



Executive Staff:

Richard Stensrud  
Chief Executive 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, First Vice President  
Elected by Miscellaneous Members

John B. Kelly, Second Vice President  
Appointed by the Board of Supervisors

Julie Valverde, Ex Officio  
Director of Finance

Winston H. Hickox  
Appointed by the Board of Supervisors

William D. Johnson  
Elected by Safety Members

Kathy O'Neil  
Elected by Miscellaneous Members

Nancy Wolford-Landers  
Elected by Retired Members

Robert L. 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 17, 2010

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 17, 2010, and commenced at 11:03 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the May 20, 2010 special meeting were approved on a Motion by Mr. Johnson; Seconded by Ms. Wolford-Landers. Motion carried (6-0). Action on the Minutes of the March 18, 2010 regular meeting and the April 15, 2010 special meeting was deferred.

##### CONSENT MATTERS:

Items 3-6

The Consent matters were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

3. CAMPOS, Armando: Granted a nonservice-connected disability retirement.

**CONSENT MATTERS (continued):**

4. KOVANDA, John, Jr.: Granted a nonservice-connected disability retirement.
5. PETMECKY, Sandra F.: Granted a nonservice-connected disability retirement.
6. Received and filed the May 2010 Monthly Investment Manager Compliance Report and Watch List.

**ADMINISTRATIVE MATTERS:**

7. Allison Yager and David Nix of Mercer Investment Consulting presented a portfolio review of the real estate assets managed by BlackRock Realty Advisors on behalf of SCERS.

Ms. Yager and Mr. Nix provided a top-down evaluation of the BlackRock real estate organization, including discussion of recent changes in senior management, the investment process and role of the investment committee, and the firm's resources and research platform. Ms. Yager and Mr. Nix provided an assessment of BlackRock's performance in managing SCERS' separate account real estate holdings, focusing on portfolio management (oversight and strategy), implementation (asset management, communication and reporting), and portfolio construction (asset selection and performance). Ms. Yager and Mr. Nix also discussed the attributes, performance and status of the individual properties in the separate account portfolio. Finally, Ms. Yager and Mr. Nix provided an assessment of the portfolio structure, holdings and performance of the Granite Property Fund, a core open-end commingled commercial property fund managed by BlackRock in which SCERS has an investment.

As a result of their analysis, Ms. Yager and Mr. Nix recommended that SCERS initiate a manager search to explore alternatives to BlackRock with respect to management of the separate account assets. Ms. Yager and Mr. Nix recommended that BlackRock be allowed to participate in the search and bid to retain management of the account. Ms. Yager and Mr. Nix also recommended that a manager search be initiated to replace the Granite Property Fund with a different core open-end fund.

Substantial discussion followed, including consideration of: (a) the detrimental market-wide impact from the combination of the sharp decline in commercial real estate values, lower occupancy levels, and higher loan-to-value ratios on properties; (b) how these factors affected the performance of the real estate assets managed by BlackRock; and (c) the matters that were within and beyond BlackRock's control. It was agreed that measuring BlackRock against other potential candidates for the separate account assignment would provide both additional context and points of comparison for assessing BlackRock's performance and whether a change in management was warranted. It was also agreed that in considering alternatives to the Granite Property Fund that consideration be given to options beyond open end core property commingled funds, including other types of real estate funds that might enhance diversification and/or provide increased return potential, or real asset strategies that have attributes comparable to real estate.

**ADMINISTRATIVE MATTERS (continued):**

Motion by Mr. Hickox to receive and file the Mercer report; Seconded by Ms. O’Neil. Motion carried (8-0).

Motion by Mr. Woods to initiate a search for the purpose of comparing potential candidates for management of the separate account portfolio; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

Motion by Ms. O’Neil that Staff and Mercer analyze and report on alternatives to the Granite Property Fund; Seconded by Mr. Johnson. Motion carried (8-0).

8. Catherine Beard, Mercer Investment Consulting, and Scott Chan, SCERS’ Investment Officer, made an educational presentation regarding potential investment opportunities in distressed assets. Discussion followed. No action was taken.

Ms. Beard and Mr. Chan provided information regarding: (a) the definition of distressed investment opportunities; (b) how distressed investments would operate in a portfolio context; (c) the relationship between distressed investments and the credit cycle; (d) current credit conditions; (e) current market opportunities; and (f) manager selection.

Discussion followed. It was agreed that Staff and Mercer should continue to assess distressed asset investment opportunities and return to the Board with a plan for possible integration of such investments into SCERS’ portfolio.

**CLOSED SESSION:**

**LEGAL MATTERS:**

9. 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. 09CIV 1750

The Board consulted with counsel.

10. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION  
Government Code Section 54956(a)  
SC East Campus, Inc. vs. Weyerhaeuser Company  
Superior Court of Washington in and for King County, Case No. 08-14127-6 KNT.

The Board received a report from legal counsel.

**LEGAL MATTERS (continued):**

11. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION  
Government Code Section 54956(a)  
Sacramento Bee vs. SCERS  
Superior Court of Sacramento County, Case No. 34-2010-80000514

The Board consulted with counsel.

**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 congratulated Trustee Robert Woods on his appointment to a new term on the SCERS Board.

Mr. Stensrud noted that the Board had been provided with an interactive CD prepared by the State Association of County Retirement Systems (SACRS) to help educate new Trustees.

Mr. Stensrud reported that SCERS had re-allocated two vacant positions to allow for the hiring of a second disability specialist and a higher level IT position.

Mr. Stensrud reported that employer contribution pre-payment requests would be taken up at the July Board Meeting.

Mr. Stensrud reported that he had been working with the County and the retiree association on a plan for utilizing the remaining balance in the 401(h) account to help provide additional assistance toward retiree health care costs. Mr. Stensrud noted that the funds available would not be sufficient to fully restore the subsidy to past levels but that they would help produce a greater subsidy than what would be available from County funds alone. Mr. Stensrud explained that the formal plan would be presented to both the SCERS Board and the Board of Supervisors for approval before any funds were disbursed. On behalf of the retirees Ms. Wolford-Landers expressed her appreciation for SCERS' financial assistance.

Mr. Stensrud provided an update on the anti-spiking legislation (AB 1987) and noted that he had been consulting with the parties involved in collective bargaining regarding the potential ramifications of the legislation.

Mr. Stensrud reported that the Governmental Accounting Standards Board (GASB) had recently announced proposed changes to its accounting and reporting rules regarding public employee pension plans. Mr. Stensrud noted that GASB had chosen not to require

**ADMINISTRATIVE MATTERS (continued):**

public pension plans to report a market value liability calculation, which was a positive outcome. Mr. Stensrud noted, however, that GASB was proposing a number of additional reporting requirements for the pension plan sponsors.

Mr. Stensrud reported on the re-introduction of a ballot initiative that would impose a surcharge and new annual tax on all pension income, including employer-paid health insurance premiums. Discussion followed.

13. Chief Operations Officer Kathryn Regalia presented the proposed SCERS Budget for Fiscal Year 2010-2011.

Ms. Regalia provided an overview of the proposed administrative budget and noted the changes from the preceding fiscal year. Ms. Regalia noted that the proposed budget was twelve hundredths of one percent (0.12%) of total plan assets which was well below the statutory limit of 0.18%.

Motion by Mr. Johnson to approve the proposed budget; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

14. Chief Operations Officer Kathryn Regalia presented a proposal to engage Kingsbridge Disaster Recovery to assist with development of a comprehensive business continuity/disaster recovery plan.

Ms. Regalia described the measures already in place to maintain the continued operation of SCERS' business functions in the event of a disaster. Ms. Regalia described how the recommended firm would assist in the development of a comprehensive integrated plan that would strengthen SCERS' ability to address the challenges generated by a disaster in a timely manner. Ms. Regalia explained the components of such a plan and how the recommended consultant had been selected. Ms. Regalia noted that the consultant's proposed fee was less than half of what the Board had previously authorized expending for such services.

Motion by Mr. Woods to adopt Resolution No. SCERS 2010-10 authorizing the engagement of Kingsbridge Disaster Recovery to assist in development of a comprehensive business continuity/disaster recovery plan; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

15. Chief Operations Officer Kathryn Regalia presented a proposed two-year extension of the contract for actuarial services with The Segal Company.

Motion by Ms. Wolford-Landers to adopt Resolution No. SCERS 2010-11 authorizing a two year extension of the contract for actuarial services with The Segal Company; Seconded by Mr. Woods. Motion carried (8-0).

**ADMINISTRATIVE MATTERS (continued):**

16. Chief Executive Officer Richard Stensrud presented the proposed interest crediting rate for member contribution accounts for the six month period ending June 30, 2010.

Mr. Stensrud outlined the analysis utilized in developing the proposed interest crediting rate, noting that absent a dramatic decline in assets prior to June 30<sup>th</sup>, per SCERS Interest Crediting and Unallocated Earnings Policy the proposed crediting rate would be one-half of the 5-Year Treasury Note rate then in effect. Mr. Stensrud noted that the investment performance for the 2009-2010 fiscal year had been considerably better than the previous two years and it appeared SCERS' investment performance would be much better than its investment earnings target for the year. Mr. Stensrud noted that this would result in substantial deferred gains being added to the seven year smoothing process but that such gains were dwarfed by the even more substantial losses from the prior two years that remained to be smoothed. Mr. Stensrud noted that this illustrated both the ability of strong market performance to 'buy down' future costs but also that it would require a sustained period of out-performance to erase the impact of the prior two years. Mr. Stensrud noted that a recommendation regarding the use of any unallocated earnings would be presented as part of the preparation of the annual actuarial valuation.

Motion by Mr. DeVore to approve the recommended crediting of interest on member contribution reserves for the period; Seconded by Ms. O'Neil. Motion carried (8-0).

**INVESTMENT MATTERS:**

17. Chief Executive Officer Richard Stensrud presented a proposed process for screening and selecting candidates for investment management engagements.

Mr. Stensrud described the process that has historically been utilized, noting the various roles of the consultant, Staff and Board, and the steps in the process. Mr. Stensrud noted that in recent manager searches the Board had elected to modify the process to place greater responsibilities on Staff and the consultant. Mr. Stensrud outlined the reasons why the Board had moved toward the new approach, including: (a) it allowed for a more expedited search because it was less dependent on the Board Meeting schedule; (b) it was more efficient and allowed the Board to focus its time on more significant decisions such as asset allocation; and (c) it allowed for a more extensive analysis of manager candidates. Mr. Stensrud noted that together, the modified process appeared to produce more focused and effective manager selection decisions.

Mr. Stensrud explained that the proposed process essentially formalized the modifications the Board had previously authorized and described how the process would operate. Mr. Stensrud outlined the Board's fiduciary responsibilities in managing SCERS' assets and noted that the Board could delegate various elements of those responsibilities to other parties if the delegation was reasonable, prudent and properly monitored and controlled. Mr. Stensrud explained that the revised process represented a reasonable, measured expansion of delegated responsibilities while maintaining an appropriate level of Board oversight and control.

**INVESTMENT MATTERS (continued):**

Discussion followed.

Motion by Mr. Woods to approve the revised process, roles and responsibilities with respect to the screening and selection of investment managers; Seconded by Mr. Hickox. Motion carried (8-0).

18. Chief Executive Officer Richard Stensrud presented a proposal to engage a specialist consultant for real estate matters on a retainer fee basis.

Mr. Stensrud noted that going forward the real estate asset class would need considerably more attention and analysis than when the market environment was steadily positive. Mr. Stensrud explained that this would be true not only for SCERS' existing real estate investments but with respect to future investment opportunities. Mr. Stensrud noted that being able to draw upon the services of a dedicated real estate consultant to assist with development of longer term strategy and the assessment of tactical situations would be critical for properly and prudently investing in the real estate space.

Mr. Stensrud summarized the current arrangement for obtaining real estate consulting services via the general consulting engagement with Mercer Investment Consulting. Mr. Stensrud explained that such services were rendered on an ad hoc, special project basis. Mr. Stensrud noted that as the number and scope of such projects increased, the cost of addressing them under such an arrangement would quickly exceed the cost of an 'all inclusive' retainer-based engagement.

Mr. Stensrud noted that the analysis of BlackRock Realty Advisors discussed earlier in the meeting offered an opportunity for assessing Mercer's capabilities for serving as a dedicated retainer-based real estate consultant. Mr. Stensrud outlined the services SCERS would receive under such an engagement and the proposed cost for such services. Mr. Stensrud noted that Mercer had agreed to fold the real estate special project costs incurred to-date into the proposed retainer fee.

Mr. Stensrud noted that there are other capable real estate consultants and that ideally Staff would recommend inviting proposals from multiple candidates. Mr. Stensrud further noted, however, that such a search would take time, and that it would take additional time for the selected consultant to become familiar enough with SCERS' real estate managers and assets and be in a position to provide guidance on portfolio management and construction. Mr. Stensrud noted that this would delay SCERS' ability to address both known issues and upcoming opportunities.

Mr. Stensrud explained that given the noted circumstances, Staff recommended that the Board consider engaging Mercer as a dedicated real estate consultant on a retainer basis. Mr. Stensrud noted that when the Board reviewed the general consulting engagement with Mercer at the end of the year, the Board could also choose to re-evaluate the real estate engagement and undertake a full-fledged search if desired.

**INVESTMENT MATTERS (continued):**

Discussion followed.

Motion by Mr. Hickox to approve the engagement of Mercer Investment Consulting as a dedicated real estate consultant under the proposed retainer terms; Seconded by Mr. Woods. Motion carried (8-0).

19. General Counsel James Line presented proposed changes to SCERS' policy regarding disclosure of third party representation of and fee sharing by SCERS' investment managers.

Mr. Line noted that the Board had adopted the policy in question in June 2009 while legislation on the subject (AB 1584) was pending but had not been finalized. Mr. Line explained that subsequent changes to the legislation concerning the disclosure of campaign contributions and gifts required that SCERS' policy be amended to incorporate such provisions.

Motion by Ms. Wolford-Landers to approve the recommended amendments; Seconded by Mr. Johnson. Motion carried (8-0).

The meeting was adjourned at 3:21 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock, Keith DeVore, Julie Valverde, Winston H. Hickox (arrived at 11:20 a.m.), William D. Johnson, Kathy O'Neil, Nancy Wolford-Landers, Robert L. Woods (arrived at 11:07 a.m.), John Conneally, and William Cox.

**MEMBERS ABSENT:** John B. Kelly.

**OTHERS PRESENT:** Richard Stensrud, Chief Executive Officer; James G. Line, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Ziyalan, Accounting Manager; Scott Chan, Investment Officer; Steve Davis, Investment Officer; Julia Jarvis, Paralegal; Allison Yager, David Nix, Diana Greenstone, and Catherine Beard, Mercer Investment Consulting; John Kovanda, Sacramento County Airport employee, and Judy Kovanda.



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.