



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

Dave Irish, 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 19, 2006

The 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 19, 2006, at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of December 15, 2005, were approved on a Motion by Mr. Woods; Seconded by Mr. DeVore. Motion carried (5-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. KNIGHT, Richard A.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated January 26, 2006
4. LLOYD, Judith T.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated January 26, 2006.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

5. Chief Executive Officer Richard Stensrud reported that SCERS would be receiving an award for having the largest contribution increase for agencies with one hundred employees or less in the 2005 Sacramento County Employees' Giving Campaign. Mr. Stensrud reported that in the 2005 Campaign the participation level of SCERS employees making charitable contributions increased 19.7% from last year. Mr. Stensrud commended the SCERS employees for their generosity and complimented SCERS Campaign Chair Florence Craig for her efforts to encourage and facilitate the charitable fundraising.

Mr. Stensrud reminded the Board about the State Association of County Retirement Systems (SACRS) upcoming Other Post-Employment Benefits (OPEB) Symposium at the end of February and the California Association of Public Retirement Systems (CALAPRS) General Assembly in early March.

Mr. Stensrud discussed the recent court ruling affirming the decisions by the Retirement Board of the Ventura County Employees' Retirement Association regarding how it would allocate 'excess earnings' of the retirement system. Mr. Stensrud also noted the ongoing developments regarding the City of San Diego retirement system. Mr. Stensrud also discussed the recent stories regarding pension funding by the local media.

Mr. Stensrud provided an update on the status of legislation directed at 1937 Act retirement systems. Mr. Stensrud reported that SACRS was opposing AB 1568, a bill that would prohibit investment professionals from serving on 1937 Act retirement boards. Mr. Stensrud noted that the law already contained substantial measures for dealing with potential conflict of interest situations, and that the proposal would be detrimental to retirement system stakeholders since it would deprive them of the valuable expertise that individuals with investment experience bring to public service. Mr. Stensrud reported that SACRS was recommending alternative language that would enhance disclosure, require affirmative declarations regarding the absence of conflict of interest, and mandate education regarding fiduciary responsibility. Discussion followed.

6. Heather Jones of Macias Gini & Company presented the independent auditor's reports regarding SCERS for the fiscal years ended June 30, 2005 and 2004. Ms. Jones reported that based on its audit, Macias Gini had issued an unqualified 'clean' opinion on SCERS' financial statements, and that this report could be found in the Financial Section of SCERS' Comprehensive Annual Financial Report (CAFR). Ms. Jones also reported that in the course of their audit the firm found no matters involving internal controls that the firm considered to be material weaknesses, and their tests disclosed no instances of non-compliance with laws, regulations or contracts which could have a direct or material effect on the financial statements. Ms. Jones also provided an update on the status of comments and suggestions made in the prior year's audit. Finally, Ms. Jones noted that SCERS staff had been very well-prepared, and had been helpful and cooperative throughout the audit. Chief Operations Officer Kathryn Regalia expressed her appreciation to the audit team

ADMINISTRATIVE MATTERS: (Continued)

from Macias Gini for their hard work in getting the audit completed in a timely manner. Motion by Mr. Irish to receive and file the various independent auditor's reports; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

7. Chief Operations Officer Kathryn Regalia presented SCERS CAFR for the fiscal years ended June 30, 2005 and 2004. Ms. Regalia noted that, as previously reported by Macias Gini & Company, the financial statements had received an unqualified clean opinion from the independent auditors. Ms. Regalia also noted that to comply with a new Governmental Accounting Standards Board (GASB) rule, the CAFR included a substantial expansion of the investment information contained in the Notes to the Financial Statements. Finally, Ms. Regalia noted that the CAFR had been improved stylistically through design features, the enhanced use of color and the addition of photographs. Chief Executive Officer Richard Stensrud complimented Ms. Regalia and the other SCERS staff members who worked on the CAFR for their hard work and the excellent product. The Board also commended Ms. Regalia and her colleagues. Motion by Mr. Woods to receive and file the CAFR; Seconded by Mr. Hickox. Motion carried (7-0).
8. Chief Executive Officer Richard Stensrud presented the recommendation of The Segal Company that interest be credited to SCERS reserves at the rate of 3.61% as of December 31, 2005. Mr. Stensrud noted that the recommended crediting rate was based on preliminary investment performance information and that any residual investment earnings or shortfall would be applied to the interest crediting determination for the six month period ending June 30, 2006. Mr. Stensrud also noted that the recommended crediting rate was below the target six-month crediting rate of 3.875% due to the ongoing phase-in of investment losses from previous years through the retirement system's five-year smoothing technique. Mr. Stensrud further noted, however, that the recommended interest crediting rate was much closer to the target than in recent crediting periods, reflecting the fact that most of the deferred losses have cleared the smoothing process and have been replaced by deferred gains. Motion by Mr. Johnson to adopt an interest crediting rate of 3.61% for SCERS' reserves as of December 31, 2005; Seconded by Mr. DeVore. Motion carried (7-0).

INVESTMENT MATTERS:

9. Chief Investment Officer Jeffrey States recommended the Board approve Resolution SCERS 2006-01 authorizing the Board President to execute the Investment Management Agreement (IMA) with Principal Real Estate Advisors, LLC. for the purpose of investing \$50 million in a portfolio of publicly traded equity real estate securities. Mr. States advised the Board that the County Risk Management Office had recommended some changes to the indemnification language and insurance requirements after the draft agreement had been sent to the Board. The changes need to be reviewed by Principal and by County Counsel before the IMA is signed. Mr. States advised the Board that the \$50 million allocated to this assignment would be dollar cost averaged to the manager with the first \$20 million being allocated on February 1, and with the remaining allocation being distributed in increments of \$7.5 million on March 15, June 30, September 15 and December 15. Michele Bach, Supervising Deputy County Counsel recommended that the language

INVESTMENT MATTERS: (Continued)

of the Resolution be revised to require approval of the IMA as to form by her office before it is signed. Motion by Mr. Woods to adopt Resolution SCERS 2006-01 with the recommended changes by County Counsel; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

10. Chief Investment Officer Jeffrey States presented Resolution SCERS 2006-02 authorizing the Board President to execute the Investment Management Agreement with Urdang Securities Management Inc. for the purpose of investing \$50 million in a portfolio of publicly traded equity real estate securities. Mr. States advised the Board that on Monday, January 9, 2006, Urdang announced it was being acquired by the Bank of New York. Mr. Scott Urdang, President of Urdang Securities Management, along with Todd Briddell, Portfolio Manager, appeared to explain the transaction, answer questions and address concerns the Board might have about the acquisition. Mr. Urdang advised the Board that the firm had been assured that it would maintain its independence in managing the firm and the investment program. Mr. Urdang indicated that all of the principals at Urdang had received retention compensation and signed agreements to remain with the firm. In answer to a question about Urdang's stated intent to close the U.S. REIT product to new clients when it reached a target size of three percent of the market cap of publicly traded REITS, Mr. Urdang said that the commitment to closing the product had been agreed to by Bank of New York. Mr. States informed the Board that he had received an e-mail letter from the Bank of New York indicating their commitment to close the program when the stated level was reached. Tom Lightvoet, Mercer Investment Consulting indicated that Mercer had reviewed the transaction and was recommending to their clients that Urdang be retained. Motion by Mr. Woods to approve Resolution SCERS 2006-02; Seconded by Mr. Johnson. Motion carried (7-0).
11. Mr. Tom Lightvoet, Mercer Investment Consulting and Chief Investment Officer Jeffrey States reviewed the selection process that had been used to evaluate proposals from firms being considered to manage the residual cash and asset allocation policy implementation overlay strategy. Mr. States noted that ten firms had received the request for information (RFI) inviting firms to express interest in managing the program. Mr. States noted that four proposals were received in response to the RFI. Mr. States noted that after reviewing the proposals, three of the firms were interviewed by him, Mr. Lightvoet and Chief Executive Officer Richard Stensrud. Mr. States reported that after considering SCERS needs and the capabilities of the firms, the interview team had agreed to recommend that State Street Global Advisors (SSGA) be selected to manage the overlay strategy. Motion by Mr. Woods to receive and file the report on the search for a firm to manage the residual cash and asset allocation policy overlay strategy; Seconded by Mr. Devore. Motion carried (7-0). Motion by Mr. Woods to accept the recommendation to engage State Street Global Advisors to manage the residual cash and asset allocation policy overlay strategy; Seconded by Mr. Devore. Motion carried (7-0).
12. Chief Investment Officer Jeffrey States made a presentation describing the overlay strategy and how it would be implemented. Mr. States noted the goals the program was seeking to accomplish. Mr. States explained that on a daily basis the residual cash in SCERS' various

INVESTMENT MATTERS: (Continued)

investment manager accounts would be reviewed by SSGA and used to buy dollar-denominated U.S and non-U.S equity futures and bond futures in proportion to SCERS asset allocation policy. Mr. States noted that since there is no available futures instrument to replicate the real estate market, the cash committed to real estate but not yet invested would be allocated between equity and bond futures in proportion to the equity and bond investments. Mr. States reviewed a flow chart illustrating the sources of the information being looked at on a daily basis and how the information would flow from the custody bank to SSGA and to the clearing broker. Mr. States also discussed how the program would be monitored by SSGA and by SCERS to insure that SCERS is fully aware of how the cash is being invested, how the strategy is performing, and that no leverage is used in the program. Mr. States also presented information regarding the relative risks of the strategy and SSGA's experience in dealing with severe disruptions in the investment markets.

Mr. States recommended that the Board approve Resolution SCERS 2006-03 authorizing the Board President to execute the Investment Management Agreement (IMA) with State Street Global Advisors for the purpose of managing the residual cash and asset allocation policy implementation overlay strategy. Mr. States noted, however, that at the request of the County Risk Management Office, negotiations with SSGA were still being finalized regarding insurance and indemnification language. Supervising Deputy County Counsel Michele Bach recommended that proposed Resolution be modified to reflect that the Board President was being authorized to execute an IMA in substantially the form as the version attached to the Resolution, and after review and approval as to final form by County Counsel. Motion by Ms. Wolford to adopt Resolution SCERS 2006-03, as modified per the recommendation of County Counsel; Seconded by Mr. Woods. Motion carried (7-0).

13. The Quarterly Asset Allocation and Portfolio Rebalancing Report for the Quarter Ended December 31, 2005 was received and filed on a Motion by Mr. Woods; Seconded by Mr. Hickox. Motion carried (7-0).
14. The Monthly Investment Manager Compliance and Activity Report for December 2005 was received and filed on a Motion by Mr. Johnson; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

Prior to adjournment, Board President James A. Diepenbrock inquired if the Board would be willing to change the starting time for the February Board Meeting to assist him with a scheduling conflict. The consensus of the Board was to change the starting time to 10 a.m.

ADMINISTRATIVE MATTERS: (Continued)

The meeting was adjourned at 2:37 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore; Winston Hickox (arrived at 1:03 p.m.); Dave Irish (arrived at 1:46 p.m.); William D. Johnson; Nancy Wolford-Landers; Robert Woods.

MEMBERS ABSENT: William Cox; John B. Kelly; Steven Soto; and Ronald Suter.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; Kathryn Regalia, Chief Operations Officer; John Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; William Schnathorst, Retirement System Disability Specialist; T. Ziyalan, Acting Investment Accountant; Michele Bach, Supervising Deputy County Counsel; Diana Ruiz, County Counsel; Tom Lightvoet, Mercer Investment Consulting; Scott Urdang and Todd Briddell, Urdang Securities Management, Inc.; Heather Jones, Macias Gini and Company; George Appel, Sacramento Metropolitan Fire Protection District; and Florence Craig, Executive Assistant.

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 (2); County Employment Records & Training; County Employment Services & Risk Management (2); County Labor Relations; Employee Organizations (21); Sacramento County Retired Employees' Association; SCERS Member Districts (11); Amervest Company, Inc. (2); Dickstein & Merin; and The Sacramento Bee