



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, SEPTEMBER 20, 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, September 20, 2007, commencing at 1:01 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the August 16, 2007 regular meeting and the Minutes of the August 22, 2007 and August 23, 2007 special meetings were approved on Motion made by Ms. Jarboe; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. FREEMAN, Elizabeth A.: Motion by Ms. Wolford-Landers to grant the disability application; Seconded by Mr. DeVore. Motion carried (6-0).
4. LEWIS, Buapat: Motion by Mr. Johnson to deny the disability application; Seconded by Mr. Irish. Motion carried (7-0).

**DISABILITY MATTERS (continued):**

5. TRAN, Doan K.: Motion by Ms. Jarboe to deny the disability application; Seconded by Mr. Irish. Motion carried (8-0).
6. VUCKOVICH, Marianne M.: Motion by Mr. DeVore to grant the disability application; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

7. 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 retirement planning seminar to be held on September 24<sup>th</sup> was fully subscribed. Mr. Stensrud noted that the program would be the version geared to SCERS members who were within ten years of retirement.

Mr. Stensrud reported that meetings were being set up with various employer and employee groups to discuss the proposed changes to the disability retirement application procedures. Mr. Stensrud noted that upon completion of the meetings the revised procedures would be brought back to the Board for final approval.

Mr. Stensrud reported that the election process had begun for the SCERS Board seat for one of the Miscellaneous Members (currently held by Mr. DeVore), and for the Retiree Member seat (currently held by Ms. Wolford-Landers) and the Alternate Retiree Member seat (currently held by Mr. Cox). Mr. Stensrud reported that the nomination period had closed on September 14<sup>th</sup> and that in addition to Mr. DeVore, there were two candidates for the Miscellaneous Member seat. Mr. Stensrud further reported that in addition to Mr. Cox, there was a second candidate for the Alternate Retiree Member seat. Mr. Stensrud reported that Ms. Wolford-Landers was running unopposed. Mr. Stensrud noted that the ballots would be sent out to the eligible voters on or before October 15<sup>th</sup>, and that the election period would run from October 22<sup>nd</sup> to November 2<sup>nd</sup>.

Mr. Stensrud reported that work was underway on the purchase option for Additional Retirement Credit (ARC), but that the service purchase would not be available to SCERS members until the website ARC price calculator had been completed and tested, which in turn, could not take place until the Board's decision on the actuarial assumptions scheduled for the Special Board Meeting on October 4<sup>th</sup>. Mr. Stensrud noted that if there were no changes in the actuarial assumptions proposed by the actuary, the ARC calculator should be completed by mid-October, but if the assumptions were modified, the completion of the calculator would be delayed somewhat.

Mr. Stensrud reported that the materials were being finalized for the optional election to be offered to Miscellaneous Tier 2 members to convert to Tier 3 membership for future service accruals. Mr. Stensrud noted that there would be a sixty day election period for Tier 2 members to decide whether they wished to make the conversion, after which the members

**ADMINISTRATIVE MATTERS (continued):**

who converted would be provided with information advising them about the cost to make an optional upgrade to Tier 3 of some or all of their pre-existing Tier 2 service.

At Mr. Stensrud's request, General Counsel James Line provided an update on the litigation concerning the application of certain conflict of interest provisions in California state law to the actions of certain trustees of the City of San Diego Retirement System. Mr. Line outlined the circumstances of the case, summarized the proceedings to-date, and described the latest rulings in the case. Mr. Line noted that it was the consensus of the public retirement system community that various elements of the most recent decision in the case were erroneous and highly problematic for the operation of public retirement systems. Mr. Line further reported that the case was being appealed to the California Supreme Court, and that a number of public retirement systems would be joining together to submit an amicus brief encouraging the Supreme Court to hear the case and correct the errors. Mr. Line noted that at a subsequent Board Meeting he would be requesting that the Board authorize SCERS' participation in those efforts. Discussion followed.

Mr. Stensrud reported on the efforts underway in Orange County to convince the County Board of Supervisors to pursue legal action to rescind their previous decision to make an enhancement of the retirement formula for Safety members retroactive to past service and not simply prospective for future service. Mr. Stensrud outlined the basis for the arguments being made by the proponents of legal action, and at Mr. Stensrud's request, General Counsel James Line provided his assessment that he did not believe the proponent's legal arguments were very strong. Mr. Stensrud noted that Mr. Line's assessment was consistent with the prevailing view of the public retirement system legal community, but that everyone was watching the situation closely because if the courts did accept the arguments, it would likely affect the benefit decisions made by a number of retirement systems. Discussion followed.

Mr. Stensrud reported that he and Chief Investment Officer Jeffrey States had recently attended a California pension fund conference focused on the substantial positive economic impact from public pension fund investments in California and from the retirement benefit payments made by public retirement systems to retirees living in California.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States provided a report on the recent sale of a property in SCERS' real estate investment portfolio.

Finally, Mr. Stensrud provided the Board with a status report on the legislative proposals being tracked as items of interest by the State Association of County Retirement Systems (SACRS) Legislative Committee.

8. Chief Executive Officer Richard Stensrud presented an analysis and proposed resolution regarding the 'normal retirement age' for SCERS' Miscellaneous and Safety benefit plans.

Mr. Stensrud summarized the Board's previous discussions and decisions regarding 'normal retirement age' (NRA), including the lengthy report the Board had received at the August

**ADMINISTRATIVE MATTERS (continued):**

Board Meeting. Mr. Stensrud noted that outside tax counsel had been engaged to assist the Board in analyzing various issues associated with the decision regarding the appropriate NRA or NRAs. Mr. Stensrud noted that the Board had been provided with the analysis of tax counsel – Kirstin Poirer-Whitley of the law firm Jones Day – and that Ms. Poirer-Whitley was present at the meeting to answer any questions they might have.

Mr. Stensrud noted that while it was the view of tax counsel that certain questions cannot be definitively resolved at this time, and that on certain matters a more conservative position could be taken, she had concluded that it would be reasonable for SCERS to determine: (1) There are two “industries” covered by SCERS – Safety public employment and Miscellaneous public employment; (2) The geographic scope of these industries is Sacramento County; (3) That SCERS has two plans – one for Safety members and one for Miscellaneous members – and thus SCERS can have a NRA specific to each plan; (4) The actual pattern of retirements under the two plans provides a reasonable basis for identifying age 50 as the earliest age that is reasonably representative of the typical retirement age for SCERS’ Safety members and age 55 ½ as the earliest age that is reasonably representative of the typical retirement age for SCERS’ Miscellaneous members; and thus (5) it would be reasonable for SCERS to establish age 50 as the NRA for the Safety plan and age 55 ½ as the NRA for the Miscellaneous plan.

Based on this assessment, Mr. Stensrud recommended that the Board reaffirm its previous decision to establish age 50 as the NRA for the Safety plan and age 55 ½ as the NRA for the Miscellaneous plan. Mr. Stensrud noted that with that action, staff would be able to finalize the materials necessary to implement the provisions of Internal Revenue Code Section 402(l), which authorizes up to a \$3,000 tax exclusion for certain payments made by SCERS directly to qualified health care plans on behalf of SCERS’ retirees who qualify as a ‘public safety officer under the rules of the Internal Revenue Code. Mr. Stensrud noted that if subsequent developments call into question the reasonableness of the NRAs adopted by the Board, the matter would promptly be brought back to the Board for reconsideration.

Mr. Stensrud noted that a proposed resolution reflecting the recommended action had been presented for the Board’s consideration. Discussion followed.

Motion by Mr. DeVore to adopt the proposed resolution and the NRAs set forth therein; Seconded by Mr. Woods. Motion carried (8-0).

9. Chief Executive Officer Richard Stensrud presented a proposed resolution formally extending the engagement of the law firm of Jones Day to provide tax-related and other legal services.

Mr. Stensrud explained that the original engagement of the law firm had been pursuant to the authority granted to him to engage necessary legal counsel and to enter into contracts up to a certain cost limit. Mr. Stensrud noted that the volume of work currently requested of the firm would exceed the cost limit and thus it would be necessary for the Board to

**ADMINISTRATIVE MATTERS (continued):**

authorize the continued engagement of the firm in order for that and other potential work to be completed. Mr. Stensrud and General Counsel James Line stated that they had found the firm's work to be of the highest quality. Mr. Stensrud noted that there was ample room in the budget to cover the current and prospective costs.

Discussion followed regarding whether a cost cap should be identified for the engagement beyond which staff would need to return to the Board for further authorization. It was agreed that such a 'soft cap' would be advisable. Discussion also followed regarding whether there should be any special reporting of costs incurred under the engagement. It was agreed that the Chief Executive Officer should report such costs in the same manner and at the same time as he reports on the status of expenditures in all budget categories.

Motion by Mr. DeVore to continue the engagement of the law firm of Jones Day to provide tax-related and other legal services, with a \$100,000 cap on costs, provided however, that staff can return to the Board for further authorization if expenditures in excess of that amount are deemed necessary; Seconded by Mr. Woods. Motion carried (8-0).

**INVESTMENT MATTERS:**

10. Tom Lightvoet and Susie Ardeshir of Mercer Investment Consulting made a presentation regarding the optimal sub-asset class allocation of SCERS' investment portfolio for the strategic asset allocation adopted in July.

Mr. Lightvoet and Ms. Ardeshir explained that the analysis utilized an alpha/tracking error framework considering the excess return above a passive benchmark that can be expected for various mixes of active and passive strategies and investment styles. The results of the analysis were provided in the form of an efficient frontier of optimized mixes of strategies which were then compared to SCERS' current asset allocation and the new asset allocation. The return/risk characteristics and information ratios of a range of mixes with the highest information ratios were identified.

Discussion followed regarding the results of the analysis and the differences between the mixes. Among other things, the Board requested additional information on the MSCI All Cap World Index (ACWI) ex-US which was suggested as the broad international equity benchmark. The staff suggested that before the Board take any action on the adoption of a new sub-asset class portfolio structure that time be taken to evaluate how the new strategy would be implemented.

Motion by Mr. Woods to receive and file the sub-asset class structure materials; Seconded by Mr. DeVore. Motion carried (8-0).

11. Tom Lightvoet of Mercer Investment Consulting made a presentation regarding potential candidates for engagement as private equity fund of funds managers.

**INVESTMENT MATTERS (continued):**

Mr. Lightvoet provided information on seven firms Mercer recommended for consideration as a private equity fund-of-funds manager. Mr. Lightvoet reviewed each firm's background, the performance track record of their previous private equity fund-of-fund offerings, and their investment experience and strategy.

Discussion followed regarding the firms and the differences between their private equity fund-of-funds products, including consideration of the range of private equity investment strategies that the overall fund would contain, as well as whether the manager would invest in funds outside of the U.S. It was agreed that the Board would select four firms for further consideration and that they be invited to make a presentation at the November Board Meeting.

Motion by Mr. Woods to receive and file the presentation materials and to select Abbot Capital Management, Goldman Sachs Asset Management, HarbourVest Partners, and JP Morgan to make a formal presentation to the Board; Seconded by Mr. Hickox. Motion carried (7-0).

12. General Counsel James Line presented a recommendation that the annual fee cap be increased under the Legal Services Agreement with Nossaman, Guthner, Knox and Elliott, LLP, for calendar year 2007.

Mr. Line noted that the annual cap on fees had been raised on several previous occasions and was warranted in this instance by a larger than expected level of real estate transactions. Mr. Line also noted that an increase in the cap would also be necessary to allow for real estate dispositions and reinvestment over the remainder of the calendar year.

Motion by Mr. Hickox to increase the annual fee cap for Nossaman, Guthner, Knox and Elliott, LLP under its Legal Services Agreement for calendar year 2007; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

13. Chief Investment Officer Jeffrey States presented a recommendation to amend the Custodian Agreement with State Street Bank to modify the procedures in recording investment account activity by implementing contractual settlement.

Mr. States outlined the reasons for the proposed change in procedures, noting that contractual settlement had become the industry norm. He also noted that the change would have no cost to SCERS and would reduce the possibility of SCERS' cash account being overdrawn if a trade failed to settle properly.

Motion by Ms. Jarboe to amend the Custodian Agreement with State Street Bank to modify the procedures in recording investment account activity by implementing contractual settlement; Seconded by Mr. Irish. Motion carried (6-0).

14. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for August 2007.

**INVESTMENT MATTERS (continued):**

Motion by Mr. Johnson to receive and file the Monthly Investment Management Compliance Report for August 2007; Seconded by Ms. Jarboe. Motion carried (6-0).

The meeting was adjourned at 3:43 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock (departed at 3:15 p.m.); Keith DeVore; John B. Kelly; Dave Irish; Winston Hickox (arrived at 1:06 p.m.); William D. Johnson; Robert Woods (arrived at 1:05, departed at 3:32 p.m.); 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; Gail Bowman, sister of SCERS Member Elizabeth Freeman; Kirsten Poirier-Whitley of Jones Day; Tom Lightvoet and Susie Ardeshir of Mercer Investment Consulting; Jim Wright, Deputy Counsel; Claire Van Dam, Deputy Counsel; 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.