.
1	Retiree	RESCO Insurance representative, Patrick, failed to help retiree with insurance matter so retiree is cancelling medical coverage.
3	Retiree	RESCO Insurance cancelled dental coverage even though premiums had been paid by retirees.
1	Retiree	The retiree payroll remittance advice envelopes arrived at their mailing address in unsealed envelopes for 3 consecutive months.
161	Retiree	Concern expressed that the Public Records Request by the organization Transparent California revealed personal information regarding StanCERA retirees.

This is an increase of 123 complaints from the previous report.

Kathy Herman, Operations Manager

Rick Santos, Executive Director



STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12th 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

7/23/13 Item 5.c

Held on July 23, 2013

TO: StanCERA Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: Executive Director Goals Update Quarter 2 2013 and Strategic Action Plan
- II. ITEM TYPE: Consent
- III. RECOMMENDATION: Approve progress on Director Goals and Strategic Action Plan
- IV. ANALYSIS: This is the second quarter update on the Executive Director Goals for 2013 and an update on the progress for the Organizational Strategic Action Plan for 2010-2013. In the past, updates prior to this report explicitly linked the Executive Director Goals with the Strategic Action Plan. However, in January, a new set of Director Goals for 2013 were approved by the Board of Retirement. These goals did not contain the explicit link with the Strategic Action Plan, since a new plan is set to go into effect at the beginning of next calendar year. As such, the update on the Director goals looks considerably different than last year's. Beginning with the first calendar year after the Organization has a new Strategic Plan in place, the link between the two documents will be resumed.

Executive Director Goals (Attachment 1)

This document lists the goals set forth by the Executive Director in January 2013. For tasks that are expected to be ongoing and regular throughout the year, a list of the Quarter 2 progress is laid out. For other tasks that ultimately have a resolution, the tasks completed thus far are reported out.

This document takes a different approach to reporting. It uses color coding and the following "stop light" symbols to suggest progress:

- Green light = Tasks completed thus far
- Yellow light = Tasks incomplete but not late; yet still on the Director's radar
- Red light = Tasks incomplete and have missed their intended deadline

There is one area in this quarter's goals that has a "red light" attached to it. Staff has been revising the redeposit process for the past several months and has made considerable progress in the completion of this task; however, we did miss our goal of Quarter 2 2013. While this project has not been a high priority for staff, we do intend to finish it by this fall.

As a side note, last quarter's update included another "red light" item. This had to do with the number of outstanding disability applications being greater than the goal of 18. During the last quarter, benefits staff worked extremely hard internally and with disability counsel to reduce this number to 16. We will continue to pursue our efforts to reduce that number even further.

Strategic Action Plan (Attachment 2)

This document is divided into three sections; tasks that are on going in nature, those that have a specific resolution and incomplete ad hoc Board requests. Only tasks that are on going or have not been completed are part of this document. Many of the tasks in the original Strategic Action Plan have been completed and as such, are not a part of this document. Tasks that are ongoing will simply list the action taken during the quarter being reported out. This information will then be updated each subsequent quarter and the prior quarter's action removed. Those tasks that have a specific resolution will list whether the item has been completed and if so, it will be removed in subsequent quarters.

Rick Santos, Executive Director

Kathy Herman, Operations Manager

Attachment 1 Executive Director's Goals for 2013 Quarter 2 Update

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts and employee groups

Anticipated Completion Date: Ongoing



- Ouarter 2 Progress Tasks Completed
 - ✓ Employee notice regarding an increase in Employee Contributions.

 Accompanied with access to a spreadsheet that calculates the change
 - ✓ Face to face meetings, onsite meetings with several StanCERA special districts regarding new employer contribution rates
 - ✓ Notification to retired members regarding public records request
 - ✓ Notifications to members regarding recent election
 - ✓ 2013 pre-retirement seminar
 - ✓ Several meetings with County CEO's office regarding various issues
- 2. Revise member redeposit process

Anticipated Completion Date: Quarter 2 2013



- Tasks Completed
 - ✓ Process has been developed and documented
 - ✓ Rationale for the process change has been documented



- Tasks Not completed
 - ✓ Finish testing of the process regarding all possible redeposit scenarios
 - ✓ Implementation
- 3. Complete Custodial Bank Study and possible transition

Anticipated Completion Date: Quarter 4 of 2013



- Incomplete
- Staff is meeting with consultant on July 30 to begin the RFP process

4. Complete Organizational Strategic plan for fiscal years 13-14, 14-15 and 15-16

Anticipated Completion Date: June 2013 (projected July/August due to recent change)



- ✓ Strategic Planning Objectives Committee Meeting February
- ✓ Facilitator Hired February
- ✓ Strategic Planning Meeting held on July 17

5. Complete Actuarial audit of experience study and 2012 annual valuation

Anticipated Completion Date: September 2013



- ✓ 2012 annual valuation and experience study complete January 2013
- ✓ Secured services for a temporary auditing actuary
- ✓ Audit begun June 2013

6. Revise Investment Policy Statement

Anticipated Completion Date: Prior to completion of the transition to alternatives or end of calendar year 2013, whichever is sooner



✓ Direct Lending module – 3/26



- ✓ Biennially required revisions and recommendations
- ✓ Real estate module
- ✓ Infrastructure module

7. Complete transition to alternative investments

Anticipated Completion Date: Quarter 4 2013/Quarter 1 2014



- ✓ Raven due diligence complete and funding begun
- ✓ Medley due diligence complete and funding begun
- ✓ White Oak due diligence complete

8. Incorporate cash flow matching of short-term liabilities

Anticipated Completion Date: Shortly after Board decides whether to alter fixed income portfolio



- ✓ Staff met with Dodge & Cox on April 26th and discussed details for cash flow matching
- ✓ The actual move to cash flow matching is not difficult and staff is currently projecting cash flow imbalances for the coming year
- ✓ Staff will match 2 to 3 years of cash flows after the decision (if any) is made to alter fixed income portfolio

9. Complete Trustee Elections

Anticipated Completion Date: Seat 2, June 2013; Seat 7, December 2013



- Tasks Complete
 - ✓ Seat 2 Election complete

10. Begin studying and implementation of an internal formal peer review process

Anticipated Completion Date: December 2013



11. Complete biennial review of by-laws

Anticipated Completion Date: December 2013



✓ Staff has compiled a list of all the by-laws issues that need to be addressed

12. Complete a preliminary review of capital market conditions

Anticipated Completion Date: October 2013



✓ Staff will undertake this task in the fall of 2013

13. Continue ongoing process review and organizational structure review

Anticipated Completion Date: Mostly on going



✓ Part of the new Strategic Objective Plan will be used to complete this goal

14. Continued monitoring of StanCERA lawsuits

Anticipated Completion Date: Ongoing





- ✓ Numerous meetings with special counsel and general counsel
- ✓ Data gathering for initiation of one new lawsuit
- ✓ Coordination of insurance issues
- ✓ Mediation session

15. Explore opportunities for Board educational sessions

Anticipated Completion Date: Ongoing



- Tasks Completed
 - ✓ Active vs. Passive Investing; "The Value Added Concept"
 - ✓ Bonds and Pension Liabilities Basics



• Incomplete

- ✓ Cash overlay
- ✓ Bonds and Pension Liabilities "When is a move to fixed income attractive?"

16. Director Professional Development

Anticipated Completion Date: Ongoing



- Tasks Completed
 - ✓ Society of Actuaries webcast on ethics

17. Oversee administrative functions

Anticipated Completion Date: Ongoing

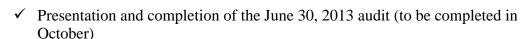


Quarter 2 Progress – Tasks Completed

- ✓ All agenda and minute production for all Board and Committee Meetings
- ✓ Facilitation of Board and Staff travel
- ✓ Quarterly accounting reconciliations and journal entries complete through April
- ✓ 2nd Quarter newsletter
- ✓ All retiree payrolls complete
- ✓ Member contributions and refunds up to date
- ✓ Presentation of 2013-2014 Administration Budget
- ✓ Completion of due diligence trips (July 2013)
- ✓ 18 or less outstanding disability applications

Last quarter we reported out that there were 20 outstanding disability applications. This number was much higher than we would like to see, not only from a goals perspective but from a general comfort level as well. In this quarter's report we are very happy to report out that benefit staff has been working diligently both internally and with our disability counsel to reduce this number to a more manageable level. In fact staff has reduced the number of outstanding disabilities this month to 16. Staff is continuing to work with counsel and refining our internal process to look for efficiencies and to reduce this number even more.

• Outstanding Items – Yet to be completed



Attachment 2 - 2013 Strategic Action Plan (SAP) Quarter 2 Progress Update

SAP Tasks on going in nature

- 1) Periodically review and revise the investment policy as needed
 - Nothing new to report out
- 2) Periodically review and revise assumptions as needed
 - Nothing new to report out
- 3) Conduct regular discussions with Strategic Investment Solutions (SIS)
 - ✓ Monthly Investment Meetings
 - ✓ Numerous preparation meetings for direct lending candidates
 - ✓ Ongoing and regular meetings with alternative investment legal counsel
 - ✓ Meetings regarding performance measurements
 - ✓ Meetings regarding cash transitions to alternative investments
 - ✓ Cash flow management discussions
 - ✓ Due diligence discussions and preparations
 - ✓ Discussions regarding changes to fixed income portfolio
 - ✓ Discussions regarding changes in our custodial bank
 - ✓ Discussions regarding manager performance monitoring
- 4) Periodically discuss key investment decisions with experts as needed
 - ✓ Monthly SIS reports
 - ✓ Monthly Investment Manager reports
 - ✓ Alternative monitoring and discussion
 - ✓ Due diligence
 - ✓ Value added concept and how that relates to a manager's disposition
 - ✓ Positioning of fixed income portfolio in today's economic environment
- 5) Maintain current information on website
 - ✓ Current quarter information
 - o Board Agenda information
 - Board minutes
 - o Board audio
 - o Pension reform information updates, handbooks and calculators
- 6) Maintain educational sessions for interested stakeholders
 - ✓ Staff
 - Cash flow overlay strategy
 - ✓ Board study sessions
 - o Bonds and Pension Liabilities Basic
 - ✓ Stakeholder visits
 - Onsite meetings with plan sponsors regarding employer rate changes
- 7) Explore other sources of communication with Plan Sponsors and Members
 - Nothing new to report out

Attachment 2 - 2013 Strategic Action Plan (SAP) Quarter 2 Progress Update

- 8) Gather and report benchmarking data against other Systems
 - Nothing new to report out
- 9) Analyze benchmarking data
 - Nothing new to report out
- 10) Communicate with peers in other pension Systems
 - ✓ Director ongoing email and telephone communication with other System Leaders
 - ✓ SACRS meeting
 - ✓ Director Roundtable
- 11) Continue to contract with established knowledgeable attorneys
 - ✓ Current contracts
 - o Hanson and Bridgett
 - o Damrell, Nelson, Schrimp, Pallios, Pacher & Silva
 - o Reed Smith
 - o Ted Cabral, Disability Attorney
- 12) Explore opportunities to offer educational sessions at StanCERA
 - ➤ 1 staff member participation in CFA exam process
- 13) Identify high quality educational opportunities and inform Board Members
 - ✓ Bonds and pension liabilities "When is a move to fixed income attractive?" Fall 2013
 - ✓ Cash flow overlay strategies Target allocation vs. cash drag on returns TBD
- 14) Ensure that StanCERA processes are completed on time and to standards
 - ✓ All major processes completed on time
 - o Board agenda and minute production
 - o 2nd quarter retiree payrolls
 - o 2nd quarter member refunds
 - Disability retirement applications reduced below required standard (see Executive Director goals for a further explanation)
- 15) Staff and Board to attend approved educational opportunities
 - ✓ Staff
 - o CALAPRS Benefits Roundtable
 - o CALAPRS Attorney's Roundtable
 - o CALAPRS Accountant's Roundtable
 - o GASB Update w/Brown Armstrong CPA's
 - o GASB/Accounting Update w/MGO
 - o SACRS semi-annual conference
 - ✓ Board
 - o SACRS semi-annual conference

Attachment 2 - 2013 Strategic Action Plan (SAP) Quarter 2 Progress Update

- 16) Search out other Systems' websites for best practices and ideas for the future
 - Nothing new to report out
- 17) Enhance website based on research of other Systems' websites
 - Nothing new to report out
- 18) Track and resolve post-implementation Tyler issues as needed
 - Nothing new to report out

SAP Tasks with a specific resolution

- 1) Explore and make recommendations regarding document imaging
 - Incomplete; This efficacy and completion of this task should be reevaluated and included in the new Organizational Strategic Plan if so desired

Ad Hoc Board Requests

- 1) StanCERA Payroll Independence
 - ✓ Staff is preparing an update on this issue for the August Administration Meeting
- 2) Feasibility study regarding a change of custodial bank
 - ✓ Staff is meeting with consultant on July 30 to begin RFP Process

MARKET UPDATE

U.S. EQUITY

The Federal Reserve said risks to the outlook for the U.S. economy and job market have eased since last fall, but said it would keep buying bonds given the still high level of unemployment.

Domestic equity markets were lower across the board in June, with large cap stocks leading the decline. The Russell 1000 Growth Index was down -1.88% for the month and the Russell 1000 Value Index was down -0.88%. The Russell 2000 Growth Index was down -0.62% and the Russell 2000 Value was down -0.41%. The S&P 500 Index ended the month down -1.34%. The Russell 3000 Index was up +14.06% through the first two quarters of calendar year 2013.

The S&P 500 Index has a trailing P/E ratio of 18.4 and a forward 12-month estimate P/E ratio of 14.6 and dividend yield of 2.1%.

Corporate merger highlights for the month included: Dell's board of directors unanimously recommended an offer from Michael Dell and Silver Lake Partners to take the company private for \$24.4 billion; Heinz received all regulatory approvals needed to sell itself to Berkshire Hathaway and private equity firm 3G Capital for \$23.2 billion; AstraZeneca will buy U.S. respiratory drug specialist Pearl Therapeutics for \$1.15 billion; Travelers will buy Dominion of Canada General Insurance Co. for about \$1.1 billion; Google is finalizing a deal to acquire Israeli based online mapping company Waze for \$1.3 billion; Business information provider IHS plans to acquire R.L. Polk, owner of Carfax, for \$1.4 billion; Softbank agreed with Sprint Nextel to raise its offer for the U.S. wireless carrier to \$21.6 billion to fend off a counter bid by Dish Network; Apollo Tyres will acquire Cooper Tire & Rubber for \$2.5 billion; Gannett will buy TV station owner Belo for \$2.2 billion in a deal that will make Gannett the USA's fourth largest owner of major network affiliates; U.S.-bill acquire Germany's largest cable operator Kabel Deutschland for \$10 billion; U.S. based Royalty Pharma dropped a hostile bid worth up to \$8 billion for Irish drug maker Elan; Rosneft plans to sign a deal to supply China with oil worth \$60 billion, according to Vladimir Putin, as ties between Russia and China become tighter; Tenet Healthcare will buy smaller rival Vanguard Health for \$1.7 billion; and, LifeLabs Medical Laboratory will acquire rival CML HealtCare in a deal valued at about \$900 million.

FIXED INCOME

The Commerce Department reported that gross domestic product expanded at 1.8% annual rate in the 1st quarter, revised down from a previously estimated 2.4% pace. The quality of growth was also poorer, with final sales, a measure of momentum, revised down from 1.8% to 1.2%, as lower consumer spending and business fixed investment easily offset higher housing, government purchases and net exports.

The economy added 195,000 jobs in June, however this figure was not enough lower the unemployment rate which remains at 7.6%, according to the Bureau of Labor Statistics. The core consumption deflator, the Fed's favorite measure of inflation, rose 0.1% in May, leaving the year-over-year increase unchanged at 1.1%, well below the Fed's 2.0% target.

The yield on the bellwether 10-year Treasury note soared to 2.52% at the close of June, up sharply from 2.16% at the close of May. At month-end, the 30-year bond yield was 3.52% with the 3-month T-bill remaining at 0.04%. The Barclays Capital US Aggregate Index was down by -1.55% in June reflecting the rise in yields. Non-US Bonds were down again with the JPM Non-US GBI Unhedged falling -0.32% and the JPM Emerging Markets Bond Index + down -5.30% for the month. US High Yield bonds followed suit as the Merrill Lynch HY Master II Index was down by -2.64%. Longer dated bonds were also down for the month with the U.S. Government Long Index falling -3.30%.

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

THE GOOD

*The Commerce Dept. reported that construction spending rose 0.5% in May, compared with April, when spending rose by 0.1%.

*New orders for durable goods jumped 3.6% in May, following an upwardly revised 3.6% increase in April.

*The federal government ran a budget deficit of \$512 billion from October 2012 through June 2013, according to CBO's estimates. That amount is almost \$400 billion less than the shortfall recorded during the same period last year because revenues have risen significantly, while the government's spending has declined.

MARKET UPDATE

*The Conference Board's consumer confidence index jumped to 81.4 in June, the best reading since January 2008 and up from 74.3 in May.

*The median price of new homes rose to \$263,000, up 3.3% from a year ago.

*The number of people who signed contracts to buy U.S. homes jumped in May to the highest level in six years.
*Personal income rose a slightly faster than expected

THE NOT SO GOOD

0.5% in May.

*The 30-year fixed mortgage rate surged to 4.46%, the highest rate in two years.

*The U.S. trade gap swelled more than 12% to \$45.0 billion in May, the biggest month-to-month increase in two years.

*U.S. consumers increased their debt in May by a seasonally adjusted \$19.6 billion, up from a \$10.9 billion gain in April and the largest amount in a year.

*The Institute for Supply Management reported that its index of service sector growth for June fell to 52.2 from 53.7 in May, its lowest level since February 2010.

*The Univ. of Michigan's consumer sentiment index fell 0.4 points to 84.1, still hovering near its six-year high.

*The Markit U.S. manufacturing purchasing managers index was 51.9 in June, the slowest rate of growth since last October and down from a reading of 52.3 in May.

NON-U.S. MARKETS

Recent economic data suggested that the British economy is recovering more robustly than had been thought. Indices of activity in manufacturing and services increased by the fastest rate in two years; a measure of business confidence was at its highest level since 2007; and a survey of credit conditions found a rise in demand for mortgages. Sober heads suggest the recovery is fragile and point to the lack of investment.

The Eurozone PMI rose 0.4 points to 48.7, still a bit below the 50.0 mark that differentiates between expansion and contraction but well up from last summer's low of 44.0 to the highest since February 2012.

Unemployment across the 17 European Union countries that use the euro hit another all-time high, rising 0.1% to 12.1% in May. April's unemployment rate was initially estimated to be 12.2%, but was revised down to 12.0% thanks to new data, particularly from France.

Broad money growth for the overall Eurozone continues to slow. M3 grew just 2.9% year-over-year in May, the sixth time that it has decelerated over the last seven months.

Japan's all-industry activity index – one of the more reliable cyclical indicators – rose 0.4% to 96.7 in April, suggesting that the economy is recovering from its export-led swoon in the second half of last year.

China's trade surplus fell 14.0% in June as imports and exports both dropped unexpectedly, suggesting a further slowdown in the Chinese economy.

Non-U.S. equities were lower in May. The MSCI ACWI Ex-U.S. was down -4.30 % (US dollars) in June. Developed stocks (EAFE) were down -3.53% while Emerging Markets lost -6.32% for the month.

CONCLUSION

Markets have shuddered at simply the talk of the US Federal Reserve tapering quantitative easing programs. Bond funds tracked by popular data providers have dumped massive amounts of bonds and even emerging market debt funds saw record redemptions. Spreads in Latin American, eastern European and Asian names whipsawed violently. Bid-ask spreads in China – one of the more liquid sovereigns – doubled.

Three Fed officials tried to calm investors by assuring them the Fed won't start trimming its bond purchases until the economy has strengthened. They emphasized that any pullback in quantitative easing will hinge on the economy, not a calendar date.

Even with central banks playing down the effect of their statements and actions, it seems likely that further volatility lies ahead.

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Jun-13	Month	Months	110	Year	Years	Years	Years	Years	Years
Russell 3000 Index	-1.30	2.69	14.06	21.46	12.31	18.63	7.25	5.84	7.81
Russell TOP 200 Index	-1.43	2.85	13.25	19.53	13.11	18.24	6.68	5.44	6.56
Russell TOP 200 Growth Index	-2.15	1.74	10.66	14.85	12.24	18.44	7.52	7.04	6.65
Russell TOP 200 Value Index	-0.74	3.92	15.81	24.29	13.94	17.99	5.75	3.81	6.47
S&P 500 Index	-1.34	2.91	13.82	20.60	12.77	18.45	7.01	5.66	7.30
Russell 1000 Index	-1.36	2.65	13.91	21.24	12.49	18.63	7.12	5.85	7.67
Russell 1000 Growth Index	-1.88	2.06	11.80	17.07	11.27	18.68	7.47	6.99	7.40
Russell 1000 Value Index	-0.88	3.20	15.90	25.32	13.62	18.51	6.67	4.57	7.79
Russell Mid-Cap Index	-1.21	2.21	15.45	25.41	11.06	19.53	8.28	6.92	10.65
Russell Mid-Cap Growth Index	-1.22	2.87	14.70	22.88	9.18	19.53	7.61	7.10	9.94
Russell Mid-Cap Value Index	-1.19	1.65	16.10	27.65	12.77	19.53	8.87	6.45	10.92
Russell 2000 Index	-0.51	3.08	15.86	24.21	10.28	18.67	8.77	5.82	9.53
Russell 2000 Growth Index	-0.62	3.74	17.44	23.67	9.69	19.97	8.89	6.89	9.62
Russell 2000 Value Index	-0.41	2.47	14.39	24.76	10.89	17.33	8.59	4.64	9.30
DJ US REIT Index	-1.76	-4.55	2.16	4.13	8.61	16.76	6.26	3.61	10.31
DJ-UBS US Commodity Index TR	-4.71	-9.45	-10.47	-8.01	-11.22	-0.26	-11.61	-3.38	2.39
DJ-UBS US Gold Index TR	-12.15	-23.38	-27.22	-24.26	-10.39	-1.29	4.82	9.28	12.50

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jun-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-4.30	-2.90	0.27	14.14	-1.01	8.48	-0.34	2.64	9.09
MSCI AC World Index	-2.88	-0.23	6.38	17.21	4.99	12.96	2.86	4.06	8.14
MSCI EAFE Index	-3.53	-0.73	4.47	19.14	1.58	10.55	-0.16	1.85	8.16
MSCI Emerging Markets index	-6.32	-7.95	-9.40	3.23	-6.70	3.72	-0.11	6.13	14.02
ML Global Government Bond Ex. U.S. Index	0.05	-4.88	-9.45	-10.93	-4.00	1.30	3.25	4.88	4.67
Euro	0.30	1.23	-1.41	2.43	-5.31	2.00	-3.77	0.24	1.25
Japanese Yen	1.65	-5.35	-12.96	-19.68	-9.83	-3.78	1.31	2.03	1.91
UK Pound Sterling	0.04	-0.12	-6.69	-3.30	-2.80	0.46	-5.29	-2.79	-0.84

US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Jun-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	0.01	0.02	0.04	0.11	0.08	0.11	0.29	1.45	1.72
BarCap Aggregate Bond Index	-1.55	-2.33	-2.44	-0.69	3.31	3.51	5.19	5.60	4.52
ML U.S. Corp/Govt Master Index	-1.87	-2.68	-2.83	-0.67	3.92	3.91	5.24	5.64	4.43
ML U.S. Corporate Master Index	-2.76	-3.36	-3.31	1.75	5.39	5.80	7.17	6.50	5.18
BarCap Mortgage Backed Securities Index	-0.96	-1.96	-2.01	-1.10	1.89	2.51	4.84	5.48	4.70
ML U.S. High Yield Master Index	-2.64	-1.37	1.46	9.44	8.02	10.40	10.49	8.77	8.65
JPM EMBI Global	-5.03	-6.06	-8.22	1.25	5.96	7.85	8.63	8.54	8.85

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Jun-13	Month	Months	.,,_	Year	Years	Years	Years	Years	Years
Russell 3000 Index	-1.30	2.69	14.06	21.46 V	12.31	18.63	7.25	5.84	7.81
Russell TOP 200 Index	-1.43	2.85	13.25	19.53	13.11	18.24	6.68	5.44	6.56
Russell TOP 200 Growth Index	-2.15	1.74	10.66	14.85	12.24	18.44	7.52	7.04	6.65
Russell TOP 200 Value Index	-0.74	3.92	15.81	24.29	13.94	17.99	5.75	3.81	6.47
S&P 500 Index	-1.34	2.91	13.82	20.60	12.77	18.45	7.01	5.66	7.30
Russell 1000 Index	-1.36	2.65	13.91	21.24	12.49	18.63	7 12	5.85	7.67
Russell 1000 Growth Index	-1.88	2.06	1180	17.07	11.27	18.68	7.47	6.99	7.40
Russell 1000 Value Index	-0.88	3.20	15.90	25.32	13.62	18.51	6.67	4.57	7.79
Russell Mid-Cap Index	-1.21	2.21	15.45	25.41	11.06	19.53	8.28	6 . 92	10.65
Russell Mid-Cap Index Russell Mid-Cap Growth Index Russell Mid-Cap Value Index	-1.22	2.87	14.70	22.88	9.18	19.53	7.61	7.10	9.94
Russell Mid-Cap Value Index	-1.19	1.65	16.10	27.65	12.77	19.53	8.87	6.45	10.92
Russell 2000 Index	-0.51	3.08	15.86	24.21	10.28	18.67	8.77	5.82	9.53
Russell 2000 Growth Index	-0.62	3.74	17.44	23.67	9.69	19.97	8.89	6.89	9.62
Russell 2000 Value Index	-0.41	2.47	14.39	24.76	10.89	17.33	8.59	4.64	9.30
DJ US REIT Index	-1.76	-4.55	2.16	4.13	8.61	16.76	6.26	3.61	10.31
DJ-UBS US Commodity Index TR	-4.71	-9.45	-10.47	-8.01	-11.22	-0.26	-11.61	-3.38	2.39
DJ-UBS US Gold Index TR	-12.15	-23.38	-27.22	-24.26	-10.39	-1.29	4.82	9.28	12.50

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jun-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-4.30	-2.90	0.27	14.14	-1.01	8.48	-0.34	2.64	9.09
MSCI AC World Index	-2.88	-0.23	6.38	17.21	4.99	12.96	2.86	4.06	8.14
MSCI EAFE Index	-3.53	-0.73	4.47	19.14	1.58	10.55	-0.16	1.85	8.16
MSCI Emerging Markets index	-6.32	-7.95	-9.40	3.23	-6.70	3.72	-0.11	6.13	14.02
ML Global Government Bond Ex. U.S. Index	0.05	-4.88	-9.45	-10.93	-4.00	1.30	3.25	4.88	4.67
Euro	0.30	1.23	-1.41	2.43	-5.31	2.00	-3.77	0.24	1.25
Japanese Yen	1.65	-5.35	-12.96	-19.68	-9.83	-3.78	1.31	2.03	1.91
UK Pound Sterling	0.04	-0.12	-6.69	-3.30	-2.80	0.46	-5.29	-2.79	-0.84

US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Jun-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	0.01	0.02	0.04	0.11	0.08	0.11	0.29	1.45	1.72
BarCap Aggregate Bond Index	-1.55	-2.33	-2.44	-0.69	3.31	3.51	5.19	5.60	4.52
ML U.S. Corp/Govt Master Index	-1.87	-2.68	-2.83	-0.67	3.92	3.91	5.24	5.64	4.43
ML U.S. Corporate Master Index	-2.76	-3.36	-3.31	1.75	5.39	5.80	7 17	6.50	5.18
BarCap Mortgage Backed Securities Index	-0.96	-1.96	-2.01	-1.10	1.89	2.51	4.84	5.48	4.70
ML U.S. High Yield Master Index	-2.64	-1.37	1.46	9.44	8.02	10.40	10.49	8.77	8.65
JPM EMBI Global	-5.03	-6.06	-8.22	1.25	5.96	7.85	8.63	8.54	8.85

MONTHLY PERFORMANCE REVIEW PERIOD ENDING JUNE 30, 2013

PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

			1	- PO	LICY
ASSET CLASS	MARKET VALUE		PERCENT	TARGET	RANGE
DOMESTIC EQUITIES	701,062,422		45.4%	41.9%	36.9% - 46.9%
NTERNATIONAL EQUITIES	265,371,351		17.2%	19.0%	16.0% - 22.0%
FIXED INCOME	511,987,307		33.2%	3 5.6%	31 9% - 39.3%
DIRECT LENDING	31,287,271		2.0%	2.0%	1.0% - 3.0%
REAL ESTATE SECURITIES	22,377,219		1.4%	1.5%	1.0% - 2.0%
SECURITY LENDING	(760,078)		0.0%	0.0%	0.0% 0.0%
CASH (equity managers only)	12,253,872		0.8%	0.0%	0.0% - 3.0%
OTAL PORTFOLIO	1,543,579,365		100.0%	100.0%	
		CURRENT	TARGET		
DODGE & COX LARGE CAP VALUE		10.5%	9.8%		
BlackRock R1000 VALUE INDEX DELAWARE LARGE CAP GROWTH		6.4%	6.0%		
BlackRock - R1000 GROWTH INDEX		8.1% 5.3%	7.3%		
CAPITAL PROSPECTS		5.3% 5.3%	5.0% 4.5%		
LEGATO CAPITAL		4.9%	4.0%		
BNY S&P 500 INDEX		5.5%	5.3%		
LSV ASSET MGMT - INTL EQ		8.5%	9.5%		
PYRAMIS INTL EQ		9.0%	9.5%		
DODGE & COX FIXED INCOME		26.1%	28.1%		
PIMCO		7.1%	7.5%		
MEDLEY		1.4%	1.0%		
RAVEN		0.6%	1.0%		
BlackRock - US REAL ESTATE SECURITI	ES INDEX	1.4%	1.5%		
SECURITY LENDING TOTALS		0.0%	0.0%		
TOTALS		100.0%	100.0%		

MONTHLY PERFORMANCE REVIEW PERIOD ENDING JUNE 30, 2013

PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION

ASSET CLASS MARKET VALUE	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *		
DOMESTIC EQUITIES	701,062,422	703,579,591	-0.36%	587,017,581	19.43%		
INTERNATIONAL EQUITIES	265,371,351	276,701,887	-4.09%	225,582,189	17.64%		
FIXED INCOME	511,987,307	522,589,682	-2.03%	527,666,263	-2 97%		
DIRECT LENDING	31,287,271	31,190,564	0.31%	0	N/A		
REAL ESTATE	22,377,219	22,773,573	-1.74%	29,088,038	-23.07%		
SECURITIES LENDING	(760,078)	(869,105)	12.54%	(2,533,570)	70.00%		
CASH (equity managers only)	12,253,872	16,911,996	-27.54%	14,391,207	-14.85%		
TOTAL PORTFOLIO	1,543,579,365	1,572,878,187	-1.86%	1,381,211,708	11.76%		
ASSET ALLOCATION (ACTUAL)		- 129 M		162	MA		
DOMESTIC EQUITIES	45.42%	44.73%	0.7%	42.50%	2.9%		
INTERNATIONAL EQUITIES	17.19%	17.59%	-0.4%	16.33%	0.9%		
FIXED INCOME	33.17%	33.23%	-0.1%	38.20%	-5.0%		
DIRECT LENDING	2.03%	1.98%	0.0%	0.00%	2.0%		
REAL ESTATE SECURITIES	1.45%	1.45%	0.0%	2.11%	-0.7%		
SECURITY LENDING	-0.05%	-0.06%	0.0%	-0.18%	0.0%		
CASH (equity managers only)	0.79%	1.08%	-0.3%	1.04%	-0.2%		
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							

MONTHLY PERFORMANCE REVIEW PERIOD ENDING JUNE 30, 2013 PRELIMINARY BASIS

MANAGER ALLOCATION

ASSET CLASS	MARKET VALUE	PERCENT	POL TARGET	ICY RANGE
DOMESTIC EQUITIES				III.I.WE
DODGE & COX - LARGE CAP VALUE	162,836,213	10.5%	9.8%	7.8% - 11.8%
BLACKROCK - R1000 VALUE INDEX	98,154,086	6.4%	6.0%	5.0% - 7.0%
DELAWARE - LARGE CAP GROWTH	124,506,584	8.1%	7.3%	5.8% - 8.8%
BLACKROCK - R1000 GROWTH INDEX	81,631,256	5.3%	5.0%	4.0% - 6.0%
CAPITAL PROSPECTS - SMALL CAP VALUE	82,384,896	5.3%	4.5%	3.5% - 5.5%
LEGATO CAPITAL - SMALL CAP GROWTH	75,122,726	4.9%	4.0%	3.0% - 5.0%
BNY S&P 500 INDEX	84,605,663	5.5%	5.3%	4.3% - 6.3%
TOTAL DOMESTIC EQUITIES	709,241,423	45.9%	41.9%	
FIXED INCOME				
DODGE & COX	402,991,869	26.1%	28.1%	25.6% - 30.6%
PIMCO	108,995,438	7.1%	7.5%	6.0% - 9.0%
TOTAL FIXED INCOME	511,987,307	33.2%	35.6%	
DIRECT LENDING				
MEDLEY CAPITAL	21,308,430	1.4%	1.5%	1.0% - 3.0%
RAVEN CAPITAL	9,978,841	0.6%	0.5%	0.0% - 2.0%
TOTAL INTERNATIONAL EQUITIES	31,287,271	2.0%	2.0%	
NTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	130,850,684	8.5% 🍝	9.5%	8.0% - 11.0%
PYRAMIS	138,595,538	9.0% •	9.5%	8.0% - 11.0%
TOTAL INTERNATIONAL EQUITIES	269,446,222	17.5%	19.0%	
REAL ESTATE SECURITIES			_	
BlackRock - US RE SECURITIES INDEX	22,377,219	1.4%	1.5%	1.0% - 2.0%
TOTAL SPECIAL SITUATIONS	22,377,219	1.4%	1.5%	0.0% - 3.0%
ECURITIES LENDING	(760,078)	0.0%	0.0%	0.0% / 0.0%
TOTAL StanCERA PORTFOLIO	1,543,579,365	100.0%	100.0%	

Page 3

MONTHLY PERFORMANCE REVIEW PERIOD ENDING JUNE 30, 2013

PRELIMINARY

10	TAL FUND CASH	BONDS	EOUTTEO	TOTAL
DOMESTIC EQUITIES	UAGII	DUNDS	EQUITIES	TOTAL
DODGE & COX - LARGE CAP VALUE	1,209,741		161,626,472	162,836,21
BLACKROCK - R1000 VALUE INDEX	0		98,154,086	98,154,08
DELAWARE - LARGE CAP GROWTH	2,395,684		122,110,899	124,506,58
BLACKROCK - R1000 GROWTH INDEX	0		81,631,256	81,631,25
CAPITAL PROSPECTS SMALL CAP VALUE	2,572,303		79,812,593	82,384,89
LEGATO CAPITAL - SMALL CAP GROWTH	2,001,046		73,121,680	75,122,72
BNY - S&P 500 INDEX	226		84,605,437	84,605,66
TOTAL DOMESTIC EQUITIES	8,179,001		701,062,422	709,241,42
FIXED INCOME				
DODGE & COX	15,488,886	387,502,983		402,991,86
PIMCO	11,338,855	97,656,583		108,995,43
TOTAL FIXED INCOME	26,827,741	485,159,566		511,987,30
DIRECT LENDING				
MEDLEY	0	21,308,430		21,308,43
RAVEN	0	9,978,841		9,978,84
TOTAL DIRECT LENDING	0	31,287,271		31,287,27
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT	2,570,648		128,280,036	130,850,68
PYRAMIS	1,504,223		137,091,315	138,595,53
TOTAL INTERNATIONAL EQUITIES	4,074,871) /	265,371,351	269,446,22
REAL ESTATE SECURITIES				
BLACKROCK - US REAL ESTATE SECURITIES INDEX	0		22,377,219	22,377,21
TOTAL SPECIAL SITUATIONS	0		22,377,219	22,377,21
SEÇÜRITIES LENDING	(760,078)			(760,07
TOTAL STANCERA PORTFOLIO	38,321,535	516,446,837	988,810,993	1,543,579,36
			·	

100.0%

Page 4

Equity managers
cash levels
are low

Fiscal 2013 +11.5390!

STANCERA

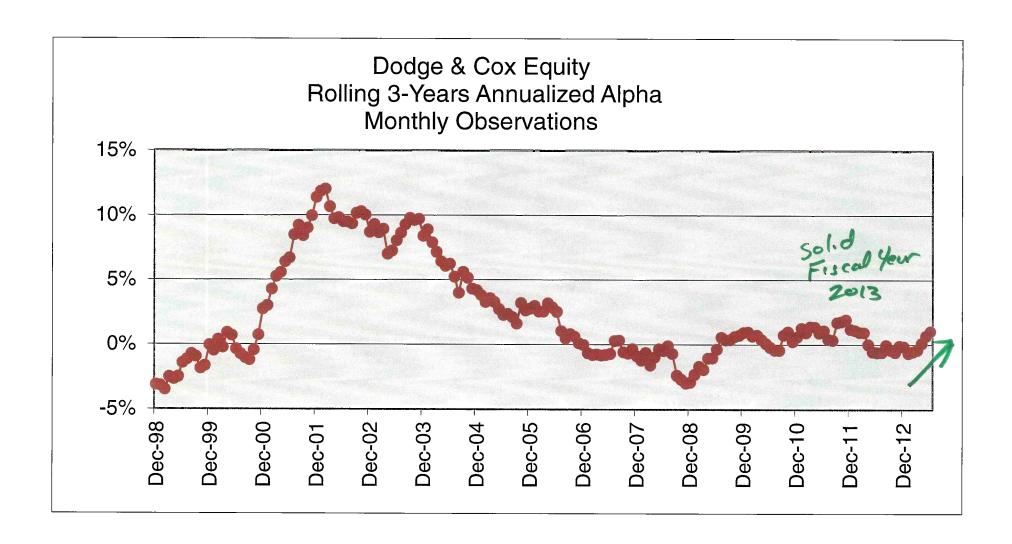
MONTHLY PERFORMANCE REVIEW PERIOD ENDING JUNE 30, 2013

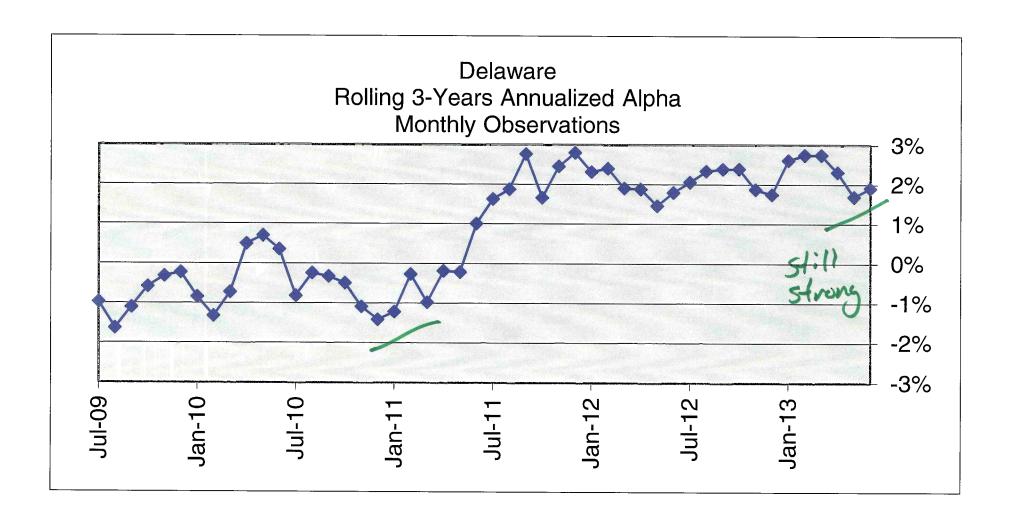
PRELIMINARY BASIS

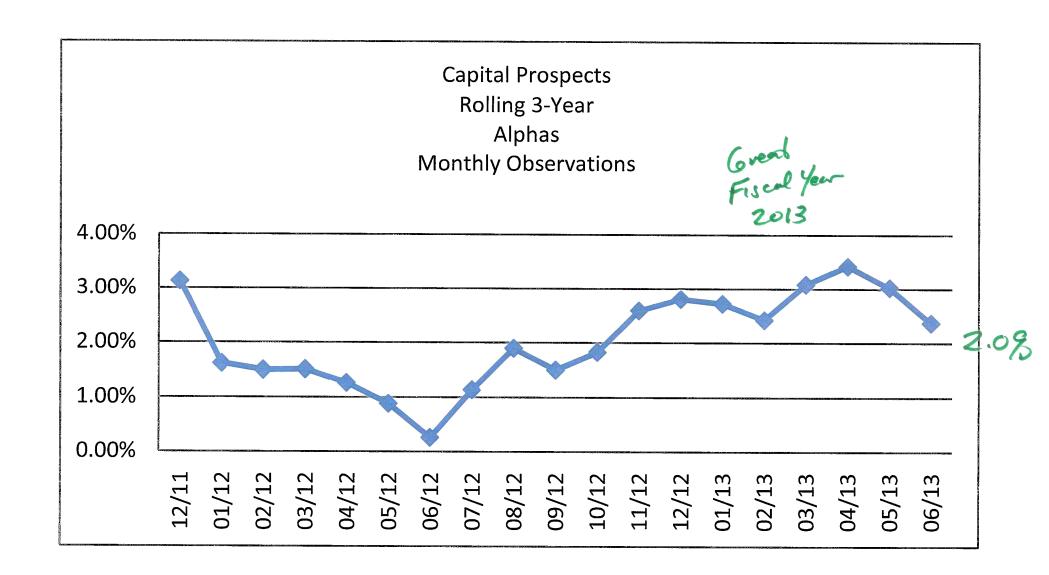
CURRENT	PERFORMANCE

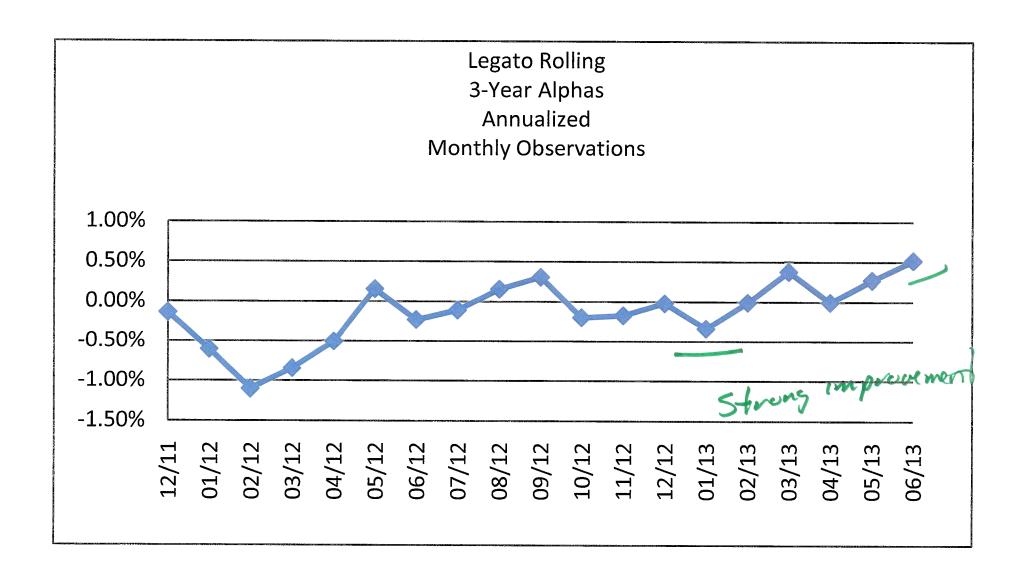
	MARKET VALUE	JUNE	ALPHA	MAY	ALPHA	EISCAL VID	Α1
DOMESTIC EQUITIES	WALKET VALUE	JOINE	ALFITA	IVIAT	ALPHA	FISCAL YTD	ALI
DODGE & COX LARGE CAP VALUE RUSSELL 1000 VALUE	161,626,472	-0.01% -0.88%	0.87%	3.28% 2.57%	0.71%	30.05% 25.32%	4.
BLACKROCK R1000 VALUE INDEX RUSSELL 1000 VALUE	98,154,086	-0.89% -0.88%	-0.01%	1.52% 2.57%	-1.05%	25.37% 25.32%	0.
DELAWARE - LARGE CAP GROWTH RUSSELL 1000 GROWTH	122,110,899	-0.96% -1.88%	0.92%	0.83% 1.86%	-1.03%	17.41% 17.07%	0.
BLACKROCK R1000 GROWTH INDEX RUSSELL 1000 GROWTH	81,631,256	-1.88% -1.88%	0.00%	1.87%	0.01%	17.18% 17.07%	0.
CAPITAL PROSPECTS RUSSELL 2000 VALUE	79,812,593	-1.09% -0.41%	-0.68%	2.83% 2.99%	-0.16%	31.00% 24.76%	6.
LEGATO CAPITAL RUSSELL 2000 GROWTH	73,121,680	1 11% -0.62%	1.73%	6.05% 5.07%	0.98%	26.92% 23.67%	3.
BNY · S&P 500 INDEX S&P 500	84,605,437	-1.34% -1.34%	0.00%	2.34%	0.00%	20.62%	0.
TOTAL DOMESTIC EQUITY Russell 3000 Index	701,062,422	-0.68% -1.30%	0.62%	2.84% 2.36%	0.48%	24.31% 21.46%	(2.
FIXED INCOME DODGE & COX BARCLAYS US AGGREGATE BOND	402,991,869	-1.71% -1.55%	-0.16%	-0.98% -1.78%	0.80%	2.59% -0.69%	3.
PIMCO BARCLAYS US AGGREGATE BOND	108,995,438	-1.89% -1.55%	-0.34%	-2.03% -1.78%	-0.25%	-0.03% -0.69%	0,
TOTAL FIXED INCOME BARCLAYS US AGGREGATE BOND	511,987,307	-1.75% -1.55%	-0.20%	0.95% -1.78%	2.73%	2.09% -0.69%	2.
DIRECT LENDING MEDLEY CAPITAL CUSTOM 9% ANNUAL	21,308,430	0.00% 0.75%		0.00% 0.75%		0.00% 1.50%	-1.5
RAVEN CAPITAL CUSTOM 9% ANNUAL	9,978,841	0.98% 0.75%		-0.59% <i>0.75</i> %		0.38% 1.50%	-1.7
TOTAL DIRECT LENDING CUSTOM 9% ANNUAL	31,287,271	0.31% 0.75%	<u> </u>	-0.19% 0.75%	 -	0.12% 1.50%	-1.
		0.7070		0.7378		1.50%	
INTERNATIONAL EQUITY LSV ASSET MGMT MSCI ACWI ex-US	128,280,036	-4.58% -4.30%	-0.28%	-1.69% -2.31%	0.62%	16.86% 14.14%	2.
PYRAMIS MSCI ACWI ex-US	137,091,315	-3.36% -4.30%	0.94%	-1.92% -2.31%	0.39%	17.93% 14.14%	3,
TOTAL INTERNATIONAL EQUITY MSCI ACWI ex-US	265,371,351	-3.95% -4.30%	0.35%	-1.81% -2.31%	0.50%	17.47% 14.14%	3.
REAL ESTATE SECURITIES BlackRock US RE Index DOW JONES US SELECT RE INDEX	22,377,219	-1.74% -1.77%	0.03%	-5.97% -5.96%	-0.01%	8.14% 8.14%	0.0
SECURITIES LENDING BNY MELLON CASH and SHORT-TERM INVESTMENTS	(760,078)	****	**************************************				
CASH 90-day US Treasury Bill	12,253,872	0.01% 0.01%	0.00%	0.02% 0.02%	0.00%	0.13% 0.13%	0.1
Total StanCERA Fund Policy Index	1,543,579,365	-1.61% -1.88%	0.27%	0.32% -0.07%	0.39%	14.60% 11.53%	3.
Actuary Rate of Assumption (8.00%) Actuary Rate of Inflation (3.50%)		0.67% 0.29%	-2.28% -1.90%	0.67% 0.29%	-0.35% 0.03%	8.00% 3.50%	6.6 11.1 Pag

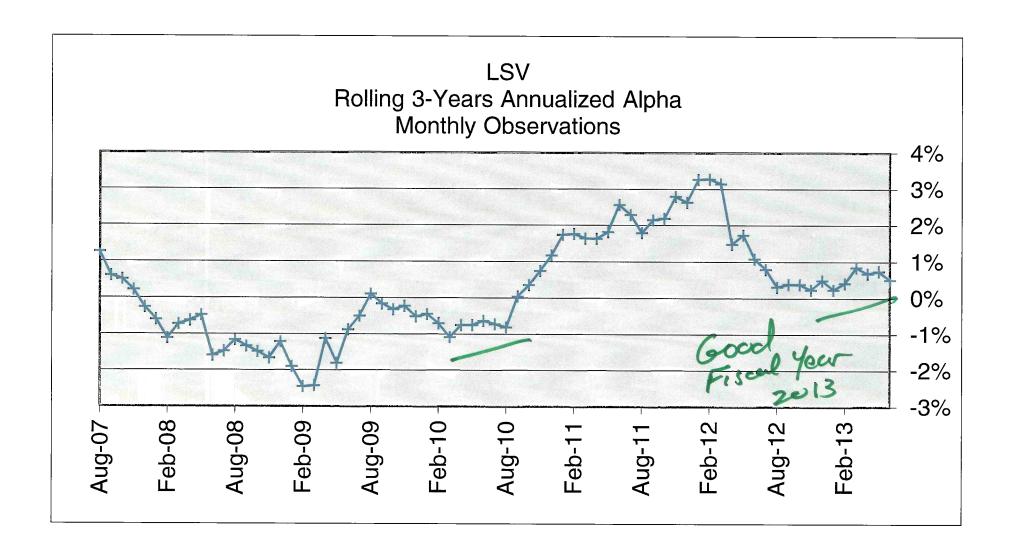
All active managers added value Fixed Year 2013! Hoodge & Cox Equily + Dodge & Cox FI

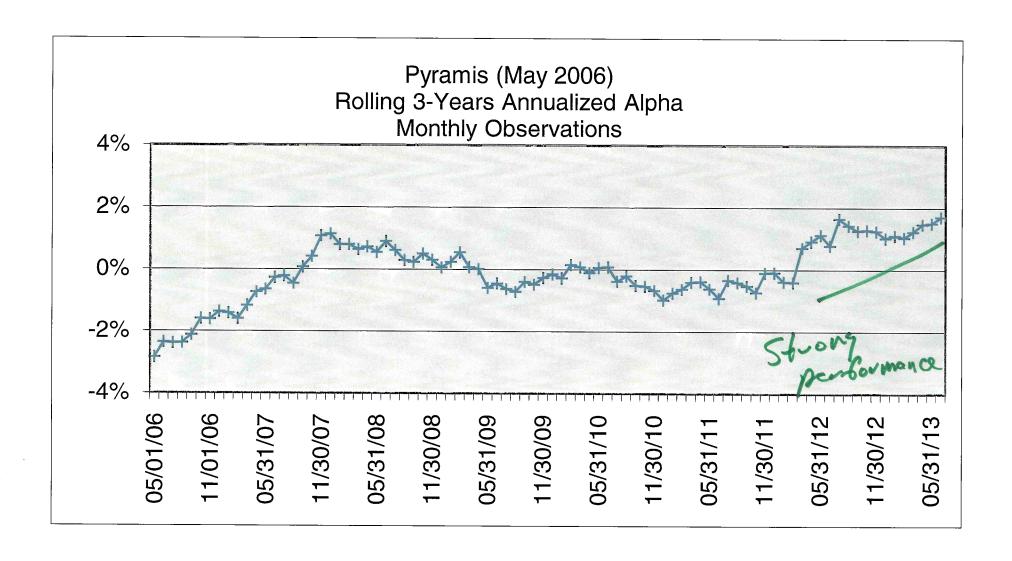


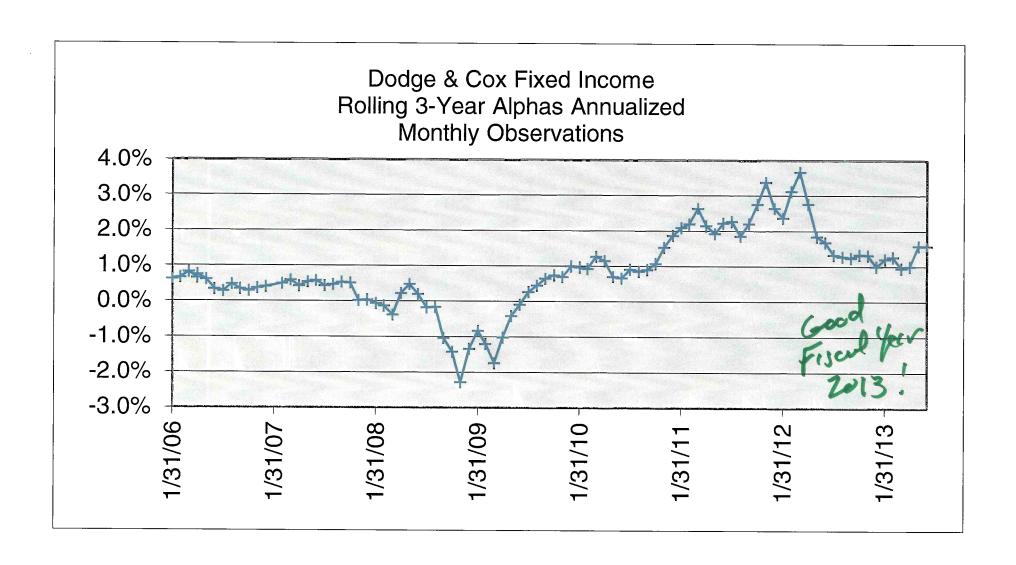












STANCERA Price Monitor Position Report

BlackRock Passive Large Cap Growth Manager Positions as of June 30, 2013

			\$ Value	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	7,246	\$2,873,420	3.52%	0.19%	396.53	430.2	8.49%	3.59%
Microsoft Corp.	MSFT	82,718	\$2,857,094	3.50%	0.19%	34.54	36.27	5.01%	0.11%
Google Inc.	GOOG	2,680	\$2,359,143	2.89%	0.15%	880.37	919.61	4.46%	-0.44%
INTL Business Machines	IBM	9,995	\$1,910,171	2.34%	0.12%	191.11	193.85	1.43%	-3.47%
Coca-Cola Co.	KO	37,040	\$1,485,689	1.82%	0.10%	40.11	40.23	0.30%	-4.60%
Philip Morris Intl.	PM	16,021	\$1,387,731	1.70%	0.09%	86.62	89.95	3.84%	-1.06%
Verizon Communications	VZ	27,194	\$1,355,079	1.66%	0.09%	49.83	50.28	0.90%	-4.00%
Pepsico Inc.	PEP	15,170	\$1,240,795	1.52%	0.08%	81.79	84.02	2.73%	-2.17%
Home Depot	HD	14,331	\$1,110,185	1.36%	0.07%	77.47	80.22	3.55%	-1.35%
Oracle Corp	ORCL	35,225	\$1,077,533	1.32%	0.07%	30.59	32.00	4.61%	-0.29%
TOP TEN HOLDINGS			\$17,656,841	21.63%	1.14%	Russell 1000 Growth	:	4.90%	

Total Portfolio Value Total StanCERA Value **\$81,631,256** \$1,543,579,365

BlackRock Passive Large Cap Value Manager Positions as of June 30, 2013

			\$ Value	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$PX	% Change	% Change
EXXON MOBIL CORP	XOM	52,037	\$4,701,581	4.79%	0.30%	90.35	93.25	3.21%	-0.95%
GENERAL ELECTRIC CO	GE	119,359	\$2,767,945	2.82%	0.08%	23.19	23.63	1.90%	-2.27%
CHEVRON CORP	CVX	23,141	\$2,738,499	2.79%	0.08%	118.34	124.12	4.88%	0.72%
PROCTER & GAMBLE CO	PG	32,892	\$2,532,375	2.58%	0.16%	76.99	80.97	5.17%	1.00%
JOHNSON & JOHNSON	JNJ	29,151	\$2,502,929	2.55%	0.16%	85.86	90.40	5.29%	1.12%
BERKSHIRE HATHAWAY INC	BRK/B	21,399	\$2,394,960	2.44%	0.16%	111.92	117.20	4.72%	0.55%
WELLS FARGO & CO	WFC	57,556	\$2,375,329	2.42%	0.06%	41.27	43.02	4.24%	0.08%
JPMORGAN CHASE & CO	JPM	44,947	\$2,355,698	2.40%	0.06%	52.41	55.01	4.96%	0.80%
PFIZER INC	PFE	77,794	\$2,179,021	2.22%	0.06%	28.01	28.68	2.39%	-1.77%
AT&T INC	T	62,048	\$2,169,205	2.21%	0.14%	34.96	35.88	2.63%	-1.53%
TOP TEN HOLDINGS			\$26,717,542	27.22%	1.28%	Russell 1000 Value		4.16%	

Total Portfolio Value Total StanCERA Value **\$98,154,086** \$1,543,579,365

Capital Prospects Active US Small Cap Value Manager Positions as of June 30, 2013

			\$ Value	Weight	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000V	\$ PX	\$ PX	% Change	% Change
Hillenbrand, Inc	HI	49,688	\$1,178,104	1.43%	0.08%	0.09%	23.71	24.58	3.67%	-2.50%
Regal Beloit Corp	RBC	16,518	\$1,071,004	1.30%	0.07%	0.00%	64.84	65.54	1.08%	-5.09%
Belden Inc	BDC	20,790	\$1,038,050	1.26%	0.07%	0.16%	49.93	56.06	12.28%	6.11%
Meredith Corporation	MDP	20,553	\$980,380	1.19%	0.06%	0.12%	47.70	47.40	-0.63%	-6.80%
Littelfuse, Inc	LFUS	12,919	\$963,903	1.17%	0.06%	0.13%	74.61	82.67	10.80%	4.63%
Polyone Corporation	POL	36,571	\$906,234	1.10%	0.06%	0.19%	24.78	27.62	11.46%	5.29%
Hexcel Corp New	HXL	25,163	\$856,803	1.04%	0.06%	0.00%	34.05	34.86	2.38%	-3.79%
MB Financial, Inc	MBFI	30,741	\$823,849	1.00%	0.05%	0.00%	26.80	28.12	4.93%	-1.25%
Waddell & Reed	WDR	17,152	\$741,464	0.90%	0.05%	0.00%	43.23	48.62	12.47%	6.30%
A. O. Smith Corp	AOS	20,437	\$741,464	0.90%	0.05%	0.00%	36.28	38.51	6.15%	-0.02%
TOP TEN HOLDINGS			\$9,301,255	11.29%	0.60%	0.69%	Russell 2000 Value	e:	6.17%	

Total Portfolio Value Total StanCERA Value \$82,384,896

\$1,543,579,365

Delaware Investments Advisers Active Large Cap Growth Portfolio Positions as of June 30, 2013

			\$ Value	Weight	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
Visa Inc.	V	42,625	\$7,789,719	6.26%	0.50%	1.16%	182.75	189.38	3.63%	-1.27%
EOG Resources Inc.	EOG	51,150	\$6,735,432	5.41%	0.44%	0.41%	131.68	144.56	9.78%	4.88%
MasterCard Inc. Cl A	MA	11,225	\$6,448,763	5.18%	0.42%	0.82%	574.50	589.79	2.66%	-2.24%
Crown Castle International Corp.	CCI	87,700	\$6,348,603	5.10%	0.41%	0.26%	72.39	76.35	5.47%	0.57%
Adobe Systems Inc.	ADBE	133,525	\$6,083,399	4.89%	0.39%	0.11%	45.56	47.49	4.24%	-0.66%
Kinder Morgan Inc.	KMI	157,140	\$5,994,891	4.82%	0.39%	0.28%	38.15	39.75	4.19%	-0.71%
QUALCOMM Inc.	QCOM	93,350	\$5,702,752	4.58%	0.37%	1.28%	61.09	61.85	1.24%	-3.66%
Liberty Interactive Corp. Interactive Series	LINTA	238,700	\$5,492,487	4.41%	0.36%	0.01%	23.01	24.49	6.43%	1.53%
Celgene Corp.	CELG	44,925	\$5,255,327	4.22%	0.34%	0.59%	116.98	135.05	15.45%	10.55%
priceline.com Inc.	PCLN	6,300	\$5,208,021	4.18%	0.34%	0.52%	826.67	902.05	9.12%	4.22%
TOP TEN HOLDINGS	•		\$61,059,392	49.05%	3.96%	5.45%	Russell 1000 Grov	vth:	4.90%	

Total Portfolio Value Total StanCERA Value **\$124,506,584** \$1,543,579,365

Dodge & Cox Equity Active US Large Cap Value Manager Positions as of June 30, 2013

			\$ Value	Weight	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000V	\$ PX	\$ PX	% Change	% Change
WELLS FARGO & CO	WFC	160,072	\$6,606,171	3.72%	0.43%	2.40%	41.27	43.02	4.24%	0.08%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$5,809,925	3.70%	0.38%	0.40%	62.81	66.68	6.16%	2.00%
MICROSOFT CORP	MSFT	165,000	\$5,697,450	3.41%	0.37%	0.00%	34.53	36.27	5.04%	0.87%
COMCAST CORP-CLASS A	CMCSA	135,063	\$5,656,438	3.39%	0.37%	0.70%	41.88	43.99	5.04%	0.87%
HEWLETT-PACKARD CO	HPQ	225,005	\$5,580,124	3.37%	0.36%	0.60%	24.80	26.45	6.65%	2.49%
MERCK & CO. INC.	MRK	120,000	\$5,574,000	3.34%	0.36%	1.70%	46.45	48.23	3.83%	-0.33%
SANOFI-ADR	SNY	98,255	\$5,061,115	3.20%	0.33%	0.00%	51.51	51.90	0.76%	-3.41%
GENERAL ELECTRIC CO	GE	210,000	\$4,869,900	3.16%	0.32%	2.90%	23.19	23.43	1.03%	-3.13%
GLAXOSMITHKLINE PLC-SPON ADR	GSK	95,000	\$4,747,150	3.00%	0.31%	0.00%	49.97	51.87	3.80%	-0.36%
NOVARTIS AG-ADR	NVS	66,000	\$4,666,860	2.97%	0.30%	0.00%	70.71	73.47	3.90%	-0.26%
TOP TEN HOLDINGS	•		\$54,269,133	33.26%	3.52%	8.70%	Russell 1000 Value	e:	4.16%	

Total Portfolio Value Total StanCERA Value \$162,836,213

\$1,543,579,365

Legato Capital Management Active US Small Cap Growth Manager Positions as of June 30, 2013

			\$ Value	Weight	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000G	\$ PX	\$ PX	% Change	% Change
Ultimate Software Group Inc.	ULTI	9,000	\$1,055,610.00	1.41%	0.07%	0.50%	117.29	129.61	10.50%	3.58%
Portfolio Recovery Associates Inc.	PRAA	6,139	\$943,134.57	1.19%	0.06%	0.39%	153.63	141.98	-7.58%	-14.51%
CoStar Group Inc.	CSGP	7,184	\$927,238.88	1.13%	0.06%	0.54%	129.07	136.74	5.94%	-0.99%
Encore Capital Group Inc.	ECPG	25,032	\$828,809.52	1.12%	0.05%	0.08%	33.11	33.77	1.99%	-4.93%
Semtech Corp.	SMTC	22,011	\$771,045.33	1.10%	0.05%	0.34%	35.03	34.07	-2.74%	-9.67%
Beacon Roofing Supply Inc.	BECN	19,670	\$745,099.60	1.09%	0.05%	0.26%	37.88	40.27	6.31%	-0.62%
Neogen Corp.	NEOG	12,699	\$705,556.44	1.08%	0.05%	0.19%	55.56	57.77	3.98%	-2.95%
United Natural Foods Inc.	UNFI	12,977	\$700,628.23	1.07%	0.05%	0.39%	53.99	58.70	8.72%	1.80%
Triumph Group Inc.	TGI	8,561	\$677,603.15	0.97%	0.04%	0.00%	79.15	83.18	5.09%	-1.84%
Proto Labs Inc.	PRLB	10,390	\$675,038.30	0.95%	0.04%	0.05%	64.97	62.72	-3.46%	-10.39%
TOP TEN HOLDINGS			\$ 8,029,764.02	11.11%	0.52%	2.74%	Russell 2000 Grow	th:	6.93%	

Total Portfolio Value Total StanCERA Value **\$75,122,726** \$1,543,579,365

BNY - S&P 500 Index Passive S&P 500 Index Fund Positions as of June 30, 2013

			\$ Value	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Exxon Mobil Corp	XOM	26,033	\$2,352,037	2.78%	0.15%	90.35	93.25	3.21%	-1.15%
Apple Inc.	AAPL	5,718	\$2,267,432	2.68%	0.15%	396.53	430.20	8.49%	4.13%
Microsoft	MSFT	44,091	\$1,522,902	1.80%	0.10%	34.54	36.27	5.01%	0.65%
Johnson & Johnson	JNJ	16,653	\$1,429,836	1.69%	0.09%	85.86	90.4	5.29%	0.93%
Google Inc.	GOOG	1,595	\$1,404,454	1.66%	0.09%	880.37	919.61	4.46%	0.10%
General Electric Co	GE	59,833	\$1,387,533	1.64%	0.09%	23.19	23.63	1.90%	-2.46%
Chevron Corp	CVX	11,510	\$1,362,151	1.61%	0.09%	118.34	124.12	4.88%	0.53%
Procter & Gamble	PG	16,374	\$1,260,624	1.49%	0.08%	76.99	80.97	5.17%	0.81%
Berkshire Hathaway Inc	BRK/B	10,810	\$1,209,861	1.43%	0.08%	111.92	117.20	4.72%	0.36%
Wells Fargo & Co.	WFC	28,701	\$1,184,479	1.40%	0.08%	41.27	43.02	4.24%	-0.12%
TOP TEN HOLDINGS			\$15,381,310	18.18%	1.00%	S&P 500 Index:		4.36%	

Total Portfolio Value Total StanCERA Value **\$84,605,663** \$1,543,579,365

LSV Asset Management International Large Cap Value Positions as of June 30, 2013

				\$ Value	Weight	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	\$ PX*	\$ PX*	% Change	% Change
ROYAL DUTCH SHELL	RDS/A	London	49,018	\$3,127,331	2.39%	0.20%	1.31%	63.80	67.17	5.28%	0.86%
ASTRAZENECA PLC	AZN	London	48,135	\$2,276,802	1.74%	0.15%	0.38%	47.30	49.73	5.14%	0.72%
SANOFI S.A.	SNY	Paris	40,645	\$2,093,611	1.60%	0.14%	0.78%	51.51	51.90	0.76%	-3.66%
ALLIANZ SE	ALV.DE	Germany	18,302	\$2,054,356	1.57%	0.13%	0.42%	112.25	115.45	2.85%	-1.57%
BT GROUP PLC	BT	London	43,162	\$2,028,186	1.55%	0.13%	0.24%	46.99	51.28	9.13%	4.71%
MAGNA INTERNATIONAL INC	MGA	Canada	27,375	\$1,949,675	1.49%	0.13%	0.10%	71.22	73.02	2.53%	-1.89%
KDDI CORPORATION	KDDIY	Japan	140,233	\$1,818,825	1.39%	0.12%	0.18%	12.97	12.93	-0.31%	-4.73%
LEGAL & GENERAL GROUP PLC	LGEN	London	10,306	\$1,766,484	1.35%	0.11%	0.10%	171.40	187.80	9.57%	5.15%
BASF SE	BAS.DE	Germany	25,549	\$1,753,399	1.34%	0.11%	0.52%	68.63	70.09	2.13%	-2.29%
NOVARTIS AG	NVS	France	24,242	\$1,714,144	1.31%	0.11%	1.03%	70.71	73.47	3.90%	-0.52%
TOP TEN HOLDINGS				\$20,582,813	15.73%	1.33%	5.06%	MSCI ACWI ex-l	J.S.	4.42%	

Total Portfolio Value Total StanCERA Value \$130,850,684

\$1,543,579,365

^{*}Company quotes are provided directly in USD

Pyramis Global Advisors Active Non-US Growth Manager Positions as of June 30, 2013

				\$ Value	Weight	Weight	Weight	6/28/2013	7/16/2013	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	PX*	PX*	% Change	% Change
NESTLE SA (REG)	7123870	Switzerland	31498	\$2,062,359	1.49%	0.13%	1.32%	65.48	63.80	-2.57%	-6.99%
SANOFI	5671735	Paris	19577	\$2,026,103	1.46%	0.13%	0.77%	103.49	104.90	1.36%	-3.06%
HSBC HOLDINGS PLC (UK REG)	540528	London	180274	\$1,864,735	1.34%	0.12%	1.20%	10.34	11.05	6.87%	2.45%
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	56896	\$1,815,257	1.31%	0.12%	1.29%	31.91	33.65	5.45%	1.03%
TOYOTA MOTOR CORP	6900643	Hong Kong	29900	\$1,803,000	1.30%	0.12%	1.04%	60.30	64.46	6.90%	2.48%
BAYER AG	5069211	Germany	13992	\$1,490,102	1.07%	0.10%	0.55%	106.50	110.32	3.59%	-0.83%
VODAFONE GROUP PLC	B16GWD5	London	492638	\$1,403,585	1.01%	0.09%	0.87%	2.85	2.89	1.40%	-3.02%
GLAXOSMITHKLINE PLC	925288	London	53652	\$1,341,043	0.97%	0.09%	0.77%	25.00	25.90	3.60%	-0.82%
UBS AG (REGD)	B18YFJ4	London	78819	\$1,339,544	0.97%	0.09%	0.39%	17.00	17.81	4.76%	0.34%
BP PLC	798059	London	187266	\$1,293,030	0.93%	0.08%	0.83%	6.90	6.99	1.30%	-3.12%
TOP TEN HOLDINGS				\$16,438,758	11.86%	1.06%	9.04%	MSCI ACWI ex-	US:	4.42%	

Total Portfolio Value Total StanCERA Value **\$138,595,538** \$1,543,579,365

^{*}Company quotes are provided in foreign currency and then converted to USD

STANISLAUS PUBLIC EMPLOYEES' RETIREMENT SYSTEM FIXED INCOME DISCUSSION MAY 2013

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 Bush Street, Suite 2000 San Francisco, CA 94104 (415) 362-3484



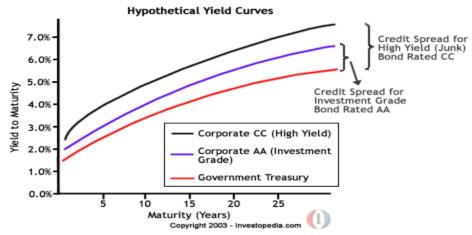
Discussion Topics

Fixed Income 101 What Are The Concerns re: Fixed Income? Fixed Income Historical Data **Capital Markets Expectations** StanCERA Fixed Income Allocation What Can We Do About It? Should We Be Concerned?

Н

What Is a Bond?

- At simplest level, a loan between two parties that becomes securitized, or tradable in the open market
- Borrower pays interest to lender to compensate for risk of non-repayment (default) and for the time value of money
- These two factors are reflected in the coupon: higher coupon for greater risk and longer period to maturity



Various ways for lenders to reduce or hedge this risk



What Affects Bond Prices?

- Changes in the general level of interest rates
 - When rates rise, prices for most bonds decline
 - Duration is a measure of the magnitude of this change: the longer the duration, the greater the price drop
 - Each duration year = a 1% drop in price for a 1% increase in rates
 - StanCERA FI portfolios have about a 4 year duration:
 - If rates increase by 1% (100 bps), the price decline will be ~4%.
 - Positive convexity offsets this effect; negative convexity exaggerates this effect
- Changes in liquidity
 - Liquidity can dry up quickly for most sectors
 - "Flight to quality" causes risky bond prices to fall and "safe" (US Government) bond prices to rise: credit spreads widen

What Affects Bond Prices?

A bond's price is simply the net present value of future cash flows, including interest and principal, discounted at an appropriate interest rate.

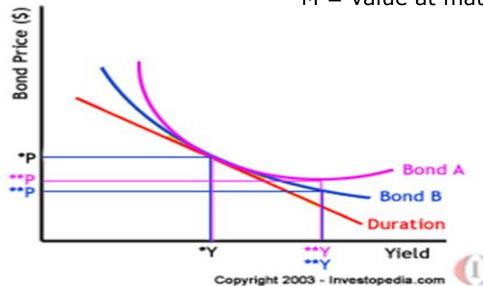
Bond Price =
$$\frac{C}{(1+i)} + \frac{C}{(1+i)^2} + ... + \frac{C}{(1+i)^n} + \frac{M}{(1+i)^n}$$

C = coupon payment

n = number of payments

i = interest rate, or required yield

M = value at maturity, or par value



Duration is the slope of the relationship between a change in rates and a bond's price. Convexity is the change in duration with a change in rates.

In this example Bond A has greater positive convexity than Bond B.



What Affects Bond Prices?

- Broad market interest rates are affected by:
 - Monetary Policy (Federal Reserve and Treasury Dept. actions)
 - Fiscal Policy (Government borrowing and spending)
 - Risk tolerance of investors
 - General credit conditions
- A single bond's price (and, conversely, yield) is affected by:
 - The issuer's creditworthiness
 - Security characteristics (seniority, callability, term, etc.)
 - Liquidity: Supply and demand of bonds with similar characteristics

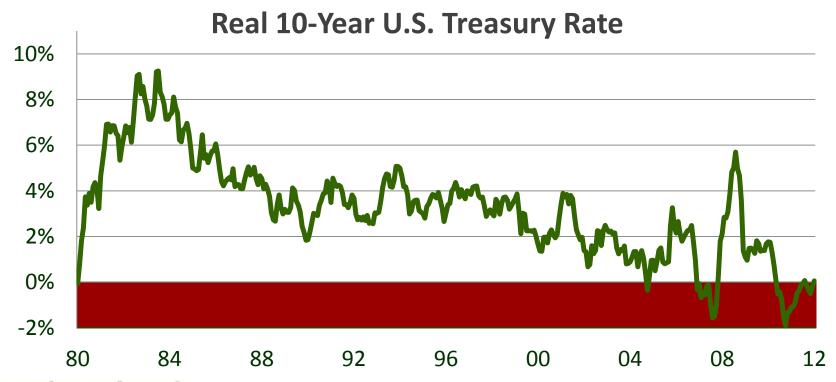


What Are The Concerns re: Fixed Income?

- Roles of Fixed Income
 - Capital Preservation
 - Income Generation
- Fixed Income has become challenged in both areas
 - Yields are unlikely to fall significantly from current levels and could rise rapidly if growth or inflation were to pick up. Bonds lose value in rising rate environments.
 - Yields are so low in large developed markets that income generation is below what most Plans need for funding purposes.

What Are The Concerns re: Fixed Income?

- Yields near all time lows. Average Nominal Yield 6.42% today at 1.87%. Average Real Yield 2.55% today at 0.09%.
- Nearing an inflection point, interest rates are likely to rise, the question is when?
- Rising yields will lead to decline in Treasury bond prices





What Are The Concerns re: Fixed Income

Rising Rate	Corp. Bonds	S&P 500
1958-1981	3.0%	8.6%
Ann. Inflation	5.0%	5.0%
Ann. Real Return	-2.0%	3.6%
Falling Rate	Corp. Bonds	S&P 500
1982-2012	10.1%	11.0%
Ann. Inflation	3.1%	3.1%
Ann. Real Return	6.8%	7.7%



Fixed Income Yields and Returns

	# of	Correlation	Yield	Price Impa	ct of a 1%
U.S. Treasuries	issues	to 10-year	Mar. 2013	<u>Fall</u>	Rise
2-Year	73	0.69	0.25%	0.5%	-0.5%
5-Year	60	0.92	0.77%	3.7%	-3.7%
10-Year	21	1.00	1.87%	9.2%	-9.2%
30-Year	18	0.92	3.10%	20.4%	-20.3%
TIPS	<u>34</u>	0.62	-0.64%	9.2%	<u>-9.2%</u>
TOTALS	206				



Fixed Income Yields and Returns

					Price Impa	act of a
	# of	Correlation	Avg.	Yield	1%	
<u>Sector</u>	issues	to 10-year	<u>Maturity</u>	Mar. 2013	<u>Fall</u>	<u>Rise</u>
Broad Market	8223	0.87	7.2 years	1.86%	5.3%	-5.3%
MBS	784	0.81	5.9 years	2.52%	4.0%	-4.1%
Municipals	8988	0.53	9.9 years	2.06%	6.0%	-6.0%
Corporates	4527	0.52	10.4 years	2.78%	7.1%	-7.1%
High Yield	2056	-0.22	6.7 years	5.67%	4.1%	-4.1%
Floating Rate	314	-0.23	1.8 years	1.44%	0.1%	-0.1%
EMD (\$)	623	0.23	9.6 years	4.30%	6.2%	-6.2%
EMD (Local)	430	-0.04	7.0 years	4.86%	5.0%	-5.0%

Historical Bond Return Data

Returns:											
	1926	1930	1940	1950	1960	1970	1980	1990	2000	2010	1926
	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>						
FI Asset	<u>1929</u>	<u>1939</u>	<u>1949</u>	<u>1959</u>	<u>1969</u>	<u>1979</u>	<u>1989</u>	<u>1999</u>	2009	2012	2012
1-month US Treasury Bill	3.6%	0.6%	0.4%	1.9%	3.9%	6.3%	8.9%	4.9%	2.1%	0.1%	3.5%
Long-term US Gov't Bond	5.0%	4.9%	3.2%	-0.1%	1.4%	5.5%	12.6%	8.9%	7.7%	13.4%	5.7%
Long-term US Corp. Bond	5.2%	6.9%	2.7%	1.0%	1.7%	6.2%	13.0%	8.1%	7.6%	13.6%	6.1%
CPI	-1.1%	-2.0%	5.4%	2.2%	2.5%	7.4%	5.1%	3.0%	2.5%	2.1%	3.0%
LT US Gov't Bond Inflation Adj.											2.6%
LT US Corp Bond Inflation Adj.											0.5%
							1980	1990	2000	2010	1980
							<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>	to
FI Asset							<u> 1989</u>	<u> 1999</u>	2009	2012	2012
BC US Aggregate Index							12.4%	7.7%	6.3%	6.2%	8.2%
BC US Municipal Index							9.4%	7.1%	5.8%	6.6%	7.3%
DFA US Intermediate Var. Credit							12.6%	7.9%	6.5%	7.5%	8.8%
DFA US Intermediate Var. Govt/Credit							12.0%	7.3%	6.2%	5.9%	8.2%

Data provided by: Dimensional Barclays Bank Ibbotson Assoc.



SIS Fixed Income Capital Markets Expectations

	Expected	Expected	Sharpe
FI Asset Class	<u>Return</u>	<u>Risk</u>	<u>Ratio</u>
BC Aggregate	2.4%	5.0%	0.18
Int'l. Bond	2.4%	9.0%	0.10
High Yield	4.5%	11.0%	0.27
EM Debt	4.4%	10.0%	0.29
Bank Loans	4.1%	7.5%	0.35
TIPS	2.2%	4.5%	0.16
Int'l. ILBs	2.2%	4.0%	0.18
Cash	1.5%	1.0%	
CPI	2.4%	1.2%	

StanCERA FI allocation is at 29.8% within the US Core BC Aggregate asset class has low return expectations at 2.4%.

30% of the Portfolio with return expectations of 2.4%!

SIS Correlation Expectations

Correlation						DIR			<u>HIGH</u>						
Matrix	R1000	R2000	INTL EQ	EM EQ	REAL EST	<u>LEND</u>	BC AGG	INTL FI	YLD	EM DEBT	BK LOAN	<u>TIPS</u>	<u>ILBs</u>	<u>CASH</u>	<u>CPI</u>
R1000	1.00														
R2000	0.86	1.00													
Int'l Equity	0.77	0.72	1.00												
EM Equity	0.58	0.66	0.71	1.00											
Real Estate	0.64	0.65	0.56	0.50	1.00										
Direct Lending	0.63	0.62	0.60	0.57	0.65	1.00									
BC Aggregate	0.17	0.09	0.07	-0.09	0.16	0.15	1.00								
Int'l. Bond	0.11	0.02	0.36	0.13	0.00	0.15	0.46	1.00							
High Yield	0.70	0.73	0.60	0.59	0.69	0.76	0.35	0.30	1.00						
EM Debt	0.50	0.50	0.43	0.55	0.44	0.42	0.36	0.14	0.49	1.00					
Bank Loans	0.65	0.64	0.62	0.59	0.67	0.80	0.14	0.10	0.78	0.42	1.00				
TIPS	0.12	0.08	0.07	0.08	0.26	0.26	0.62	0.43	0.32	0.39	0.25	1.00			
Int'l. ILBs	0.45	0.28	0.43	0.15	0.26	0.26	0.59	0.47	0.41	0.32	0.33	0.52	1.00		
Cash	0.14	0.10	0.09	0.01	-0.16	0.00	0.33	0.07	-0.16	0.23	-0.08	0.05	0.11	1.00	
CPI	0.11	0.10	0.13	0.23	0.09	0.25	-0.04	0.03	-0.09	0.25	0.10	0.29	0.03	0.41	1.00

FI allocation within BC Aggregate does provide low correlations to Equities and Direct Lending



GMO Fixed Income Expectations

	Expected	Expected						
FI Asset Class	Return	Range						
US Bonds	-0.9%	+/- 4.0%						
Int'l. Bonds (Hedged)	-2.0%	+/- 4.0%						
EM Debt	1.6%	+/- 8.5%						
ILBs	-2.2%	+/- 1.5%						
Cash	0.1%	+/- 1.5%						
estimated range of 7-year annualized returns								
Source: GMO								

Not a pretty picture for FI returns

Building-Block Approach to Asset Class Expected Returns

ASSET CLASS DERIVATION

Inflation Consensus of Economists' Forecasts, TIPS

Cash Inflation + 1% to 2% Premium

US Large Cap CAPM, 3% to 6% Equity Premium, Macroeconomic Dividend Discount Model

US Fixed Yield to Worst on Aggregate (Compare to Historic Bond Risk Premium, Adjust if

Necessary)

US Small Cap CAPM, (Beta of ~1.2)

Private Markets CAPM, (Beta of ~1.6)

International Equity Weighted Sum of Local Market Premium + Local Risk Free Rate

International Bond US Fixed Return, Adjusted for Quality and Duration (Potential Currency Effects Based on

Purchasing Power Parity)

Real Estate Historical Behavior of Equity REITs; Current Appraisal Cap Rates; CAPM

High Yield Historical Ratio: Spread of High Yield Over US Fixed Income Divided By Spread of

Large Cap Over US Fixed Income

THE CONTINUATION OF LOW CASH LEVEL YIELDS ARE HAVING THE EFFECT OF LOWERING THE ASSUMED RETURN EXPECTATIONS FOR ALL ASSET CLASSES

StanCERA Target Portfolio Expectations

	Expected						
January 2013			Current	Current	New Policy		
Asset	Gm Mean	Std Dev	Yield	Mix	Mix		
US Lrg Cap	8.00%	18.00%	2.20%	33.10%	30.50%		
US Sml Cap	8.30%	21.00%	1.20%	8.30%	7.60%		
US Fixed	2.80%	4.50%	2.80%	37.10%	29.80%		
Intl Stock	8.00%	18.50%	3.50%	15.00%	13.50%		
EM Stock	8.50%	27.50%	2.70%	5.00%	4.50%		
Real Est	6.60%	18.50%	2.50%	1.50%	3.50%		
Dir Lend	8.30%	10.00%	8.30%	0.00%	7.50%		
Infrast	7.10%	25.00%	4.00%	0.00%	3.00%		
Totals				100.00%	100.00%		
Median				6.61%	6.98%		
Gm Mean				6.63%	7.00%		
Std Dev				11.30%	11.65%		
SIS Infl				2.30%	2.30%		
SIS Real				4.33%	4.70%		
Assumed optimization time period is 10 years.							



Achieving Your Target Return

Portfolio Total Return	R	isk Free Rat	æ	Beta		Alpha
Since 1970*						·
9.8%	=	5.7%	+	4.2%	+	?
Forecast**						
7.0%	=	1.5%	+	5.5%	+	,
Today						
?	=	0.2%	+	?	+	?

^{*} Source: Bridgewater Associates. Period 1970 to January 2013.

^{**} Estimated expected return on DB Retirement Plan Target Mix. Risk Free Rate or Inflation expectations currently at 2.3%. DB Retirement Total Return expectations of 7.0% is based upon a mix of passive investments (beta) representing asset classes.

r

StanCERA Current FI Allocation

- Dodge & Cox FI (US Core/Core+)
 - □ Benchmark BC US Aggregate Index
 - □ Portfolio Value 4/30/13: \$427.9 Million
 - ☐ % of Fixed Income = 79.05%
 - □ % of Total Plan Assets = 27.3%
 - □ Current Yield = 4.4%
- PIMCO FI (US Core)
 - Benchmark BC US Aggregate Index
 - □ Portfolio Value 4/30/13: \$113.4 Million
 - ☐ % of Fixed Income = 20.95%
 - □ % of Total Plan Assets = 7.2%
 - Current Yield = 2.3%

Combined Current Yield = 3.96% or \$21.3 Million annually



Dodge & Cox FI Portfolio Sectors

Dodge & Cox	% of	Market	Est. Annual	Current
FI Sectors	<u>Portfolio</u>	<u>Value</u>	<u>Income</u>	<u>Yield</u>
U.S. Treasury	8.2%	\$35,243,235	\$113,250	0.3%
Government-Related	7.8%	\$33,193,768	\$1,638,817	4.9%
Mortgage-Related	32.2%	\$137,577,371	\$6,652,768	4.8%
Asset-Backed	1.7%	\$7,372,156	\$108,178	1.5%
<u>Corporate</u>	45.2%	\$193,301,519	\$10,189,401	<u>5.3%</u>
Cash	4.1%	\$17,481,245	\$1,748	0.0%
Accrued Income	0.9%	\$3,748,415	<u>\$0</u>	0.0%
TOTAL D&C VALUE	100.0%	\$427,917,709	\$18,704,162	4.4%

r

Dodge & Cox FI Portfolio Characteristics

BY QUALITY	<u>%</u>	BC AGG %	BY MATURITY	<u>%</u>
CASH	4.1%		0-1 Year	14.8%
US TREASURY	8.3%		1-5	49.1%
FEDERAL AGENCY	33.8%		5-10	21.2%
AAA	1.7%	72.2%	10-15	1.2%
AA	1.3%	4.8%	15-20	5.5%
Α	14.0%	11.3%	20-25	5.3%
BAA	27.9%	10.6%	Over 25	2.9%
ВА	4.9%		TOTAL D&C	100.0%
BELOW BA	3.8%			
TOTAL D&C	100.0%	100.0%		
Weighted-Average Sum	mary Chara	cteristics	BC AGG	
MATURITY	6.2 Years		7.2 Years	
EFFECTIVE DURATION	4.0 Years		5.3 Years	
QUALITY	A+		AA+	
COUPON	5.2%			
YTM	2.1%		1.9%	
CURRENT YIELD	4.4%			



Dodge & Cox	% of	Market	Estimated	Current
FI Sectors	<u>Portfolio</u>	<u>Value</u>	<u>Income</u>	<u>Yield</u>
U.S. Treasury	30%	\$34,180,182	\$376,869	1.1%
Government-Related	6%	\$7,110,064	\$42,500	0.6%
Mortgage-Related	32%	\$35,799,230	\$1,058,664	3.0%
Asset-Backed	0%	\$215,349	\$853	0.4%
Investment Grade Credit	9%	\$10,067,993	\$394,364	3.9%
High Yield Credit	5%	\$5,782,380	\$198,590	3.4%
Non-US Developed	1%	\$787,523	\$0	0.0%
Emerging Markets Debt	2%	\$2,361,980	\$110,603	4.7%
Municipal/Other	8%	\$7,972,296	\$230,167	2.9%
Cash	7%	\$8,010,194	\$158,394	2.0%
TOTAL PIMCO VALUE	100.0%	\$112,287,191	\$2,571,004	2.3%

PIMCO FI Portfolio Characteristics

BY QUALITY	<u>%</u>	BC AGG %	BY MATURITY	<u>%</u>
CASH	7		0-1 Year	11
US TREASURY	30		1-5	37
FEDERAL AGENCY	<u>26</u>		5-10	45
AAA	4	72.2%	10-15	1
AA	72	4.8%	15-20	1
А	8	11.3%	20-25	0
BAA	8	10.6%	Over 25	5
BA	4		TOTAL PIMCO	100.0%
BELOW BA	4			
TOTAL PIMCO	100.0%			
Weighted-Average Sum	mary Chara	cteristics	BC AGG	
MATURITY	6.8 Years		7.2 Years	
EFFECTIVE DURATION	5.2 Years		5.3 Years	
QUALITY	AA-		AA+	
COUPON	2.4%			
YTM	2.0%		1.9%	
CURRENT YIELD	2.3%			



What Can We Do About It? Reduce Duration

- Duration is a measure of interest rate sensitivity. The longer (higher) the duration, the greater the principal loss experienced due to a parallel rise in interest rates, all else being equal.
- The duration of StanCERA's bond portfolio is 4.25 years
- For example, a bond with a duration of 4.25 years will lose 4.25% of its value if interest rates increase by 1%.

.



What Can We Do About It? Diversify

- Diversify across sources of yield and risk
- Find the best risk adjusted returns across geographies, strategies and security types:
 - Bank loans: may benefit from rising rates, with downside protection due to their senior position in the capital structure
 - Credit opportunity strategies
 - Geographic diversification, particularly emerging markets and other commodity producing nations which can provide a hedge to dollar weakness
- Diversify across economic/business cycles

What Can We Do About It? Diversify

- Different bond sectors lead at varying points in the cycle
- Relative value opportunities across bond segments

Bond Sector Returns

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Corp.	TIPS	High Yield	EMD	EMD	High Yield	TIPS	Treas.	High Yield	High Yield	TIPS
10.3%	16.7%	29.0%	11.9%	12.3%	11.8%	11.6%	13.7%	58.2%	15.1%	13.6%
Barclays Agg	EMD	EMD	High Yield	Asset Alloc.	EMD	Treas.	мвѕ	EMD.	EMD	Muni
8.4%	12.2%	26.9%	11.1%	3.6%	10.0%	9.0%	8.3%	34.2%	12.8%	10.7%
MBS	Treas.	TIPS	TIPS	Muni	мвѕ	Barclays Agg	Barclays Agg	Corp.	Corp.	Treas.
8.2%	11.8%	10.6%	6.3%	3.5%	5.2%	7.0%	5.2%	18.7%	9.0%	9.8%
TIPS	Barclays Agg	Asset Alloc.	Asset Alloc.	TIPS	Asset Alloc.	MBS	Asset Alloc.	Asset Alloc.	Asset Alloc.	Asset Alloc.
7.9%	10.3%	10.0%	6.0%	2.8%	5.1%	6.9%	-1.4%	15.8%	7.6%	8.9%
Asset Alloc.	Corp.	Corp.	Corp.	Treas.	Muni	Asset Alloc.	TIPS	Muni	Barclays Agg	Corp.
6.8%	10.1%	8.2%	5.4%	2.8%	4.8%	6.2%	-2.4%	12.9%	6.5%	8.2%
Treas.	Asset Alloc.	Muni	MBS	High Yield	Barclays Agg	EMD	Muni	TIPS	TIPS	Barclays Agg
6.7%	10.0%	5.3%	4.7%	2.7%	4.3%	5.2%	-2.5%	11.4%	6.3%	7.8%
High Yield	Muni	Barclays Agg	Muni	MBS	Corp.	Corp.	Corp.	Barclays Agg	Treas.	EMD
5.3%	9.6%	4.1%	4.5%	2.6%	4.3%	4.6%	-4.9%	5.9%	5.9%	7.0%
Muni	MBS	MBS	Barclays Agg	Barclays Agg	Treas.	Muni	EMD	мвѕ	MBS	MBS
5.1%	8.7%	3.1%	4.3%	2.4%	3.1%	3.4%	-14.7%	5.9%	5.4%	6.2%
EMD	High Yield	Treas.	Treas.	Corp.	TIPS	High Yield	High Yield	Treas.	Muni	High Yield
1.5%	-1.4%	2.2%	3.5%	1.7%	0.4%	1.9%	-26.2%	-3.6%	2.4%	5.0%



What Can We Do About It? Diversify

- Credit focused strategies diversify portfolio risk away from interest rates and towards spread and default risk.
- Higher-coupon bonds such as high yield will also reduce portfolio duration compared to lower-coupon investment grade or government bonds with the same maturity; this reduces interest rate sensitivity.
- Credit strategies require skill in security selection and credit analysis

Average Annualized Returns During Rising and Falling Rate Environments (1986-2012)

	High Yield	Core Bonds	10-Year Treasury
Rising Rates	12.8%	1.7%	-3.4%
Falling Rates	6.5%	9.8%	11.7%

Source: Hotchkis & Wiley

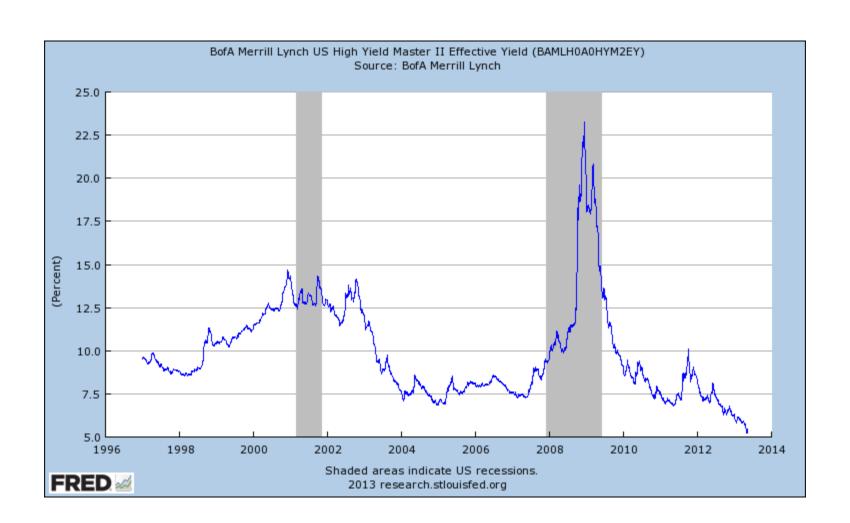
м

Credit Opportunities – High Yield

■ High Yield — Bond that has a rating of BB or lower and that pays a higher yield to compensate for its greater risk. Public markets — high current income.

- □ Moody's Seasoned Aaa Corporate Bond Yield = 3.85%
- □ Moody's Seasoned Baa Corporate Bond Yield = 4.59%
- □ B of A Merrill Lynch High Yield Master II Yield = 5.47%

Credit Opportunities – High Yield



М

<u>Credit Opportunities – Bank Loans</u>

- Bank Loans A debt financing obligation issued by a bank or similar financial institution to a company or individual that holds legal claim to the borrower's <u>assets</u> above all other debt obligations. The loan is considered senior to all other claims against the borrower, which means that in the event of a bankruptcy the senior bank loan is the first to be repaid, before all other interested parties receive repayment.
- Bank loans: may benefit from rising rates, with downside protection due to their senior position in the capital structure
 - □ Moody's Seasoned Aaa Corporate Bond Yield = 3.85%
 - Moody's Seasoned Baa Corporate Bond Yield = 4.59%
 - □ B of A Merrill Lynch High Yield Master II Yield = 5.47%
 - □ S&P/LTSA Leveraged Loan Index = 4.80%

r

Mortgage Opportunities – CMBS

- Prima Capital Advisors (previously presented to StanCERA)
- Prima Mortgage Investment Trust, LLC
- Prima Q1 2013 Net Income =1.57% or approximately **6.25%** annually
- Prima's portfolio investment grade quality
- AAA rated CMBS yielding 2.75% to 3.00% in today's market
- A and BBB rated CMBS yielding 4.0% to 4.5% in today's market
- Conservative investment style credit quality comes first



Mortgage - Credit Opportunities

- Marinus Opportunities Fund
- Structured Credit Fund with low leverage and short duration holdings
- Fundamental credit research to build a portfolio of securitized mortgages and ABS holdings
- Strategy is focused on the preservation of invested capital, high monthly cash-on-cash and targeted low volatility
- Hedges are placed to reduce tail risks
- Hedge fund format with 2/20 fees
- Invests in Prime, Alt-A, Option Arms and Sub-prime types
- Fund targets 10% net returns with volatility of 3-5%

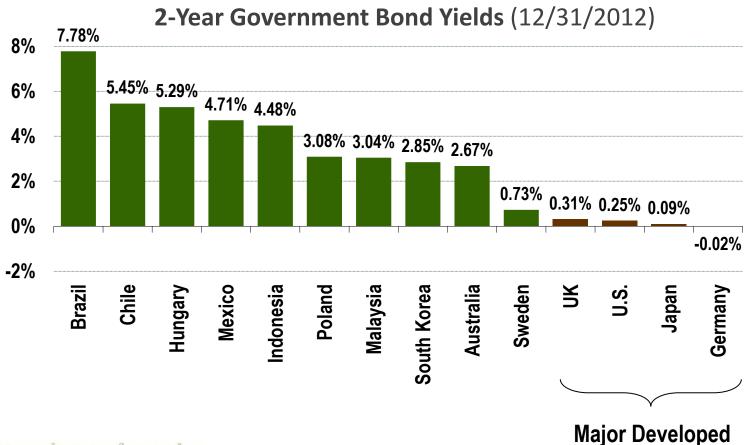


Mortgage - Credit Opportunities

- Manulife Asset Management Total Return Bond Strategy
- Invests in securitized assets
- Target Return of 6-10% net with yield of about 4%
- Duration range 0-5 years current duration of 2.68 years
- Focus on senior classes with stable cash flows
- Sectors include: Agency MBS & US Treasury; Agency CMO, IO; CMBS;
 Corporate Bonds; RMBS & ABS
- Approximately 70% investment grade / 30% non-investment grade

What Can We Do About It? Diversify

- International and Emerging Market Debt offer more attractive yield opportunities
- Over time, this enhanced yield is offset by currency appreciation



г

Global FI - Opportunistic

- Existing StanCERA FI Manager PIMCO GLADI
- GLADI (Global Advantage Bond Index) provides:
 - □ A broader global opportunity set, with less dependence on over-indebted countries with low yields
 - Higher carry
 - □ Lower duration
 - □ Better return potential due to more exposure to higher growth regions
 - Broad, investment-grade index consists of developed and emerging markets, corporate and government securities, currencies and inflationlinked assets
 - □ Current yield of 2.5% and duration of 4.6 years with average quality A+

What Can We Do About It? Hedging Strategies

Add Floating-Rate Notes (FRNs)

- Floating Rate Notes (FRNs) are most often Bank Loans with adjustable coupons linked to either LIBOR or the Fed Funds Rate.
- The deleveraging crisis in 2008 saw spreads in bank loans widen substantially due to the dominance of CLOs in the bank loan market
- Floating Rate Notes are trading above longer term averages (450bp) but have narrowed substantially in the last year



*Discount margin (DM) assumes 3-year average life

Source: Credit Suisse

Н

Should We Be Concerned?

- The environments of most concern are Stagflation and US Dollar Debasement
- The other environments are likely to lead to strong returns from equities and/or long-term fixed income
 Economic Environment

Fixed Income Sub-Sector	Unexpected Inflation/ Rising Rates*	Unexpected Inflation/ Declining Rates*	Stagflation	"Goldilocks Economy**	US Dollar Debasement
US Treasuries/Cash (Short)	1	↑	↑	\downarrow	\downarrow
US Treasuries (Long)	$\downarrow \downarrow$	$\uparrow \uparrow$	\downarrow		\downarrow
Investment Grade Corp	↑	\downarrow	\downarrow	↑	\downarrow
Securitized (MBS/ABS)	↑	\downarrow		\downarrow	\
Bank Loans	↑ ↑	$\downarrow\downarrow$	\	↑	\
High Yield Bonds	↑	\	$\downarrow \downarrow$	$\uparrow \uparrow$	\downarrow
Foreign Dev Mkt Bonds	↓	↑	↑		$\uparrow \uparrow$
Emerging Market Bonds	↑	\downarrow	↑		$\uparrow \uparrow$

^{*} Scenarios have been closely correlated in the past

^{**} Strong economic growth coupled with low to moderate inflation (mid-1980s, mid-1990s, mid-2000s)

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

Item 7.a
Phone (209) 525-6393
Fax (209) 558-4976
www.stancera.org
e-mail: retirement@stancera.org

7/23/13

For the Retirement Board meeting Held on July 23, 2013

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Due Diligence Report

II. ITEM TYPE: Information

III. STAFF RECOMMENDATION: None

IV. ANALYSIS: On July 8th, 9th and 10th, Trustees DeMartini, Grover and Gharat visited Cheiron/EFI actuaries, PIMCO and LSV Asset Management, to perform StanCERA's annual due diligence requirements. Accompanying the team was the Director and our investment consultant, Paul Harte.

Cheiron/EFI Actuaries

Recently, StanCERA's actuary, EFI Actuaries merged with Cheiron. Cheiron is another actuarial firm with offices located across the country. On Monday, July 8th, the team met with Graham Schmidt in Oakland, CA and discussed the merge and issues StanCERA will be dealing with in the near future. Graham iterated that the reasons for the merge were mainly economies of scale and technological synergies. The group also discussed issues ranging from funding policy to GASB compliance. Overall, the team remains confident in Cheiron/EFI's ability to administer actuarial services.

PIMCO

On Tuesday, July 9th, the team met with several members of the PIMCO (Pacific Investment Management Company) firm in Newport Beach, CA. PIMCO manages approximately \$115 million of StanCERA's fixed income portfolio and over \$2 trillion worldwide. The team discussed issues ranging from variations to our fixed income investment strategy, PIMCO's internal compliance policies/procedures and capital market expectations concerning interest rates and bond prices. PIMCO staff then gave the team a tour of the trading floor. In summary, the team remains confident in PIMCO's ability to manage a portion of its fixed income assets and feels that the firm is a world-class organization.

LSV Asset Management

On Wednesday, July 10th, the team met with several members of the LSV Asset Management firm in Chicago, IL. LSV manages approximately \$130 million of StanCERA's International Equity Portfolio. The team also got to discuss LSV's contrarian/value strategy with the firm's owner, Josef Lakonishok. Afterwards, the team was given a detailed look at how LSV screens out specific candidates for inclusion into StanCERA's portfolio. This was a very

informative look into LSV's operations from both a top-down and bottom-up approach. The team remains confident in LSV's ability to manage part of its International Equity Portfolio.

- V. RISK: None
- VI. 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.
- VII. BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Operations Manager

Karly Herman

LEGISLATIVE UPDATE TO THE BOARD OF RETIREMENT July 23, 2013

SB 13 (Beall)

Introduced 12/3/2012, Ammended 2/6/2013 Effective 1/1/2013 (to take effect immediately upon enactment), On 6/26/2013, this bill moved from the Assembly Committee to the Appropriations Committee

This bill is clean up language for AB 340 (PEPRA) and includes the following points:

- Clarifies that individuals who were employed by any public employer before January 1, 2013, and who became employed by a subsequent public employer shall be subject to the retirement plan that would have been available to employees of the subsequent employer on or before December 31, 2012, if the individual was subject to concurrent membership within 6 months of beginning employment with a new employer or if reciprocity was established. (Section 7522.02(c))
- Clarifies that a retirement system can offer a defined contribution plan on or after January 1, 2013 either with or without a defined benefit plan whether or not the employer offered a defined contribution plan prior to that date. (Section 7522.02(h))
- Clarifies that each public retirement system shall modify its plans to comply with PEPRA and may adopt regulations or resolutions for this purpose. (Section 7522.02(h))
- Clarifies that the system's actuary may use a single rate of contribution or an age-based rate of contribution to determine "normal cost". (Section 7522.04(g))
- Clarifies that the systems shall adjust the maximum pensionable compensation level, that can be used to calculate the defined benefit, based on the annual changes to the Consumer Price Index (CPI), calculated by dividing the CPI for the month of September, in the calendar year preceding the adjustment by the CPI for the month of September of the previous year and rounding to the nearest thousandth. (Section 7522.10(d)(1))

- Clarifies that after January 1, 2013, employers are required to offer PEPRA formulas to all new "members" instead of the current wording of new "employees". (Section 7522.25(e))
- Clarifies that the definition of "normal cost rate" takes into account actuarial assumptions and must include any elements that would impact the actuarial determination of the normal cost, including retirement formula, eligibility and vesting criteria, ancillary benefit provisions and automatic cost of living adjustments. (Section 7522.30(b))
- Clarifies that new members must have an initial contribution rate of at least 50% of the normal cost or the current contribution rate of similarly situated employees if it is greater and has been agreed to through the collective bargaining process. (Section 7522.30(c))
- Clarifies that exclusions from pensionable compensation apply to "new members". (Section 7522.34(c))
- Clarifies that the Replace Benefit Plan, for Retirees that reach the 415 limit, cannot be offered to new "members" instead of the original wording of new "employees". (Section 7522.43(a))
- Clarifies that the exemption to the 180 day "sit out" rule, for safety members, only applies if the member is returning to work, after retirement, to perform a function or functions regularly performed by a safety officer or firefighter. (Section 7522.56)
- Repeals (in its entirety) Section 7522.66 regarding safety industrial disability requiring an annuity payment in addition to the disability benefit.