



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

Ronald D. Suter, 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

Keith DeVore
Elected by Miscellaneous Members

Winston Hickox
Appointed by the Board of Supervisors

William D. Johnson
Elected by Safety Members

Nancy Wolford-Landers
Elected by Retired Members

Robert Woods
Appointed by the Board of Supervisors

William Cox
Elected by Retired Members

Steven Soto
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, JUNE 15, 2006

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, U.S. Bank Plaza Building, 980 9th Street, 18th Floor, Sacramento, California, on June 15, 2006, at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. Motion by Mr. Kelly to approve the Minutes of April 20, 2006 regular meeting and May 18, 2006 special meeting; Seconded by Mr. Suter. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. DUPREE, Karen: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated June 19, 2006.

CLOSED SESSION:

DISABILITY MATTERS: (Continued)

4. WAGNER, Warren: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated June 19, 2006.
5. WILLHITE, George: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated June 19, 2006.
6. HENDRICKS, Dwayne: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated June 19, 2006.

SIGNIFICANT EXPOSURE TO LITIGATION [Government Code Section 54956.9(a)]:

7. Item was withdrawn.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

8. Chief Executive Officer Richard Stensrud reported that the County Board of Supervisors had approved the contribution rates for Fiscal Year 2006-2007 and that the new rates would take effect in the first full pay period in July.

Mr. Stensrud reported that elections for the two Safety membership seats on the SCERS Board as well as the Miscellaneous membership seat currently held by Mr. Suter would be held in late September. Mr. Stensrud noted that because the current terms for those positions do not expire until December 31, 2006, the elections would normally be held in November, but that in this case the elections were being held earlier due to Mr. Suter's scheduled retirement in August. Mr. Stensrud explained that the election for Mr. Suter's seat would encompass two separate elections – one to fill out the remainder of his term and one for the new three-year term beginning January 1, 2007. Mr. Stensrud explained that the decision was made to hold the elections earlier so that there would be a full Board to consider the important matters that would be taken up in the fall such as the actuarial valuation and setting of contribution rates.

Mr. Stensrud noted that the Board would elect the SCERS Board Officers for the 2006-2007 fiscal year at the July Board Meeting.

Mr. Stensrud reported that the first of four scheduled retirement planning seminars had recently been held. Mr. Stensrud reported that the interest in the seminars had been so high that two additional seminars had been added to the two sessions originally scheduled. Mr. Stensrud noted that these sessions were designed for members within ten years of retirement and that the large number of people interested in attending the programs indicated

OPEN SESSION:

ADMINISTRATIVE MATTERS: (Continued)

that there would be substantial turnover in the County's workforce over the next ten years. Mr. Stensrud reported that the first program appeared to be well-received. Mr. Stensrud also reported that two more such programs would be offered in the late summer/early fall and that one of those programs would be video taped and placed on SCERS' website for viewing. Mr. Stensrud noted that the materials for the program would also be put on SCERS' website so that SCERS members could have access to the information any time they wished.

Mr. Stensrud reported that the Government Finance Officers Association (GFOA) had once again awarded SCERS with the Certificate of Achievement for Excellence in Financial Reporting for SCERS' Comprehensive Annual Financial Report (CAFR) for the Years Ended June 30, 2005 and 2004. Mr. Stensrud expressed his appreciation to Chief Operations Officer Kathryn Regalia and the other SCERS staff members responsible for producing the document. The Board unanimously concurred.

Mr. Stensrud noted that SCERS' new General Counsel – Jim Line – would be starting on June 30. Mr. Stensrud noted that the June Board Meeting would therefore be the last Board Meeting where the Board's primary legal representation would be through the County Counsel's Office. Mr. Stensrud thanked the County Counsel's Office for their excellent service for SCERS, and noted that their advice and counsel had been a pivotal part of why SCERS has been such a well-run retirement system.

9. Chief Operations Officer Kathryn Regalia presented the proposed SCERS Budget for Fiscal Year 2006-2007. Ms. Regalia noted a few minor changes from the draft Budget that had been presented in May. Ms. Regalia also noted that the proposed Budget would be well below the limit on administrative costs set by the 1937 Act. Motion by Mr. Kelly to adopt the proposed Budget; Seconded by Mr. DeVore. Motion carried (9-0).
10. Chief Operations Officer Kathryn Regalia presented a request by the Superior Court of California, County of Sacramento to pre-pay the employer's portion of the Court's retirement contribution for Fiscal Year 2006-2007. Ms. Regalia explained that this request was a function of the Court's ongoing disengagement from the County. Ms. Regalia noted that the proposed pre-payment amount had been determined by SCERS' actuary, The Segal Company. Motion by Mr. Suter to accept the pre-payment; Seconded by Mr. Johnson. Motion carried (9-0).
11. Chief Executive Officer Richard Stensrud presented a report on the methodology used to determine the annual retiree cost-of-living adjustment (COLA). Mr. Stensrud noted the calculation of the COLA was largely controlled by the 1937 Act, and that there were only two variables that the Board could potentially modify: (a) Changing from a comparison of the annual average Consumer Price Index (CPI) to a comparison of the year-end CPI; and (b) Changing the particular CPI that is used.

OPEN SESSION:

ADMINISTRATIVE MATTERS: (Continued)

With respect to the first variable, Mr. Stensrud explained that The Segal Company had determined that over the last twenty years there was no material difference in the COLAs generated by the two approaches and any incremental advantage of one method over the other varied and changed based on the time period of the comparison.

With respect to the second variable, Mr. Stensrud reported that SCERS' practice of using the Bay Area CPI for calculating COLAs was consistent with the practice of the other 1937 Act systems of using the nearest and most comparable CPI. Mr. Stensrud explained that implicit in this approach was the belief that the Bay Area CPI would better reflect the cost-of-living in Sacramento (and be more favorable to retirees) than a broader regional CPI like the West Region CPI, which includes data from all the western states. Mr. Stensrud noted that this assumption was validated by a comparison of the two CPIs for the last twenty years. Mr. Stensrud reported that the CPI that produced the larger annual COLA varied, but that the cumulative COLAs under the Bay Area CPI over the last twenty years was larger than what would have been provided under the West Region CPI.

Ms. Wolford-Landers expressed her appreciation for the thoroughness of the analysis and stated that she felt the information would be very helpful in answering the questions of retirees. No action was taken.

INVESTMENT MATTERS:

12. Tom Lightvoet of Mercer Investment Consulting presented a report on the U.S. Equity Large Cap Growth Manager search for a manager to invest a \$120 million portfolio of U.S. Large Cap Growth stocks. The report contained Mercer's research and background information on the seven firms Mercer believed would best meet SCERS investment objectives. Mr. Lightvoet discussed the investment background and experience of each firm; reviewed their investment process; identified and discussed the characteristics of each firm's model investment portfolio; noted the respective performance attribution; and highlighted the differences between the firms. Extensive discussion followed regarding the firms identified by Mercer. Motion by Mr. Hickox that the Board interview INTECH, T. Rowe Price and Wells Capital Management for the engagement; Motion by Mr. Suter to receive and file the search report; Seconded by Mr. Woods. Motion carried (9-0).
13. Allison Yager of Mercer Investment Consulting presented a report on the search for two to four Value-Added Real Estate Manager candidates. Ms. Yager provided an explanation of the criteria and rationale for selecting the seven funds presented for consideration. Ms. Yager and Chief Investment Officer Jeffrey States noted that the candidates included both diversified funds and funds that specialize in a single property type. Ms. Yager and Mr. States explained the relative advantages and disadvantages of the two types of funds, as

OPEN SESSION:

INVESTMENT MATTERS: (Continued)

well as considerations in selecting managers that would complement SCERS' existing real estate investments. Extensive discussion followed, including discussion regarding the appropriate mix of investment strategies, benchmarks, SCERS' current real estate holdings, and the capabilities of the candidates. Motion by Mr. Woods to interview AEW Capital Management, GE Asset Management, UBS Realty Investors, and Hines for the assignments; Seconded by Mr. Kelly. Motion carried (8-0). Motion by Mr. Woods to receive and file the search report; Seconded by Mr. Kelly. Motion carried (8-0). Mr. Diepenbrock recused himself from consideration of the item and excused himself from the meeting due to his employment relationship with a separate unit of UBS.

14. Chief Investment Officer Jeffrey States presented a request from BlackRock Realty for an exception to the limitation on the percentage of leverage permitted in a single asset. Mr. States explained that BlackRock had identified a property for acquisition which had debt that would need to be assumed, and as a result, the proposed acquisition would exceed the single asset leverage limitation. Mr. States noted that the property was a very attractive investment opportunity in that it was a desirable property in a strong market, and that the debt had a favorable interest rate and short remaining term. Mr. States also noted that even if the request was granted, the leverage in BlackRock's total portfolio would be within the investment guidelines. Allison Yager of Mercer Investment Consulting concurred in the assessment by Mr. States that an exception to the limitation would be appropriate in this case. Discussion followed. Motion by Mr. Hickox to authorize a exception to the limitation on single property leverage; Seconded by Mr. Kelly. Motion carried (9-0).
15. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for June 2006. The report was received and filed on a Motion by Mr. Suter; Seconded by Ms. Wolford-Landers. Motion carried (9-0).
16. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing the Board President to execute the investment management agreement with Bear Stearns Asset Management for the purpose of managing a U.S. Equity Small Cap Growth Portfolio. Motion by Mr. Kelly to adopt Resolution SCERS 2006-04 as presented; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

The meeting was adjourned at 3:30 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore; Winston Hickox; William D. Johnson; John B. Kelly; Steven Soto; Ronald Suter; Nancy Wolford-Landers; Robert Woods (arrived at 1:06 p.m.) and Bryan Celey-Butlin (on behalf of Dave Irish).

MEMBERS ABSENT: William Cox.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; Kathryn Regalia, Chief Operations Officer; John Gobel, Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Michele Bach, Supervising Assistant County Counsel; Diana Ruiz, Deputy County Counsel; Tom Lightvoet and Allison Yager, Mercer Investment Consulting; Rick Beard, Superior Court of California, County of Sacramento; Thuyet Ziyalan, Investment Accountant; and Michele Raymond, Senior Office Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

Richard Stensrud
Chief Executive Officer

APPROVED: _____
James A. Diepenbrock, President

DATE: _____

cc: Retirement Board (11); Clerk, Board of Supervisors (6); County Counsel (2); County Executive (2); County Employment Records & Training; County Employment Services & Risk Management (2); County Labor Relations; Employee Organizations (21); Sacramento County Retired Employees' Association; SCERS Member Districts (11); Amervest Company, Inc. (2); Dickstein & Merin; and The Sacramento Bee.