



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, JUNE 19, 2008

The special 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, June 19, 2008, and commenced at 12:05 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Mr. Diepenbrock noted that SCERS received The Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for its most recent Comprehensive Annual Financial Report (CAFR). Mr. Diepenbrock commended the SCERS staff for the accomplishment. Mr. Diepenbrock also congratulated Mr. Woods for receiving a '2008 Father of the Year Award' from the Father's Day Council of Sacramento at a recent event benefiting the American Diabetes Association.

MINUTES:

2. The Minutes of the May 12, 2008 special meeting were approved on Motion made by Mr. Johnson; Seconded by Mr. Irish. Motion carried (6-0).

CLOSED SESSION:

Prior to going into Closed Session, Chief Executive Officer Richard Stensrud advised the Board that there were two items not on the Agenda that he would like the Board to consider

CLOSED SESSION (continued):

in Closed Session. At Mr. Stensrud's request, General Counsel James Line advised the Board that in order to consider the items the Board would have to find, by a two-thirds vote, that the items had come to the attention of SCERS after the Agenda had been posted and that the items required immediate attention. Mr. Stensrud advised the Board that two items met the necessary criteria. Mr. Stensrud further advised the Board that one item involved a conference with legal counsel concerning the anticipated initiation of litigation (Government Code Section 54956.9(c)) and one item involved a conference with legal counsel regarding significant exposure to litigation (Government Code Section 54956.9(b)).

Motion by Mr. Irish that the two non-Agenda items met the necessary criteria and that they be taken up in Closed Session; Seconded by Mr. DeVore. Motion carried (7-0).

DISABILITY MATTERS:

3. WOODEL, William M.: Motion carried (7-0) to grant a service-connected disability retirement.
4. DICKERSON, Stephen A.: Motion carried (7-0) to deny a service-connected disability retirement.
5. TOTH, Lisa D.: Motion carried (8-0) to refer the matter back to the Hearing Officer for further findings.

LEGAL MATTERS:

6. Motion carried (8-0) authorizing counsel to pursue settlement in In Re: Brooks Automation, Inc. – Securities Litigation, U.S. District Court, District of Massachusetts, Case No. 06-11068-RWZ.
7. The Board consulted with counsel regarding a matter with significant exposure to litigation.

In the matters taken up outside the Agenda, a Motion carried (8-0) to authorize legal counsel to initiate litigation. Information regarding the specific litigation will be provided, upon request, if and when the litigation is formally initiated. In the second matter, a Motion carried (8-0) authorizing staff to take the necessary action to mitigate exposure to potential litigation.

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.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the Sacramento County Board of Supervisors had approved the contribution rates submitted by SCERS for the 2008-2009 Fiscal Year. Mr. Stensrud also reported that the Board of Supervisors had approved a request to re-classify a SCERS staff position. Mr. Stensrud also noted that the Board of Supervisors had approved continuing the retiree health care subsidy program for another year.

Mr. Stensrud reported that on June 30th SCERS would be hosting a delegation of Australian retirement fund executives who will be in town for an international retirement fund conference (Global Dialogue 2008). Mr. Stensrud noted that the Australian delegation would be spending the morning at SCERS, where they would receive an overview of SCERS, including the investment program and the benefits administered by SCERS. Mr. Stensrud also noted that Mr. Hickox would be speaking on the investment implications of global climate change at the Global Dialogue 2008 conference.

Mr. Stensrud provided a report on the recent State Association of County Retirement Systems (SACRS) Conference. Several Board Members also shared their impressions of the Conference.

At Mr. Stensrud's request, Ms. Jarboe provided a report on the SACRS Public Pension Investment Management Program she had recently attended at U.C. Berkeley. Ms. Jarboe reported that the program had been very beneficial.

Mr. Stensrud reported that the 'full service' benefits team pilot project would be commencing soon.

Mr. Stensrud reported that in early July information would be sent out to the Miscellaneous Tier 2 members who had elected to convert to Tier 3 for future service, regarding the option those members have to upgrade their prior Tier 2 service to Tier 3 status. Mr. Stensrud reported that eligible members would receive personalized information showing the cost to upgrade some or all of the past service. Mr. Stensrud noted that an eligible member would have to pay the full actuarial cost for such an upgrade.

Mr. Stensrud reported that efforts were underway among the SACRS retirement systems in response to the recent announcement from the Internal Revenue Service (IRS) that the IRS intends to devote more attention to public retirement plans than they have in the past. Mr. Stensrud noted that the IRS was strongly encouraging public plans to submit requests for tax qualified plan determination letters by the end of January 2009, after which time the IRS would not accept or act on such requests for some period of time. Mr. Stensrud noted various issues and problems that would have to be considered in deciding whether to submit such a request, including the lack of knowledge and experience on the part of the IRS regarding public plans, and the fact that various requirements of the IRS for making such a determination for private sector plans were highly problematic in the public plan context. Mr. Stensrud reported that SACRS was pursuing legislation to help remove any questions

ADMINISTRATIVE MATTERS (continued):

regarding the compliance of the County Employees' Retirement Law of 1937 (1937 Act) with federal tax law. Mr. Stensrud also reported that other measures were being considered to help the 1937 Act systems prepare for increased scrutiny from the IRS. Discussion followed.

Mr. Stensrud reported that he would be engaging a consultant to conduct a study regarding the appropriate compensation levels for SCERS' executive staff. Mr. Stensrud noted that it had been four years since the last study had been performed. Mr. Stensrud also noted that a comparable compensation study would soon be underway for various County management positions.

9. Chief Operations Officer Kathryn Regalia presented the Proposed Budget Request for Fiscal Year 2008-2009. Ms. Regalia outlined the key elements of the Proposed Budget, including the differences relative to the current Budget. Ms. Regalia also noted that the Proposed Budget was well under the limit on administrative costs contained in the 1937 Act.

Motion by Mr. Woods to adopt the Proposed Budget Request for Fiscal Year 2008-2009; Seconded by Ms. Jarboe. Motion carried (8-0).

10. Chief Operations Officer Kathryn Regalia presented a request by Sacramento Metropolitan Fire District to prepay its annual employer retirement contributions for Fiscal Year 2008-2009. Motion by Mr. Conneally to accept prepayment from Sacramento Metropolitan Fire District for its annual employer retirement contributions for Fiscal Year 2008-2009; Seconded by Mr. Johnson. Motion carried (8-0).

11. Chief Operations Officer Kathryn Regalia presented a request by the Superior Court of California, County of Sacramento to prepay its annual employer retirement contributions for Fiscal Year 2008-2009. Motion by Mr. DeVore to accept prepayment from Superior Court of California, County of Sacramento, for its annual employer retirement contributions for Fiscal Year 2008-2009; Seconded by Mr. Irish. Motion carried (8-0).

12. Chief Operations Officer Kathryn Regalia presented a request by Sacramento County to prepay its annual employer retirement contributions for Fiscal Year 2008-2009. Motion by Ms. Jarboe to accept prepayment from Sacramento County for its annual employer retirement contributions for Fiscal Year 2008-2009; Seconded by Mr. Hickox. Motion carried (8-0).

13. Chief Executive Officer Richard Stensrud presented the proposed interest crediting rate for employee contribution accounts for the six month period ended June 30, 2008.

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

ADMINISTRATIVE MATTERS (continued):

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 fiscal 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 June 30, 2008.

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 five year 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.

Mr. Stensrud noted the impact of the design and duration of the smoothing process on SCERS' funding. Mr. Stensrud also noted that the elements of the smoothing process should be consistent with the Board's investment model and risk parameters and that the Board had recently re-visited these elements as part of the asset/liability study. Accordingly, Mr. Stensrud reported that SCERS' actuary (The Segal Company) would make an educational presentation on issues and policy considerations in the design of the smoothing process at an upcoming Board Meeting to assist the Board in assessing whether any modifications to the smoothing process were in order.

Motion by Mr. DeVore to approve the proposed interest crediting rate for employee contribution accounts effective June 30, 2008 ; Seconded by Mr. Woods. Motion carried (8-0).

14. General Counsel James Line presented a proposed policy regarding the retention of audio tapes of SCERS Board Meetings.

ADMINISTRATIVE MATTERS (continued):

Mr. Line explained that the audio tapes of Board Meetings were helpful for facilitating preparation of the Minutes of the Board Meeting, which upon approval by the Board, become the official record of the proceedings. Mr. Line noted that state law authorizes the destruction of audio tapes of public meetings thirty days after the meeting. Mr. Line noted that, consistent with these considerations, under the proposed policy, audio tapes of the Board Meetings would be maintained until the official Minutes of the meeting had been approved by the Board, after which the audio tapes would be erased, but in no event would the tapes be erased less than thirty days following the meeting.

Motion by Ms. Jarboe to adopt the proposed policy; Seconded by Mr. Hickox. Motion carried (8-0).

15. Chief Operations Officer Kathryn Regalia presented a proposed resolution authorizing staff to access state and federal criminal history information in making assessments of eligibility for employment.

Ms. Regalia noted that SCERS' systems and business practices require that many staff members have access to confidential member information, including Social Security numbers, birthdates, home addresses, and bank account information. Ms. Regalia also noted that many SCERS staff members are trusted with handling financial transactions. Ms. Regalia explained that given SCERS' duty to safeguard confidential information and protect against fraud, it would be prudent to obtain criminal history information in assessing prospective employees. Ms. Regalia explained that authorization by the Board was required in order to obtain access to such information.

Motion by Mr. Irish to adopt the proposed resolution; Seconded by Ms. Jarboe. Motion carried (8-0).

INVESTMENT MATTERS:

16. Presentations were made by the following International Small Cap equity investment manager candidates:

- William Blair & Company
- Fidelity Investments (Pyramis Global Advisors)
- Victory Capital Management

The firms described their respective: (a) organizations, resources, and investment teams; (b) investment models and process; (c) strategy performance track record; and (d) proposed fee arrangements.

Discussion followed regarding the investment philosophy, process, and performance history of the firms. Discussion included consideration of: (a) the correlation of the candidates to

INVESTMENT MATTERS (continued):

SCERS' other International Small Cap equity manager (AXA Rosenberg); (b) the number of investment professionals and turnover within the investment teams; (c) the level of assets under management in the strategy; and (d) the sources of investment return, including the firm's exposure to emerging markets.

Mr. Hickox made a Motion to select Fidelity Investments (Pyramis Global Advisors) for the engagement. The Motion failed for lack of a Second. Motion by Mr. DeVore to select William Blair & Company for the engagement; Seconded by Mr. Woods. Motion carried (7-1), with Mr. Hickox dissenting.

17. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented a status report and recommendations regarding SCERS' real estate allocation.

Mr. States noted that in order to provide broader diversification, the real estate investment structure included a proposed allocation to international real estate in the form of Real Estate Investment Trust (REIT) investments in international real estate securities. Mr. States and Mr. Lightvoet recommended that a search be conducted for a new REIT manager to carry out this assignment, with the manager investing in real estate securities outside of the U.S.

Discussion followed, and it was agreed that a manager search should be started.

Motion by Mr. Hickox to receive and file the report; Seconded by Mr. Johnson. Motion carried (7-0).

18. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the investment terms and documents formalizing the international private equity investment engagement with HarbourVest.

Motion by Mr. DeVore to adopt the proposed resolution authorizing execution of the necessary documents to effectuate the engagement; Seconded by Ms. Jarboe. Motion carried (6-0).

19. Chief Investment Officer Jeffrey States presented proposed amendments to the Investment Policy to permit the use of comparable indexes as the portfolio benchmark for investment manager mandates.

Motion by Ms. Jarboe to adopt the proposed amendments; Seconded by Mr. Hickox. Motion carried (6-0).

20. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on business terms and documents formalizing the extended equity strategy investment engagement with J.P. Morgan Asset Management.

INVESTMENT MATTERS (continued):

Motion by Mr. Conneally to adopt the proposed resolution authorizing execution of the necessary documents to effectuate the engagement; Seconded by Mr. DeVore. Motion carried (6-0).

21. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the business terms and documents formalizing the extended equity strategy investment engagement with U.B.S. Global Asset Management.

Motion by Mr. Johnson to adopt the proposed resolution authorizing execution of the necessary documents to effectuate the engagement; Seconded by Mr. DeVore. Motion carried (6-0).

22. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the business terms and documents formalizing the Large Cap U.S. equity enhanced index investment engagement with Westridge Capital Management.

Motion by Mr. Hickox to adopt the proposed resolution authorizing execution of the necessary documents to effectuate the engagement; Seconded by Mr. Johnson. Motion carried (6-0).

23. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the business terms and documents formalizing the Large Cap U.S. equity enhanced index investment engagement with BlackRock.

Motion by Mr. DeVore to adopt the proposed resolution authorizing execution of the necessary documents to effectuate the engagement; Seconded by Ms. Jarboe. Motion carried (6-0).

24. Chief Investment Officer Jeffrey States presented the May 2008 Monthly Investment Compliance Report and Watch List.

Motion by Mr. Johnson to receive and file the report; Seconded by Mr. Hickox. Motion carried (6-0).

The meeting was adjourned at 5:06 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, Winston H. Hickox (arrived at 12:15 p.m.), Dave Irish (left at 3:30 p.m.), Alice Jarboe, William D. Johnson, Robert Woods (arrived at 12:10 p.m., left at 3:30 p.m.), John Conneally, and William Cox.

MEMBERS ABSENT: John Kelly and Nancy Wolford-Landers.

OTHERS PRESENT: 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; Suzanne Likarich, Retirement Services Manager, Julie Rucker, Personnel Specialist 2; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; John T. Kennedy, Nossaman, Guthner, Knox & Elliott, LLP; Stephanie G. Braming and Wally Fikri, William Blair & Company; Arthur J. Greenwood and Robert S. Feldman, Fidelity Investments; Margaret Lindsay and Christopher Ohmacht, Victory Capital Management.

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.