



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, DECEMBER 18, 2008

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, December 18, 2008, and commenced at 1:00 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. On behalf of the members of the Sheriff's Department, Board Member Bill Johnson expressed his appreciation to SCERS for the support and assistance provided following the recent line of duty death of Deputy Lawrence Canfield.

Board President James A. Diepenbrock expressed his appreciation to his fellow Board Members and to SCERS staff for their efforts and commitment during the challenging economic events of the past year. Chief Executive Officer Richard Stensrud echoed those remarks and further noted that SCERS members had been well served by the calm, experienced leadership exhibited by the Board.

##### MINUTES:

2. The Minutes of the November 20, 2008 regular meeting were approved on Motion by Ms. Wolford-Landers; Seconded by Mr. Irish. Motion carried (8-0).

**CONSENT MATTERS:**

Items 3-4

Chief Executive Officer Richard Stensrud explained how the new Consent Calendar component of the Agenda would operate. The Consent matters were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Mr. Kelly. Motion carried (8-0).

3. The SCERS Actuarial Valuation and Review as of June 30, 2008, as prepared by The Segal Company, was received and filed.
4. The November 2008 Monthly Investment Manager Compliance Report and Watch List was received and filed.

**CLOSED SESSION:**

**DISABILITY MATTERS:**

5. CANFIELD, Lawrence W.: Motion carried (8-0) to grant service-connected death benefits to his surviving spouse.
6. GOUGHNOUR, Larry L.: Motion carried (8-0) to grant a nonservice-connected disability retirement.
7. KNOX, Antoinette G.: Motion carried (8-0) to grant a nonservice-connected disability retirement.
8. SALAZAR, Richard W.: Motion carried 8-0 to adopt the findings of the Referee, and deny a service-connected disability retirement, and grant a nonservice-connected disability retirement.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

9. 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 SCERS had no exposure to the hedge fund fraud allegedly perpetrated by Bernard Madoff.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported that the annual independent audit had been completed and that SCERS had received a 'clean' audit report. Mr. Stensrud noted that the formal audit report would be presented at the January Board Meeting, along with the Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2008 and 2007.

At Mr. Stensrud's request, General Counsel James Line provided the Board with an updated report on legal costs for the fiscal year to-date.

Mr. Stensrud advised the Board that there would be two portfolio review presentations by investment managers at the January Board Meeting.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States provided a report on a change in the manner in which SCERS obtains exposure to the private equity asset class through the strategic overlay program administered by State Street Global Advisors.

Mr. Stensrud reported that the efforts to establish a reasonable and workable process for the 1937 Act retirement systems to obtain a qualified plan determination letter from the Internal Revenue Service (IRS) in the current IRS review cycle had broken down. Accordingly, Mr. Stensrud reported that he did not believe it would be advisable for SCERS to submit such a request at this time.

Mr. Stensrud noted that over the course of several meetings and discussions with a senior IRS official, the 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 based on those discussions, a proposed process and method of review for determination letter requests by 1937 Act systems had been 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, unfortunately, the proposed process was not viewed favorably by other officials at the IRS, who were unwilling to deviate from standard IRS procedures and processes, and who did not fully appreciate the problems with the standard IRS approach. Mr. Stensrud noted that notwithstanding the disappointing decision by the IRS, some progress had been made on issues that would assist public plans to pursue determination letters in the future. Mr. Stensrud noted that SCERS would focus its efforts on an internal review and assessment so as to be prepared to make a submission in the future, if and when it was prudent to do so.

**ADMINISTRATIVE MATTERS (continued):**

10. Chief Executive Officer Richard Stensrud presented the proposed interest crediting rate for member contribution accounts for the six month period ended December 31, 2008.

Mr. Stensrud outlined the key provisions of the SCERS Interest Crediting and Unallocated Earnings Policy and the retirement policy considerations behind those provisions. Mr. Stensrud noted that as a result of the extremely poor investment performance over the past eighteen months, SCERS would not be able to meet its target interest crediting level for the primary valuation reserves, and thus staff was recommending that no interest be credited to the member contribution reserves for the period. Mr. Stensrud noted that although members might be disappointed that no interest will be added to their accounts for the period, such a result was much better than the substantial losses experienced by investors in the period.

Discussion followed.

Motion by Mr. Irish to approve the recommended interest crediting rate; Seconded by Mr. Hickox. Motion carried (8-0).

11. General Counsel James Line presented a proposed policy for pursuing subrogation claims.

Mr. Line outlined the nature of subrogation claims and the steps that need to be taken to pursue such actions. Mr. Line noted the importance of taking timely action in such matters and explained that by delegating certain authority to the General Counsel, the proposed policy would facilitate timely decisions and protection of SCERS' interests. Mr. Line noted that the proposed policy also included reporting requirements so that the Board would be kept apprised of material developments.

Motion by Mr. Johnson to adopt the proposed subrogation policy; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

**INVESTMENT MATTERS:**

12. Chief Executive Officer Richard Stensrud and Chief Investment Officer Jeffrey States presented a proposed amendment to the SCERS Investment Policy and Objectives (Investment Policy) to provide standing authority to take the actions necessary to protect SCERS' investment assets in an emergency situation.

Mr. Stensrud noted that the Board had previously amended the Investment Policy to provide standing authority to the CEO and CIO, in consultation with other key parties, and under certain prescribed circumstances, to take immediate action to terminate an investment management engagement and take related remedial actions if it was determined that such actions were necessary to protect SCERS' assets or interests. Mr. Stensrud noted that this authorization was prompted by a situation where it was in the

**INVESTMENT MATTERS (continued):**

best interests of SCERS to take action quickly, and the Board recognized that it might not always be possible to convene a Board Meeting to address such matters in a timely manner. Mr. Stensrud noted that in granting the authority the Board had included various controls and accountability requirements to assure the authority was exercised appropriately.

Mr. Stensrud noted that developments in the investment markets over the last several months have illustrated that the potential need to take action quickly to protect and preserve SCERS' investment assets is not limited to the termination of an investment management engagement. Mr. Stensrud noted that, in fact, recent events have shown that the complexity and interrelated nature of investment markets, structures and entities, when combined with limited liquidity and dramatic shifts in market values, have the potential for presenting a wide range of situations where action must be taken quickly to protect the SCERS' assets. Mr. Stensrud noted that while every effort is made to anticipate and protect against the potential need for such actions, it is not always possible to do so. Mr. Stensrud explained that in order to carry out its fiduciary responsibilities in such a situation, SCERS must be able to act quickly to modify the investment or investment engagement so as to best protect SCERS' assets.

Accordingly, Mr. Stensrud recommended that the Investment Policy be amended to include a standing grant of authority to address such situations. Mr. Stensrud explained that the proposed amendment to the Investment Policy was patterned closely along the lines of the Board's previous grant of authority, with features designed to assure: (a) action only in appropriate circumstances; (b) consultation with appropriate experts; (c) both staff and Board member participation in decision-making, with ultimate Board control via mandatory concurrence by designated Board members with respect to proposed action; (d) flexibility; and (e) prompt and full reporting.

Discussion followed, including consideration of: (a) the relationship between the level of assets impacted by the proposed action and the required degree of Board member participation; (b) how the level of impacted assets would be determined; (c) checks and balances on the delegation of authority; (d) accountability; and (e) flexibility. After much discussion it was the consensus of the Board to increase the level of impacted assets that would trigger more extensive Board member involvement from one percent to two percent. It was also the consensus of the Board that the existing grant of authority regarding manager termination continue to apply in those situations and the proposed new grant of authority is intended to address other emergency situations.

**INVESTMENT MATTERS (continued):**

Motion by Mr. Hickox to adopt the proposed resolution authorizing the proposed amendment of the Investment Policy, with the proviso that the impacted asset level identified in the amendment be increased to two percent; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The meeting was adjourned at 2:10 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, John Kelly, Dave Irish, Winston H. Hickox, Alice Jarboe, William D. Johnson, Nancy Wolford-Landers, John Conneally, and William Cox.

MEMBERS ABSENT: Robert Woods.

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; Michele Raymond, Senior Office Assistant; Diana Ruiz, Deputy County Counsel.

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.