



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, AUGUST 16, 2007

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18th Floor, Sacramento, California, on Thursday, August 16, 2007, commencing at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

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

CLOSED SESSION:

DISABILITY MATTERS:

3. DUNCAN, Robert E.: Motion by Ms. Wolford-Landers to implement the decision of the Superior Court, County of Sacramento to grant the disability application; Seconded by Mr. Johnson. Motion carried (8-0).
4. FOORE, Marian E.: Motion by Mr. DeVore to deny the disability application; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

DISABILITY MATTERS (continued):

5. HARRIS, Charles T.: Motion by Ms. Jarboe to grant the disability application; Seconded by Mr. DeVore. Motion carried (8-0).
6. HAWORTH, Kenneth W.: Motion by Ms. Wolford-Landers to grant the disability application; Seconded by Mr. Kelly. Motion carried (8-0).
7. HENRIKSON, Eric M.: Motion by Mr. Johnson to grant the disability application; Seconded by Mr. Kelly. Motion carried (8-0).
8. NAKATOMI, Barbara J.: Motion by Mr. DeVore to deny the disability application; Seconded by Ms. Wolford-Landers. Motion carried (7-1) with Mr. Johnson dissenting and Mr. Hickox abstaining.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

9. 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 the Board strategic planning session would be held August 22nd and 23rd.

Mr. Stensrud noted that an election for the primary and alternate Retiree positions on the Board, along with one of the Miscellaneous member positions on the Board (the position currently held by Mr. DeVore), was upcoming. Mr. Stensrud reported that the election announcements had been mailed and that the nomination period would close September 14th. Mr. Stensrud reported that the election would be held over a two week period starting in late October and concluding November 2nd.

Mr. Stensrud reported that a retirement planning seminar targeted at members who are ten or more years from retirement had been conducted on August 8th. Mr. Stensrud noted that the seminar had been fully subscribed. Mr. Stensrud reported that a retirement planning seminar targeted at members who are within ten years of retirement would be held on September 24th.

Mr. Stensrud reported that meetings were being set up with interested labor organizations regarding the proposed changes to the disability procedures.

Mr. Stensrud reported that he and Chief Investment Officer Jeffrey States had recently traveled to Chicago to do on-site due diligence visits with three of SCERS' investment managers (Lehman Brothers, Grosvenor Capital Management, and LSV Asset Management). Mr. Stensrud noted that he and Mr. States had found the meetings to be very informative and that a full report would be provided at the September Board Meeting.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the preliminary results of the study analyzing the economic impact of the benefit payments made by the twenty retirement systems operating under the County Employees Retirement Law of 1937 (1937 Act) had just been released. Mr. Stensrud noted that the study found that the annual benefit payments made by SCERS to payees within Sacramento County (approximately \$121.5 million) generated approximately \$161 million in economic activity in Sacramento County. Mr. Stensrud noted that the full report, including data on the jobs created by the benefit payments and the amount returned to government in the form of tax revenue, would be released in September. Discussion followed.

At Mr. Stensrud's request, General Counsel James Line provided the Board with an update on the decision by the Board of Supervisors in Orange County to explore whether their previous decision to increase the retirement benefit formula for already accrued service for Safety members was unconstitutional and should be voided. Mr. Line outlined the issues and arguments being raised. Mr. Stensrud explained how the outcome of such a case, if it should move forward, might impact comparable decisions that had been made in Sacramento County and many other jurisdictions in California. Discussion followed.

Mr. Stensrud reported that an initiative petition had been filed with the California Secretary of State which, if passed, would reduce the benefit formulas, increase the eligibility age for retirement, and alter the retiree health care coverage for public employees hired after July 1, 2009. Mr. Stensrud noted that this was a matter of great interest in the retirement system community and that he would keep the Board apprised of developments. Discussion followed.

10. Chief Operations Officer Kathryn Regalia presented the Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2007. Ms. Regalia reported that the administrative expenses for the period and for the fiscal year as a whole were below the amounts budgeted and well within the administrative expense limit set by the 1937 Act. Motion by Mr. Kelly to receive and file the Semi-Annual Administrative Expense Report; Seconded by Ms. Wolford-Landers. Motion carried (9-0).
11. Chief Operations Officer Kathryn Regalia presented the Final SCERS Budget for Fiscal Year 2007-2008. Ms. Regalia noted that the Final Budget had been prepared in accordance with the Board's decision at the July Board Meeting to reallocate certain administrative expenses to the category of investment expenses. Ms. Regalia noted that these modifications were the only differences from the amounts requested in the Proposed Budget adopted by the Board in May. Motion by Ms. Jarboe to approve the final SCERS Budget for Fiscal year 2007-2008; Seconded by Mr. Johnson. Motion carried (9-0).
12. Chief Executive Officer Richard Stensrud presented information regarding considerations in the adoption of the 'Normal Retirement Age' (NRA) for SCERS' benefit plans. Mr. Stensrud explained that the presentation was intended to provide an update on the subject, and to

ADMINISTRATIVE MATTERS (continued):

generate discussion, but that any decisions regarding NRA would not be taken up until the September Board Meeting.

Mr. Stensrud noted that at the January Board Meeting the Board had made an interim decision regarding the NRA for SCERS' benefit plans in order to implement the \$3,000 federal tax exclusion for certain payments made by SCERS directly to eligible health care plans on behalf of retirees who qualify as a 'public safety officer' under federal tax law.

Mr. Stensrud noted the various considerations the Board had weighed at that time in trying to determine the appropriate NRA including: (1) The lack of guidance from the Internal Revenue Service (IRS) on the issue; (2) The fact that the 1937 Act does not establish a NRA; (3) The primary options being considered by 1937 Act systems in trying to determine the appropriate NRA; (4) The relative strengths and weaknesses of the primary options, from both a tax law and administrative perspective; and (5) The decisions made to-date regarding NRA by other California public employee retirement systems.

Mr. Stensrud noted that after weighing the various considerations, the Board had decided to adopt age 50 as the NRA under the Safety member plan and age 55 ½ as the NRA under the Miscellaneous member plan. Mr. Stensrud also noted, however, that it was understood that because the matter was still in a state of flux, it might be necessary to re-visit this determination at a later date.

Mr. Stensrud reported on developments subsequent to the Board's NRA decision in January, including the issuance of Regulations by the IRS on NRA, and efforts to address the subject legislatively. Mr. Stensrud explained that while the IRS Regulations were helpful in a number of respects, there continued to be uncertainty about several key questions. Mr. Stensrud explained that these questions would have to be addressed as part of the Board's assessment of whether the current NRAs could be supported under the law or whether a different NRA should be adopted.

Mr. Stensrud outlined the relevant questions, including: (1) Do the IRS Regulations require that the average retirement age serve as the NRA or can it be the age when there is a pronounced increase in the number of retirements?; (2) What is the appropriate workforce for measuring NRA?; (3) Does SCERS have one benefit plan or two benefit plans, and can SCERS have a different NRA for each plan?; and (4) To what extent will the IRS defer to a good faith determination of such questions by the retirement system?

Mr. Stensrud noted that tax counsel had been engaged to assist in determining the answers to such questions. Mr. Stensrud noted that it was tax counsel's preliminary conclusion that, while there were no 'bright line' answers on certain issues, it would be reasonable under the law for SCERS to establish age 50 as the NRA for the Safety plan and age 55 ½ for the Miscellaneous plan. Mr. Stensrud noted that the final assessment of tax counsel on the

ADMINISTRATIVE MATTERS (continued):

issues would be presented at the September Board Meeting and that tax counsel would be present at that time to answer any questions the Board might have.

Discussion followed. No action was taken.

INVESTMENT MATTERS:

13. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended June 30, 2007. Mr. Lightvoet reported that SCERS had an investment return of 4.4%, net of fees, for the quarter, which was above total fund benchmark of 3.9%. Mr. Lightvoet reported that for the trailing one year period, SCERS had an investment return of 17.7%, net of fees, which was also above the total fund benchmark return of 17.5%. Mr. Lightvoet reviewed the performance of the various asset classes in which SCERS invests and discussed the performance of each of the portfolio managers. Discussion followed.

Motion by Mr. Woods to receive and file the Investment Performance Report for the Quarter Ended June 30, 2007; Seconded by Mr. Hickox. Motion carried (7-0).

14. Chief Investment Officer Jeffrey States presented the R.V. Kuhns & Associates Public Funds Universe Analysis Report for the Period Ended December 31, 2006. Mr. States noted how SCERS compared to the 85 public funds covered by the report with respect to asset allocation, investment strategy, and investment performance for the 85 public funds surveyed. Mr. States also discussed how SCERS' new asset allocation model compares to the asset allocation in other systems. Discussion followed.

Motion by Mr. DeVore to receive and file the R.V. Kuhns & Associates Public Funds Universe Analysis Report for the Period Ended December 31, 2006; Seconded by Mr. Woods. Motion carried (7-0).

15. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States lead a discussion regarding the steps that will need to be taken to implement the new strategic asset allocation, and in particular, the new allocations to private equity and the opportunistic portfolio. Among the matters discussed, were: (1) the desired structure of the portfolio within the new asset classes; (2) the types of investment managers to be considered; (3) the strategies to be used; (4) the timeline for conducting manager searches and allocating assets; and (5) assuring that the ultimate portfolio in the new asset classes maintains the risk and return characteristics used when developing the parameters of the overall asset allocation model. Mercer and SCERS Staff were requested to move forward with implementing the new asset classes in a manner consistent with the discussion. No formal action was taken.

16. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for July 2007. Motion by Mr. Hickox to receive and file the Monthly

INVESTMENT MATTERS (continued):

Investment Management Compliance Report for July 2007; Seconded by Mr. Woods. Motion carried (6-0).

17. Chief Investment Officer Jeffrey States presented the Asset Allocation Re-Balancing Report for the Quarter Ended June 30, 2007. Motion by Mr. Woods to receive and file the Asset Allocation Re-Balancing Report for the Quarter Ended June 30, 2007; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

The meeting was adjourned at 4:09 p.m.

MEMBERS PRESENT: James A. Diepenbrock (departed at 4:00 p.m.); Keith DeVore; John B. Kelly (arrived at 1:03 p.m., departed at 3:00 p.m.); Bryan Celey-Butlin for Dave Irish; Winston Hickox (arrived at 1:14 p.m.); William D. Johnson; Robert Woods; Nancy Wolford-Landers; Alice Jarboe; and John Conneally.

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; Joe Kim and Ursula Niederberger of Mercer Investment Consulting; Richard Elder, Attorney; SCERS Member, Barbara J. Nakatomi; Diana Ruiz, Deputy Counsel; Thuyet Ziyalan, Senior Accountant; 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.