



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

John Conneally  
Elected by Safety Members

William Cox  
Elected by Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, THURSDAY, OCTOBER 18, 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, October 18, 2007, commencing at 1:01 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the October 4, 2007 special meeting were approved on Motion made by Mr. Johnson; Seconded by Ms. Jarboe. Motion carried (7-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. CASILLAS, Ida E.: Motion by Mr. Johnson to grant a non-service connected disability; Seconded by Mr. Kelly. Motion carried (7-0).
4. COLE-WEDDINGTON, Marian W.: Motion by Mr. Johnson to grant a service connected disability; Seconded by Mr. DeVore. Motion carried (7-0).

**DISABILITY MATTERS (continued):**

5. ALDRICH, Douglas E.: Motion by Mr. DeVore to grant a service connected death benefit; Seconded by Ms. Jarboe. Motion carried (7-0).

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

6. 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 the annual independent audit had started. Mr. Stensrud noted that the Board had been provided with a copy of correspondence from the independent auditors (Macias, Gini & O'Connell) which provided information regarding the audit.

Mr. Stensrud noted that the election period for two seats on the SCERS Board (i.e., one seat elected by the Miscellaneous members and the alternate retiree seat) would start on October 22<sup>nd</sup> and run through November 2<sup>nd</sup>. Mr. Stensrud reported that there were three candidates for the Miscellaneous seat and two candidates for the alternate retiree seat. Mr. Stensrud noted that Ms. Wolford-Landers was unopposed for the lead retiree seat and thus an election would not be held and Ms. Wolford-Landers would be re-appointed to her seat via Board of Supervisor action.

Mr. Stensrud reported that information had been sent out to all active Miscellaneous Tier 2 members advising them about a one-time election to convert to Tier 3 for future service accruals in SCERS. Mr. Stensrud noted that the information included Frequently Asked Questions (FAQs) regarding the election. Mr. Stensrud also noted that the information was available on the SCERS website. Mr. Stensrud reported that the election period would close in December and shortly thereafter members who elected to make the conversion would be provided with individualized cost information in the event that they wished to make an optional upgrade of their past Tier 2 service to Tier 3 status.

Mr. Stensrud reported that the actuary was completing work on the website calculator that would be used to develop cost estimates for Additional Retirement Credit (ARC) service purchases. Mr. Stensrud noted that the pricing methodology for the calculator needed to be modified to reflect the new actuarial assumptions recently adopted by the Board. Mr. Stensrud reported that he anticipated that ARC purchases would be available in early November.

Mr. Stensrud reported that staff was completing work on the materials for implementing the \$3,000 federal tax exclusion related to payments deducted from monthly retiree benefit checks and made by SCERS directly to qualified health insurance plans on behalf of qualified retired public safety officers.

Mr. Stensrud reported that materials would be sent out to the Board regarding the evaluation of the Chief Executive Officer, and noted that the evaluation was scheduled to be discussed at the November Board Meeting.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud noted that the November Board Meeting would start at 10 a.m. to accommodate the full agenda, including investment manager candidate interviews.

7. General Counsel James Line presented the final language for the revised procedures governing the review and evaluation of disability retirement applications. Mr. Line noted that the proposed procedures had been discussed with representatives from both the employers and the employee organizations, and that some minor modifications had been made to the language to address concerns raised in those discussions. Mr. Line outlined how the disability retirement application process operates, and noted how the revised procedures would help improve the efficiency and the fairness of the process, as well as assure the soundness of the decisions on whether a disability retirement should be granted. Discussion followed. Motion by Mr. Woods to approve the final language for the revised procedures governing the review and evaluation of disability retirement applications; Seconded by Mr. Johnson. Motion carried (7-0).
8. Chief Operations Officer Kathryn Regalia presented the final reconciliation of employer contributions made by the Superior Court of the County of Sacramento for the fiscal year ended June 30, 2007. Motion by Mr. Kelly to approve the final reconciliation of employer contributions made by the Superior Court of the County of Sacramento for the fiscal year ended June 30, 2007; Seconded by Mr. Woods. Motion carried (7-0).
9. Chief Executive Officer Richard Stensrud presented the report commissioned by the State Association of County Retirement Systems (SACRS) regarding the economic impact of the retirement benefit payments made by the retirement systems governed by the County Employees Retirement Law of 1937 (1937 Act). Mr. Stensrud outlined the highlights of the report and noted that it quantified the substantial positive economic impact that occurs both state-wide and locally from the retirement benefit payments made by SCERS and other 1937 Act retirement systems. Mr. Stensrud noted that such information was important for having a full and informed understanding of the considerations related to public employee retirement systems. Mr. Stensrud reported that a copy of the economic impact study would be put on the SCERS website. Mr. Stensrud also noted that a copy would be sent to the County Board of Supervisors. Discussion followed.

Motion by Mr. Kelly to receive and file the SACRS economic impact study; Seconded by Mr. Johnson. Motion carried (7-0).

10. Chief Executive Officer Richard Stensrud presented information regarding the proposed legislation and other matters that would be presented for a vote by the member systems at the upcoming SACRS Fall Conference. Mr. Stensrud recommended that with respect to proposed legislation, that SCERS vote in accordance with the positions recommended by the SACRS Legislative Committee. Mr. Stensrud also recommended that SCERS abstain with respect to the resolution regarding the proposed initiative concerning public employee pension and retiree health benefits. Mr. Stensrud further recommended a method for determining how and/or whether SCERS should vote on any other matters that might be

**ADMINISTRATIVE MATTERS (continued):**

raised at the Conference. Finally, Mr. Stensrud noted that it would be necessary to select the party authorized to vote on behalf of SCERS on the various items.

Motion by Mr. Kelly to adopt the recommended positions and approach to voting, and to authorize Mr. Stensrud to vote on behalf of SCERS at the Conference; Seconded by Mr. Woods. Motion carried (7-0).

**INVESTMENT MATTERS:**

11. Alison Yager of Mercer Investment Consulting presented an update and review of SCERS' real estate investment portfolio. Ms. Yager provided: (1) an update on the progress that has been made in implementing the revised real estate strategy since its adoption in 2005; (2) commentary on the performance of SCERS' real estate investments and real estate investment managers; (3) educational information regarding investing in global or international real estate securities as part of the Real Estate Investment Trust (REIT) investments; and (4) an outline of the steps and proposed timing for making additional real estate commitments. Discussion followed, including whether geographic diversification could be better achieved by engaging an international REIT manager or by shifting the current domestic REIT strategy to a global REIT strategy. It was the consensus of the Board that Mercer and staff should continue efforts designed to help SCERS reach the target real estate allocation, and to return with more information regarding the possible approaches for expanding geographic diversity in the real estate investments.

Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Mr. DeVore. Motion carried (7-0).

12. Eve Atchison and John Reese of European Credit Management Limited made an educational presentation regarding an enhanced fixed income strategy involving the European credit markets. They explained that the European credit market provided a low correlation to the public equity market and to the US Lehman Aggregate Bond Index. They further noted that the low correlation makes investment in European credit securities a good diversifier of risk as well as a source of real return. They also explained how their investment process can be used as a source of investment alpha that can be transported to any beta investment strategy. Discussion followed regarding how the investment return would be generated and how the risks would be managed. Discussion also took place regarding whether the strategy offered the potential for enhanced returns and diversification relative to standard fixed income investing, and whether it might be suitable for consideration as part of the new allocation to an opportunities portfolio. It was the consensus of the Board that staff and Mercer should further analyze the strategy and return with a recommendation as to whether it should be considered for the opportunities portfolio.

Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Mr. DeVore. Motion carried (6-0).

**INVESTMENT MATTERS (continued):**

13. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States made a presentation regarding the sub-asset class portfolio structure for SCERS' investment program. Mr. Lightvoet summarized the work that had been done to-date in analyzing and comparing alternative portfolio structures for implementing the major asset allocation classes recently adopted in the revised strategic asset allocation model. Mr. States noted that in addition to the alternatives previously presented by Mercer, staff was recommending that the Board consider a portfolio structure that (1) made certain changes to the sub-asset allocation in domestic equity between passive, enhanced indexing, 130/30 strategies, and long-only active management; (2) eliminated the addition of an indexed non-U.S. equity portfolio; and (3) shifted the passive Lehman Aggregate Fixed Income Index to enhanced fixed income strategy. Mr. Lightvoet provided an analysis comparing the portfolio return/risk characteristics of the various alternative sub-asset class portfolio structures to those under the current asset allocation. Discussion followed.

Motion by Mr. Kelly to adopt the sub-asset portfolio structure recommended by staff; Seconded by Mr. Johnson. Motion carried (6-0).

14. At the suggestion of Mr. Diepenbrock, who was presiding over the meeting, Agenda Item number 15 was taken up out of sequence.

Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for September 2007. Motion by Mr. Johnson to receive and file the Monthly Investment Management Compliance Report; Seconded by Mr. Kelly. Motion carried (6-0).

15. At the suggestion of Mr. Diepenbrock, who was presiding over the meeting, Agenda Item number 14 was taken up out of sequence.

John Miller and Dan Ivascyn of Pacific Investment Management Company (PIMCO) made a presentation regarding an investment opportunity in the PIMCO Distressed Mortgage Fund (Fund). Mr. Miller and Mr. Ivascyn explained that the Fund was being formed to take advantage of the opportunities that PIMCO believes will exist due to the dislocations in the mortgage-backed securities market over the next few years. They explained that the Fund is premised on PIMCO's belief that there will be numerous opportunities to invest in under-valued mortgage and/or real estate fixed income securities which will eventually increase in value and reward patient investors. They explained the investment strategy that will be utilized in investing the Fund, and how the returns will be generated. In response to various questions, they discussed the risks involved in the strategy and the assumptions being used about housing prices and mortgage-backed security defaults to model the returns. They explained that the Fund's projected rate of return of 15% was based on the assumption that home prices would not decline more than 20%. PIMCO indicated that in a worst case scenario, they felt that returns of the Fund would still be positive, but might only be in single digits.

**INVESTMENT MATTERS (continued):**

Extensive discussion followed, including consideration of: (1) the investment strategy and the potential returns from the strategy; (2) the risks inherent in the strategy; (3) the likely degree and duration of the dislocations in the housing market; (4) the illiquid nature of the investment; (5) the lack of a track record of prior performance due to the 'once in a decade' nature of the investment opportunity; (6) the use of leverage in the Fund; and (7) the time constraints for making the decision on whether to invest in the Fund due to its imminent closing.

Discussion also took place regarding: (1) PIMCO's strong reputation and high level of expertise in the fixed income area, and the mortgage-related securities area in particular; (2) PIMCO's investment analytics infrastructure; and (3) PIMCO's inherent conservatism. It was also clarified that the investment strategy for the Fund would not result in further dislocation in the mortgage market, or cause people to lose their homes, but instead, the Fund would serve as source of liquidity for forced sellers, and as such, could help to stabilize the mortgage securities market.

Tom Lightvoet of Mercer Investment Consulting noted that Mercer was recommending that SCERS consider the investment as part of the opportunities portfolio. Mr. Lightvoet and Chief Investment Officer Jeffrey States noted that the unique nature of the investment opportunity would be typical of what the Board should expect to see with respect to possible investments in the opportunities asset class, but the short time frame for considering such an investment would not be typical. Mr. Lightvoet and Mr. States both noted that while they believed the PIMCO Fund would be a good investment for SCERS, that there would be other, similar investment opportunities coming forward in the next several months. Chief Executive Officer Richard Stensrud further noted that the Board should not make the investment unless they felt that they understood how the investment would work and that they had enough information to make an informed decision.

More discussion followed regarding the merits of the investment opportunity. Staff recommended that if an investment in the Fund was authorized, that it be subject to review and approval of the legal and business provisions of the underlying Fund documents by Mercer, the Chief Investment Officer, the General Counsel and the Chief Executive Officer, and that authority be granted to those parties to negotiate terms and side letter provisions as necessary and appropriate. It was also recommended that the Chief Executive Officer be authorized to execute the necessary documents to undertake the investment if and when Mercer and the staff had completed their review and found the documentation to be in order.

Motion by Mr. Kelly to: (1) approve a \$25 million investment in the PIMCO Distressed Mortgage Fund, with the stipulation that Mercer and the staff find the legal and business provisions of the investment to be in order; (2) authorize Mercer and staff to negotiate terms and side letter provisions as necessary and appropriate; and (3) authorize the Chief Executive Officer to execute the documentation necessary to undertake the investment if and when Mercer and staff had completed their review and approval of the proposed investment; Seconded by Mr. DeVore. Motion carried (5-0-1, with Ms. Jarboe abstaining).

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The meeting was adjourned at 5:44 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock; Keith DeVore; John B. Kelly; William D. Johnson; Robert Woods (departed at 4:07 p.m.); William Cox (departed at 4:32 p.m.); Alice Jarboe; and John Conneally.

**MEMBERS ABSENT:** Dave Irish; Winston Hickox; 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; Tom Lightvoet and Alison Yager of Mercer Investment Consulting; Eve Atchison and John Reese of European Credit Management; John Miller and Dan Ivascyn of PIMCO; Claire Van Dam, Deputy Counsel; Diana Ruiz, Deputy Counsel; 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.