



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, AUGUST 21, 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, August 21, 2008, and commenced at 1:00 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the July 17, 2008 regular meeting were approved on Motion made by Mr. Woods; Seconded by Mr. Kelly. Motion carried (7-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. MATRANGA, Richard D.: Motion carried (7-0) to grant a service-connected disability retirement.

4. WOLTER, Randall L.: Motion carried (7-0) to grant a service-connected disability retirement.
5. YOUNG, Steven C.: Motion carried (8-0) to grant a nonservice-connected disability retirement.

**ADMINISTRATIVE MATTERS:**

6. Motion carried (8-0) to deny an appeal by SCERS member Irene Koulikov regarding benefit eligibility determinations made by SCERS Staff.

**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 provided an update on the optional Miscellaneous Tier 2 to Tier 3 past service upgrade offered to the Miscellaneous Tier 2 members who elected to convert to Tier 3 for future service. Mr. Stensrud reported that information had been sent to all the eligible members regarding the cost to upgrade some or all of their past Tier 2 service, but there had been very little interest in making upgrades to-date.

Mr. Stensrud reported that The Segal Company would be presenting the recommended economic actuarial assumptions for the June 30, 2008 valuation at the September Board Meeting. Mr. Stensrud further noted that the June 30, 2008 valuation itself would be presented at the November Board Meeting.

Mr. Stensrud provided a report on the debate within the actuarial industry regarding whether a 'market value liability' (MVL) should be reported for public pension plans. Mr. Stensrud summarized the issues and explained that the public pension plan community, including the actuaries who advise such plans, was strongly opposed to MVL reporting because it did not accurately reflect the nature and operation of public pension plans, and because it would be misleading and confusing for stakeholders. Mr. Stensrud also noted that MVL reporting would create pressure to modify the funding approach and investment models used by public pension plans, to the detriment of the plans and plan sponsors.

Mr. Stensrud reported that all the legislation sponsored by the State Association of County Retirement Systems (SACRS) had passed and had been signed into law by the Governor.

Mr. Stensrud provided a status report on the efforts at the federal level to limit the ability of institutional investors such as pension plans to invest in the commodities markets.

Mr. Stensrud provided an update on the measures being pursued by the SACRS systems, and by public pension plans nationally, in response to the announcement by the Internal Revenue Service that it intended to devote more attention to public pension plans than they have in the past.

8. Chief Operations Officer Kathryn Regalia presented the Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2008. Ms. Regalia reported that the administrative expenses for the period and for the fiscal year as a whole were below the amounts budgeted and well within the administrative expense limit set by the 1937 Act.

Motion by Ms. Wolford-Landers to receive and file the Semi-Annual Administrative Expense Report; Seconded by Mr. Johnson. Motion carried (8-0).

9. Chief Operations Officer Kathryn Regalia presented the Final SCERS Budget for Fiscal Year 2008-2009, noting the minor changes from the Preliminary Budget approved in May.

Motion by Mr. Kelly to approve the final SCERS Budget for Fiscal Year 2008-2009; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

10. Chief Operations Officer Kathryn Regalia presented the final reconciliation of employer contributions by Sacramento County for Fiscal Year 2007-2008. Chief Executive Officer Richard Stensrud noted that the final reconciliation of employer contributions by Sacramento County for Fiscal Year 2006-2007 had not yet been completed. Mr. Stensrud explained that determining the reconciliation amount for the 2006-2007 fiscal year had been complicated by problems with the County payroll system, and that an independent accounting firm been engaged to assist in determination of the final reconciliation amount.

Motion by Mr. Johnson to approve the final reconciliation of employer contributions for Sacramento County for Fiscal Year 2007-2008; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

11. Chief Operations Officer Kathryn Regalia presented the final reconciliation of employer contributions by Sacramento Metropolitan Fire District for Fiscal Year 2007-2008.

Motion by Mr. DeVore to approve the final reconciliation of employer contributions for Sacramento Metropolitan Fire District for Fiscal Year 2007-2008; Seconded by Mr. Kelly. Motion carried (8-0).

12. Chief Operations Officer Kathryn Regalia presented the final reconciliation of employer contributions by Superior Court of California, County of Sacramento, for Fiscal Year 2007-2008.

Motion by Mr. Johnson to approve the final reconciliation of employer contributions for Superior Court of California for Fiscal Year 2007-2008; Seconded by Ms. Jarboe. Motion carried (8-0).

13. Chief Executive Officer Richard Stensrud and General Counsel James Line presented a recommendation that the Board authorize the continued engagement of the law firm of Nossaman LLP to provide employment law and other related legal services. Mr. Stensrud and Mr. Line noted that the Nossaman firm had been engaged in the Fall of 2007 pursuant to the contracting authority granted to the Chief Executive Officer, but additional work remained to be done on various projects and that it would be necessary to obtain Board approval to move forward on that work. Discussion followed regarding whether the engagement should include a 'not to exceed' cap on fees and when the Board would receive updates on legal expenditures generally.

Motion by Mr. DeVore to authorize the continued engagement of Nossaman LLP to provide employment law and related legal services with a 'not to exceed' cap on legal fees; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

14. SCERS Member Eva Abe, through her attorney David Allen, presented arguments contesting the longstanding SCERS policy that her legal counsel could not be present in the examination room when Ms. Abe underwent the independent medical examination required as part of the evaluation of her Disability Retirement Application. Mr. Allen argued that the law supported the right of his client to have legal counsel present at the examination and that SCERS would suffer no detriment by allowing it.

SCERS General Counsel James Line presented arguments as to: (a) the nature and purpose of the independent medical examination in the disability evaluation process; and (b) why legal counsel for the disability applicant was not entitled under the law to be present at such an examination. Chief Executive Officer Richard Stensrud explained how the presence of counsel at such an exam would have a detrimental impact on both the examination and the ability of SCERS to evaluate disability applications in an efficient, fair and timely manner. Mr. Stensrud also argued that the disability applicant would suffer no detriment from not having counsel present at the examination since there were numerous opportunities in the disability evaluation process where the applicant's counsel could question the doctor performing the independent medical examination and raise questions about the examination or the conclusions reached by the doctor.

Discussion followed.

Motion by Mr. Kelly to uphold the SCERS policy not allowing a disability applicant's legal counsel to be present during the independent medical examination required as part of the evaluation of the disability application; Seconded by Mr. DeVore. Motion carried (8-0).

**INVESTMENT MATTERS:**

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

Mr. Lightvoet reported that SCERS had an investment return of -0.8% for the quarter and -4.8% for the year ended June 30, 2008. Mr. Lightvoet reviewed the economic and

financial market environment in the quarter and over the past year. Mr. Lightvoet reviewed the performance of SCERS' investment managers, including Mercer's recommendations regarding firms that are or should be put on the Watch List.

Mr. Lightvoet noted that SCERS' investment performance trailed the SCERS custom benchmark, but was at the median level relative to similar-size systems.

Discussion followed regarding the performance of various asset classes, investment strategies, and investment managers.

Motion by Mr. Woods to receive and file the report; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

16. Tom Lightvoet of Mercer Investment consulting presented the Search Report regarding potential firms for a Global ex-U.S. Real Estate Public Securities (REIT) investment management assignment.

Mr. Lightvoet provided information regarding the candidate firm's 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 similarities and differences between the investment process and philosophy of the firms. Discussion included consideration of: (a) the period for which the product has been offered; (b) the performance record of the managers, including performance volatility; (c) the expected performance in different economic environments; (d) the small number of candidates; and (e) whether exposure to this segment of the REIT market could be obtained through a passive approach rather than active management. With respect to this last point, it was agreed that Staff and Mercer would report back on the options for and merits of a passive approach.

Motion by Mr. Kelly that C.B. Richard Ellis Global Real Estate Securities and E.I.I. Realty Securities receive further consideration for a possible Global ex-U.S. REIT engagement; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

17. Chief Investment Officer Jeffrey States presented a request from Hines Real Estate Securities, Inc. to approve a proposed amendment to the Hines U.S. Office Value Added Fund II, L.P. ('Fund'). Mr. States explained that the purpose of the amendment was to expand the nature of the investments that could be made by the Fund. Mr. States noted that the investments authorized by the amendment were not currently a part of SCERS' real estate investment strategy and represented a significant change from the original investment strategy of the Fund. Mr. States recommended that SCERS oppose the proposed amendment and noted that Mercer Investment Consulting concurred with this position. Mr. States noted, however, that under the legal structure of the Fund, the proposed amendment could be approved over SCERS' objection if a majority of the other investors approved the amendment.

Motion by Ms. Wolford-Landers to oppose the proposed amendment; Seconded by Mr. Woods. Motion carried (7-0).

18. Chief Investment Officer Jeffrey States presented a request from WG Trading Company to consent to an amendment to the Limited Partnership Agreement governing the firm's role in carrying out a large cap U.S. equity enhanced index engagement. Mr. States explained the nature and purpose of the amendment, noting that it was responsive to a request from SCERS and would be beneficial to SCERS. Accordingly, Mr. States recommended that the proposed amendment be approved.

Motion by Mr. Woods to approve the proposed amendment; Seconded by Mr. Kelly. Motion carried (7-0).

19. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the business terms and documents formalizing the international small cap equity engagement with William Blair & Company.

Mr. Line also noted that the proposed resolution authorizing execution of the documents necessary to effectuate the engagement added the Chief Executive Officer as a party authorized to execute the documents. Mr. Line noted that such authorization was permitted under the law. Chief Executive Officer Richard Stensrud explained that the authorization was intended to facilitate prompt execution of documents and initiation of the investment engagement, but that the decision of whether to enter into the engagement remained solely with the Board.

Discussion followed.

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

20. Chief Investment Officer Jeffrey States and General Counsel James Line presented a proposed amendment to the Investment Management Agreement with Bear Stearns Asset Management (with O'Shaughnessey Asset Management as sub-advisor) governing investment of a small cap growth U.S. equity portfolio. Mr. States explained that the proposed amendment modified the fee agreement with the firms as requested by the Board following the portfolio and performance review of the engagement at the July Board Meeting. Mr. States explained how the fee agreement would be modified under the amendment.

Motion by Mr. Woods to adopt the proposed resolution authorizing amendment of the Investment Management Agreement; Seconded by Mr. Johnson. Motion carried (6-0).

**MINUTES – AUGUST 21, 2008**  
**PAGE 7**

21. Chief Investment Officer Jeffrey States presented the July 2008 Monthly Investment Compliance Report and Watch List.

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

The meeting was adjourned at 4:17 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock, Keith DeVore (arrived at 1:04 p.m., left at 4:00 p.m.), John Kelly, William Cox, Alice Jarboe (left at 3:59 p.m.), William D. Johnson, Nancy Wolford-Landers, Robert Woods, and Bryan Celey-Butlin (authorized representative for Dave Irish).

**MEMBERS ABSENT:** John Conneally, Winston H. Hickox, and Dave Irish.

**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; Member Irene Koulikov; and David Allen, Attorney.

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.