BOARD OF RETIREMENT MINUTES
August 26, 2008

Members Present: Maria De Anda, Jim DeMartini, Mike Fisher, Darin Gharat, Wes Hall, Mike Lynch, and Clarence Willmon

Members Absent: Gordon Ford and Ron Martin

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

Others Present: Kelly Cerny, Wendell Birkhofer and Bob Thompson-Dodge & Cox; Natalie Elliott, Doris Foster-Chief Executive Officer; Paul Harte-Strategic Investment Solutions (SIS), Kathy Herman, Deirdre McGrath, Bob McCrory and Graham Schmidt-EFI Actuaries; Hank Skau, and Tom Watson

1. Meeting called to order at 2:00 p.m. by Mike Fisher, Chair.

2. Announcements

Tom Watson, Retirement Administrator informed the Board that the Tuesday, September 23, 2008, Strategic Planning Session and Investment meeting will begin at Noon at the Oakdale Golf & Country Club, Oakdale, CA, and conclude by 5:00 p.m. The meeting will not be held at 832 12th Street.

Hank Skau, Operations Manager, announced that the 2008 second quarter investment managers’ stock voting proxies are available for review.

3. Public Comment

None.

4. Consent Items

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

Motion carried.

a. Approval of the August 13, 2008 Administrative Meeting Minutes

b. Quarterly Report of Investment Managers’ Rankings
5. **Semi-Annual Performance Report by Dodge & Cox**

Wendell Birkhofer, Vice President and Portfolio Manager-Equity, and Bob Thompson, Vice President and Portfolio Manager-Fixed Income, distributed the semi-annual report for the period January 1, 2008, through July 31, 2008. Mr. Birkhofer thanked the Board for its Due Diligence visit in June. He informed the Board that Dodge & Cox continues to be in compliance with the StanCERA Statement of Investment Policy, and Dodge & Cox remains a stable organization.

Mr. Thompson presented StanCERA's fixed income portfolio for the period ending June 30, 2008. Assets totaled about $449 million with an estimated annual income of $27 million. The rates of return for fixed income securities for the period ending June 30, 2008 were -0.18%, 4.33%, 3.97% and 3.98% for the three-months, one, three, and five years, respectively. The return on the fixed income portfolio for the calendar year was 0.48%. The rate of return for the fixed income securities for the month ending July 31, 2008, was -0.44%. Mr. Thompson noted that the U.S. Treasury yields declined across all maturities and the increase of problems within the housing and subprime mortgage markets allowed for a credit/liability crisis among non-Treasury sectors and contributed to the overall slowing of the U.S. economy.

Mr. Thompson answered staff and Board members' questions.

Mr. Birkhofer presented StanCERA's equity portfolio performance summary for the period ending June 30, 2008. Stocks were valued at about $210 million, with an estimated annual income of about $5 million. The total rates of return for the stock portfolio for the period ending June 30, 2008, were -4.1%, -21.3%, 3.4%, and 10.5%, compounded for the three-months, one, three, and five years, respectively. The total rates of return for the stock portfolio for the period ending July 31, 2008, were 1.2%, -8.8%, -17.3%, 2.5%, and 9.9%, for the one-month, three-months, one, three, and five years, respectively. Mr. Birkhofer answered Board members' questions.

6. **Actuarial Processes and Terms – Developing the Actuarial Valuation for StanCERA - Educational Presentation by EFI Actuaries**

Bob McCrory, Executive Vice President, and Graham Schmidt, Vice President, presented an educational session on the actuarial process in relation to public pension plans. Mr. McCrory distributed a paper copy of a PowerPoint overview of the functions actuaries may perform for a public pension plan. This included the purpose, responsibility, and governing authority that applies to public pension systems to provide retirement income security to its members; the standards which actuaries use; and graph models of attaining a pension’s asset target, i.e., the actuarial accrued liability, and the goals of the fund to meet the asset target, and/or asset shortfall, i.e., the unfunded accrued liability. Actuaries assist pension plans to set an annual contribution rate by formulating a plan to meet the shortfalls or excesses in assets. Mr. McCrory and Mr. Schmidt answered Board members various questions.

Darin Gharat left at 3:22 p.m.
7. **Strategic Investment Solutions, Inc. (SIS)**

   a. Investment Performance Analysis for the Quarter Ending June 30, 2008

   Paul Harte presented the second quarter investment performance analysis through June 30, 2008.

   Darin Gharat returned at 3:29 p.m.

   The composite fund returned -1.5% in the second quarter of 2008 and ranked in the 91\textsuperscript{st} percentile among other public funds greater than $100 million. The median return was -0.7%. the fund trailed its policy index -1.3% during this time period. Longer term, the three, and five year returns of 5.7% and 8.4% ranked below median among total public plans at 6.9% and 9.3%, respectively.

   **Heard Out of Order**

   c. Monthly Performance Review for the Month Ending July 31, 2008

   Mr. Harte presented the monthly performance review for the period ending July 31, 2008. As of July 31, 2008, StanCERA’s portfolio is $1.28 billion, a -1.36% decrease from the prior month. The fiscal year to date return is -1.13%, below StanCERA’s policy index of -0.83% and the 0.66% needed to meet the actuarial assumed rate of return of 8.16% for the year.

   **Heard Out of Order**

   d. U.S. Equity Manager Structure Analysis

   Mr. Harte gave a brief summary of a written report Board members had received. This included an introduction to manager structure analysis, an approach to manager structure analysis, and asset allocation guidelines. Mr. Harte gave an overview of StanCERA’s U.S. equity managers and its current, target, and potential optimized portfolios as of July 31, 2008, with style breakdowns and portfolio statistics. Mr. Harte noted the equity market has been negative for the past five quarters. He also provided information on alternative U.S. equity manager structures. The Board reviewed and discussed the analysis and will will further examine the investment strategy at the strategic planning session on September 23, 2008.

   **Heard Out of Order**

   b. Discussion and Action on Investment Managers Based on the June 30, 2008 Quarterly Review

   The Board discussed and reviewed the investment managers performance based on the June 30, 2008 quarterly review. The Board will continue to review manager performance on a monthly basis. Mike Lynch, Trustee, asked for SIS, Inc. to provide a written summary as to why StanCERA’s investment managers have been in the third percentile in the peer universe ranking.
7. **Strategic Investment Solutions, Inc. (SIS) (cont.)**

**Heard Out of Order**

b. Discussion and Action on Investment Managers Based on the June 30, 2008 Quarterly Review (cont.)

Mr. Harte said the information will be provided for the September 23, 2008, investment meeting. Ms. De Anda reiterated that the Board should consider fee reductions for underperforming managers.

No action taken.

8. **Correspondence**

a. Mazama Capital Management’s August 6, 2008 E-mail Regarding Update on Account Activity

Mr. Harte gave a brief summary of Mazama Capital Management’s e-mail regarding their account activity as of July 31, 2008. This email was received due to the Board’s request for an update. The email disclosed that Mazama has closed approximately 17 accounts, representing 14% of the firm wide assets under management as of the first of the year.

Mr. Harte informed the Board he would provide more information at the September 23, 2008 investment meeting.

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

Maria De Anda praised staff for receiving a recent commendation from a member for a job well done.

Darin Gharat thanked StanCERA’s information technology staff for its expertise. He noted there is usually a lot of work behind the scenes that does not always get recognized when utilizing a new information system.

10. **Adjournment**

Meeting adjourned at 5:02 p.m.

Respectfully submitted,

Kathy Herman, Special Projects Manager

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

By: Edward R. Burroughs, Assistant County Counsel