



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

Phone (209) 525-6393
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www.stancera.org
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AGENDA

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

August 14, 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.

1. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items

- a. Approval of the July 23, 2013 Administrative/Investment Meeting Minutes [View](#)

5. Consent Items (Cont.)

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

1. Connie Chase, Sheriff, Effective 08-06-2013
2. Elaine Emery, HSA, Effective 08-17-2013
3. Karen Francis, HSA, Effective 08-10-2013
4. David Gavett, BHRS, Effective, 08-10-2013
5. Edward Judy, Probation, Effective 08-25-2013
6. Sylvia Murillo, CEO, Effective 08-10-2013
7. Barbara Pearce-Chiesa, BHRS, Effective 08-16-2013
8. Silvia Tijerina, Superior Court, Effective 08-10-2013
9. Karin Tramel, Public Works, Effective 08-01-2013
10. Hiep Voquy, BHRS, Effective 08-03-2013

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

1. Anthony Bejaran, Sheriff, Effective 07-12-2013
2. Daniel W. Fairchild, City of Ceres, Effective 07-21-2013
3. Mandy Smith, Sheriff, Effective 06-01-2013
4. Augusto F. Solidum, Superior Court, Effective 07-11-2013

d. Approval of Disability Retirement – **Section 31724**

1. Arlene Cross, CSA, Service Connected, Effective 03-29-12
2. Raymond Kiernan, Sheriff, Service Connected, Effective 04-06-13

6. Committee Reports and Recommendations for Action

STANDING COMMITTEES

a. Internal Governance Committee

- i. Annual Financial Audit - Macias Gini & O'Connell, CPAs Entrance Conference for year ending June 30, 2013 [View](#)
- ii. Discussion and Action regarding Salary Band for Executive Director [View](#)

7. Executive Director

- a. Discussion and Action to Appoint a Board of Retirement Trustee to the Custody Bank Search/Request for Proposal Evaluation Team – Kathy Herman [View](#)
- b. Discussion and Action Regarding White Oak Pinnacle Fund Investment Advisory Committee [View](#)

7. Executive Director (Cont.)

- c. Discussion and Action Regarding Active Manager Excess Cash Holdings [View](#)

8. 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)

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

10. Adjournment



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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

July 23, 2013

Members Present: Gordon Ford, Maria De Anda, Donna Riley, Jeff Grover, Mike Lynch, Darin Gharat and Jim DeMartini

Members Absent: Michael O'Neal

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
Stan Risen, County Chief Executive Office

1. Meeting Called to Order

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

2. Roll Call

3. Announcements

Dawn Lea announced that there was a change on the disability date on consent Item 5.f.1 on Gene Braham, Sheriff, Service Connected, Effective 08/13/12 it should be 8/12/12.

Director Rick Santos announced that the loss in StanCERA's Dodge and Cox fixed income portfolio due to the Sallie Mae (SLM) downgrade was around \$160,000, representing about 3% of the total position in SLM. Dodge and Cox did not actually sell the SLM position, but sold another below investment grade issue to bring the portfolio back into compliance

4. Public Comment

None

5. Consent Items

Motion was made by Maria De Anda and seconded by Donna Riley to approve the following Items:

Motion carried

- a. Approval of the June 25, 2013 Investment Meeting Minutes
- b. StanCERA Complaint Log for April 2013 through June 2013
- c. Executive Director Goals Update Quarter 2 2013 and Strategic Action Plan
- 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. Ralph 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. Strategic Investment Solutions (SIS), Inc.

a. Monthly Performance Review for the Month Ending June 30, 2013

Monthly performance – (1.61%)

Fiscal YTD – 14.60%

Fiscal YTD alpha – 3.07%

Total fund value as of June 30: \$1.544 billion

b. Report on “Top 10 Holdings” of StanCERA Investment Managers as of June 30, 2013

c. Presentation on Fixed Income Part 3

Paul Harte gave a final look at StanCERA’s fixed income portfolio and potential repositioning changes going forward in anticipation of a rising interest rate environment. The Board agreed to have PIMCO and Prima Advisors come before the Board at a future date to be determined to present some alternative fixed income strategies.

7. Executive Director

a. Due Diligence Report Update

The Director gave a brief update on the Due Diligence Team’s visit to Cheiron, PIMCO and LSV. Overall, the Team was satisfied with the trip, with our investment and actuarial advisors and commented that these due diligence trips add value and are necessary for StanCERA to carry out its fiduciary responsibilities.

b. Legislative Update : SB 13

Dawn Lea gave an update on the status of SB 13 which essentially is clean up language for AB 340 (PEPRA) legislation. Notable clean ups included the following:

1937 Act Systems can choose to use a flat employee contribution rate or continue the traditional use of entry age based rates for new PEPRA members

The additional annuity benefit for disabled retirees was removed

The CPI change calculation for determining pensionable compensation for new PEPRA members will be done on a September over September basis. However, the legislation did not describe any rules for which CPI version to use. Staff intends on bringing an item to the Board in the next couple months for a decision on this issue.

8. 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)
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District, Case No. H038894
Government Code Section 54956.9(d)(1)

Trustee Joan Clendenin recused herself at 3:00 p.m

Motion was made by Donna Riley and seconded by Maria DeAnda to move in to closed session at 3:05 p.m.

Motion carried

Motion was made by Donna Riley and seconded by Maria DeAnda to move out of closed Session at 3:55

Motion carried

Closed session report out is as follows regarding item 8.b.:

Motion was made by Maria DeAnda and seconded by Jim DeMartini to accept the recommended mediator's proposal.

Roll Call vote was recorded as follows:

Gordon Ford Yes
Darin Gharat Yes
Jim DeMartini Yes
Donna Riley Yes
Maria DeAnda Yes
Mike Lynch Yes

Motion Carried

No other matters to report for closed session.

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

Trustee Ford suggested that Staff provide Board members with a copy of the 3 completed agreements with our Direct Lenders. Staff will email these out this week.

Trustee Gharat asked Staff to order several copies of the Barron's Dictionary of Finance and Investment Terms for staff and Board Members. These should be available for our next Board meeting on August 14, 2013

10. Adjournment

Meeting adjourned at 3:56 p.m.

Respectfully submitted,



Rick Santos, Executive Director

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

By: 
Fred A. Silva, General Legal Counsel



Certified Public Accountants.

Sacramento
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

Walnut Creek

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

July 9, 2013

To the Audit Committee
Stanislaus County Employees' Retirement Association
832 12th Street, Suite 600
Modesto, CA 95354

We are engaged to audit the financial statements of Stanislaus County Employees' Retirement Association (StanCERA) for the year ended June 30, 2013. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with the Finance Committee Chair and Chairman of the Board to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 9, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of StanCERA. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of StanCERA's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit on approximately August 19, 2013 and issue our report on approximately November 5, 2013.

This information is intended solely for the use of the Audit Committee and management of StanCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants and
Management Consultants

By:

A handwritten signature in cursive script, appearing to read "Richard A. Green".

Richard A. Green, CPA
Partner



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8/14/13
Item # 6.a.ii

**For the Retirement Board meeting
Held on August 14, 2013**

TO: Internal Governance Committee

FROM: Kathy Herman, Operations Manager

- I. SUBJECT: Salary band for the position of Executive Director
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Recommend to the Board of Retirement a new salary band for the position of Executive Director
- IV. ANALYSIS:

History

In the summer of 2011 the Board of Retirement began the search for a new Administrator. During the search it became clear that many aspects of the position had changed and the Board of Retirement wanted an Executive Director with advanced education and skills.

Article 1.9 of the StanCERA Bylaws, Statement of Independent Operations approved by the Board of Supervisors on August 8, 2005 gives the Board of Retirement the full authority to make this decision and to determine the compensation. However, the County would need to make some changes to its payroll system to accommodate the new salary. This became apparent in November of 2012, when the County was not willing to implement the Executive Director's salary increase approved by the Board of Retirement. Since then StanCERA staff has been working with County staff to find a solution. The County now has determined it may be able to accommodate the Board of Retirement decision by moving the Executive Director position to a classification with a different salary range.

Current Action

This item is asking the Committee to discuss and weigh the information at hand and to make a recommendation to the Board of Retirement for approval regarding the salary range that most closely matches the responsibilities, qualifications, credentials and education level required of the position of Executive Director. Once the salary range has been decided, staff will then take this back to the County for implementation.

Note that this item is neither an assessment nor an endorsement of the skills or past performance of the Director. It merely sets the salary range for the position. After which, the Compensation Committee will decide where within the band the Director's salary should reside.

Attachments

Attached to this item are the following documents that may be of use for the Committee in deciding what classification is appropriate:

1. Available County Salary Ranges
2. Stanislaus County Salary Survey

V. RISK: None

VI. STRATEGIC PLAN: Goal 3. Board and Staff Development. StanCERA will maintain excellence in governance and customer service through continuous organizational improvement.

VII. BUDGET IMPACT: None

A handwritten signature in blue ink, appearing to read "Rick Santos", written over a horizontal line.

Rick Santos, Executive Director

A handwritten signature in black ink, appearing to read "Kathy Herman", written over a horizontal line.

Kathy Herman, Operations Manager

JOB CODE	TITLE	EEO GRP	FLSA STATUS	BARG UNIT	SALARY AD PLN	GRADE /BAND
=====	=====	=====	=====	=====	=====	=====
977600	Retirement Administrator			1	M01	G*
	MIN RATE	MID RATE	MAX RATE			
HOURL	48.08	60.1	72.12			
BIWK	3,846.15	4,807.69	5,769.23			
MNTH	8,333.33	10,416.67	12,500.00			
YEAR	100,000.00	125,000.00	150,000.00			
972600				1	M01	H
	MIN RATE	MID RATE	MAX RATE			
HOURL	61.66	77.07	92.48			
BIWK	4,932.80	6,165.60	7,398.40			
MNTH	10,687.73	13,358.80	16,029.87			
YEAR	128,252.80	160,305.60	192,358.40			
993000				1	M01	H+
	MIN RATE	MID RATE	MAX RATE			
HOURL	64.74	80.92	97.1			
BIWK	5,179.20	6,473.60	7,768.00			
MNTH	11,221.60	14,026.13	16,830.67			
YEAR	134,659.20	168,313.60	201,968.00			
976000				1	M01	I
	MIN RATE	MID RATE	MAX RATE			
HOURL	75.41	94.26	113.11			
BIWK	6,032.80	7,540.80	9,048.80			
MNTH	13,071.07	16,338.40	19,605.73			
YEAR	156,852.80	196,060.80	235,268.80			

**Stanislaus County Salary Survey
for Retirement Administrator as of 7/30/13**

Survey Group														
Fund Size	Agency	Classification Title	Low Hourly	Mid Hourly	High Hourly	Low Annually	High Annually	CIO	Asst Admin/ CEO		Low Hourly	High Hourly	Low Annually	High Annually
.362 billion	Medicino	Retirement Administrator	\$57.94	\$57.94	\$57.94	\$120,515.20	\$120,515.20							
.505 Billion	Merced	Retirement Administrator	\$50.41	\$40.87	\$61.32	\$104,852.80	\$127,545.60							
2.1 Billion	San Joaquin	Retirement Administrator	\$70.68	\$78.30	\$85.91	\$147,014.40	\$178,692.80	x	x	CIO	\$47.14	\$57.31	\$98,051.20	\$119,204.80
1.11 Billion	Tulare	Retirement Administrator	\$61.65	\$77.07	\$92.48	\$128,232.00	\$192,358.40		x					
1.94 Billion	Sonoma	Retirement Administrator	\$80.90	\$89.62	\$98.34	\$168,272.00	\$204,547.20	x	x	SIO	\$44.81	\$54.46	\$93,204.80	\$113,276.80
2.360 Billion	San Mateo	Retirement Administrator	\$80.24	\$90.27	\$100.30	\$166,899.20	\$208,624.00	x	x	CIO	\$74.14	\$92.68	\$154,211.20	\$192,774.40
1.495 Billion	Marin	Retirement Administrator	\$93.75	\$101.43	\$109.10	\$195,000.00	\$226,928.00		x					

Average \$70.80 \$76.50 \$86.48

1.544 Billion	Stanislaus County	\$48.08	\$60.10	\$72.12	\$100,006.40	\$150,009.60	G*
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Comparison to Average Current Salary Range

\$ Difference	-\$22.72	-\$16.40	-\$14.36
% Difference	-47.2%	-27.3%	-19.9%

Stanislaus County	\$61.66	\$77.07	\$92.48	\$128,252.80	\$192,358.40	H
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Comparison to Average

\$ Difference	-\$9.14	\$0.57	\$6.00
% Difference	-14.8%	0.7%	6.5%

Stanislaus County	\$64.74	\$80.90	\$97.10	\$134,659.20	\$201,968.00	H+
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Comparison to Average

\$ Difference	\$65.21	\$81.17	\$97.30
% Difference	100.7%	100.3%	100.2%

Stanislaus County	\$75.41	\$94.26	\$113.11	\$156,852.80	\$235,268.80	I
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Comparison to Average

\$ Difference	\$75.41	\$94.26	\$113.11
% Difference	100.0%	100.0%	100.0%



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8/14/13
Item# 7.a

**For the Retirement Board meeting
Held on August 14, 2013**

TO: Retirement Board

FROM: Kathy Herman, Operations Manager

- I. SUBJECT: Custody Bank Search - Request for Proposal (RFP)
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Appoint one Board of Retirement Trustee to be on the Evaluation Team
- IV. ANALYSIS: StanCERA has contracted with its custodial bank since the 1980's when it became the Bank of New York Western Trust Company. The Bank of New York has been a leader in these services since inception. Over the years, the name changed periodically and services were modified or added and fees renegotiated. On December 4, 2006 the Bank of New York and Mellon Financial Corporation announced their merger and new name, the Bank of New York Mellon Corporation, or BNY Mellon (BNYM).


In the fall of 2012, Trustee Lynch requested that staff research and evaluate custodial services available in the market place. After thorough research staff has determined an RFP is necessary in order to compare vendors. Staff has established the following potential time-line for completion of a custody bank search.

- | | |
|--|------------------------|
| ▪ Request for proposals (RFP) issued | 8/15/2013 |
| ▪ Notice of intent to propose due | 9/6/2013 |
| ▪ Written questions due from vendors | 9/13/2013 |
| ▪ Response to written questions | 9/20/2013 |
| ▪ Due date for submission of proposals | 10/4/2013 |
| ▪ Evaluation of proposals | 10/7/2013 – 10/31/2013 |
| ▪ Interview of finalists | TBD |
| ▪ Estimated BOR approval | 12/11/2013 |
| ▪ Estimated contract execution | 01/15/2014 |

Currently StanCERA has six contracts with BNYM; Global Custody, Securities Lending, Electronic Reporting, Short Term Investment Fund (STIF), Transition Management and Direct Brokerage. Each of these services will be reviewed.

The RFP includes approximately 200 questions and will be evaluated by a team of five. This team will include three staff members, one representative from Strategic Investment Solutions (SIS) and one Board of Retirement Trustee. Having a five member team which includes a Board Trustee will hopefully expedite the evaluation process. If more than one proposal meets all the qualifications, the Board will be asked to interview the finalists prior to making a final decision.

- V. RISK: Not having a Trustee on the evaluation team may extend the completion of the Custody Bank RFP process.
- VI. STRATEGIC PLAN: Goal 3. Staff will maintain excellence in governance and customer service through continuous organization improvement.
- VII. BUDGET IMPACT: The contract with SIS includes this service and transition costs will be determined with the responses to the RFP.


Kathy Herman, Operations Manager


Rick Santos, Executive Director



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8/14/13
Item# 7.b

**For the Retirement Board meeting
Held on August 14, 2013**

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: White Oak Pinnacle Fund Investment Advisory Committee
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Consent to appoint an independent third party firm as the Partnerships' Advisory Committee
- IV. ANALYSIS: On August 7, 2013, staff received correspondence requesting StanCERA's consent to appoint an independent third party firm as the Partnership's Advisory Committee. The Partnership Agreement StanCERA entered into recently provides that the General Partner shall establish an advisory committee to provide approval or advice to the General Partner on matters as may be referred to the advisory committee from time to time by the General Partner.

The General Partner is seeking consent from all Partners for the appointment of DMS Offshore Investment Services as the independent third party advisory committee. White Oak believes that this appointment will result in greater transparency and less burden on the current limited partners having to serve on an advisory committee. According to our agreement, this appointment will be effected if a majority of the Limited Partners (majority is based on the capital commitments) agree to the appointment. Attachment 1 is the letter of explanation from White Oak and the Consent Form. Attachment 2 includes some follow up questions and responses by staff, biographies for the key persons at DMC Offshore and Section 3.16 (Advisory Committee) of the Limited Partners Agreement.

Staff is asking for approval to sign the consent form and forward it on to White Oak.

- V. RISK: Indeterminate
- VI. STRATEGIC PLAN: None
- VII. BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Operations Manager

WHITE OAK PINNACLE FUND, L.P.

c/o White Oak Global Advisors, LLC
88 Kearny Street, 4th Floor
San Francisco, California 94108

August 7, 2013

Re: White Oak Pinnacle Fund, L.P.

Dear Investor:

Whiter Oak Partners, LLC, the “General Partner,” to the White Oak Pinnacle Fund, L.P. (the “Partnership”) is seeking your consent to appoint an independent third party firm as the Partnerships’ Advisory Committee. The Partnership’s Limited Partnership Agreement dated March 15, 2012 (the “Partnership Agreement”) provides that the General Partner shall establish an advisory committee to provide approval (as specified in Section 3.4 of the Partnership Agreement) or advice to the General Partner on matters relating to the resolution of potential conflicts of interest involving the Partnership and the General Partner Group (as defined in the Partnership Agreement) and such other matters as may be referred to the advisory committee from time to time by the General Partner. The General Partner believes that appointing DMS Offshore Investment Services as the independent third party advisory committee will result in (i) greater transparency, and (ii) less burden on the current limited partners, or their representatives, currently serving as the advisory committee.

Pursuant to Section 13.2 of the Partnership Agreement, the written approval of investors (other than defaulting investors and investors affiliated with the General Partner or its affiliates) representing at least a majority of the aggregate amount of all investors’ (other than defaulting investors and investors affiliated with the General Partner or its affiliates) “Capital Commitments” at the time of the proposed action by the Partnership shall bind the Partnership and each investor and shall have the same legal effect as the written approval of each investor (hereinafter referred to as the “Required Investor Approval”). Pursuant to this letter, the General Partner is seeking the Required Investor Approval to appoint an independent third party as the Partnership’s advisory committee, with an effective date of August 26, 2013.

Annexed is the consent form order to “**APPROVE**” or “**DISAPPROVE**” the appointment of the representatives of DMS Offshore Investment Services as independent third party advisory committee. If you do not return the Consent Form by August 23, 2013, you will be deemed to “**APPROVE**” the appointment of DMS Offshore Investment Services as the Partnership’s advisory committee, effective August 26, 2013. The Consent Form should be returned to the attention of SEI: Investor Services by facsimile (484) 676-1559, email AIFS-IS_Whiteoak@seic.com or mail SEI, Attn: Investor Services, 1 Freedom Valley Drive Oaks, PA 19456 by 5:00 PM (PDT). Please contact Sandra Caruba, Vice President of Investor Relations, via telephone at (415) 644-4164, or via email at clientservice@whiteoaksf.com if you have any questions regarding this letter.

Sincerely,

White Oak Global Advisors, LLC
Investment Manager

WHITE OAK PINNACLE FUND, L.P. – CONSENT FORM

PLEASE PLACE AN “X” MARK HERE IF YOU CONSENT TO THE APPOINTMENT OF AN INDEPENDENT THRID PARTY AS ADVISORY COMMITTEE TO THE PARTNERSHIP EFFECTIVE AUGUST 26, 2013 _____

PLEASE PLACE AN “X” MARK HERE IF YOU DO NOT CONSENT TO THE APPOINTMENT OF AN INDEPENDENT THRID PARTY AS ADVISORY COMMITTEE TO THE PARTNERSHIP EFFECTIVE AUGUST 26, 2013 _____

The undersigned hereby resolves, confirms, approves and ratifies that pursuant to Section 3.16 of the Partnership’s Agreement dated March 15, 2012, as amended from time to time (the “LPA”), (i) I am not affiliated with the Partnership’s General Partner or its affiliates and (ii) have selected Don Seymour and Don W. Ebanks of DMS Offshore Investment Services to the Partnership’s Advisory Committee under such terms and with such powers and obligations as are set forth in Section 3.16 of the LPA.

Name of Limited Partner: _____

Signature of Limited Partner
or Authorized Signatory (ies) of
Limited Partner:

(Signature)

(Signature)

Name and Title of Authorized
Signatory (ies) of Limited Partner
(if applicable):

Date:

Kathy Herman - RE: White Oak Pinnacle Fund, L.P. Consent Request Advisory Committee

From: "Eduardo Quijano"
To: "HERMANK"
Date: 8/8/2013 4:38 PM
Subject: RE: White Oak Pinnacle Fund, L.P. Consent Request Advisory Committee
CC: "Client Service"

Hi, Kathy,

Please find our response to your questions below (in blue). Do not hesitate to contact us with any additional questions or concerns. Thank you.

Eduardo Quijano
White Oak Global Advisors, LLC

88 Kearny Street, 4th Floor
San Francisco, CA 94108

Direct: (415) 644-4116
Fax: (415) 644-4199
Email:

From: Kathy Herman
Sent: Thursday, August 08, 2013 1:17 PM
To: Eduardo Quijano
Subject: Re: White Oak Pinnacle Fund, L.P. Consent Request Advisory Committee

Eduardo,

StanCERA has a few questions regarding the appointment of the 3rd party advisory committee.

1. What is DMS Offshore?

DMS Offshore Investment Services is world leader in providing professional independent investment services to investment funds, such as the White Oak Pinnacle Fund, L.P. They offer Investment Funds, Banking and Custody, Trust, Corporate, and Outsourcing services. DMS is one of the industry experts in evaluating sophisticated matters on behalf of investors, including conflicts of interest. DMS is actively building out its business to onshore funds as more and more investors are expecting independent governance. In the alternatives space, DMS is by far the most experienced firm in dealing with independent governance. It just so happens that most of the DMS directors are physically located offshore.

2. Who are the key players at DMS Offshore?

DMS Offshore was founded by Don Seymour, who used to be the Head of Investment Services and a Director of the Cayman Island Monetary Authority. Along with Don Seymour, Don Ebanks will be servicing as advisors to the Fund. Attached are their bios for your reference.

3. Is it a publicly held company?

No, DMS Offshore is a privately-held company.

4. What is the fiduciary responsibility of DMS Offshore to StanCERA?

In accordance with section 3.16 of the limited partnership agreement of the Fund, so long as the assets of the Fund are deemed plan assets, Messrs. Seymour and Ebanks would be ERISA fiduciaries with respect to Fund. Their sole responsibility will be to advise and resolve and potential conflict of interests, and ensure that the Fund is invested and run for the benefit of the Limited Partners.

5. What is the financial impact to the fund partners if DMS Offshore is appointed as the independent third party advisory committee?

The expense will be bore by all Limited Partners, and allocated on a pro-rata basis. The annual fee to the Fund is \$38,250. The estimated pro-rata allocation to StanCERA would be approximately \$10,736.00 per year (\$894.67 monthly).

6. StanCERA's agreement excludes off shore investments. How is appointing an offshore expert an advantage?

Rest assured that neither White Oak nor DMS intends to effect any offshore investments for the Fund in any manner whatsoever. As you correctly point out, the Fund's mandate does not permit White Oak to invest offshore. The Fund's investment focus is solely to provide private term loans to U.S. and Canadian based companies. DMS is a worldwide leader in fund governance, and whilst the company is headquartered in the Cayman Islands, DMS has offices in major economic centers (including New York).

The Fund's goal is to leverage-off DMS' expertise, technology, and reputation to ensure that we meet the demanding strict fund governance and accountability that our investors have placed on us. It's also important to note that by engaging DMS, both White Oak and the Limited Partners of the Fund will have dedicated, available resource for timely but thorough review of matters, particularly those matters that may present conflicts of interest (whether under ERISA rules and regulations or otherwise). White Oak has had discussions with the other Limited Partners and expects all other Limited Partners to appoint DMS to the 3rd party advisory committee. If a Limited Partner does not appoint DMS (for whatever reason), such Limited Partner will either have to appoint another third party to the 3rd party advisory committee who would act as an ERISA fiduciary to the Fund, act in that capacity itself, or decline to appoint anyone to the advisory committee.



OFFSHORE INVESTMENT SERVICES



Don Seymour

Don Seymour is the Founder of DMS Offshore Investment Services and recognized by the Financial Times as one of the most influential men in the global hedge fund industry. He was directly responsible for the creation of the Investment Services Division of CIMA where he is credited with the development and implementation of its market-friendly and responsive regulatory framework for regulating hedge funds that propelled the Cayman Islands to become the leading hedge fund jurisdiction in the world. After his tenure as Head of Investment Services, he served as a member of the board of directors of CIMA.

>> CONTACT DETAILS

p: +1.345.749.2551

c: +1.345.526.7093

dseymour@dmsoffshore.com

Don is a previous Director of Cayman Airways Limited, the national airline of the Cayman Islands, and a former member of the Trade & Business Licensing Board of the Cayman Islands. He began his career in Audit and Business Advisory Services with Price Waterhouse.

He serves as the Vice-President of the Cayman Islands Directors Association and is a member of the Financial Services Council of the Cayman Islands Government, a cabinet-level appointment to provide strategic advice on the financial industry to the government of the Cayman Islands.

A Notary Public, he holds a Bachelor of Business Administration degree in Accounting from the University of Texas at Austin and a Certified Public Accountant certificate from Illinois.

Please visit www.dmsoffshore.com



CAYMAN ISLANDS

| IRELAND

| HONG KONG

| BRAZIL

| NEW YORK

| LUXEMBOURG



OFFSHORE INVESTMENT SERVICES



Don W. Ebanks

Don Ebanks is a Director and the Global Head of Compliance of DMS Offshore Investment Services. He boasts extensive experience in the financial services sector from multiple perspectives, particularly private banking, investment management, financial products, regulatory matters and distressed/restructuring scenarios.

Don was formerly employed as the Executive Director of the Secretariat of the Portfolio of Finance & Economics within the Cayman Islands Government, providing policy advice to the Financial Secretary and Cabinet Ministers. He routinely participated in or led consultative committees and working groups considering legislative amendments and other significant matters.

Prior to his work with the Secretariat, Don was the Managing Director of the insolvency and restructuring practice of Ernst & Young in the Cayman Islands, and also worked in its London office. Before joining Ernst & Young, Don was employed as the Deputy Head of the Investment Services Division of the Cayman Islands Monetary Authority (CIMA), the independent government agency responsible for the regulation of the financial services industry, where he created and became the first Head of the Compliance Division. Here he managed all enforcement matters for CIMA and was responsible for the case management of complex distressed fund matters, engaging insolvency practitioners where required and managing the resolution of cases across various firms, regulatory agencies and jurisdictions.

Don began his career with Coutts & Co. serving as a portfolio manager, and then moved to Barclays Private Bank to take up an asset management role, where he was also a Trustee of the Barclays Bank Pension Scheme in the Cayman Islands. Don has also been involved in the management and development of family real estate interests.

Don is a member of the Cayman Islands Compliance Association, and holds a Master of Arts degree in Economics from the University of Western Ontario.

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Please visit www.dmsoffshore.com



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Remaining Capital Commitment, and execute such other documents as may reasonably be requested by any lender; provided, that a Limited Partner shall not be required to (i) execute any document that would subject such Limited Partner to any obligation beyond the amount of such Limited Partner's unfunded Capital Commitment or (ii) execute or obtain any legal opinions prepared by legal counsel.

The General Partner shall be required to give each Limited Partner that is exempt from income taxation pursuant to Section 501 of the Code (a "Tax-Exempt Limited Partner") who has previously requested in writing that the General Partner do so and who is not then in default on any obligation to make Capital Contributions or other payments, the opportunity, upon at least five (5) Business Days' notice, to make a Capital Contribution to the Partnership in the amount equal to such Tax-Exempt Limited Partner's pro rata share of such borrowing, and such borrowing (and the interest expense relating thereto) shall not be allocated to such Tax-Exempt Limited Partner.

SECTION 3.15. Conflicts of Interest.

(a) While the General Partner intends to avoid situations involving conflicts of interest, each Limited Partner acknowledges that there may be situations in which the interests of the Partnership conflict with the interests of the General Partner Group, including the conflicts of interest identified in the Offering Memorandum. Each Limited Partner agrees that the activities of the members of the General Partner Group not prohibited by this Agreement may be engaged in by the General Partner Group, and will not, in any case or in the aggregate, be deemed a breach of this Agreement or any duty owed by any member of the General Partner Group to the Partnership or to any Partner, except to the extent such Affiliate engaged in conduct that constitutes (i) fraud, (ii) willful and material breach of the duties set forth in this Agreement or under the Act, (iii) gross negligence or (iv) willful and material breach of any applicable fiduciary or other duty under federal or other applicable law; provided, however, that the Limited Partners do not agree to any conflicts of interest at any time that the assets of the Partnership are "plan assets" to the extent that such conflict of interest would be a prohibited transaction under ERISA or the Code.

(b) The Partnership and the General Partner Group will seek to resolve any conflicts with respect to investment opportunities involving the Partnership in a manner which the General Partner deems equitable to the extent possible under prevailing facts and circumstances; provided that, the General Partner shall have the right, subject to Section 4.3, to allocate any investment opportunity which comes to its attention wholly or primarily to any entity or entities other than the Partnership.

(c) On any issue involving actual conflicts of interest not provided for elsewhere in this Agreement, the General Partner will be guided by its good faith judgment as to the best interests of the Partnership, and shall take such actions as are determined to be necessary or appropriate to ameliorate the conflicts of interest.

SECTION 3.16. Advisory Committee. The General Partner shall establish an advisory committee either comprised of (i) individual representatives of selected Limited Partners, at least a majority of whom are not affiliated with the General Partner or its Affiliates (the "Limited Partner Advisory Committee") or (ii) an independent third party selected by a

majority of the Limited Partners not affiliated with the General Partner or its Affiliates (the "Third Party Advisory Committee" and, together with the Limited Partner Advisory Committee, the "Advisory Committee"), in each case, to provide approval (as specified in Section 3.4 of this Agreement) or advice to the General Partner on matters relating to the resolution of potential conflicts of interest involving the Partnership and the General Partner Group and such other matters as may be referred to it from time to time by the General Partner. Subject to the terms and conditions set forth in this Section, the size, terms of appointment and all other matters relating to the Limited Partner Advisory Committee shall be determined in the sole discretion of the General Partner. Any member of the Limited Partner Advisory Committee (i) may resign by giving the General Partner prior written notice, and (ii) shall be deemed removed upon the designating Limited Partner becoming a Defaulting Partner. The General Partner may, in its sole discretion, disapprove of any individual representative on the Limited Partner Advisory Committee designated by any Limited Partner and shall have the right to remove any such Person from the Limited Partner Advisory Committee at any time upon notice to such Person and the other members of the Limited Partner Advisory Committee with an explanation for such removal; provided, that the General Partner may not remove any Person from the Limited Partner Advisory Committee that is not affiliated with the General Partner or its Affiliates without the consent of (i) a majority of the members of the Limited Partner Advisory Committee that are not affiliated with the General Partner or its Affiliates or (ii) the Limited Partner whose representative is proposed to be removed. The Advisory Committee shall have the authority to (i) provide approval with respect to the affiliated party transactions contemplated by Section 3.4 of this Agreement, (ii) review and investigate any related party transactions identified in the Partnership's quarterly, annual or other reports or financial statements and (iii) approve any waiver of the default provisions set forth in Section 6.3 of this Agreement by the General Partner in favor of the General Partner or any Affiliate of the General Partner. The approval of the Limited Partner Advisory Committee (including any formal advice or guidance provided to the General Partner) shall require the affirmative vote of a majority of the members thereof that are not affiliated with the General Partner or its Affiliates. The formal advice or guidance of the Advisory Committee specifically regarding conflicts of interest shall be binding upon the General Partner. Members of the Advisory Committee may participate in a meeting of the Advisory Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Except as set forth below, members of the Advisory Committee will not be acting in a fiduciary capacity with respect to the Partnership or any Limited Partners in connection with the functions of the Advisory Committee. The Partnership will bear any expenses related to the functions of the Advisory Committee. Notwithstanding the foregoing, at any time that the assets of the Partnership are "plan assets," the powers granted to the General Partner with respect to the Limited Partner Advisory Committee, specifically the powers to appoint and remove members of the Limited Partner Advisory Committee shall instead be exercisable by a majority of Limited Partners not affiliated with the General Partner or its Affiliates. At any time that the assets of the Partnership are "plan assets," the Advisory Committee shall be a fiduciary with respect to the Partnership, and the members of the Advisory Committee may receive such compensation from the Partnership as determined by a majority of the Limited Partners that are not affiliated with the General Partner or its Affiliates. The General Partner shall provide to each Limited Partner (a) a detailed description of conflicts of interests reviewed by the Advisory Committee promptly following each meeting thereof, and (b) upon such Limited Partner's request, a detailed description of the topics discussed at any Advisory Committee meeting along with copies of all written materials provided to the Advisory Committee in connection with any such meeting.



**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
Held on August 14, 2013**

8/14/13
Item # 7.c

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Active Manager Excess Cash Holdings
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Implement a cash overlay program on a notional cash amount of between \$3,000,000 and \$5,000,000
- IV. ANALYSIS: Currently, StanCERA's active managers hold an aggregate average of around \$18,000,000 in excess cash at any given time, which has been the case since at least 2006. This represents over 1% of StanCERA's total portfolio. Since StanCERA has an implicit allocation of 0% to the cash asset class, this has an effect on total expected earnings. In fact, given the current yields in the cash market, the return drag is about 7 basis points relative to our actuarial assumed discount rate. Since StanCERA does have an implicit cash allocation of 0% laid out in our Investment Policy, some action is required today.

Staff feels that there are 3 potential alternatives:

1. Implement a cash overlay program
2. Change the Investment Policy
3. Require managers to be fully invested

For various reasons, staff recommends alternative 1. The implementation of alternative 1 will not necessarily take place immediately. Staff wants time to discuss/negotiate fees with a custodian or another manager that has expertise in this area. Further, staff wants to be able to include this service in our RFP for a new custodial bank if the Board has interest in this concept. As a part of today's agenda regarding this issue, staff will present a study session on the mechanics of a cash overlay program.

- V. RISK: There are additional risks involved in a cash overlay relative to a purely cash investment. These will be addressed in the study session.
- 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: Nominal staff oversight

Rick Santos, Executive Director

Kathy Herman, Operations Manager



Cash Overlay Program

StanCERA Study Session

August 14, 2013

The Issue

“StanCERA Managers hold significant levels of cash, in total, at all times”

The Problem

- 1) StanCERA has a policy allocation of 0% to cash
- 2) Cash returns create a drag on portfolio returns relative to the assumed discount rate
- 3) Recent cash levels and returns drag down the assumed discount rate by $\sim .07\%$ (7.67%)

Potential Solutions

- 1) *Implement a cash overlay program*
- 2) *Change the Investment Policy*
- 3) *Require managers to be fully invested*

Staff Recommendation

- *Implement a Cash Overlay on a notional cash amount of between \$3,000,000 and \$5,000,000*

Specifics

1. Aggregate monthly manager cash balances since 2006:

- Average: \$18 million
- Minimum: \$8 million
- Maximum: \$82 million

2. Portfolio returns experience cash drag

- Return over the last 3 years = 0.44%
- Annualized return = 0.15%
- \$ returns over 3 years ~ \$66,000

StanCERA's Cash Balances

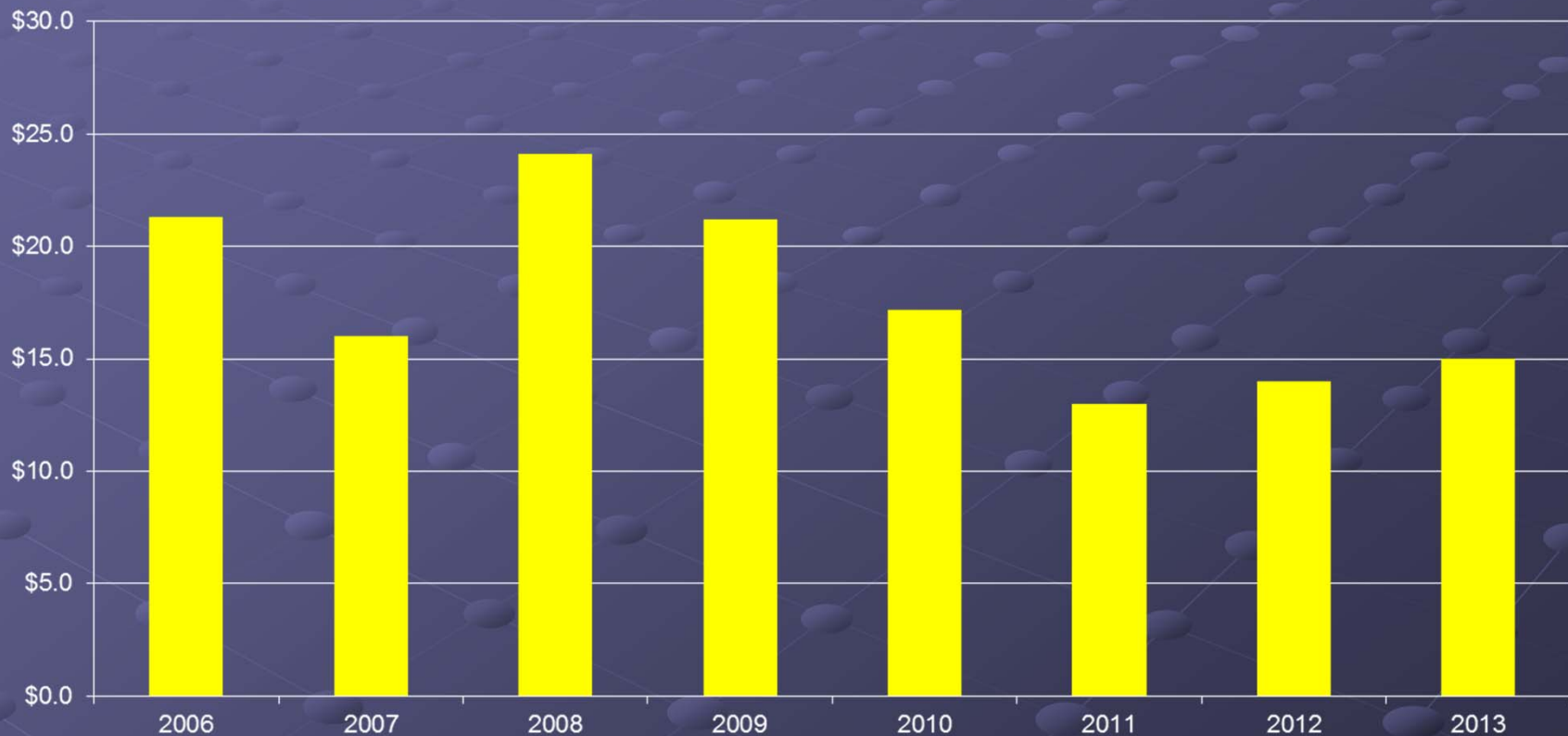
- Investment Policy Statement (Cash Holdings)
 - *“It shall be the policy of the StanCERA Board to be fully invested to the maximum extent possible”*
- Target asset allocation has no explicit allocation to cash (i.e. 0%)
- Holding excess cash is not efficient since we are cash flow matching short-duration liabilities (no liquidity needs)

StanCERA Manager Cash Balances

- Why are managers holding cash?
 - Sales of securities (small)
 - Dividends/coupons (small)
 - StanCERA constraints (small)
 - **Tactical** – Managers want to keep cash on hand for opportunities (**large**)

Historical Cash Position

**Average Annual Cash Balance
(in millions)**



*2013 = January through June

Historical Cash Position with Actual Interest Earnings

(in millions)



*2013 = January through June

Historical Hypothetical Returns

- What would've happened had this cash been fully invested over the same period?
 - In an S&P 500 Indexed Fund or a
 - Combination of Indexed Funds with roughly the same asset mix as StanCERA's

Asset Class Returns



*2013 = January through June

Hypothetical Interest Earnings On Actual Cash Balances*

(in millions)

<u>Year</u>	<u>StanCERA Return</u>	<u>Cash Return*</u>	<u>S&P 500 Return</u>
2006	\$2.73	\$0.99	\$3.06
2007	1.16	0.80	-0.34
2008	-7.25	0.56	-9.18
2009	6.25	0.11	6.79
2010	2.38	0.03	3.74
2011	-0.04	0.02	0.53
2012	1.95	0.02	2.26
2013	<u>0.98</u>	<u>0.01</u>	<u>1.47</u>
Total	\$8.17	\$2.52	\$8.32

* Cash Returns are actual

Alternative 1

“Implement a Cash Overlay Program”

A Cash Overlay

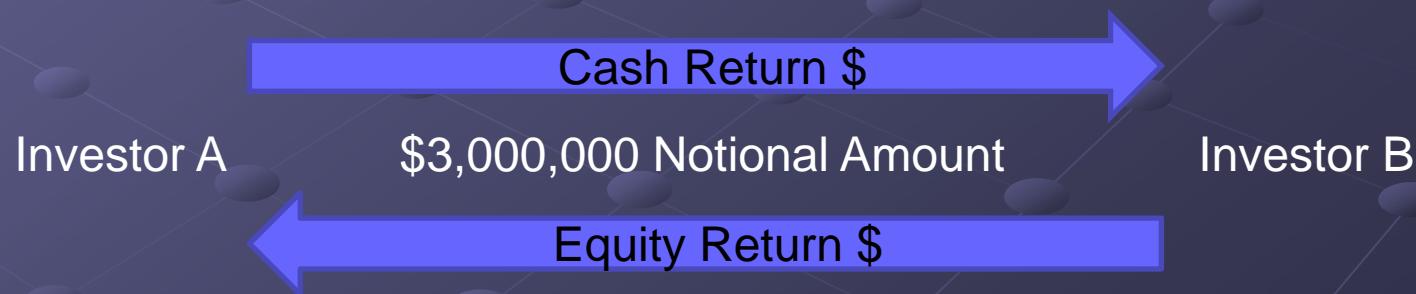
- “Equitize” idle cash without buying the equity
- Allows managers to keep their cash balances intact for tactical purposes AND
- Allows StanCERA to earn returns on the cash that approximate those earned by a direct index investment
- Important Definition – “Notional”
 - The amount of cash you are intending to “equitize” and earn indexed returns on



The Cash Overlay Program

What is a Cash Overlay?

- A way to gain exposure to the returns of a particular asset class using idle cash or reserves an investor may have on hand
- Example: Trade the return you would get on a \$3,000,000 cash position for the return on an equity position over the next 3 months



Why Would Someone Trade Equity Returns for Cash Returns?

- Fundamental: *Markets are efficient*
 - Cash and equity returns are “properly priced” relative to the risk assumed
 - Risk neutral proposition
- Short-term market dislocations
- Rebalancing
 - Rebalance without incurring trading costs
- Timing
 - Example: Tax management

Cash Overlay Fundamentals

1) *Enter into futures contract with Exchange*

2) *Exchange is the counterparty*

- Cost of transaction is nominal ~ bid/ask spread
- Essentially no risk of default by exchange

3) *Parties post an initial margin or reserve*

- Margin must be maintained throughout contract

4) *Positions are “marked to market” daily*

- Gains and losses are exchanged each day by adjusting margin accounts

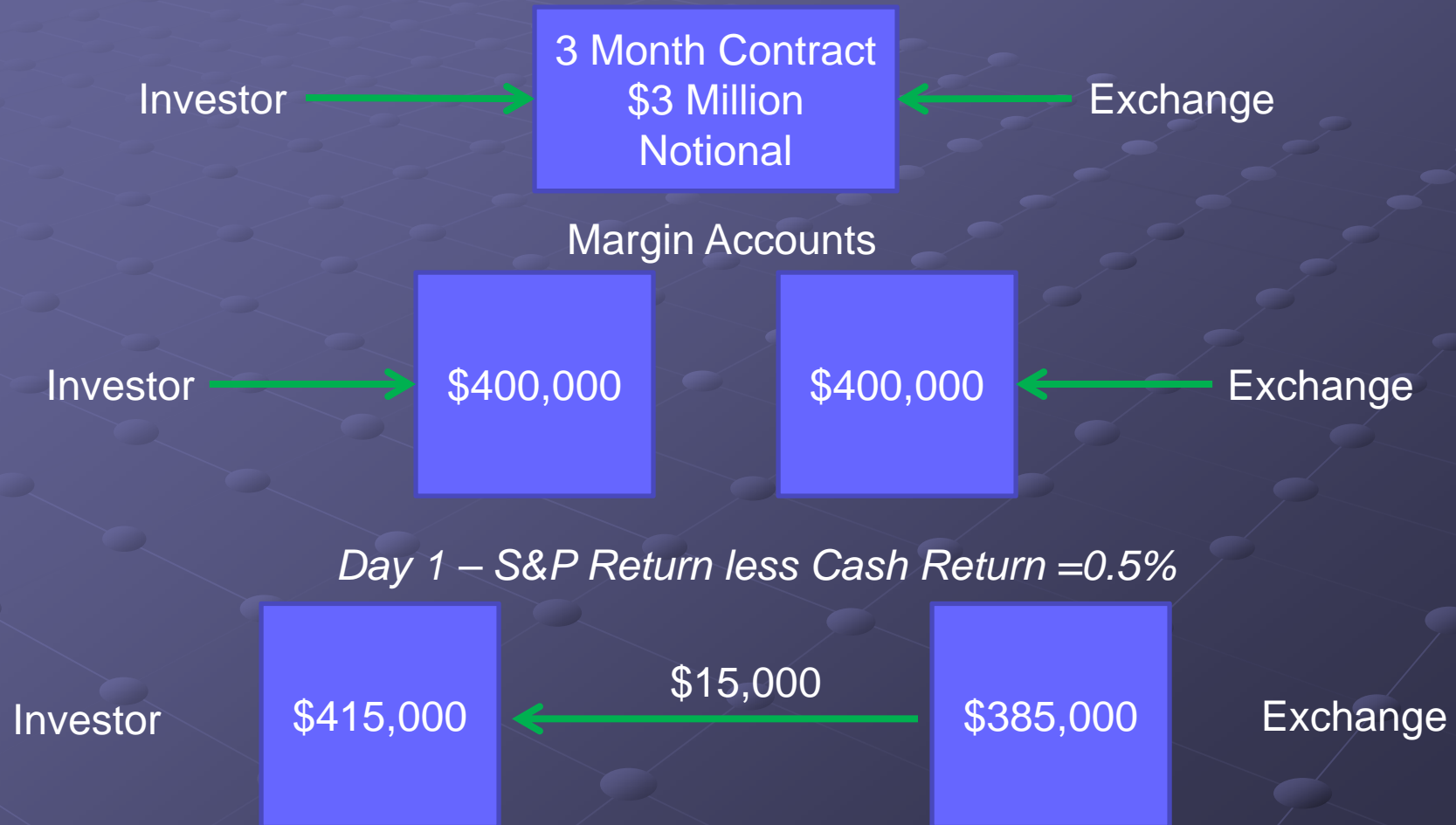
Cash Overlay Example

(Trade Cash Returns for S&P Returns)

- Daily settlement:
 - $(\text{S\&P return} - \text{cash return}) \times \text{Notional Amount}$
- If S&P return less cash return is positive, then net gain for S&P holder
- If S&P return less cash return is negative, then net loss for S&P holder

Cash Overlay Example

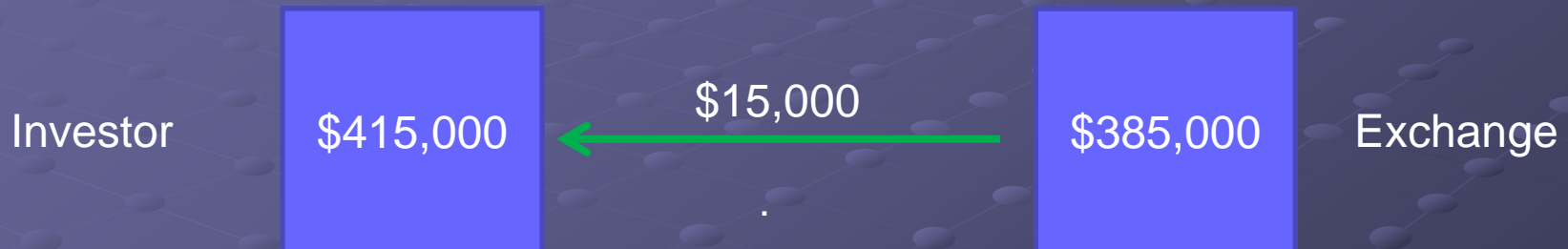
(Trade Cash Returns for S&P Returns)



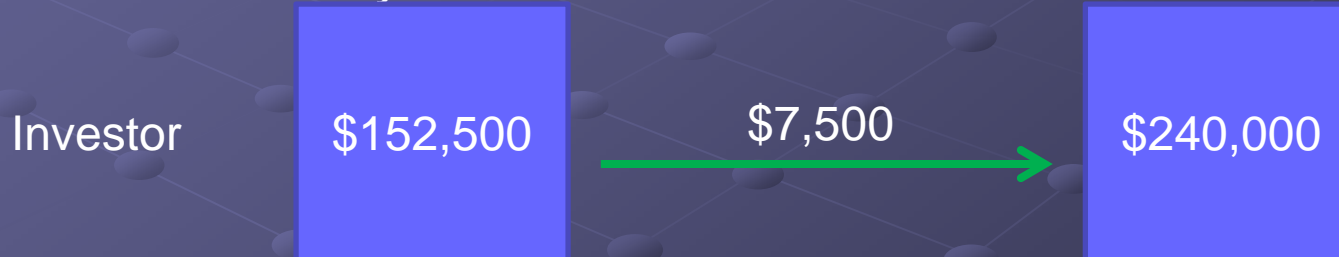
Cash Overlay Example

(Trade Cash Returns for S&P Returns)

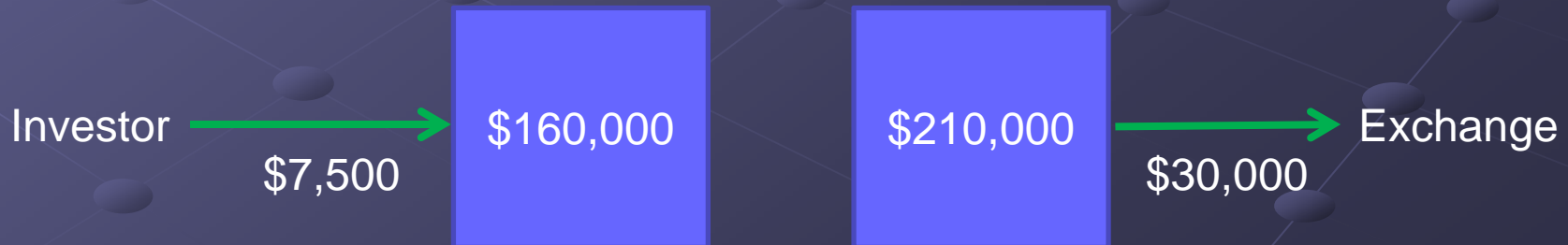
Day 1 – S&P Return less Cash Return = 0.5%



Day 17 – S&P Return less Cash Return = -0.25%



Maintenance Margin = \$160,000



Cash Overlay Example

“At the end of the contract, the return on the notional cash position will be very close to the S&P 500 Index return less cash return”

Cash Overlay Program

- Contract with custodian or another consultant
- Details
 - Consultant manages program
 - Can do 65%/35% equity/fixed income
 - Consultant may require additional margin
 - Easy to get out of contract at any time
 - Fees: Negotiable
 - Example: 5 basis points of notional; minimum \$35,000

Cash Overlay Program

- Recommend starting small
 - Manager's average cash balance = \$18 million
 - Begin overlay with \$3 to \$5 million notional amount
 - Get comfortable with idea/program
 - \$400,000 to \$700,000 margin required
 - Can tap manager's cash to fund margin
 - Lower transaction costs
 - Do not tap margin account when overfunded
 - Will decrease likelihood of future margin calls

Cash Overlay Program Risks

- Margin Calls

- Size and timing unknown

- Timing of returns

- Good returns early = less chance for margin call
- Bad returns early = more chance for margin call

- Worst case scenario

- Largest loss/margin call = notional amount
- Would only happen if S&P went to zero

History

- The Clifton Group presented the strategy to the Board in October of 2006
 - No action was taken at that time

Other Notes

- Not a permanent strategy
 - If cash yields increase in the future, we may not feel the need to continue the strategy
 - Contracts are very short-term; 1 day to 3 months
- If comfort is developed with the concept there are many other uses of the strategy to gain efficiencies
 - Rebalancing
 - Manage cash flow matching timing issues

Other Systems

<u>1937 Act System</u>	<u>Overlay Amount</u>
San Diego	\$1 billion
Alameda	For Rebalancing
Contra Costa	Pending; Study Session this year
Mendocino	None
Santa Barbara	\$22 million
Ventura	\$466 million
Fresno	None
San Mateo	Initiated August 7
Sonoma	3% of Plan Assets
Marin	Yes; No amount given
San Joaquin	Yes; No Amount given
Tulare	\$2.3 million
Merced	None

Alternative 2

“Revise the investment policy to include an explicit target allocation of 1% to cash”

Alternative 2 - Revise Investment Policy Statement

- StanCERA can choose to explicitly invest 1% of the total portfolio dollars in cash or cash equivalents
 - Pull down discount rate by $\sim .07\%$ given today's yields
 - Current 7.75% assumption has a 10 basis point margin of conservatism

Alternative 3

“Require Managers to be Fully Invested”

Alternative 3

- Require managers to be near or fully invested at all times
 - Not recommended since we pay managers for their expertise, discretion and tactical prowess
 - Investment Policy
 - *“The investment managers shall be responsible for determining investment strategy, implementing security selection and the timing of purchases and sales.....”*