SCERS
SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Members of the Board of Retirement

James A. Diepenbrock, President
Appointed by the Board of Supervisors

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

William D. Johnson, Second Vice President
Elected by the Safety Members

Diana Gin
Elected by the Miscellaneous Members

Winston H. Hickox
Appointed by the Board of Supervisors

Kathy O'Neil
Elected by the Miscellaneous Members

Julie Valverde
Ex Officio, Director of Finance

Nancy Wolford-Landers
Elected by the Retired Members

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

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

M I N U T E S

RETIREMENT BOARD MEETING, THURSDAY, JANUARY 19, 2012

A regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Thursday, January 19, 2012, and commenced at 11:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Mr. Diepenbrock read Resolution 2012-04 commending and honoring Robert Woods upon his departure from the SCERS Board for his many years of outstanding service to Sacramento County, SCERS and its members and stakeholders.

   Motion by Ms. Wolford-Landers to adopt Resolution 2012-04 honoring Robert Woods; Seconded by Ms. Gin. Motion carried (7-0).

   Melissa Brown, counsel for Michael Major, addressed the Board regarding Mr. Major's application for disability retirement. Ms. Brown asked that the Board carefully consider the record and objections filed on behalf of Mr. Major. Assistant County Counsel Diana Ruiz, followed Ms. Brown's statement noting that the judge in this case did a very careful review of the medical evidence in this case and recommended that the Board adopt the judge's decision.

PUBLIC COMMENT (continued):

Chief Executive Officer Richard Stensrud stated that Item 18 on the agenda, the proposed investment policy statement for the real assets asset class, would be deferred until the February Board Meeting.

MINUTES:

2. The Minutes of the December 15, 2011 regular meeting were approved on Motion by Mr. Johnson; Seconded by Ms. Valverde. Motion carried (7-0).

CONSENT MATTERS:

Items 3-13

The Consent matters were acted upon as one unit upon a Motion by Ms. Gin; Seconded by Mr. Johnson. Motion carried (7-0).

3. COIL, Deborah L.: Granted a service-connected disability retirement.

4. PETERSON, Gary J.: Granted a service-connected disability retirement.

5. PORTER, Brian K.: Granted a service-connected disability retirement.

6. ROBERTS, Eric B.: Granted a service-connected disability retirement.

7. RODGERS, Lorraine M.: Granted a service-connected disability retirement.

8. MAJOR, Michael D.: Adopted the findings of the referee and denied a service-connected disability retirement.

9. MANISAP, Bouaphet: Adopted the findings of the referee and granted a nonservice-connected disability retirement.

10. Approved employer and employee contribution rates recommended by The Segal Company for the 2011-2012 and 2012-2013 Fiscal Years for any SCERS retiree who retired prior to the enhancement of benefit formulas and then elects to suspend their retirement allowance and return to permanent regular employment with their former SCERS' participating employer.

11. Approved Resolution 2012-01 regarding the substitution of a new investment management agreement with AllianceBernstein LLP.

CONSENT MATTERS (continued):

12. Approved Resolution 2012-02 regarding the proposed consent and novation agreement relating to changes in the manager structure for the commodities investment mandate managed by Gresham Investment Management LLC as a sub-advisor to Neuberger Berman.

13. Received and filed the December 2011 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

14. Considered the purchase or sale of particular, specific pension fund investments and deferred any public report per Government Code section 54956.81.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

16. At the request of Board President Diepenbrock, Item 16 was taken up out of order. Chief Executive Officer Richard Stensrud presented a compensation study for SCERS' exempt executive staff positions prepared by Ralph Andersen & Associates.

    Mr. Stensrud explained that SCERS' executive staff positions (Chief Executive Officer, Chief Investment Officer, General Counsel, Deputy Chief Investment Officer, Chief Operations Officer and Chief Benefits Officer) are outside of the County Civil Service structure, and that the authority to establish the duties of those positions, make decisions concerning hiring and termination with respect to those positions, and to set the terms of employment (including compensation) for those positions rests exclusively with the SCERS Board. Mr. Stensrud noted that this is a function of the grant of plenary authority and the assignment of fiduciary responsibility to the Board with respect to management of the retirement system under the California Constitution. Mr. Stensrud noted that this is buttressed by the fact that SCERS' budget is fully funded by the pension trust.

    Mr. Stensrud noted that consistent with this grant of authority and assignment of responsibility, it has been the history and practice at SCERS to periodically conduct a compensation analysis to determine if the compensation plan for these executive positions will ensure that SCERS has the ability to attract and retain well-qualified employees to carry out SCERS' specialized line of business. Mr. Stensrud noted that the last such analysis was presented to the SCERS Board in November 2004. Mr. Stensrud explained that at that time the Board approved the adjustment of the relevant salary ranges to bring them in line with the median market salaries, and noted that the salary adjustments were phased-in over a two year period, with the last equity adjustment occurring in 2006.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud noted that SCERS' executive salary ranges have not been measured against the market since 2004 and that SCERS' executive positions have not received a cost-of-living adjustment (COLA) since 2008. Mr. Stensrud noted that in all but one case, the incumbents in these positions had reached the top step in the salary range by 2008 and have not had a salary increase since that time. Mr. Stensrud also noted, that while not required to do so, SCERS' executive staff voluntarily participated in the County furlough protocol in 2009, resulting in a pay cut for that period.

Mr. Stensrud noted that during the same time frame (2006-2011) a substantial segment of the County workforce received equity adjustments (in some cases more than one) and since 2008, a substantial segment of the County workforce has also received COLAs. Mr. Stensrud noted that this latter group includes some members of SCERS' non-executive staff covered by bargaining agreements, who have received 2% to 4.9% in COLAs since 2008. Mr. Stensrud also noted that since 2008 most SCERS' retirees have received 4% to 5% in COLAs.

Mr. Stensrud stated that although some people had experienced salary growth during this period, it is equally clear that it has been a very challenging economic environment for many others. Mr. Stensrud noted that the ramifications of the considerable decline in the investment markets in 2008 and 2009 have been well-documented, and that with respect to the County, the substantial drop in residential property values and the faltering economy have had a significant impact on County revenue, resulting in furloughs and numerous layoffs in the County workforce. Mr. Stensrud explained that given this environment even though he was concerned that SCERS was falling behind the market with respect to compensation, he had not deemed it appropriate to pursue equity adjustments or COLAs for SCERS' executive staff.

Mr. Stensrud explained that unfortunately, SCERS' hand was now being forced. Mr. Stensrud noted that in March, SCERS' General Counsel would be retiring and that SCERS would be seeking to secure his successor with a salary range that was effectively seven years old. Mr. Stensrud explained that this would impede SCERS' ability to compete successfully for individuals with the knowledge, skills and experience SCERS and its participants wanted and needed which would have a detrimental impact on SCERS' ability to be successful in carrying out its mission.

Mr. Stensrud explained that with these considerations in mind, he had directed that a new total compensation analysis be undertaken to determine where SCERS stands relative to the market with respect to SCERS' executive positions. Mr. Stensrud explained that the firm engaged to perform the study (Ralph Andersen & Associates) was highly respected in the field and had performed a number of such studies. Mr. Stensrud introduced Doug Johnson who had led the study.

Mr. Johnson explained the process and methodology used in the compensation analysis.

ADMINISTRATIVE MATTERS (continued):

Mr. Johnson explained that a definition of the relevant labor market had been established taking into account criteria such as: (1) Recognizing the historical practices regarding labor market comparables (e.g., who an employer typically compares itself to); (2) Assessing the geographic size of the labor market (i.e., who an employer typically competes with for employees); (3) Assuring that employers have an appropriate size and level of complexity to provide comparable positions; (4) Assuring that the nature of services provided by employers is comparable; and (5) Assessing the impact of economic considerations on an employer's compensation plan. Mr. Johnson explained that based on these considerations, he had determined that public retirement systems in California represent the appropriate labor market and that data had been collected from twenty-one such systems.

Mr. Johnson explained that various parameters had been established to assure that the labor market positions were sufficiently comparable to the SCERS positions. Mr. Johnson noted that critical comparability criteria included: (1) Similar education/skill requirements; (2) Similar level of duties; and (3) Comparable level of supervisory and management responsibilities. Mr. Johnson explained that in this way it could be determined whether the duties performed in the positions were comparable to those at SCERS and if so, the fact that other retirement systems might be larger or smaller than SCERS was irrelevant.

Mr. Johnson explained that the study looked at all elements of compensation and not simply salary. Mr. Johnson explained that by comparing all compensation elements, the study was able to determine whether and to what extent compensation elements offset each other, and how compensation as a whole compared. Mr. Johnson explained that compensation elements were then adjusted to neutralize the impact that higher cost-of-living locations can have on compensation levels.

Mr. Johnson explained that the study took the outcome of the external analysis and adjusted it to reflect the internal compensation relationships and guidelines that have been previously established by the SCERS Board.

Mr. Johnson reviewed his findings from the compensation analysis, noting that the SCERS exempt executive staff positions were all below the labor market median. Accordingly, Mr. Johnson recommended salaries be adjusted to bring them in line with market median.

Mr. Stensrud noted that he was recommending that the Board approve the new salary levels presented by Ralph Andersen & Associates for all of the executive staff positions except for his own. Mr. Stensrud stated that he was not comfortable making a recommendation regarding his own compensation, and instead, would defer to the judgment of the Board in this regard.

Mr. Stensrud further recommended that if the Board chose to approve the salary ranges recommended by Ralph Andersen & Associates, that for all positions other than the General Counsel, the change in salary range be implemented in two equal components, with one component implemented in the current fiscal year and the second component implemented at approximately the same point in the next fiscal year.

<u>ADMINISTRATIVE MATTERS (continued):</u>

With respect to the General Counsel position, Mr. Stensrud recommended that the full change in the salary range be implemented upon the retirement of the current General Counsel in March. Mr. Stensrud explained that be implementing the full change at that time would enhance SCERS' ability to attract a strong candidate pool for the position, while removing any potential criticism that the current General Counsel was receiving a late-in-career compensation 'spike. Mr. Stensrud also noted that the compensation for the vacant General Counsel position would receive the largest adjustment in order to bring it in line with the vacant Chief Investment Officer position.

Mr. Stensrud explained that he was cognizant that the recommended salary changes could elicit criticism. Mr. Stensrud noted, however, in executing his day-to-day responsibility for managing SCERS and successfully accomplishing SCERS' mission, it was necessary that he advise the Board when it appeared SCERS' ability to do so will be adversely impacted. Mr. Stensrud explained that the primary legal duty as fiduciaries was to act in the best interests of the participants in the plan. Mr. Stensrud noted that if SCERS was not able to maintain the level of knowledge, skill and experience it has had in key leadership positions in the organization, SCERS' history of success in carrying out its responsibilities would be put at risk, to the detriment of SCERS active members, retirees and participating employers.

Finally, Mr. Stensrud noted that the proposed salary adjustments would have no impact on the funding provided by either participating employers or employees. Mr. Stensrud explained that actuarial assumptions regarding the cost to administer the system are built into the normal cost component of the retirement contribution rates and SCERS has historically administered the system at a lower cost than the actuarial assumptions. Mr. Stensrud noted that the salary adjustments would not alter this, nor would they impact SCERS' strong 87% funded status. Mr. Stensrud also noted that there is sufficient funding in the current budget to accommodate the proposed first stage salary adjustment and that the salary adjustment would have no discernable impact on the overall administrative budget, which would remain at 9/100s of one percent of system liabilities, which was well below the 1937 Act administrative budget cap of 21/100s of one percent of liabilities.

Substantial discussion followed. Among other things, Board members noted that: (1) It was not in SCERS' best interest to underpay employees and fail to attract and retain top-tier professionals: (2) The failure to maintain strong leadership could lead to increased costs for both employers and employees; and (3) Not adjusting salary levels now would only delay the inevitable and the longer SCERS waited to make the necessary adjustments, the larger the ultimate adjustments would be, and the harder it would be to make them. Ms. Gin expressed concern over the timing of the proposed salary increase, and while other Board members acknowledged this concern, it was also noted that the proposed salary adjustments were in line with adjustments received by many County employees over the last few years, and the adjustments would not result in any layoffs of County employees.

ADMINISTRATIVE MATTERS (continued):

Mr. Diepenbrock further noted that Mr. Stensrud did not include the Chief Executive Officer position in his recommendation for salary increases, but that this position also deserved the corresponding increase, just as the other exempt executive staff positions.

Motion by Mr. Hickox to: (1) Approve the recommended changes to the salary ranges for SCERS' executive staff positions as set forth in Exhibit F in the compensation analysis prepared by Ralph Andersen & Associates; (2) Direct that the salary range changes for all positions except the General Counsel position be implemented in two equal components in the 2011-2012 and 2012-2013 fiscal years, respectively; (3) Direct that implementation of the full salary range change for the General Counsel position become effective upon the retirement of the current General Counsel in March 2012; and (4) Direct the Chief Executive Officer to take the steps necessary to secure implementation of the new salary ranges; Seconded by Mr. Johnson. Motion carried (6-1; Ms. Gin dissenting).

15. 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 the cost-of-living adjustment (COLA) had been determined based on the consumer price index (CPI) issued by the Department of Labor. Mr. Stensrud stated that the COLA produced by the CPI was 2.6%. Mr. Stensrud noted that under the 1937 Act, the COLA is rounded to the nearest half percent, creating a COLA of 2.5% for Miscellaneous Tier 1 and Safety Tier 1 members who retired after March 31, 1980. Mr. Stensrud further noted that Miscellaneous Tier 3 and Safety Tier 2 members would have a 2.0% COLA, due to the cap at 2.0% for these tiers. Mr. Stensrud explained that these members would be able to "bank" the additional 0.5% which could be used in future periods when the COLA is under 2.0%. Mr. Stensrud stated that the recommended COLA would be brought before the Board for formal adoption at the February Board Meeting.

Mr. Stensrud reported that SCERS had received proposals from both of the potential firms solicited for the upcoming actuarial audit. Mr. Stensrud stated that Staff would review the proposals and present a recommendation at the February Board Meeting.

Mr. Stensrud reported that the California Association of Public Retirement Systems (CALAPRS) General Assembly would be taking place in Palm Springs, March 4-6, 2012.

Mr. Stensrud reported that SCERS had a received a payment related to a previous real estate holding in the Washington D.C. area. Mr. Stensrud explained that the payment was from an insurance company responsible for the cost of repairs to the property.

Mr. Stensrud reported that Staff had decided to postpone review of the fixed income manager structure until implementation of the equities manager structure was nearly completed. Mr. Stensrud noted that it was anticipated that fixed income manager structure review would begin in the late spring or early summer.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that a search for equity manager assignments in domestic large cap growth and domestic large cap value had been commenced. Mr. Stensrud noted that Staff was working with Strategic Investment Solutions, Inc. (SIS) on the searches. Mr. Stensrud noted that a list of candidates had been developed and Staff and SIS would have extended interviews with the candidates next week. Mr. Stensrud stated that Staff and SIS would recommend the managers for the assignments at the February Meeting. Mr. Stensrud also noted that the recommended managers would be asked to make a presentation to the Board at that meeting.

Mr. Stensrud reported that as part of the development of the alternative assets portfolio, Staff was close to finalizing a private equity investment in the Garrison Opportunity Fund IV. Mr. Stensrud also reported that Staff was close to finalizing a hedge fund investment in the Claren Road Credit Master Fund and was in negotiations with a potential hedge fund investment with Elliot Associates, L.P.

Mr. Stensrud reported about a SCERS member who recently retired after over 50 years of service in the Sacramento Regional County Sanitation District. Mr. Stensrud stated that Staff would be reaching out to this member to ask permission to post a story about the member on the SCERS website. Mr. Stensrud noted that he felt it was important to provide some positive attention to Sacramento County workers.

Mr. Stensrud reported that the publication *Institutional Investor* had recently announced that Deputy Chief Investment Officer Scott Chan would be named one of their 'rising stars' of public fund investing. Mr. Stensrud and the Board congratulated Mr. Chan on the accomplishment.

INVESTMENT MATTERS:

17. Chief Executive Officer Richard Stensrud introduced the presentation of the 2011 Investment Year in Review.

Mr. Stensrud noted that last year, Staff presented the first Investment Year in Review and it had been favorably received by the Board. Mr. Stensrud stated that the purpose of the review was to:

- Summarize the major events and developments of the past year, including investment performance;
- Remind the Board of what had been accomplished over the year;
- Highlight the decisions that were made, the rationale for those decisions and the direction(s) established going forward; and

INVESTMENT MATTERS (continued):

- Preview the investment program projects, issues and objectives for the year to come.

Mr. Stensrud noted that 2011 saw perhaps the greatest level of change in the investment program in the history of SCERS. Mr. Stensrud stated that in 2011, SCERS had focused on reestablishing the vision and direction of the investment program, and that in 2012 the focus would be on implementing and refining that vision.

Mr. Stensrud noted that the benefits from the decision by the Board to expand the internal investment staff began to be apparent in 2010 and were magnified in 2011. Mr. Stensrud noted that in 2011 two new investment consulting relationships had been established and praised Staff and consultants for operating as a true investment team in 2011. Mr. Stensrud summarized the goals for 2012 as: (1) Building upon and capitalizing on the consultant relationships; (2) Continuing to be 'active' partner with the consultants; and (3) Assessing where it would be optimal to consider additional consulting services. Mr. Stensrud also noted the importance of being able to fill vacant investment staff positions if SCERS was to maintain the forward momentum of the investment program.

Deputy Chief Investment Officer Scott Chan and Investment Officer Steve Davis presented information on the accomplishments in the investment program in 2011 and the goals for 2012. Among other things, they discussed: (1) The asset/liability study; (2) Improved approaches to measuring risk and assessing performance in different economic environments; (3) The changes made to asset classes and allocation levels; (4) The performance in the traditional equity and fixed income asset classes; (5) The analysis of the manager structure for those asset classes; (6) The modifications to the approach taken with respect to the alternative asset classes, including the development of direct investment programs in private equity and hedge funds and establishing a new real assets asset class; and (7) The performance in the alternative asset classes.

The Board commended Staff on their work throughout 2011 and on the Investment Year in Review presentation.

Motion by Ms. Wolford-Landers to receive and file the report; Seconded by Ms. Gin. Motion carried (7-0).

The meeting was adjourned at 1:05 p.m.

MEMBERS PRESENT: James A. Diepenbrock, William D. Johnson, Diana Gin, Winston H. Hickox (arrived at 11:03 a.m.), Kathy O'Neil, Julie Valverde, Nancy Wolford-Landers, John Conneally, and Michael DeBord.

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;

Scott Chan, Deputy Chief Investment Officer; Steve Davis, Investment Officer; Suzanne Likarich, Retirement Services Manager; John Lindley, IT Administrator; Pete Keliuotis, Strategic Investment Services, Inc; Diana Ruiz, Deputy County Counsel; Doug Johnson, Ralph Andersen & Associates; Robert L. Woods; Melissa Brown, Farrell, Fraulob, & Brown; Michael Major; and Gary Peterson.

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.