



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, NOVEMBER 20, 2008

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, November 20, 2008, and commenced at 1:03 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Board President James A. Diepenbrock asked for a moment of silence in honor of Safety Member Lawrence Canfield, who recently died in the line of the duty.

MINUTES:

2. The Minutes of the October 16, 2008 regular meeting were approved on Motion made by Ms. Wolford-Landers; Seconded by Mr. Irish. Motion carried (8-0).

Chief Executive Officer Richard Stensrud requested that the Board take up an off-Agenda investment item in Closed Session pursuant to Section 54956.81 of the Government Code. At Mr. Stensrud's request, General Counsel James Line explained the criteria for considering a matter under Section 54956.81 and advised the Board that he believed the matter met the necessary criteria. Mr. Line also outlined the criteria for consideration of an item off-Agenda, including that the matter had arisen after the Agenda had become final and that it required immediate attention by the Board. Mr. Stensrud affirmed that the matter met those criteria.

Motion by Mr. Kelly to consider the off-Agenda item in Closed Session in that it (a) satisfied the criteria of Section 54956.81 of the Government Code; (b) arose after the Agenda had become final; and (c) required immediate attention by the Board. Motion Seconded by Mr. DeVore. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. GARCIA, Hector J.: Motion carried (8-0) to grant a service-connected disability retirement per the recommendation in the confidential memorandum submitted by the Chief Benefits Officer.
4. HELMS, Brenda S.: Motion carried (9-0) to adopt the findings and recommendation of the referee and deny a non-service connected disability retirement.

LEGAL MATTERS:

5. After a report by legal counsel, a Motion carried (9-0) to authorize counsel to initiate litigation and pursue other necessary related actions. Information regarding the specific litigation will be provided, upon request, if and when the litigation is formally initiated.

The Board also considered an investment matter pursuant to Government Code Section 54956.81.

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 he and Chief Investment Officer Jeffrey States had begun conducting informational meetings with interested employers and member groups regarding SCERS' financial condition and the security of SCERS' benefits in light of the substantial declines in the investment markets. Mr. Stensrud noted that the crux of their message was that SCERS remains financially strong and SCERS' benefits will be paid as promised. Mr. Stensrud noted that a special page on the subject was being developed for SCERS' website.

Mr. Stensrud invited Board members who attended the recent State Association of County Retirement Systems (SACRS) Fall Conference to share their impressions of the conference with the Board. Mr. Stensrud also shared his views on the conference. Discussion followed.

Mr. Stensrud reported that staff would be sending out a questionnaire to SCERS' investment managers intended to gain further information regarding all outside parties the investment managers utilized in managing SCERS' assets and the manner in which SCERS' assets were being held by the managers and other parties. Mr. Stensrud explained that such information would be helpful in monitoring the security of SCERS' assets.

Mr. Stensrud provided an update on the efforts underway to establish guidance and a process for the 1937 Act retirement systems interested in working with the Internal Revenue Service (IRS) to obtain a qualified plan determination letter. Mr. Stensrud noted that a representative from the IRS had spoken at the SACRS Conference and that the IRS official had reiterated that the IRS recognized that they would need to take into account the differences between public pension plans and private sector plans and that the IRS would be willing to consider various ways to accommodate those differences. Mr. Stensrud reported that a proposed process and method of review for determination letter requests by 1937 Act systems was being submitted to the IRS. Mr. Stensrud noted that the proposal was designed to facilitate both submissions by interested systems and the evaluation of such submissions by the IRS. Mr. Stensrud further noted that the proposal was based on those areas where the IRS had indicated that accommodation was both necessary and desirable. Mr. Stensrud reported that if it appeared the IRS would accept the proposed process and method of review, he would be requesting authorization from the Board to file a determination letter request on behalf of SCERS in the current IRS review cycle. Mr. Stensrud further reported, however, that it remained to be seen whether the IRS would be willing to follow through on its indication of a willingness to accommodate public plan differences, and that he would not be requesting authorization to file for a determination letter in the current cycle if it was unclear if it was advisable to do so.

At Mr. Stensrud's request, General Counsel James Line presented an informational report on legal expenditures in the fiscal year to-date.

Mr. Stensrud reported that, beginning with the December Board Meeting, the Agenda for Board Meetings would include a 'Consent Calendar,' where multiple items could be approved in one vote. Mr. Stensrud noted that upon the request of any Board Member, a matter on the Consent Calendar could be moved to and taken up as a regular Agenda item. Discussion followed regarding the types of matters that would be considered under the Consent Calendar.

7. Chief Executive Officer Richard Stensrud presented information regarding the decision that would have to be made by the Board regarding the application of unallocated earnings as of June 30, 2008. Mr. Stensrud explained that this decision would have an impact on the annual actuarial valuation as of June 30, 2008, including the contribution rates for the 2009-2010 fiscal year that would be recommended by the actuary as part of that report. Mr. Stensrud noted that once the decision had been made regarding the application of unallocated earnings, SCERS actuary – The Segal Company – would present the actuarial results derived from the decision.

Mr. Stensrud noted that under the law, the SCERS Board has substantial discretion to apply unallocated earnings in the manner it believed would best secure the sound funding of the retirement system. Mr. Stensrud noted that the Board had adopted the SCERS Interest Crediting and Unallocated Earnings Policy ('Funding Policy') to provide goals, priorities and guidelines for making such decisions, but that the Board remained free to act in the manner it believed was in the best interests of the system.

Mr. Stensrud noted that the Funding Policy generally calls for applying one-half of any unallocated earnings to the Contingency Reserve and one-half to the Employer and Retiree reserves to offset earnings shortfalls from previous periods. Mr. Stensrud explained that unlike funds applied to the Employer and Employee reserves, amounts applied to the Contingency Reserve would not be considered by the actuary in establishing the next round of recommended contribution rates. Mr. Stensrud further noted, however, that setting aside funds in the Contingency Reserve was intended to help mitigate future costs by having such funds available to offset future earnings shortfalls, and that a larger balance in the Contingency Reserve meant a bigger potential impact on future costs.

Mr. Stensrud outlined the actuarial impact in the 2009-2010 fiscal year if one-half of the unallocated earnings were applied to the Employer and Employee reserves, and one-half to the Contingency Reserve. Mr. Stensrud noted that such an approach would produce slightly lower costs in the 2009-2010 fiscal year, but would also result in a smaller increase in the balance in the Contingency Reserve.

Mr. Stensrud outlined the impact on SCERS of the downturn in the financial markets in the 2007-2008 fiscal year. Mr. Stensrud noted that the poor investment performance for the fiscal year had erased substantial deferred gains waiting to be phased-in via SCERS' five year actuarial smoothing process, and that SCERS was now looking at net deferred losses being phased-in over the next five years. Mr. Stensrud further noted that the investment experience in the 2008-2009 fiscal year to-date indicated that even more deferred losses would be added to the smoothing process as of June 30, 2009. Mr. Stensrud explained that the ability to mitigate the future cost impact of the deferred losses would turn on the level of assets in the Contingency Reserve.

In light of this situation, Mr. Stensrud suggested that the Board may want to consider applying all of the available unallocated earnings to the Contingency Reserve as of June 30, 2008. Mr. Stensrud outlined the actuarial impact for the 2009-2010 fiscal year under such an approach, noting that it would result in a small cost increase relative to the

current fiscal year. Mr. Stensrud further noted, however, that such an approach would result in a larger balance in the Contingency Reserve, meaning that there would be more funds available to help offset the upcoming recognition of losses that would start to be felt in the 2010-2011 fiscal year.

Mr. Stensrud outlined various projections regarding the potential cost impact of the poor investment performance in the 2010-2011 fiscal year and discussed how the ability to mitigate those costs varied depending on the level of assets in the Contingency Reserve. Mr. Stensrud emphasized that the projections should be viewed as illustrative and not definitive.

Mr. Stensrud noted that the total cost over the next few years would be roughly the same under either application of unallocated earnings, but the year-to-year volatility of the costs would be much different. Mr. Stensrud noted that applying all the unallocated earnings to the Contingency Reserve as of June 30, 2008 would result in less volatility and more 'smoothing' over the next few years. Mr. Stensrud also noted that Sacramento County had indicated that, based on their assessment of their current and projected fiscal situation, they supported the full application of unallocated earnings to the Contingency Reserve as of June 30, 2008 as it would provide greater cost mitigation in the 2010-2011 fiscal year.

Discussion followed.

Motion by Ms. Wolford-Landers to apply all of the available unallocated earnings to the Contingency Reserve as of June 30, 2008; Seconded by Mr. Kelly. Motion carried (9-0).

Paul Angelo of The Segal Company outlined the key findings of the actuarial valuation as of June 30, 2008 given the Board's decision regarding the application of unallocated earnings.

Mr. Angelo noted that the aggregate average employer contribution rate would increase slightly and explained the reasons for the increase. Mr. Angelo also noted the average employee contribution rate would increase slightly and explained the reasons for the increase. Mr. Angelo noted that SCERS' funded ratio remained strong at 93.2%. Finally, Mr. Angelo outlined the status of the five year smoothing process.

Discussion followed.

Motion by Mr. Hickox to adopt the contribution rates for the 2009-2010 fiscal year recommended by The Segal Company based on the Board's application of unallocated earnings; Seconded by Mr. Woods. Motion carried (9-0).

Mr. Stensrud reported that he had requested that The Segal Company develop a more formal analysis of projected costs for the next few years based on the current investment experience and various alternative assumptions regarding future investment performance. Mr. Stensrud noted that such information would be helpful for the Board in assessing various actuarial parameters and methodologies. Mr. Stensrud also noted that such a

report would provide the County and other participating employers with important information regarding projected future costs.

Discussion followed.

Motion by Woods to receive and file the valuation materials; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

INVESTMENT MATTERS:

8. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended September 30, 2008.

Mr. Lightvoet noted that the credit crisis began to have a strong negative impact on the financial markets during the quarter resulting in returns being down for every asset class except for real estate and cash. Mr. Lightvoet's review included comments on the investment environment, asset allocation, total fund investment performance and individual investment manager performance.

Mr. Lightvoet reported that SCERS had an investment return for the quarter of -8.2%, net of fees, compared to the system's policy benchmark return of -7.4%. Mr. Lightvoet reported that for the trailing twelve months the return was -14.2%, net of fees, compared the policy return of -12.2%.

Mr. Lightvoet reported that despite the poor absolute performance, SCERS had done well compared to public pension funds of a comparable size. Mr. Lightvoet reported that for the quarter and for the trailing three years, SCERS ranked in the top quartile of public funds with more than \$1 billion in assets. Mr. Lightvoet further noted that for the fiscal year to-date, SCERS ranked in the top third of comparable funds.

Mr. Lightvoet recommended that INVESCO be removed from the Watch List as its performance had now exceeded its benchmark and its peer rankings had improved. Chief Investment Officer Jeffrey States concurred in the recommendation.

Discussion followed.

Motion by Mr. Kelly to remove INVESCO from the Watch List; Seconded by Mr. Woods. Motion carried (9-0).

Motion by Mr. Woods to receive and file the report; Seconded by Mr. Irish. Motion carried (9-0).

9. Allister Lowe of State Street Global Advisors (SSGA) provided an update on the strategic cash overlay program ('Overlay'). Mr. Lowe reviewed the Overlay's purpose and objectives and gave an update on performance. He also reviewed the performance of the Russell

2000 SWAP that is being used to provide equity exposure for uncommitted funds allocated to the Private Equity asset class and the real asset funds being used to provide exposure for the Opportunities asset class.

Discussion took place regarding the role of the Overlay in re-balancing SCERS' asset allocation and whether the re-balancing was hindering rather than helping performance. Mr. Lowe stated that research shows that a systematic process of regular re-balancing on a monthly basis would improve the risk/return profile of the fund over time, even if it hindered performance from time to time.

Discussion took place regarding the counter-party exposure in the Overlay and the Russell 2000 SWAP. Mr. Lowe suggested that given the current investment environment and the difficulties still being experienced in the credit markets that SCERS should identify and evaluate its counter-party exposure in all of its investments.

Motion by Mr. DeVore to receive and file the report; Seconded by Mr. Irish. Motion carried (9-0).

10. Chief Investment Officer Jeffrey States presented a proposed contract extension for general investment consultant Mercer Investment Consulting. Mr. States noted the proposed contract extension would provide sufficient time for SCERS to gauge the impact on fund performance from the changes recently recommended by Mercer to the strategic asset allocation and the investment manager structure. Mr. States also noted that over the period of the contract extension two new internal investment staff would be added and the additional period would provide time to more fully define the respective functions that can be performed by staff and the role and services to be provided by the external consultant.

Motion by Mr. Woods to adopt the proposed Resolution authorizing an amendment to the term of the contract with Mercer Investment Consulting; Seconded by Mr. Hickox. Motion carried (9-0).

11. Chief Investment Officer Jeffrey States presented the October 2008 Monthly Investment Manager Compliance Report and Watch List.

Motion by Ms. Wolford-Landers to receive and file the report; Seconded by Mr. Kelly. Motion carried (9-0).

The meeting was adjourned at 3:51 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, John Kelly, John Conneally (arrived at 1:10 p.m.), William Cox, Winston H. Hickox, Dave Irish, Alice Jarboe, Nancy Wolford-Landers, and Robert Woods.

MEMBERS ABSENT: William D. Johnson.

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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; Tom Lightvoet, Mercer Investment Consulting; Neil Tremblay, Alistair Lowe and Christopher A. Hawkins, State Street Global Advisors; Paul Angelo and Shelly Voong, The Segal Company; and Rick Beard, Superior Court of California.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

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.