



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

John Conneally
Elected by Safety Members

William Cox
Elected by Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, DECEMBER 20, 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, December 20, 2007, commencing at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the November 8, 2007 special meeting were approved on Motion made by Mr. Irish; Seconded by Mr. Woods. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. ROUND, Dianne L.: Motion by Mr. Conneally to deny a service connected disability; Seconded by Mr. Kelly. Motion carried (8-0).
4. MCINTURF, Melody L.: Motion by Ms. Jarboe to grant a non-service connected disability; Seconded by Mr. Irish. Motion carried (8-0).

DISABILITY MATTERS (continued):

5. MCNAMARA, Carole A.: Motion by Mr. Kelly to deny a service connected disability; Seconded by Ms. Jarboe. Motion carried (8-0).

LEGAL MATTERS:

6. CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION:
Government Code Section 54956.9(a)

In Re: Brooks Automation, Inc., Securities Litigation
United States District Court, (District of Massachusetts)
Master File No. 06-CA-11068

7. CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION
Initiation of Litigation - Government Code Section 54956(c)

The Board received a report from legal counsel regarding potential legal action against the actors allegedly negligent and liable for the injury or death of SCERS members to whom or on whose behalf SCERS has provided disability retirement or death benefits. Motion by Mr. Woods to authorize pursuing appropriate legal action; Seconded by Mr. DeVore. Motion carried (9-0). Once the action has been formally commenced the particulars will be disclosed upon inquiry, unless to do so would jeopardize service of process or existing settlement negotiations.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

8. 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 one-time election offered to active Tier 2 members to convert to Tier 3 for future service had closed on December 18th and that approximately 65% of the eligible Tier 2 members had elected to make the prospective conversion to Tier 3. Mr. Stensrud noted that the members who made the prospective conversion would also be offered an opportunity to upgrade some or all of their past Tier 2 service to Tier 3 status by paying the full actuarial cost to upgrade the service. Mr. Stensrud reported that staff would be working with the actuary to develop a pricing methodology for the service upgrade, and upon SCERS Board approval, the eligible members would receive an individualized schedule of the cost to upgrade their past service.

Mr. Stensrud reported that to-date forty-nine applications had been filed to purchase Additional Retirement Credit (ARC), and that collectively, the purchases totaled \$4.5 million.

Mr. Stensrud reported that approximately four hundred SCERS retirees had submitted a timely request that SCERS provide them with information to assist them in pursuing a new federal tax exclusion under Section 402(l) of the Internal Revenue Code. Mr. Stensrud noted that the new tax exclusion was available only to certain qualified retired 'public safety

ADMINISTRATIVE MATTERS (continued):

officers' and was based on payments that a retirement plan such as SCERS made directly to qualified health care plans on behalf of the retiree.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States reported on the transition of the Large Cap Value portfolio previously managed by OFI – Trinity Asset Management. Mr. States reported that the portfolio transition had gone smoothly and that the assets had been re-distributed to the other Large Cap Value managers – LSV Asset Management and Pzena Asset Management – and to fund other investment mandates.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States and General Counsel James Line reported on conversations they had with Pzena Asset Management regarding a securities class action lawsuit that had recently been filed against the firm. Mr. States and Mr. Line reported that Pzena did not believe there was any merit to the action and would vigorously defend itself. Mr. States and Mr. Line also reported that it did not appear the claims in the case involved any investment activity related to the firm's management of the SCERS portfolio.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States reported that Cornerstone Real Estate Advisors had successfully invested the remainder of its allocation.

Mr. Stensrud provided a report on the recent State Association of County Retirement Systems (SACRS) Conference and invited comments from the Board Members who attended the program. Discussion followed regarding the Conference.

9. 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, 2007 and 2006. 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. Woods to receive and file the Independent Auditor's Report, Report on Internal Controls and Compliance, and Report to Management for the Fiscal Years Ended June 30, 2007 and 2006, as prepared by Macias Gini & O'Connell; Seconded by Mr. Hickox. Motion carried (9-0).

10. Chief Operations Officer Kathryn Regalia presented the Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2007 and 2006. 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. Hickox to receive and file the SCERS Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2007 and 2006; Seconded by Mr. Woods. Motion carried (9-0).

ADMINISTRATIVE MATTERS (continued):

11. Chief Executive Officer Richard Stensrud presented the proposed interest crediting rate on member contribution accounts for the six months ended December 31, 2007.

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, 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, Mr. Stensrud recommended that, absent a dramatic drop in SCERS' assets over the remainder of the calendar year, the crediting rate for member contribution accounts be the full one-half of the applicable 5-Year Treasury Note rate, and that this rate be implemented at first opportunity after December 31, 2007.

Mr. Stensrud noted, however, that due to the recent poor performance of the investment markets, SCERS would not be able to fully cover the interest crediting obligation with current period investment earnings alone. Instead, SCERS would have to utilize the earnings smoothing process to supplement current period earnings. Mr. Stensrud reported that fortunately there are substantial deferred net gains in the smoothing process to cover the current period earnings shortfall.

Mr. Stensrud further noted, however, that the current period of poor investment performance illustrated how quickly net deferred gains in the smoothing process can be eroded, and thus the importance of having both smoothing and contingency reserves to mitigate the impact of an earnings shortfall. Mr. Stensrud also noted that the current market experience served as a reminder of the importance of maintaining a prudent contribution rate since it helps to keep contribution rates stable notwithstanding ups and downs in the markets.

Discussion followed. Motion by Mr. Hickox to approve the proposed interest crediting rate; Seconded by Mr. Woods. Motion carried (9-0).

12. Chief Executive Officer Richard Stensrud presented a revised SCERS Mission Statement and Core Values as developed at the SCERS Board and Staff strategic planning session.

Mr. Stensrud presented the revised Mission Statement, which reads:

We are dedicated to providing the highest level of retirement services and managing system resources in an effective and prudent manner.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud noted that it was the consensus of the Board and Staff that the revised Mission Statement better represents (a) SCERS' purpose and identity; (b) the philosophy that guides SCERS; (c) the image that SCERS wants to reflect; (d) the tone that SCERS wants to establish; and (e) the general direction in which SCERS wants to proceed.

Mr. Stensrud presented the revised Core Values, which read:

In fulfilling our mission as a retirement system, we are committed to:

- ***The highest levels of professionalism and fiduciary responsibility***
- ***Acting with integrity***
- ***Competent, courteous and respectful service to all***
- ***Open and fair processes***
- ***Safeguarding confidential information***
- ***Cost-effective operations***
- ***Stable funding and minimal contribution volatility***
- ***Effective communication and helpful education***
- ***Maintaining a highly competent and committed staff***
- ***Continuous improvement***
- ***Planning strategically for the future***

Mr. Stensrud noted that it was the consensus of the Board and Staff that the revised statement of Core Values builds upon the revised Mission Statement and better expresses the 'culture' of SCERS – i.e., the beliefs, attitudes and ideals of the organization – and better conveys to the SCERS membership and stakeholders the manner in which business will be conducted at SCERS.

Mr. Stensrud recommended that the Board formally adopt the revised Mission Statement and Core Values.

Motion by Mr. Hickox to adopt the SCERS Mission Statement and Core Values as developed in the SCERS Board and Staff strategic planning session; Seconded by Mr. Kelly. Motion carried (9-0).

INVESTMENT MATTERS:

13. Alistair Lowe, Global Asset Allocation and Currency CIO, and Neil Tremblay, Senior Relationship Manager for State Street Global Advisors (SSGA) presented a report on the Strategic Overlay Program and made recommendations for changes in the Strategic Overlay Program to address SCERS' new strategic asset allocation.

INVESTMENT MATTERS (continued):

Mr. Lowe and Mr. Tremblay reported on how the Strategic Overlay Program had performed relative to its goals of: (1) Eliminating performance drag due to unallocated cash, residual cash, and committed but un-invested cash earmarked for other investments; (2) Aligning the actual portfolio exposure with the policy benchmarks; and (3) Improving portfolio efficiency through cost-effective rebalancing.

Mr. Lowe and Mr. Tremblay made various recommendations for modifying the Strategic Overlay Program to better reflect the new asset allocation, including: (1) The identification of benchmark indexes to be used in the overlay for each asset class; (2) The proposal that a SSGA real asset investment product be used as the proxy for the new Opportunities allocation; and (3) The proposal that a Russell 2000 Index Swap would be the best investment strategy for gaining exposure for the un-invested portion of the Private Equity asset allocation.

Extensive discussion of the recommendations followed. With respect to the investments that would be made in the real asset investment product, Mr. Lowe noted that the strategy included commodities, global natural resource stocks, public Real Estate Investment Trusts (REITs) and US Treasury Inflation Protected Securities (TIPS). The reasoning for including each of the investments in the product and the weights to be used for each were discussed. Mr. Lowe and Mr. Tremblay indicated that the investment could be made by investing in the State Street Bank and Trust Company (State Street) Real Asset Common Trust, which has a fixed weighted investment in the four suggested strategies, or by a direct investment in one or more of four trust funds at weights determined by SCERS.

Motion by Mr. Kelly to: (1) Approve the benchmarks for the Strategic Overlay Program as recommended by SSGA; (2) Approve the use of a Russell 2000 Index Swap to replicate exposure to Private Equity; (3) Approve use of the SSGA real asset investment products to replicate exposure to the Opportunities allocation, but to have SSGA, staff and the investment consultant further discuss how best to weight and structure the investment; (4) Adopt the proposed Resolution authorizing the Board President to sign the proposed amendments to the Investment Management Agreement with SSGA and the other documents necessary to implement the approved measures; and (5) Receive and file the presentation materials. Motion Seconded by Mr. Woods. Motion carried (8-0).

14. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing the execution of an amendment to the Investment Management Agreement with Lehman Brothers Asset Management. Mr. States explained that the amendment would change the investment mandate for the assets managed by Lehman from the Lehman Brothers Aggregate Bond Index to an Enhanced Lehman Aggregate Bond Index strategy. Mr. States noted that this change was authorized as part of the sub-asset allocation decisions recently made by the Board.

Motion by Mr. Hickox to adopt the proposed Resolution authorizing amendment of the Investment Management Agreement with Lehman Brothers Asset Management; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

INVESTMENT MATTERS (continued):

15. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing the execution of the necessary documentation to finalize the previously approved private equity investment with HarbourVest Partners. Mr. States noted that the documents had been submitted to and had received the necessary business and legal review and approval.

Motion by Mr. DeVore to adopt the proposed Resolution; Seconded by Mr. Woods. Motion carried (7-0-1, with Mr. Hickox abstaining).

16. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing the execution of the necessary documentation to finalize a proposed fixed income investment with European Credit Management (ECM) Limited. Mr. States summarized the key elements of the investment as presented by ECM at the October Board Meeting, including the potential benefits of additional alpha and diversification that could be gained from making an investment in the European credit markets. Mr. States reported that the proposed investment had been reviewed and was being recommended by Mercer Investment Consulting.

Motion by Mr. Woods to adopt the proposed Resolution authorizing the fixed income investment with European Credit Management Limited; Seconded by Mr. Kelly. Motion carried (8-0).

17. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for November 2007. Motion by Mr. Woods to receive and file the Monthly Investment Management Compliance Report; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The meeting was adjourned at 3:54 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore (arrived at 1:32 p.m.); John B. Kelly; Dave Irish (departed at 3:14 p.m.); Winston H. Hickox (arrived at 1:01 p.m.); Nancy Wolford-Landers; Robert Woods; Alice Jarboe; and John Conneally.

MEMBERS ABSENT: William D. Johnson; 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; Andrew Smolich, Attorney; Carol McNamara, SCERS Member; Tim Flynn, Attorney; Claire Van Dam, Deputy Counsel; Diana Ruiz, Deputy Counsel; Debbie Chan, Macias Gini & O'Connell; Alistair Lowe and Neil Tremblay, State Street; 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.