



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, MARCH 17, 2005

The regular 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 March 17, 2005 at 1:02 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of February 17, 2005, were approved on motion made by Mr. Suter; Seconded by Mr. Johnson. Motion carried (6-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. DUNCAN, Robert E: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated March 8, 2005.
4. HANSON, Teresa M: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated March 8, 2005.
5. SHAW, Jean E.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated March 8, 2005.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

6. Chief Executive Officer Richard Stensrud provided a report on recent developments in the area of pension reform. Mr. Stensrud noted that the subject had received a great deal of attention at the recent California Association of Public Retirement Systems (CALAPRS) conference. Mr. Stensrud also noted that he had made a presentation on the subject at the recent California State Association of Counties (CSAC) Legislative Conference. Discussion followed.

Mr. Stensrud reported that Annual Member Statements had recently been sent out to SCERS members, and that the Statements had been revised to make it easier for members to focus on the key information regarding contributions, interest and service credit.

Mr. Stensrud reminded the Board that the economic interest reporting materials would be due at the end of March. Mr. Stensrud also noted that renewal of the system's fiduciary insurance coverage would be addressed at the April Board Meeting and reminded the Board that they would need to be prepared to pay at that time if they wished to be included in the waiver of recourse endorsement.

Mr. Stensrud provided the Board with information regarding pre and post benefit enhancement monthly benefit levels that had been requested by Ms. Wolford-Landers. Mr. Stensrud noted that the information provided a breakdown of median and average monthly benefit levels for individuals retiring before and after the adoption of benefit enhancements, but that several factors resulted in the data regarding post-enhancement benefit levels temporarily skewed. Discussion followed.

7. CEO Richard Stensrud presented a report to the Board (a copy of which has been placed in the record) on the information being developed by the actuary community regarding the fiscal impact of closing the current defined benefit (DB) plan to employees hired on or after July 1, 2007. Mr. Stensrud noted that actuarial studies commissioned by other retirement systems showed there was a substantial fiscal impact on both employer and employee costs if the current DB plan was closed to newly hired employees. Mr. Stensrud explained that lower investment returns would flow from the changes to the investment program necessary to address the need for increased cash flow and a shorter investment horizon. Mr. Stensrud noted that lower returns would result in a lower actuarial assumed earnings rate, which in turn, would result in an increase in both employer and employee normal cost contribution rates. Mr. Stensrud also explained that actuarial and accounting rules would require a change in the method for paying off any unfunded liability, with the result that such payments would have to be 'front-loaded.' Mr. Stensrud noted that this would result in a substantial increase in unfunded liability costs in the near term.

Mr. Stensrud noted that given the high likelihood that one or more initiatives affecting the future of defined benefit plans would be going to the voters in the near future, it was important that SCERS and SCERS' stakeholders – i.e., members, retirees and beneficiaries; participating employers; and the taxpayers – have as much information as possible regarding the fiscal ramifications if employees hired on or after July 1, 2007 can only participate in a defined contribution (DC) plan and the existing SCERS DB plan shifts to 'closed plan' status.

ADMINISTRATIVE MATTERS: (continued)

Accordingly, Mr. Stensrud recommended that the Board direct SCERS' actuary (The Segal Company) to conduct an actuarial study of the fiscal impact on SCERS and SCERS stakeholders of becoming a closed plan. Since the information in such a study would be of vital importance to the County in its planning and decision-making, Mr. Stensrud suggested that consideration be given to exploring a cost-sharing arrangement with the County for the study.

Discussion followed, including discussion of whether the study was premature since specifics regarding any new DC plan had not been developed, and whether it would be better to wait until after the election so that the data was more current. In response, it was pointed out that the focus of the study was on the fiscal impact on the DB plan and not the DC plan and thus uncertainty about the details of the DC plan would not impede the analysis. It was also noted that the information provided by such a study would be vital for making informed and prudent decisions about whether an initiative should be approved. The cost of such a study was discussed, and whether sharing the cost with the County would be appropriate. A member of the public, Mr. John Descamp, former CEO of SCERS, spoke in favor of conducting such a study, but urged that the study focus on fiscal ramifications and not political considerations.

Ms. Wolford-Landers moved that The Segal Company be directed to conduct an actuarial study of the fiscal ramifications for SCERS, including SCERS' stakeholders, if employees hired on or after July 1, 2007 can only participate in a DC plan, and that the County be approached about sharing the cost of the study; Seconded by Mr. DeVore. Motion carried (9-0).

8. CEO Richard Stensrud presented a report from The Segal Company recommending the annual cost-of-living adjustment (COLA) for SCERS' retirement benefits effective April 1, 2005. Mr. Stensrud explained how the COLA was determined, noting that it was based on a comparison of the average annual Consumer Price Index (CPI) from one year to the next rather than an end of the year comparison, and that it was based on a ratio of the two average annual numbers rather than subtracting one from the other. Mr. Stensrud noted that the actuary had determined that the base COLA for the year should be 1%, but that the actual COLA that a person received would be dependent upon the individual's tier and date of retirement, and includes consideration of whether the individual had any accumulated carry-over in his/her 'COLA Bank.'

Discussion followed regarding the methodology for determining the COLA. Mr. Stensrud noted that the COLA was determined in this same manner every year.

Motion by Mr. Suter to adopt the COLA as recommended by the actuary; Seconded by Mr. Norris. Motion carried (8-1), with Ms. Wolford-Landers dissenting.

9. Chief Operations Officer Kathryn Regalia and Heather Jones of Macias, Gini & Company presented the Independent Auditor's Report to Management for the Fiscal Year Ended June 30, 2004. Ms. Regalia and Ms. Jones outlined the findings of the Report and discussion followed.

Motion by Mr. Kelly to receive and file the Report; Seconded by Mr. Woods. Motion carried (9-0).

ADMINISTRATIVE MATTERS: (continued)

10. Item number 10 was deferred to the April Board Meeting.

INVESTMENT MATTERS:

11. Tom Lightvoet, Mercer Investment Consulting presented the investment portfolio performance report for periods ending on December 31, 2004. Mr. Lightvoet informed the Board that SCERS total fund had a return of 7.3%, net of fees, for the quarter and a return of 9.8% for the calendar year. He made comments regarding the asset class and individual manager performance and reviewed the recommendations for possible action noted in the report. No action was taken on the recommendations. The Board asked Mr. Lightvoet questions about the appropriateness of using the policy asset allocation as the policy benchmark for performance comparison given that SCERS is significantly under its asset allocation target for real estate due to the lack of sound real estate investment opportunities. Mr. Lightvoet said he would prepare future reports providing a policy benchmark that reflects assets as invested to provide a more accurate evaluation of manager performance. The performance report was received and filed on a motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (9-0).
12. Mr. Lightvoet made a presentation on SCERS real estate allocation and options available for the short-term investment of that portion of the allocation not currently invested in real estate. He and Chief Investment Officer Jeff States recommended the use of investments in publicly traded REITS and CMBS products as the best options to maintain liquidity and provide additional exposure to commercial real estate. Mr. Lightvoet said that he would only recommend the REIT investments if SCERS was willing to make a ten year commitment. Several questions were asked about the characteristics of these two investments with concern being expressed about their appropriateness for use as short-term investments. The Board requested Mr. States and Mr. Lightvoet to contact SCERS real estate advisors and fixed income managers to find out whether they have equity REIT or CMBS products. In addition, a request was made for a broader assessment of cash management investment strategies that might be used to improve portfolio returns and reduce the asset allocation tracking error. No action was taken on the recommendations. The report was received and filed on a motion by Mr. Kelly; Seconded by Ms. Wolford-Landers. Motion carried (9-0).
13. David Fisher, Chairman of Capital Guardian Trust Company, and Paula Pretlow, Client Services Officer, presented an update on the firm and discussed the performance and outlook for the international equity developed countries and emerging markets portfolios managed for SCERS. Mr. Fisher indicated that the recent poor performance of the portfolios was not indicative of the performance that should be expected going forward. He responded to questions about the firm and explained their analysis of the non-US equity markets. In response to a question, he said Capital Guardian would be willing to accept a performance based fee going forward. The Board asked that staff follow-up with Capital Guardian to negotiate a performance based fee and report back when it is available. The presentation materials were received and filed on a motion made by Mr. Kelly; Seconded by Mr. Woods. Motion carried (8-0).

INVESTMENT MATTERS: (continued)

14. Upon the recommendation of the Chief Investment Officer, the Board approved the list of eight appraisal firms submitted by Cornerstone Realty Advisers to provide third-party appraisals on real estate investments made by the firm. Motion by Ms. Wolford-Landers; Seconded by Mr. Johnson. Motion carried (7-0).
15. Upon the recommendation of the Chief Investment Officer, the Board adopted Resolution No. SCERS 2005-03 approving the amendment to Exhibit A of the investment management agreement with Metropolitan West Asset Management to permit the investment of a portion of their portfolio in the Metropolitan West High Yield Bond Fund. Motion by Mr. Suter; Seconded by Mr. Kelly. Motion carried (7-0).
16. The Monthly Investment Compliance and Activity Report for February 2005 was received and filed on a Motion by Mr. Kelly; Seconded by Mr. Woods. Motion carried (7-0).

The meeting was adjourned at 4:27 p.m.

MEMBERS PRESENT: James A. Diepenbrock, President; Ronald Suter, 1st Vice-President; John B. Kelly, 2nd Vice-President (arrived at 1:32); Mark Norris, Treasurer (arrived at 1:04, left at 3:54); Members William Cox (left at 4:00); Keith DeVore (left at 4:12); Winston Hickox; Bill Johnson; Robert Woods (arrived at 1:06); Steven Soto; Nancy Wolford-Landers.

MEMBERS ABSENT: None

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; Diana Ruiz, Deputy County Council; Tom Lightvoet, Mercer Investment Consulting; John R. Descamp; Heather Jones, Macias, Gini and Company; Robert Duncan, Attorney for Teresa Hanson; Larry Ottman, Senior Accountant; David Fischer, Capitol Guardian; Paula Pretlow, Capitol Guardian, Virginia Hayes, Executive Secretary

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.