



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, MAY 21, 2009

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, May 21, 2009, and commenced at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the April 16, 2009 regular meeting were approved on Motion by Mr. Irish; Seconded by Mr. Johnson. Motion carried (8-0).

CONSENT MATTERS:

Items 3-9

The Consent matters were acted upon as one unit upon a Motion by Mr. Kelly; Seconded by Mr. Irish. Motion carried (8-0).

3. HICKS, Roy D.: Granted a nonservice-connected disability retirement.

MINUTES – MAY 21, 2009

PAGE 2

4. O'HESSION, Kathleen: Adopted the findings and recommendation of the referee and granted a service-connected disability retirement.
5. Approved the County of Sacramento's request to pre-pay its employer retirement contribution for the 2009-2010 fiscal year.
6. Adopted Resolution 2009-11 authorizing proposed amendments to the Limited Partnership Agreement for Abbott Capital Private Equity VI, L.P.
7. Adopted Resolution 2009-12 authorizing execution of the documents necessary to convert SCERS' International Small Cap Equity investment with William Blair & Company from a commingled fund to a separate account.
8. Received and filed the Quarterly Legal Expenditures Report for the quarter ended March 31, 2009.
9. Received and filed the April 2009 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

LEGAL MATTERS:

10. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956(a)
Securities and Exchange Commission vs. WG Trading Investors, L.P., et al
U.S. District Court, Southern District of N.Y., Case No. 09 CIV 1750

The Board received a report from Counsel.

PUBLIC EMPLOYEE PERFORMANCE EVALUATION:

11. Government Code Section 54957(b)(1)
Title: Chief Executive Officer.

The Board discussed the Chief Executive Officer's performance.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

12. 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 recruitment for the Investment Officer position would begin in early June.

Mr. Stensrud noted that the SCERS website had some new features, including a 'News and Developments' section and an 'Educational Information' section featuring reports and analysis on issues of concern to the members and stakeholders of public retirement systems.

Mr. Stensrud reported on the new proposed ballot initiative that would add an income tax surcharge on the income from public and private sector pensions.

Mr. Stensrud reported that the County was in the process of making changes to the protocol governing the direct deposit of monthly retirement benefits that will allow for multiple direct deposits to be made from the benefit allowance.

Mr. Stensrud reported that the County would be sending out a notice with the May benefit payments alerting retirees and beneficiaries that the Board of Supervisors would be considering proposed changes to the County retiree health insurance subsidy program at the Supervisors' meeting on June 12, 2009. Mr. Stensrud reported that the County notice indicated that the retiree health insurance subsidy may be reduced by 50% for the health insurance plan year starting January 1, 2010.

Mr. Stensrud invited Board Members who attended the recent Spring Conference of the State Association of County Retirement Systems (SACRS) to share their impressions of the conference with fellow Board Members. It was noted that there was an animated discussion at the conference regarding a suggestion that SACRS pursue legislation to amend the 1937 Act to allow more expansive cost-sharing between employers and employees. Discussion followed, and it was the consensus of the Board that while it would be helpful if the 1937 Act had more options and flexibility regarding cost-sharing, the initiative to make such changes should come from the plan sponsors and labor organizations rather than from SACRS.

Mr. Stensrud presented follow-up information in response to the request made by Marcia Fritz at the Special Board Meeting on May 8, 2009. Mr. Stensrud noted that Ms. Fritz had requested that SCERS analyze the feasibility of a retirement service credit and retirement contribution 'holiday' for the 2009-2010 fiscal year. Mr. Stensrud noted that such action would result in members accruing no retirement service credit for the year, and that there would be no employer or employee 'normal cost' retirement contributions for the year (although there would continue to be employer contributions for the unfunded liability). Mr. Stensrud also noted that Ms. Fritz had said that the purpose of such action would be to help the County address its budget shortfall.

Mr. Stensrud reported that there were a number of considerations that made such an idea unworkable, unlikely, or inadvisable from a fiduciary perspective, including: (1) It does not appear that a retirement service 'holiday' is permitted under the 1937 Act; (2) It is unclear whether or how a public pension plan could be 'suspended' under federal tax law and

retain its tax-favored status; (3) The suspension of retirement contributions would strip SCERS of an important element for sustaining its financial strength in the current market downturn in that it would cause SCERS to shift from a positive cash flow position to a negative cash flow position, meaning that SCERS would be forced to sell assets to pay benefits at a time when asset values were severely depressed; (4) Selling assets to pay benefits would accelerate the decline in SCERS' funded status and add to future retirement costs; (5) It would be questionable pension funding policy in that it would result in tremendous contribution volatility (i.e., low contributions one year followed by substantial contributions the following year); (6) While the County's budgetary situation is something that the SCERS Board can and should take into consideration in making decisions that impact the retirement funding obligation of the County, the Board's fiduciary responsibility is to assure the sound funding of the retirement system and not to try to fix the County budget; and (7) Both the County and the recognized labor organizations would have to agree to suspend retirement service credit accrual and retirement contributions, which is very unlikely.

Given these considerations, Mr. Stensrud recommended that SCERS take no further action on the subject at this time. The Board concurred.

Mr. Stensrud provided information regarding the ongoing investigations and enforcement activities related to the actions of certain 'placement agents' – i.e., influential individuals viewed as being 'gatekeepers' to investment opportunities at certain retirement systems and who allegedly traded on this status for personal gain.

Mr. Stensrud noted that there were many legitimate reasons why an investment manager might engage a third party to assist with marketing activity, particularly if the investment manager did not have its own internal marketing staff. Mr. Stensrud explained that the current investigations did not involve such legitimate activities, but instead, were focused on situations where individuals allegedly used influence and leverage, rather than investment expertise and investment merit, to obtain investments for clients and who extracted 'pay to play' compensation for such 'services.'

Mr. Stensrud noted that since December 2007, SCERS has required disclosure by its investment managers of any third party representatives used by the firm as well as any fee sharing arrangement it might have with such parties. Mr. Stensrud reported that since that time only two managers have reported use of third parties, and in both cases the third parties were licensed investment professionals performing legitimate marketing and client servicing. Mr. Stensrud noted that no parties indicted or subpoenaed in the investigations have done business with SCERS.

Mr. Stensrud noted that other practices at SCERS worked to make such illegitimate activities unlikely to occur at SCERS including: (1) A culture focused on fiduciary responsibility and high standards for decision-making; (2) An 'open door' meeting policy on the part of SCERS Staff, which means no outside gatekeeper must be hired in order for investment opportunities to be presented to staff; and (3) The fact that all investment

opportunities considered by the Board must first be presented to, reviewed and endorsed by SCERS' general investment consultant, Mercer Investment Consulting.

Mr. Stensrud reported that he would present a proposed policy on third party representation of SCERS' investment managers for the Board's consideration at the June meeting. Mr. Stensrud noted the proposed policy would not prohibit such relationships but would focus on disclosure and transparency. Mr. Stensrud explained that such an approach would allow legitimate third party representation to continue, while making it very difficult for improper activities to take place.

13. Chief Executive Officer Richard Stensrud and General Counsel James Line presented a proposed resolution expressing the Board's determination that retirement compensation, retirement contributions and retirement service credit for SCERS members covered by the recently adopted County temporary furlough program would be unaffected by that program. Mr. Line noted that the reasonableness under the 1937 Act of such an assessment had been confirmed by outside legal counsel, Jones Day.

Motion by Mr. Kelly to adopt SCERS Resolution 2009-13 confirming that retirement compensation, retirement contributions and retirement service credit will be unaffected under the County temporary furlough program; Seconded by Mr. Johnson. Motion carried (8-0).

14. Board Members Keith DeVore and Robert Woods presented a report and recommendation to the Board regarding a proposed amendment to the compensation agreement with the Chief Executive Officer which would extend the severance provisions of that agreement. Mr. DeVore and Mr. Woods had previously been appointed as an ad hoc committee to develop proposed severance terms by Board President James Diepenbrock.

Mr. DeVore and Mr. Woods reported that they had met with the Chief Executive Officer to discuss the topic and had also reviewed information regarding the severance provisions for administrators of other 1937 Act systems. Mr. DeVore and Mr. Woods noted that the Board was pleased with the job performance of the Chief Executive Officer and that reasonable severance terms would help assure: (1) continuity of leadership; (2) independent judgment and advocacy from the Chief Executive Officer position; (3) properly motivated decision-making; and (4) an orderly transition in the event of change. Accordingly, Mr. DeVore and Mr. Woods recommended that the Board renew and modify the recently expired severance provisions in the compensation agreement with the Chief Executive Officer to be consistent with similar terms in other systems and to reflect the Board's hope and desire that the Chief Executive Officer will continue to provide strong leadership to the organization.

Motion by Mr. Cox to approve the amendment to the compensation agreement for the Chief Executive Officer; Seconded by Mr. Kelly. Motion carried (8-0).

INVESTMENT MATTERS:

15. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended March 31, 2009.

Mr. Lightvoet reported on investment performance for the most recent quarter and for the trailing one, three and five year periods for the total fund, and by each asset class, sub-asset class and investment manager. The investment performance was compared to appropriate benchmarks and performance attribution was discussed.

Mr. Lightvoet reported that the total fund return of -7.8% for the quarter and -29.3% for the fiscal year to-date was a continuing reflection of the nature of the credit markets and the broadening negative impact on the global economy. Mr. Lightvoet noted that this made it difficult to determine whether poor actual and relative performance was attributable to broad market factors or to the investment manager's strategy. Mr. Lightvoet noted that for the quarter, positive return was generated from the international emerging markets equity portfolio, fixed income, hedge funds and cash. These positive results were offset by negative returns in domestic equity, international developed markets equity, real estate, private equity and the opportunities portfolios.

Discussion followed.

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

16. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States presented a report outlining potential fixed income investment opportunities for both SCERS' general strategic fixed income allocation and for SCERS' tactical Opportunities portfolio. Mr. Lightvoet and Mr. States outlined the existing fixed income strategies in the two asset allocation categories. Mr. Lightvoet and Mr. States discussed the potential for active fixed income strategies to outperform passive fixed income strategies over the next several years and the best ways to integrate that perspective into both the strategic and tactical components of the portfolio. Mr. Lightvoet and Mr. States recommended that the first steps be taken in the opportunities portfolio, with further analysis of how to proceed with the general fixed income allocation.

Discussion followed. It was agreed that the first step would be to consider investment opportunities through the federal Term Asset Backed Securities Loan Facility (TALF) and that Mercer and staff interview potential investment managers and return to the Board with recommendations regarding the possible engagement of such managers.

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

17. Chief Investment Officer Jeffrey States presented a proposed Request for Proposals (RFP) for general investment consulting services.

Mr. States noted that Mercer Investment Consulting has served as SCERS' general investment consultant since 1998, and over that time SCERS' assets have more than doubled in size and become considerably more complex. Mr. States noted that it is prudent to periodically review the investment consulting services necessary to assist the Board in carrying its fiduciary responsibilities in managing the assets of the fund and to evaluate potential service providers to assure that SCERS is receiving the best level of service relative to the cost for those services. Mr. States explained that a request for proposals is a good way to assess the range of investment consulting services available and to identify the best firms to provide those services.

Mr. States explained that the proposed RFP would be directed to firms that had substantial experience working with investors like SCERS and who appeared to have the capability and experience to provide investment consulting services in a wide range of traditional and alternative asset classes and strategies. Mr. States noted that the firms would be asked to provide extensive information on their experience in: (1) performing investment manager searches; (2) performance review and analysis; (3) asset allocation studies; (4) due diligence review; (5) investment education; and (6) other important service areas. In addition, firms would be asked to discuss and disclose conflicts of interest, third party relationships and other factors that might impact their judgment and recommendations.

Discussion followed regarding how the Board's views on the most important factors would be incorporated in the evaluation process. Chief Executive Officer Richard Stensrud noted that while the RFP was designed to gather a broad range of information, staff would discuss with the Board the services and factors that the Board believed to be the most important considerations in selecting a consultant. Mr. Stensrud explained that this information would be incorporated in the weighting to be given to the responses to the RFP. Mr. Stensrud suggested that after an initial ranking of the candidates based on this screening of the responses, additional follow-up questions designed to delve deeper into key factors could be presented to the top contenders. Mr. Stensrud also suggested that this would be the point where a recommendation would be developed on whether SCERS should consider hiring a specialist consultant or consultants to supplement the general consultant.

Motion by Mr. Hickox to approve the Request Proposals for general investment consulting services; Seconded by Mr. Woods. Motion carried (8-0).

The meeting was adjourned at 2:53 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, John Kelly, Dave Irish, Winston H. Hickox, William D. Johnson, Robert Woods, and William Cox.

MEMBERS ABSENT: Alice Jarboe, Nancy Wolford-Landers, and John Conneally.

MINUTES – MAY 21, 2009

PAGE 8

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, Senior Personnel Specialist; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Kirstin Poirier-Whitley, Jones Day; Tamara Doi Aoyagi, Neuberger Berman.

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.