



Executive Staff:

Richard Stensrud
Chief Executive Officer

Jeffrey W. States
Chief Investment Officer

James G. Line
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

Members of the Board of Retirement

James A. Diepenbrock, President
Appointed by the Board of Supervisors

Keith DeVore, 1st Vice President
Elected by Miscellaneous Members

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

Dave Irish, Director of Finance
Ex-Officio

Winston H. Hickox
Appointed by the Board of Supervisors

Alice Jarboe
Elected by Miscellaneous Members

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

John Conneally
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, MAY 17, 2007

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 Thursday, May 17, 2007, commencing at 1:04 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the April 19, 2007 regular meeting were approved on Motion made by Mr. Johnson; Seconded by Mr. Irish. Motion carried (7-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. BURCELL, Robin: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated May 23, 2007.
4. CASL, Virginia: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated May 23, 2007.

LEGAL MATTERS:

5. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION:
{Government Code Section 54956.9 (a)}

Timothy Lloyd v. SCERS et al.
Sacramento County Superior Court, Case No. 06CS1009

The Board consulted with counsel.

6. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION:
{Government Code Section 54956.9 (a)}

In Re: Brooks Automation, Inc. – Securities Litigation
U.S. District Court, District of Massachusetts, Case No. 06-11068-RWZ

General Counsel James Line reported that pursuant to SCERS Securities Litigation Policy, the Chief Executive Officer had authorized SCERS' participation as a co-lead plaintiff in the above-referenced securities litigation matter.

7. CONFERENCE WITH LEGAL COUNSEL – INITIATION OF LITIGATION
{Government Code Section 64956(c)}

Amicus Brief on Appeal in Block v. Orange County Employees Retirement System
California Court of Appeal, Fourth Appellate District, Case No. G038123

After consultation with counsel, the Board authorized SCERS to join the Amicus Brief being filed in the above-referenced litigation.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

8. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud noted that contemporaneous with the Board Meeting, the County Board of Supervisors was considering how to proceed with respect to the retiree health care subsidy.

Mr. Stensrud reported on the location and activities associated with the Board Strategic Planning session scheduled for August 22nd and 23rd.

Mr. Stensrud noted the recent media reports concerning efforts in the State of Texas to avoid compliance with the recent Other Post-Employment Benefits (OPEB) reporting requirements established by the Governmental Accounting Standards Board (GASB).

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud provided an update on developments concerning the Governor's Post-Employment Benefits Commission.

Mr. Stensrud noted that in June the Board would be presented with requests from the County, the Sacramento Metropolitan Fire District and the Superior Court of California, County of Sacramento to pre-pay their annual employer contributions.

Mr. Stensrud noted that he had authorized a correction of a clerical error in the fee schedule for the Investment Management Agreement with Principal Global Investors.

Mr. Stensrud reported on the recent State Association of County Retirement Systems (SACRS) Spring Conference, and invited Board Members who attended the conference to share their impressions. Discussion followed.

9. Chief Operations Officer Kathryn Regalia presented the Proposed Budget Request for Fiscal Year 2007-2008. Motion by Mr. Kelly to adopt the proposed budget request for fiscal year 2007-2008; Seconded by Mr. Woods. Motion carried (8-0).
10. Chief Operations Officer Kathryn Regalia presented a proposed three-year extension of the contract for actuarial services with The Segal Company. Ms. Regalia noted that the Board had previously authorized a one-year extension of the contract, but had requested staff to explore whether there would be interest and value in pursuing a longer extension. Ms. Regalia reported that staff had determined that a three-year extension at the terms offered by Segal would be both financially and administratively beneficial to SCERS. Motion by Mr. Johnson to authorize a three-year extension of the contract; Seconded by Mr. Kelly. Motion carried (8-0).
11. Paul Angelo of The Segal Company made a presentation regarding the considerations and options for establishing the methodology that would be used to determine the price for purchasing Additional Retirement Credit (ARC), as authorized under the County Employees' Retirement Law of 1937 (1937 Act).

Mr. Angelo noted that as required by the 1937 Act, the Sacramento County Board of Supervisors had recently authorized ARC purchases by SCERS members. Mr. Angelo explained that under the 1937 Act, the responsibility for establishing the price for an ARC purchase rests solely with the SCERS Board, in consultation with its actuary, with the proviso that the cost to buy such service cannot place any additional financial burden on the retirement system. Mr. Angelo explained that this means the cost of the purchase must be as 'cost neutral' to SCERS (and the plan sponsor) as is actuarially and administratively feasible. Mr. Angelo also noted that it also means that the full cost for the ARC purchase must be paid by the member.

ADMINISTRATIVE MATTERS (continued):

Mr. Angelo explained that there were options for establishing the ARC purchase price but that none of the options would provide 'perfect' cost neutrality in every purchase because they all required the use of various actuarial assumptions such as the average retirement age, projected salary growth, and whether the member will be married at retirement (meaning that there will be a spousal continuance). Mr. Angelo explained that to the extent the actual circumstances at retirement for an ARC purchaser differed from the actuarial assumptions, the price of the ARC purchase would deviate somewhat from cost neutrality. Mr. Angelo explained that the only way to avoid such an outcome would be to utilize a cost 'true-up' at retirement, but that this was problematic from both a legal and administrative perspective. Mr. Angelo noted however, that with that caveat, The Segal Company believed that the pricing options it was suggesting would be cost neutral for the purchasing population as a whole, in that they would neither increase nor decrease the annual employer and member contribution rates to the retirement system.

Mr. Angelo noted the following additional considerations regarding ARC purchases: (1) The closer the member is to retirement, the more expensive the ARC purchase will be as there is less time for the retirement system to invest the purchase price before the benefits start being paid out; (2) The law does not authorize a refund for an ARC purchase if it turns out that the member cannot obtain the expected benefit of the purchase (e.g., if the member ends up drawing a disability retirement or if the member's benefit exceeds 100% of final compensation); and (3) The additional service credit (and benefits) obtained via the ARC purchase may cause members to retire earlier, and thus it might be necessary to modify the retirement age assumption to reflect actual experience.

Mr. Angelo outlined the variables in establishing the ARC pricing methodology and noted the choices made by the 1937 Act systems that have implemented ARC purchases to-date. Discussion followed on the variables and the options under each variable, with the Board indicating its preferred option. The Board also indicated that it wanted the actuary to provide a report on the actual retirement age experience as part of the three-year experience study so that the Board could assess whether a change in the retirement age assumption was warranted.

Motion by Mr. Kelly to adopt an ARC pricing methodology utilizing the variables identified by the Board; Seconded by Mr. Cox. Motion carried (8-0).

INVESTMENT MATTERS:

12. Tom Lightvoet of Mercer Investment Consulting presented the Quarterly Investment Performance Report for the Quarter Ended March 31, 2007.

Mr. Lightvoet discussed SCERS' performance by asset class and individual investment manager portfolio. Mr. Lightvoet reported that the Total Fund had an investment return of 2.4%, net of fees, for the first quarter of 2007 and a return of 11.8%, net of fees, for the trailing one year period. Mr. Lightvoet informed the Board that because of the upcoming

INVESTMENT MATTERS (continued):

investment portfolio structure review, Mercer was not recommending any changes in managers or portfolio assignments at this time. Discussion followed.

Motion by Mr. Woods to receive and file the presentation materials; Seconded by Mr. Irish. Motion carried (8-0).

13. Tom Lightvoet and Paul Graf of Mercer Investment Consulting made a presentation regarding possible asset class combinations SCERS' asset allocation model.

Mr. Lightvoet and Mr. Graf reviewed the process and methodology underlying the study. They explained that the purpose of the study was to compare SCERS' current strategic asset allocation to several alternative strategic asset allocations, some of which included new asset classes for investment. Mr. Lightvoet and Mr. Graf noted that the study assessed the various potential asset allocations in terms of the investment return they were projected to generate as well as the degree of volatility one might expect in the returns. They explained that the study incorporated several objectives related to maintaining a prudent actuarial funding level for the next five and ten year periods and trying to minimize the changes in the contribution rates over that time.

Mr. Lightvoet and Mr. Graf reported that the study indicated that the most efficient asset mixes (i.e., where the expected asset class returns were maximized relative to an acceptable level of standard deviation of return) added (1) a private equity allocation of 5%; and (2) a 5% real return allocation, which included commodities.

Mr. Lightvoet and Mr. Graf explained that the benefits to be derived from the private equity allocation were a reduction in total contributions and total economic cost under most economic scenarios. They explained that key benefits provided by the real return/commodity allocation were improved diversification and some added downside protection if the allocation is taken from equity. Mr. Lightvoet and Mr. Graf also noted that SCERS could gain some additional downside protection from a modest increase in the allocation to fixed income although it would come at the expense of some investment return.

Extensive discussion took place regarding the risk/return characteristics of the various portfolios in comparison to SCERS' current strategic asset allocation. In particular, the Board expressed reservations about the options that had an expected geometric return below the return of the current strategic asset allocation. The Board also inquired whether there were any alternative portfolios beyond those presented that would have a higher expected geometric return with a standard deviation that is the same or slightly less than SCERS' current strategic asset.

As a result of the discussion, Mercer was asked to prepare an analysis of three additional strategic asset allocation alternatives for consideration at the June Board meeting. The three new alternative strategic asset allocations vary the source within the current asset classes from which funding would be provided for the proposed new asset classes.

INVESTMENT MATTERS (continued):

Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Mr. DeVore. Motion carried (6-0).

14. Allistair Lowe, Senior Managing Director of State Street Global Advisors provided an update on the performance of SCERS' strategic overlay strategy managed by State Street Global Advisors.

Mr. Lowe reviewed the objectives of the strategy. He reported that the cash held in the plan as well as the cash in the external investment manager portfolios was monitored daily and that the cash was used to replicate SCERS' strategic asset allocation, excluding real estate investments, by buying equity and fixed income futures in proportion to the asset allocation targets. Mr. Lowe noted that in addition, on a monthly basis the strategic overlay strategy was used to rebalance SCERS' actual portfolio asset allocation as invested back to the strategic asset allocation targets.

Mr. Lowe reported that due to the strong performance of equity asset classes during the past year the overlay strategy had reduced SCERS' portfolio return by about 8 basis points because of the monthly rebalancing of the investments to the asset allocation targets. He explained that SCERS' asset allocation to hedge fund investments, which is treated as cash in the strategic asset allocation, increased SCERS' allocation to cash resulting in SCERS' selling equity futures and buying fixed income futures. Mr. Lowe explained that once a new strategic asset allocation is adopted, the treatment of the hedge fund investments within the strategic overlay will be changed to equity to reflect the significant equity beta present in SCERS' hedge fund of funds manager's portfolios. Notwithstanding these factors, Mr. Lowe reported that the overlay provided additional investment return to SCERS' total portfolio.

Discussion followed. Motion by Mr. DeVore to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

15. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for April, 2007. Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

The meeting was adjourned at 4:54 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore, John B. Kelly, Dave Irish (departed at 3:07 p.m.), Winston Hickox; William D. Johnson; Robert Woods (arrived at 1:24 p.m., departed at 3:16 p.m.), Nancy Wolford-Landers (arrived at 3:02 p.m.); and William Cox (departed at 3:55 p.m.)

MEMBERS ABSENT: Alice Jarboe, John Conneally

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; James G. Line, General Counsel; Kathryn Regalia, Chief Operations Officer; John Gobel, Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Tom Lightvoet and Paul Graf of Mercer Investment Consulting; Paul Angelo of The Segal Company; Alistair Lowe of State Street Global Advisors; SCERS Member, Robin Burcell; Diana Ruiz, Deputy Counsel; and Jennifer Foster, Executive Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

Richard Stensrud
Chief Executive Officer

APPROVED: _____
James A. Diepenbrock, President

DATE: _____

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.