



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

John Conneally  
Elected by Safety Members

## MINUTES

### RETIREMENT BOARD MEETING, THURSDAY, JULY 19, 2007

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18<sup>th</sup> Floor, Sacramento, California, on Thursday, July 19, 2007, commencing at 1:03 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the June 18, 2007 special meeting were approved on Motion made by Mr. Irish; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

##### ADMINISTRATIVE MATTERS:

3. Chief Executive Officer Richard Stensrud invited nominations for the positions of SCERS Board Officers for Fiscal Year 2007-2008. Motion by Mr. Hickox that the current Board Officers (James A. Diepenbrock, President; Keith DeVore, 1<sup>st</sup> Vice-President; John B. Kelly, 2<sup>nd</sup> Vice-President) be nominated to serve in their same offices for the 2007-2008 Fiscal Year; Seconded by Mr. Woods. Motion carried (8-0).

**CLOSED SESSION:**

**DISABILITY MATTERS:**

4. ACOSTA, Ana L.: Motion by Mr. Johnson to deny the disability application; Seconded by Mr. Irish. Motion carried (7-1, Mr. Kelly dissenting).
5. HEMMER, Jo Ann: Motion by Ms. Wolford-Landers to deny the disability application; Seconded by Ms. Jarboe. Motion carried (8-0).
6. URSCHEL, Ninetta M.: Motion by Mr. Irish to grant the disability application; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
7. WATSON, Raymona J.: Motion by Mr. Johnson to grant the disability application; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

**MEMBER APPEAL:**

8. Motion by Mr. Johnson to deny the appeal by Ms. Norma Fries (Lyon) of a benefit determination matter; Seconded by Mr. Woods. Motion carried (8-0).

**LEGAL MATTERS:**

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

Robert Duncan v. Board of Retirement of the Sacramento County Employees' Retirement System, Sacramento County Superior Court No. 05CS00814

The Board received a report from Counsel on the matter. Motion by Ms. Wolford-Landers to receive and file the presentation materials; Seconded by Mr. Kelly. Motion carried (8-0).

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

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

Mr. Stensrud reported that pursuant to provisions of the Interest Crediting and Unallocated Earnings Policy and the decision of the Board at the June Board Meeting, the interest crediting rate for the member contribution accounts, effective June 30, 2007 would be 2.485%.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported on the presentation he made to the Governor's California Public Employee Post-Employment Benefits Commission on July 12, 2007. Mr. Stensrud noted that the presentation had been made in his capacity as Chair of the Legislative Committee of the State Association of County Retirement Systems (SACRS), and provided the Board with a copy of his presentation. Mr. Stensrud explained that his presentation had centered on (1) the scope, attributes and economic impact of the retirement systems governed by the County Employees' Retirement Law of 1937 (1937 Act); (2) some myths and realities surrounding public employee retirement systems; (3) some lessons learned by and challenges facing public employee retirement systems; and (4) the success of public employee retirement systems in withstanding substantial economic disruptions and the efficiency of such systems in providing annuitized retirement income to retirees. Discussion followed.

Mr. Stensrud reported that information was being collected by SACRS regarding the California-focused investment activity of the SACRS systems. Mr. Stensrud reported that SCERS had approximately \$747 million invested in California -- \$329 million in stock in publicly traded companies headquartered in California and \$418 million in real estate located in California.

Mr. Stensrud reported that the outcome of the study commissioned by SACRS on the economic impact of the benefit payments made by the SACRS systems would be presented August 21, 2007 in Sacramento.

Mr. Stensrud reported that a coalition lead by former Assembly Member Keith Richman was pursuing another ballot initiative focused on modifying public employee retirement benefits. Mr. Stensrud outlined the basic features of the proposed initiative. Discussion followed.

11. Chief Operations Officer Kathryn Regalia presented a proposed preliminary reconciliation of employer contributions for the County of Sacramento for Fiscal Year 2006-2007. Ms. Regalia explained that the reconciliation was considered as preliminary because additional analysis needed to be performed to confirm a final reconciliation amount. Motion by Mr. Kelly to approve the preliminary reconciliation of employer contributions for the County of Sacramento for Fiscal year 2006-2007; Seconded by Mr. Hickox. Motion carried (7-0).
12. Chief Operations Officer Kathryn Regalia presented a proposed final reconciliation of employer contributions for the Sacramento Metropolitan Fire District for Fiscal Year 2006-2007. Motion by Mr. Hickox to approve the final reconciliation of employer contributions for the Sacramento Metropolitan Fire District for Fiscal year 2006-2007; Seconded by Mr. Woods. Motion carried (7-0).
13. Chief Operations Officer Kathryn Regalia presented a proposal that certain expenses previously characterized as administrative expenses be reallocated to the category of investment expenses. Ms. Regalia provided an explanation of the rationale for the proposed reallocation and the methodology used in determining the types and amount of the proposed

**ADMINISTRATIVE MATTERS (continued):**

reallocation. Motion by Mr. Kelly to approve the proposed reallocation of certain expenses to the category of investment expenses; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

14. General Counsel James Line presented a package of proposed changes to the procedures governing the review and evaluation of disability retirement applications (Chapter 5 of the SCERS By-Laws – Disability Retirement Procedures). Mr. Line and Chief Executive Officer Richard Stensrud outlined the reasons for and impact of the proposed changes, explaining that the changes were procedural only and did not change the substantive standards under which disability applications are reviewed. Mr. Line and Mr. Stensrud also noted that the proposed changes had been previewed with various key stakeholder groups, including the Sacramento County Sheriff's Department, County Counsel's Office, attorneys who represent disability applicants, the referees who preside over disability hearings, and certain labor organizations, and that some elements of the proposed changes had been modified at the suggestion of these groups.

Sheriff's Captain Rick Book, representing the Law Enforcement Management Association (LEMA), addressed the Board regarding the proposed changes. Captain Book commended SCERS on pursuing measures designed to improve efficiency and fairness in the processing of disability applications. Captain Book expressed concern, however, about whether certain aspects of the new procedures properly recognized the duties that all sworn officers must be able to perform in the course of their employment.

Sacramento County Sheriff John McGinness addressed the Board regarding the proposed changes. Sheriff McGinness commended SCERS for pursuing the goals reflected in the proposed procedures, and expressed his appreciation that his staff had been given an opportunity to review and comment on the proposed changes. Sheriff McGinness echoed the comments of Captain Book, and also expressed concern that the proposed procedures would impose certain obligations on the employer that did not currently exist and which his department was not in a position to provide.

Mr. Line and Mr. Stensrud addressed the comments of the witnesses. Mr. Line and Mr. Stensrud reiterated that the proposed changes were procedural in nature, and were not intended to change the substantive law governing disability determinations or the responsibilities of the employer. Mr. Line noted that while he was sympathetic to the scope of duty concerns expressed by the witnesses, the modifications proposed by the witnesses would, in fact, represent a substantive change in the law that had not yet been endorsed by the courts. For that reason, Mr. Line believed that it would be inappropriate to modify the proposed procedures to reflect the position at this time. With respect to employer responsibilities, Mr. Line and Mr. Stensrud stated that they did not believe the proposed procedures imposed any new or different obligations on the employer, but that Staff would be happy to review and clarify the language.

**ADMINISTRATIVE MATTERS (continued):**

Substantial discussion followed regarding how the language of the proposed procedures might be clarified to address the concerns noted by the witnesses. Mr. Line and Mr. Stensrud noted that they would present the proposed clarifications to the Sheriff's Department and LEMA for consideration. Mr. Line and Mr. Stensrud also stated that they would also present the proposed procedures, including the clarifications, to certain other stakeholder groups for their consideration.

Motion by Mr. Woods to approve the proposed changes to Chapter 5 of the SCERS By-Laws – Disability Retirement Procedures, with the clarification of certain identified language, and that Staff report back to the Board after consulting with the key stakeholder groups about the proposed procedures, as clarified; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

**INVESTMENT MATTERS:**

15. Terry Dennison of Mercer Investment Consulting made a presentation regarding possible asset class combinations for SCERS' strategic asset allocation, which serves as the model for investing SCERS' assets.

Mr. Dennison explained that of the various asset class combinations Mercer had modeled, and which had been previously discussed with the Board, he believed the optimal asset allocation would be the following:

U.S. Equity	30%
International Equity	20%
Fixed Income	20%
Real Estate	15%
Hedge Fund of Funds	5%
Private Equity	5%
Opportunity Portfolio	5%

Mr. Dennison addressed: (1) The types of investment strategies that might be included in the Opportunity Portfolio; (2) How the Opportunity Portfolio could be constructed to preserve the risk and return attributes utilized in developing the asset allocation model; (3) How the Opportunity Portfolio would be assembled; (4) The timeframe for implementation of the Opportunity Portfolio and the Private Equity allocation; and (5) How SCERS might modify its total portfolio benchmark to take into account the implementation timeframe for the new investments in Private Equity and the Opportunity Portfolio. Discussion followed.

Motion by Mr. Kelly to adopt the asset allocation model recommended by Mercer Investment Consulting; Seconded by Mr. Woods. Motion carried (7-0).

16. Chief Investment Officer Jeffrey States presented a proposed two-year extension of the fee schedule for the investment management engagement with OFI Institutional (Trinity). Mr.

**INVESTMENT MATTERS (continued):**

States explained the current fee schedule expired June 30, 2007 and that it was in the best interests of SCERS to maintain the favorable terms of that schedule. Mr. States noted that extension was for the fee schedule only, and would not bind SCERS to any period for the underlying engagement with Trinity.

Motion by Ms. Wolford-Landers to approve a two-year extension of the fee schedule for the investment management engagement with OFI Institutional (Trinity); Seconded by Mr. Irish. Motion carried (6-1, Mr. Woods dissenting).

17. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for June, 2007. Motion by Mr. Woods to receive and file the report; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

The meeting was adjourned at 4:02 p.m.

**MEMBERS PRESENT:** Keith DeVore; John B. Kelly; Dave Irish; Winston Hickox (departed at 3:28 p.m.); William D. Johnson; Robert Woods; Nancy Wolford-Landers; Alice Jarboe; and John Conneally.

**MEMBERS ABSENT:** James A. Diepenbrock; 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; Terry Dennison of Mercer Investment Consulting; Jesse Kaplan, Attorney; SCERS Member, Ana Acosta and spouse; Diana Ruiz, Deputy Counsel; SCERS Member Ninetta M. Urschel and spouse; SCERS Benefit Recipient Norma Fries; F. Patrick Keegan, Attorney; Sheriff John McGinness and Captain Rick Book of the Sacramento County Sheriff's Office; Thuyet Ziyalan, Senior Accountant; and Jennifer Foster, Executive Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM

Richard Stensrud  
Chief Executive Officer

**MINUTES – JULY 19, 2007**  
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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.