



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, President
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, MAY 19, 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 May 19, 2004, at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of April 21, 2005, were approved on motion made by Mr. Johnson; Seconded by Mr. Kelly. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. BROWN, Diane J.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated May 11, 2005.
4. GERGIANNAKIS, Manual G.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated April 29, 2005.

DISABILITY MATTERS: (continued)

5. RAMIREZ, Fernandez: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated May 9, 2005.

EXISTING LITIGATION:

6. WorldCom Litigation: Action was taken pursuant to the recommendation of counsel per confidential memorandum dated May 11, 2005.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

7. Chief Executive Officer Richard Stensrud provided an update on recent developments in the area of pension reform legislation.

Mr. Stensrud provided information regarding recent developments at the City of San Diego retirement system.

Mr. Stensrud presented a report on matters addressed at the recent State Association of County Retirement Systems (SACRS) conference. Mr. Stensrud noted that discussion of pension reform had been an important element of the meeting and that the SACRS members had voted twelve to three, with four abstentions (including SCERS, per Board decision) to adopt a resolution formally opposing any legislative effort to close defined benefit plans to newly hired employees.

Mr. Suter asked if a report would be forthcoming regarding how best to address SCERS legal service needs. Mr. Stensrud said that he would provide the Board with an update at the June Board Meeting.

Mr. Suter asked if SCERS currently had a formal process for the re-examination of disability retirees to assure that they continued to be disabled. Mr. Stensrud reported that the County Employees' Retirement Law of 1937 ('1937 Act') authorized the re-examination of disability retirees up to age 55, and while SCERS did not have structured, mandatory re-examination process, if SCERS received information indicating that a re-examination was appropriate, SCERS would have the individual re-examined. Mr. Stensrud further reported that he had discussed this subject with other retirement administrators and had learned that some systems had a formal re-examination process, but had found the exercise to be of limited value in removing individuals from the payroll who were found to be no longer disabled. Mr. Stensrud explained that this was due to the fact that under the 1937 Act, in order to suspend the disability benefit the individual had to be re-employed by the former employer, and that employers were rarely willing or able to reinstate the individuals. Mr. Stensrud stated that he would provide a report to the Board on both SCERS current practices and the issues that would need to be addressed if a more structured process were to be put in place.

ADMINISTRATIVE MATTERS: (continued)

Mr. Suter asked if any consideration was being given to the fifteen year asset/liability smoothing methodology recently implemented by CALPERS. Mr. Stensrud stated that he had been discussing the concept with other retirement administrators and would also be discussing it with SCERS actuary. Mr. Stensrud stated that he would report back to the Board on the matter.

Mr. Suter requested that at a future meeting the Board discuss and adopt a method for conducting an evaluation of the Chief Executive Officer. Mr. Stensrud stated that he would add the item to the next Agenda.

Mr. Stensrud reported that in light of the material that would need to be covered at the June Board Meeting, absent objection he planned to move the starting time up to 10:00 a.m. No objections were raised.

INVESTMENT MATTERS:

8. Prior to the presentation of SCERS Investment Performance Evaluation Report for periods ending March 31, 2005 by Tom Lightvoet, Mercer Investment Consulting, Mr. Diepenbrock noted that he continued to have concerns about whether SCERS was achieving the level of investment returns that it might. Mr. Diepenbrock noted that staff was analyzing options in this regard, but suggested that it might be beneficial to look at the strategies and practices of CALPERS and CalSTRS to see if they were doing anything SCERS may want to adopt. Discussion followed and it was agreed that staff and the investment consultant should explore what successful systems are doing in their investment programs, and to analyze whether they utilize different strategies or practices at such systems that might be of value to SCERS. Mr. Hickox submitted that it would also be helpful if measures could be identified that would allow the Board to assess its own performance with respect to the investment program. Mr. Stensrud stated that information and/or ideas would be developed on the subject.

Mr. Lightvoet presented the Investment Portfolio Performance Report for periods ending March 31, 2005. He reported that SCERS total fund had a loss of -0.5 %, net of fees, for the quarter and a return of 6.3% for the trailing twelve month period. He made comments regarding the asset class and individual manager performance. No actions were recommended with respect to the report or his comments.

The Board asked Mr. Lightvoet to explain why SCERS is under-performing its policy benchmark. Mr. Lightvoet responded that he felt the primary factors were: (a) the significant under-weighting in real estate compared to the asset allocation target; and (b) the poor performance of SCERS international equity managers. Mr. Lightvoet noted that the Board would be discussing suggestions to address the first issue later in the meeting. With respect to the second issue, Mr. Lightvoet noted that SCERS had substantially revised its manager roster for international equity, removing several under-performing managers. He expressed concern about the Capital Guardian Emerging Markets Growth Fund, but did not recommend any action be taken.

INVESTMENT MATTERS: (continued)

The Board asked Mr. Lightvoet and staff to do a comparison of SCERS investment performance to that of CALPERS and CALSTRS over the past several years. The purpose of the comparison is to see how our returns by asset class compare and to look at what they are doing differently in their investment programs. The Investment Performance Evaluation Report for periods ending March 31, 2005 was received and filed on a motion by Mr. Woods; Seconded by Mr. Kelly. Motion carried (9-0).

9. Prior to addressing the scheduled discussion of real estate investment alternatives, CEO Richard Stensrud and CIO Jeffrey States recommended that the Board agree to consider requests from Cornerstone Realty Advisors and BlackRock Realty Advisors as off-agenda items. Deputy County Counsel Michele Bach advised the Board of the conditions under which it can consider an item not on the agenda. Mr. Stensrud and Mr. States explained that both matters had been received after the agenda had been posted and beyond the point when it could be amended, and that both matters required Board action prior to the next Board meeting so that the firms could move forward in a timely manner on pending real estate transactions. The Board agreed to consider the two requests as off-agenda items on a motion by Mr. Suter; Seconded by Mr. DeVore. Motion carried (8-0), with Mr. Kelly abstaining.

On a recommendation from Mr. States, the Board approved the request from Cornerstone Realty Advisors that it be able to make a good faith deposit in excess of the \$1.1 million limitation in their investment agreement, not to exceed five percent (5%) of the purchase price, for the acquisition of an office building for which it is currently bidding. Motion by Mr. Hickox; Seconded by Mr. Woods. Motion carried (8-0), with Mr. Kelly abstaining.

Mr. States recommended that the Board approve the request from BlackRock Realty Advisors that it be granted an exception to the per asset leverage limitation in its investment management agreement for the purpose of acquiring a corporate center in Weston, Florida. Mr. States explained that the exception was necessary because the property had existing debt as part of the purchase price and that the pre-payment penalty to pay off the existing mortgage would be in excess of \$4.0 million. Mr. States noted that after the purchase the total BlackRock real estate portfolio would still be below the total portfolio limit on leverage. Mr. Lightvoet also recommended that the Board approve the request. On a motion by Mr. Hickox, Seconded by Mr. Kelly, the Board approved the request from BlackRock Realty Advisors that it be permitted to exceed the per asset leverage limitation of in its investment agreement for the purpose of acquiring the corporate center. Motion carried (9-0).

Turning to the scheduled item, CIO Jeffrey States presented a report summarizing the results of his survey of SCERS real estate and fixed income managers regarding their ability to offer alternative tactical investment strategies to accelerate full investment of SCERS real estate allocation. He reported that the product best matching SCERS' real estate investment strategy was the BlackRock Tower Fund, which is an open-end commingled core real estate investment fund. Mr. States and Mr. Lightvoet recommended that the Board direct them to do additional due diligence on the Tower Fund and make a recommendation as to whether an investment would be appropriate. In addition, CIO States and Mr. Lightvoet recommended that the Board revise its real estate investment guidelines to broaden the types of real estate investments

INVESTMENT MATTERS: (continued)

permitted. On a motion by Mr. Kelly, Seconded by Ms. Wolford-Landers, the Board directed staff and the investment consultant to conduct additional due diligence on the Tower Fund. Motion carried (9-0). On a motion by Mr. Kelly Seconded by Ms. Wolford-Landers, the Board also directed staff and the investment consultant to develop recommendations for modifications of the real estate investment guidelines to authorize additional investment strategies for achieving full investment of the real estate allocation. Motion carried (9-0)

10. The Monthly Investment Compliance and Activity Report for April 2005 was received and filed on a Motion by Mr. Suter; Seconded by Mr. Woods. Motion carried (9-0).

The meeting was adjourned at 2:51 p.m.

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

MEMBERS ABSENT: William Cox; Steven Soto

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; John Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Kathryn Regalia, Chief Operations Officer; Michele Bach, Deputy County Counsel; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Human Resources; Pat Adachi, President Sacramento County Retired Employees Association; George Appel, Sacramento Metropolitan Fire; Micki De La Fuente, Interim Executive Secretary

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

RICHARD STENSRUD,
Chief Executive Officer

APPROVED: _____
JAMES A. DIEPENBROCK, President

DATE: _____

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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.