



Executive Staff:

Richard Stensrud
Chief Executive Officer

Jeffrey W. States
Chief Investment Officer

John W. Gobel, Sr.
Chief Benefits Officer

Kathryn T. Regalia
Chief Operations Officer

Members of the Board of Retirement

James A. Diepenbrock
Appointed by the Board of Supervisors

Ronald D. Suter, 1st Vice President
Elected by Miscellaneous Members

John B. Kelly, 2nd Vice President
Appointed by the Board of Supervisors

Mark Norris, Director of Finance
Ex-Officio

Keith DeVore
Elected by Miscellaneous Members

Winston Hickox
Appointed by the Board of Supervisors

William D. Johnson
Elected by Safety Members

Nancy Wolford-Landers
Elected by Retired Members

Robert Woods
Appointed by the Board of Supervisors

William Cox
Elected by Retired Members

Steven Soto
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, JANUARY 20, 2005

The special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, U.S. Bank Plaza Building, 980 9th Street, 18th Floor, Sacramento, California, on January 20, 2005, at 11:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of December 16, 2004, were approved on motion made by Mr. DeVore; Seconded by Mr. Kelly; Motion carried (8-0).

ADMINISTRATIVE MATTERS:

3. Chief Executive Officer Richard Stensrud presented an update on staff's internal analysis of the disability retirement process, including information on the number of disability retirement applications and disability retirements awarded over the last three years; and the length of time it takes to process a disability application and the factors that impact the processing time. Discussion followed. No action was taken.

Mr. Stensrud presented a report on upcoming enhancements to the SCERS website, as well as an overview of matters that would be addressed at upcoming Board meetings.

4. Mr. Stensrud reminded the Board that the annual CALAPRS General Assembly would be held at the end of February and that parties interested in attending would need to register soon.

Mr. Stensrud presented a survey being conducted by the State Association of County Retirement Systems (SACRS) on issues related to possible reforms in the laws governing defined benefit plans. Mr. Stensrud explained that the purpose of the survey was to measure the level of support in County retirement systems for the various reforms so that SACRS had guidance on what legislation to support.

To help the Board determine its position on the survey questions, as well as to clarify SCERS' position in the defined benefit/defined contribution debate generally, Mr. Stensrud recommended five basic policy positions for the Board's consideration. Discussion followed. Mr. Suter moved that the recommended policy positions be adopted by the SCERS Board; Seconded by Mr. Kelly. Motion carried (8-0).

Turning to the survey itself, Mr. Stensrud explained that he had provided an explanation of each issue and a proposed response as a starting point for discussion, but that there was room for legitimate debate on a number of the matters. Mr. Stensrud noted that if SCERS chose to respond to the survey, the responses would be informational only, and would not be binding position statements. Extensive discussion followed on the various questions in the survey, with the Board indicating its preferred responses. Mr. Stensrud said he would compile the responses and submit them to SACRS.

5. Chief Operations Officer Kathryn Regalia presented SCERS Comprehensive Annual Financial Report (CAFR) for the Year Ended June 30, 2004, as well as the Independent Auditors' Report and Report to Management for the Year Ended June 30, 2004, prepared by Macias, Gini & Company. In introducing Ms. Regalia, Mr. Stensrud noted the hard work by Ms. Regalia and her staff in preparing the CAFR and complimented her efforts and the end product. The Board also complimented Ms. Regalia on her work. Ms. Regalia acknowledged and thanked her staff and other SCERS staff members for their contributions. Mr. Suter moved to receive and file the CAFR; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

6. Drew James and Andy Yeung of The Segal Company presented SCERS Actuarial Valuation and Review as of June 30, 2004.

Mr. James and Mr. Yeung presented an overview of the report, noting: (a) As a result of the five-year smoothing method utilized in calculating actuarial assets, the poor investment performance of a few years ago continues to be phased-in, keeping asset growth below the target earnings rate notwithstanding a very strong 15.74% market return in FY 2003-2004; (b) The assumption changes that had been approved in December were reflected in the valuation resulting in an increase in the level of projected liabilities (which was amplified due to the recent benefit enhancements) and a decrease in the level of projected assets; (c) Despite a downward adjustment in the plan's funded status due to these factors, the funded status remains very strong at 93.3%; and (d) To address the funding needs, the actuary was recommending a 3.8% increase in the average employer contribution rate and a .7% increase in the average employee contribution rate. Mr. James and Mr. Yeung noted that the increase in the employer rate was mitigated by the decision of the SCERS Board to phase-in the impact of the assumption changes over a two-year period. They also noted that change in the employee contribution rate would vary between membership group and tiers, with safety members seeing a larger increase than miscellaneous members.

Discussion followed. Ms. Wolford-Landers moved that Actuarial Valuation be received and filed and that the contribution rates recommended in the report for the 2005-2006 fiscal year be adopted; Seconded by Mr. Kelly. Motion carried (8-0).

7. Mr. Stensrud presented a recommendation from The Segal Company that interest be credited on the various SCERS reserves at the rate of 2.27%, effective December 31, 2004. Mr. Stensrud noted that this recommendation had been developed in accordance with SCERS Excess Earnings and Interest Crediting Policy and with the requirements of the 1937 Act. Mr. Stensrud and Mr. Yeung noted that the recommended interest crediting rate fell short of the target crediting rate for the period (i.e., 4%), but that the recommended interest crediting rate was based on preliminary financial results and any residual earnings would be combined with earnings for the six-month period ending June 30, 2005 for the purpose of determining the appropriate interest crediting rate for the second half of the fiscal year. At that point SCERS would know whether it was able to meet the overall annual target crediting rate of 8%.

Mr. Stensrud also noted that in light of changing circumstances since the adoption of the Excess Earnings and Interest Crediting Policy a full discussion of the issues would be appropriate and would be scheduled in the near future.

Mr. Norris moved that the recommended interest crediting rate be adopted; Seconded by Mr. Suter. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

8. JONES, Gregory J.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated January 24, 2005.
9. MADRIGAL, George J.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated January 24, 2005.

OPEN SESSION:

INVESTMENT MATTERS:

- 10-12. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States gave a brief introduction to presentations by the three finalists for the International World ex US/EAFE CORE Cap Equity assignment previously managed by Bank of Ireland. The investment manager selected will invest a portfolio that is 5% of SCERS net asset market value or approximately \$225 million on December 31, 2004. The firms that made presentations and their representatives were:
 - Invesco, Inc. represented by Mike Keough, Public Funds Client Services Director; W. Lindsay Davidson, Managing Director and Portfolio Manager; and Ashely G. Preisinger, Director of Global Product Management.
 - MFS Investment Management represented by Karen Jordan, Vice President and Director of Public Fund Sales and Thomas Melendez, Vice President and Portfolio Manager.
 - Fisher Investment, Inc. represented by Clinton Grobler, Vice President, Portfolio Specialist; Jeff Silk, Vice Chairman, Member of Investment Policy Committee; and Andrew Teufel, Co-President, Director of Research, Member of Investment Policy Committee

Presentation materials providing information on the firm's organization, investment philosophy, investment process, historic performance and investment professionals were reviewed. The presenters were asked a variety of questions about their investment process; the number of holdings in the portfolios; portfolio turnover and risk monitoring; exposure to emerging markets; management fees; and the availability of services through a separate account or commingled fund. The firms indicated they could provide services in either form. In response to questions about fees each firm said they offered and would be willing to accept a performance based fee. The firms were encouraged to and did offer their best fee for the assignment.

Discussion followed on the capabilities of each firm, including the contrasting 'top down' and 'bottom up' investment styles of the firms. At the request of the Board, CIO States and Mr. Lightvoet reported that they felt Invesco gave SCERS the most diversification to the portfolio from its other international equity managers and had made the strongest presentation.

A motion to hire Invesco, Inc. was made by Mr. Suter; Seconded by Mr. Kelly; Motion carried (8-0).

13. Mr. Suter moved for adoption of Resolution No. SCERS 2005-01 authorizing the Board President to sign the Investment Management Agreement with AXA Rosenberg Asset Management for the investment of \$50 million International World ex-US Small Cap Value Equity Portfolio; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
14. On a motion by Mr. Kelly, Seconded by Mr. Suter, the Board accepted the recommendation of the CIO that he be authorized to seek proposals from qualified firms offering transition management services for the funding of the AXA Rosenberg Portfolio and for the funding of the International World ex-US EAFE CORE Portfolio and make the selection of the firm to be used. Motion carried (8-0).

15. Mr. Suter moved that the Board approve the Focus List of Underperforming Companies for the 2005 Proxy Season as presented by the CIO; Seconded by Mr. Kelly. Motion carried (8-0).
16. The Board received and filed the Asset Allocation Review for the Second Quarter of FY 2005 as presented on a Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
17. The Monthly Investment Management Compliance and Activity Report for December 2004 was received and filed on a motion made by Mr. Suter; Seconded by Mr. Woods. Motion carried (8-0).

The meeting was adjourned at 3:08 p.m.

MEMBERS PRESENT: James A. Diepenbrock, President; Ronald Suter, 1st Vice-President; John B. Kelly, 2nd Vice-President; Mark Norris, Treasurer; Members Keith DeVore, William Johnson, Nancy Wolford-Landers, and Robert Woods.

MEMBERS ABSENT: William Cox, Winston Hickox and Steven Soto.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey W. States, Chief Investment Officer; Kathryn Regalia, Chief Operations Officer, John Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Michele Bach, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Invesco, Inc. Representatives Mike Keough, W. Lindsay Davidson, and Ashley G. Preisinger; MFS Investment Management Representatives Karen Jordan, and Thomas Melendez; Fisher Investment, Inc. Representatives Jeff Silk, and Andrew Teufel; Virginia Hayes, Executive Secretary; and Ophelia Wilson, Office Specialist II.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

RICHARD STENSRUD,
Chief Executive Officer

APPROVED: _____
JAMES A. DIEPENBROCK, President

DATE: _____

cc: Retirement Board (11); Clerk, Board of Supervisors (6); County Counsel (2); County Executive; Employee Organizations (21); Sacramento County Retired Employees' Association; SCERS Member Districts (11); and The Sacramento Bee.