



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

Steven Soto
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, DECEMBER 21, 2006

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, December 21, 2006 at 1:06 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the November 13, 2006 special meeting were approved on motion made by Mr. Irish; Seconded by Mr. Kelly. Motion carried (9-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. COBURN, Susan: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated December 26, 2006.
4. DANIS, Christine: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated December 26, 2006.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

5. Chief Executive Officer Richard Stensrud presented a report on developments affecting public retirement systems and recent system and staff activities.

Mr. Stensrud reported on the recent decision by the San Diego County Board of Supervisors that the retiree health insurance subsidy provided to San Diego County retirees should be limited to retirees who retired before the retirement benefit formulas were enhanced. Mr. Stensrud noted that the retiree health insurance subsidy is actually provided by the San Diego County Employees' Retirement Association, which would have to approve such a change. Discussion followed.

Mr. Stensrud and General Counsel James Line presented a report on the recent court ruling in one of the lawsuits involving the City of San Diego Retirement System. Discussion followed.

Mr. Stensrud reported that a 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 at the January 2007 Board Meeting.

Mr. Stensrud reported that he had sent out a disability retirement survey to the other 1937 Act systems and that he would report back on the findings.

Mr. Stensrud reported that he would be providing information at the January Board Meeting regarding a proposed facilitator for the Board's strategic planning session in 2007.

Mr. Stensrud reported that collective bargaining was continuing between Sacramento County and various bargaining units, and until all contracts had been agreed upon and approved by the Board of Supervisors, no action would be taken regarding two proposals – authorization for employees to purchase Additional Retirement Credit ('ARC'), and allowing current active Tier 2 members to make a one-time election to convert to Tier 3 status for future service and to upgrade their existing service. Mr. Stensrud noted that under both proposals employees would have to pay the full actuarial value for the service being purchased or upgraded, and that the methodology for establishing the cost to do so would be determined by the SCERS Board in consultation with the actuary. Discussion followed.

ADMINISTRATIVE MATTERS: (Continued)

Mr. Stensrud reported that notwithstanding uncertainties regarding the appropriate definitions for various provisions of the federal Pension Protection Act ('PPA'), a number of public retirement systems were moving forward on implementation of the PPA authorization for a \$3000 tax exclusion for payments made directly to approved health care plans by retirement systems on behalf of certain 'public safety officer' retirees. Mr. Stensrud noted that legislation would be pursued by the State Association of County Retirement Systems (SACRS) to develop 'safe harbor' definitions for the key elements of the PPA, but that it would be several months before it could be determined whether such efforts would be successful. Accordingly, Mr. Stensrud reported that at the January Board Meeting he would be presenting a proposed interim method for implementing the PPA tax exclusion until such time as definitive guidance was provided by the Internal Revenue Service. Discussion followed.

Mr. Stensrud provided an update on the recent SACRS Conference, including the legislative proposals that had been presented for consideration by the membership. Mr. Stensrud noted that the proposal by two systems to increase the meeting stipend paid to the appointed and retiree-elected Board members had been deferred until it could be determined whether the proposal created any problems under state conflict of interest laws. Mr. Stensrud reported that this proposal would be taken up at a special SACRS Business Meeting scheduled for February. Mr. Stensrud noted that at the February meeting SACRS members would also be asked if SACRS should introduce legislation designed to allow 1937 Act retirees to participate in the retiree vision care plan recently authorized for state retirees. Mr. Stensrud invited the Board members who attended the Conference to share their impressions of the program, which they did. Discussion followed.

Mr. Stensrud reported that Sacramento County was exploring whether to pursue legislation to address the situation where certain County retirees who took post-retirement employment with the County were applying for unemployment insurance benefits when they reached the post-retirement employment limits. Mr. Stensrud explained that it was permissible under the federal law governing unemployment insurance for this to happen, but that it appeared contrary to the limitations on post-retirement employment in the 1937 Act. Mr. Stensrud explained that this situation had been addressed a few years ago with respect to state retirees.

Mr. Stensrud inquired if the Board would be amenable to an earlier starting time for the January Board Meeting, as there were a number of matters scheduled for that meeting, including an investment education presentation. It was the consensus of the Board that an earlier starting time was desirable.

6. Board President James A. Diepenbrock presented a Resolution recognizing SCERS Board Member Steven Soto's upcoming retirement from the County of Sacramento and his services to the County and the SCERS Board. Motion by Ms. Wolford-Landers to approve the proposed Resolution; Seconded by Mr. Woods. Motion carried (9-0)

ADMINISTRATIVE MATTERS: (Continued)

7. Richard Green and Debbie Chan of Macias Gini & O'Connell presented the Independent Auditor's Report, the Report on Internal Controls and Compliance, and the Report to Management for the Fiscal Years Ended June 30, 2006 and 2005. The auditors reported that SCERS had received a 'clean' opinion regarding its financial statements. The auditors further reported that they found no matters involving the internal controls that they considered a material weakness, and no instances of noncompliance with the laws governing the retirement system. Motion by Mr. Kelly to receive and file the various reports; Seconded by Ms. Wolford-Landers. Motion carried (9-0).
8. Chief Operations Officer Kathryn Regalia presented the Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2006 and 2005. Ms. Regalia noted that the financial closing process and audit had been accelerated so that the CAFR could be presented a month earlier than in prior years. Ms. Regalia also noted that this year's CAFR featured a professional design which enhanced both the appearance of the document and SCERS' image as a professional organization. Chief Executive Officer Richard Stensrud expressed his appreciation for the efforts of Ms. Regalia and the other employees responsible for preparing the CAFR. The Board also complimented staff on the polished and professional document. Motion by Mr. Kelly to receive and file the CAFR; Seconded by Mr. Irish. Motion carried (9-0).
9. SCERS Member Janis Taylor presented information to the Board in support of her request that the Board overturn the decision by SCERS staff that she is not yet eligible to retire. Chief Executive Officer Richard Stensrud presented information regarding why staff had determined that Ms. Taylor is not eligible to retire. Substantial discussion followed, including questions to both Ms. Taylor and Mr. Stensrud. Motion by Mr. Hickox that the Board affirm the staff determination that Ms. Taylor is not eligible to retire from SCERS, but that staff assist Ms. Taylor in applying for retirement benefits from CalPERS; Seconded by Mr. Kelly. Motion carried (9-0).
10. General Counsel James Line presented a report on his efforts in developing the General Counsel position and integrating the position into the operation of the retirement system. Mr. Line also outlined various projects he would be working on in the future. Mr. Line's report was for informational purposes and no action was taken by the Board.
11. General Counsel James Line presented a proposed Resolution amending the hourly rate provisions of the real estate legal services agreement with Nossaman, Guthner, Knox & Elliott, LLP. Mr. Line noted that he believed the new proposed hourly rates were reasonable. Motion by Mr. DeVore to adopt Resolution 2006-14; Seconded by Mr. Woods. Motion carried (9-0).
12. Chief Operations Officer Kathryn Regalia presented a proposed Resolution and contracts with State Street Bank and Trust Company to provide business continuity services for SCERS' pension payroll in the event of a disaster. Ms. Regalia explained that the proposed engagement would allow SCERS staff to initiate the wire transfer necessary to fund the

ADMINISTRATIVE MATTERS: (Continued)

pension payroll in the event that a disaster interfered with normal business processes, and/or provide an alternate means for SCERS to issue direct deposit payments and hard copy checks if a disaster prevented the County from processing payroll via the County's systems. Ms. Regalia noted that the proposed engagement represented an interim step in developing an overall business continuity plan that would provide assurance that SCERS can continue to carry out its core functions in the event of a disaster. Discussion followed. Motion by Ms. Wolford-Landers to adopt Resolution 2006-15; Seconded by Mr. DeVore. Motion carried (9-0).

13. Chief Executive Officer Richard Stensrud presented a proposed interest crediting rate on member contribution accounts for the six month period ended December 31, 2006.

Mr. Stensrud explained how the interest crediting rate for member contribution accounts is determined under SCERS' Interest Crediting and Unallocated Earnings Policy. Mr. Stensrud noted that the target crediting rate for the member contribution reserves is one-half of the 5-Year Treasury Note rate as in effect on the last business day of the interest crediting period, but that the rate cannot exceed 3.875%. Mr. Stensrud further noted that if the interest crediting rate for the other actuarial reserves would be less than 3.875%, the crediting rate for the member contribution accounts would be one-half of the rate for the other reserves or one-half of the Treasury Note rate, whichever was lower.

Mr. Stensrud reported that while the interest crediting period had not closed, using very conservative assumptions, staff had a high level of confidence that SCERS would be able to meet the overall target crediting rate of 3.875% for all actuarial valuation reserves. Accordingly, absent a dramatic drop in SCERS' assets over the remainder of the calendar year, Mr. Stensrud recommended that the crediting rate for member contribution accounts be the full one-half of the applicable 5-Year Treasury Note rate, and that that rate be implemented at first opportunity after December 31, 2006. Mr. Stensrud explained that early implementation of interest crediting for the member contribution accounts would be beneficial on multiple fronts, in that it would expedite the processing of member withdrawals, the preparation of annual member statements, determining the cost of service purchases, and the processing retirement applications.

Mr. Stensrud also reported that the expectation that SCERS would be able to meet its overall interest crediting target for the six month period was noteworthy in that it would be the first time since December 2003 that SCERS had fully met its interest crediting goal. Mr. Stensrud further noted that this was solid evidence that SCERS was over the worst of the extended investment market downturn which started in 2000.

Discussion followed. Motion by Mr. Irish to adopt the recommended member contribution account interest crediting rate; Seconded by Mr. Kelly. Motion carried (9-0).

INVESTMENT MATTERS:

14. Chief Investment Officer Jeffrey States presented a summary of the R.V. Kuhns Public Fund Universe Report presented at the recent State Association of County Retirement Systems (SACRS) Conference. Mr. States highlighted some of the differences between SCERS' investment asset allocation and performance compared to the other public funds. Mr. States noted that the comparisons can help identify alternative investment strategies used by other funds that offer improved risk adjusted investment performance. Mr. States further noted that R.V. Kuhns would be presenting a special report to the Board on this subject at the January Board Meeting. Discussion followed. Motion by Mr. Kelly to receive and file R.V. Kuhns SACRS Public Fund Universe Analysis Report; Seconded by Mr. Woods. Motion carried (9-0).
15. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented a report on investment asset class and investment manager performance attribution. Among other things, Mr. States and Mr. Lightvoet discussed: (a) How SCERS' actual investment allocation affected performance; (b) Whether the strategic allocation of assets within an asset class based on market capitalization and style impacted performance; (c) Whether SCERS' active managers added or subtracted value; and (d) Whether investment performance would have changed under a different active vs. passive structure. Discussion followed. Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Mr. Woods. Motion carried (9-0).
16. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented a report on prior investment manager searches and the subsequent performance of the managers considered in the search. Mr. States and Mr. Lightvoet reported that, with certain exceptions, the managers selected by SCERS in the searches performed well relative to the other managers considered in the searches. Discussion followed. Motion by Mr. Woods to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (9-0).
17. Chief Investment Officer Jeffrey States presented a request from Metropolitan West Asset Management (MWAM) that SCERS consent to the technical assignment of SCERS' Investment Management Agreement with MWAM due to an ownership change in the company. Motion by Mr. Irish to approve the assignment of SCERS Investment Management Agreement with MWAM and authorize the President to sign the consent; Seconded by Mr. DeVore. Motion carried (8-0).
18. Chief Investment Officer Jeffrey States presented the Trade Execution and Commission Report for the six month period ending June 30, 2006. Mr. States noted that the report showed that SCERS' investment managers have been trading in a cost effective manner. Motion by Mr. Kelly to receive and file the Trade Execution and Commission Report for the six month period ending June 30, 2006; Seconded by Mr. Irish. Motion carried (8-0).

INVESTMENT MATTERS (continued):

19. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for November 2006. Motion by Mr. Woods to receive and file the report; Seconded by Mr. Irish. Motion carried (8-0).

The meeting was adjourned at 4:20 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore, John B. Kelly, Dave Irish, Winston Hickox; William D. Johnson; Alice Jarboe; Steven Soto; Nancy Wolford-Landers (departed at 4:06 pm) and Robert Woods.

MEMBERS ABSENT: William Cox

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; Richard Green and Debbie Chan of Macias Gini & O'Connell; Tom Lightvoet of Mercer Investment Consulting; John Conneally 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.; Mark Merin; John R. Descamp; and The Sacramento Bee.