



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, 1<sup>st</sup> Vice President  
Elected by Miscellaneous Members

John B. Kelly, 2<sup>nd</sup> 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

Steven Soto  
Elected by Safety Members

## MINUTES

### RETIREMENT BOARD MEETING, MONDAY, NOVEMBER 13, 2006

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, 18<sup>th</sup> Floor, Sacramento, California, on Monday, November 13, 2006 at 1:06 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of October 19, 2006 regular meeting were approved on motion made by Mr. Irish; Seconded by Mr. Woods. Motion carried (7-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. GARCIA, Marco: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated November 13, 2006.

**DISABILITY MATTERS: (Continued)**

4. TUCKER, Dianne: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated November 13, 2006.
5. VIGIL, Autumn: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated November 13, 2006.
6. WIRICK, Randall: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated November 13, 2006.
7. MITCHELL, Jeffrey: Action taken on the Application for Survivor's Service Connected /Line of Duty Death Benefits per confidential memorandum from the Chief Benefits Officer dated November 13, 2006.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

8. Chief Executive Officer Richard Stensrud presented a report on recent system and staff activities.

Mr. Stensrud reported that the field work for the annual independent audit of SCERS was nearly completed and that he anticipated presenting the Comprehensive Annual Financial Report ('CAFR') for the Fiscal Years Ending June 30, 2006 and 2005 for the Board's consideration at the December Board Meeting.

Mr. Stensrud reported that the proposed Memorandum of Understanding ('MOU') with the Superior Court of California, County of Sacramento, for an actuarial assessment of the assets and liabilities associated with a proposed set of Court employees and retirees was nearly completed, and that he anticipated the MOU would be presented for the Board's consideration in the near future.

Mr. Stensrud reported that SCERS Staff had met with representatives of the Sacramento Metropolitan Fire District ('SacMetro') to discuss the possibility of SCERS managing other post-employment benefit ('OPEB') assets for SacMetro. Mr. Stensrud noted that the discussions were very preliminary and that a full report on how such an engagement would be structured would be presented for the Board's consideration if it appeared there was strong interest in moving forward on such a project.

Mr. Stensrud reported that SCERS Staff would be collecting data from the other 1937 Act retirement systems concerning the experience of those systems in addressing disability retirement applications. Mr. Stensrud noted that this data would allow SCERS to compare its experience to the experience at other systems.

**ADMINISTRATIVE MATTERS: (Continued)**

9. Paul Angelo and Andy Yeung of The Segal Company presented SCERS Actuarial Valuation and Review as of June 30, 2006.

Mr. Angelo and Mr. Yeung provided an overview of the highlights of the report, including: (1) The recommended employer contribution rate was virtually the same as last year; (2) The employer's contribution cost would be virtually the same as last year; (3) The very slight increase in employer costs was due to the ongoing phase-in of previous investment losses under SCERS' 5-year smoothing technique, and higher than expected salary increases; (4) The bulk of the previous investment losses have been implemented and SCERS now has \$242 million in net deferred gains waiting to be implemented via the smoothing process; and (5) The funded status of the plan was virtually the same as last year at 93%. Overall, Mr. Angelo and Mr. Yeung opined that the current report was very positive and that the substantial deferred gains in the smoothing process would help stabilize future costs.

Mr. Angelo and Mr. Yeung also noted that the recommended employee contribution rates would be slightly higher than last year. They explained that the cost increase was tied to the Cost of Living Adjustment ('COLA') component of the retirement benefit, and was caused by demographic changes in the member population.

Chief Executive Officer Richard Stensrud noted that the active member population had increased relative to the retiree population. Mr. Stensrud noted that the improved active employee to retiree ratio would be important for maintaining long term cost stability. Mr. Stensrud further noted, however, that there was a substantial demographic 'bulge' in the near-retirement segment of the County's workforce, which could affect the ratio.

Discussion followed. County Chief Financial Officer Geoff Davey was present and was asked if he wished to make any remarks. Mr. Davey indicated he was pleased with the report. Motion by Mr. Woods to receive and file the Actuarial Valuation and Review as of June 30, 2006, and to adopt the recommended employer and employee contribution rates for Fiscal Year 2007-2008 contained therein; Seconded by Mr. Kelly. Motion carried (7-0).

10. Chief Executive Officer Richard Stensrud presented a report on the legislative proposals being submitted for consideration at the upcoming State Association of County Retirement Systems (SACRS) 2006 Fall Conference. Mr. Stensrud recommended that the SCERS Board endorse the positions adopted by the SACRS Legislative Committee regarding the legislative proposals. Mr. Stensrud also noted that while no corrective legislation had yet been submitted, there was growing concern regarding the practice by a small number of 1937 Act retirees who engaged in post-retirement employment with their former employer to apply for unemployment insurance when they reached the maximum time permitted for post-retirement work by the 1937 Act. Mr. Stensrud explained that while this was permissible under the employment insurance laws, it seemed to negate the post-retirement employment limitations in the 1937 Act, and could negatively impact the public perception of all 1937 Act retirees. Mr. Stensrud also explained that this situation had recently been addressed legislatively with respect to state retirees.

**ADMINISTRATIVE MATTERS: (Continued)**

Discussion followed. Motion by Mr. Kelly that SCERS vote in accordance with the positions adopted by the SACRS Legislative Committee; Seconded by Mr. Irish. Motion carried (7-0).

11. Chief Executive Office Richard Stensrud presented a recommendation that the Board designate a Voting Delegate and an Alternate Voting Delegate authorized to vote on behalf of SCERS at the SACRS conference. Motion by Mr. Woods that Mr. DeVore serve as the voting delegate and that Mr. Stensrud serve as the alternate; Seconded by Mr. Irish. Motion carried (7-0).

**INVESTMENT MATTERS:**

12. The Quarterly Investment Performance Report for the Quarter Ended September 30, 2006 was presented by Tom Lightvoet of Mercer Investment Consulting. Mr. Lightvoet reported that SCERS' investments had a return of 4.2% for the quarter and a return for the trailing one year of 11.5%, net of fees.

Mr. Lightvoet provided an overview regarding those areas of the portfolio that had added or detracted from the performance. Mr. Lightvoet also commented on the firms currently on the SCERS Watchlist. Mr. Lightvoet noted that it appears there is less value to be added in large cap equities from active management and that he is leaning toward recommending that SCERS index more of the US large cap equity investments. Mr. Lightvoet noted that he was not ready to suggest that SCERS index US small cap equity. Mr. Lightvoet also suggested that there are some investment strategies that SCERS should evaluate before making any changes to its US equity portfolio. Finally, Mr. Lightvoet recommended that SCERS consider doing a new asset/liability study to evaluate the potential impact of new investment strategies and a different balance of active versus passive management.

Substantial discussion followed, and it was the consensus of the Board that Mercer and staff should begin preparations for doing a new asset/liability study in the first quarter of 2007.

Motion by Mr. Kelly to receive and file the Quarterly investment Performance Report; Seconded by Mr. Hickox. Motion carried (8-0).

13. Chief Investment Officer Jeffrey States presented a report outlining a proposed work plan for evaluating the investment program with respect to how SCERS' investment performance is being impacted by the asset allocation, decisions about the use of active and passive management, and the performance of the active investment managers. Substantial discussion followed, and it was the consensus of the Board that the proposed work plan should be implemented over the next few months to lay a foundation for the upcoming asset/liability study. Mr. States' report was for information purposes and no action was taken by the Board.

**INVESTMENT MATTERS: (Continued)**

14. Chief Investment Officer Jeffrey States presented a report on the Investment Manager Watchlist. Substantial discussion followed, including consideration of: (1) why firms go on or come off the Watchlist; (2) how frequently a firm's status on the Watchlist is formally reviewed; and (3) whether any action should be taken at this time regarding firms on the Watchlist.

It was the consensus of the Board that Mercer Investment Consulting and staff should develop recommendations for revising the how the Watchlist operates. It was the further consensus of the Board that any decision regarding managers currently on the Watchlist should be deferred pending the outcome of the broader analysis of the investment program. No formal action was taken by the Board.

15. Yolanda Diaz and Karen Jacobs of State Street Bank's Alameda Office presented a report on State Street Bank and the custody, portfolio accounting and analytical services provided to SCERS by the Bank. Ms. Diaz and Ms. Jacobs provided an overview of the services being provided to SCERS and the existing fee schedule, which expires on November 30, 2006. Ms. Diaz and Ms. Jacobs presented a proposed new fee schedule, to be effective December 1, 2006 and running through November 30, 2009. Ms Diaz and Ms. Jacobs noted that the new fee schedule reflected the fact that the size of SCERS assets under management have grown substantially over the past three years; that the number of accounts has increased by 58%; and that the transaction volume had increased by 60%. Accordingly, Ms. Diaz and Ms. Jacobs noted that for these reasons, and due to other changes in the nature of the services being provided, the proposed new fee schedule would increase fees.

Chief Investment Officer Jeffrey States reported that he and the rest of the staff believed that State Street was doing an excellent job; that he believed the change in the volume of work noted by State Street was accurate; and that he believed the proposed cost increase was reasonable under the circumstances. Discussion followed.

Motion by Mr. Irish to approve the new fee schedule; Seconded by Mr. Hickox. Motion carried (8-0).

16. The Chief Investment Officer's Monthly Investment Management Compliance and Activity Report for October 2006 was received and filed on a Motion by Mr. Woods; Seconded by Mr. Kelly. Motion carried (8-0).

The meeting was adjourned at 3:27 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock; Keith DeVore, Winston Hickox; Dave Irish; Alice Jarboe; John B. Kelly; Steven Soto (arrived 1:43 p.m.); and Robert Woods.

**MEMBERS ABSENT:** William Cox, William D. Johnson, Nancy Wolford-Landers

**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; Paul Angelo and Andy Yeung, of the The Segal Company; Karen Jacobs, Yolanda Diaz, and Thong Lam of State Street Bank; Geoff Davey, County Chief Financial Officer, Thuyet Ziyalan, Investment Accountant and Teresa Kennedy, Office Specialist.

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.; Dickstein & Merin; John R. Descamp; and The Sacramento Bee.