



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

William D. Johnson
Elected by Safety Members

Ronald D. Suter
Elected by Miscellaneous 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, AUGUST 16, 2006

The special 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 August 16, 2006 at 10:06 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

EDUCATIONAL MATTERS:

2. Alistair Lowe of State Street Global Advisors made a presentation regarding new developments in investment management strategies designed to add incremental value to the pension fund. Mr. Lowe described exposure management and overlay strategies designed to provide: (a) cash equitization to reduce 'cash drag' on the portfolio; (b) maintenance of a fund's strategic asset allocation; and (c) facilitation of tactical asset allocation shifts. Mr. Lowe also described the basics of obtaining market returns (beta) and active management returns (alpha) through a 'portable alpha' program. Finally, Mr. Lowe described the potential value in expanding the investment opportunity set through loosening the 'long only' constraint via strategies such as '130/30' or '120/20.'

Extensive discussion followed, and it was the consensus of the Board that it wished to obtain more information regarding '130/30' or '120/20' strategies. No formal action was taken.

EDUCATIONAL MATTERS: (continued)

3. Winston H. Hickox of California Strategies made a presentation regarding the investment risks and investment opportunities related to environmental change. Mr. Hickox discussed the growing awareness among both companies and investors regarding the potential impact of environmental change on business and investments, respectively. Mr. Hickox also suggested various ways that pension trustees could address these developments.

Extensive discussion followed, and it was the consensus of the Board that it wished to obtain more information regarding how SCERS might integrate an awareness of these developments into its investment program. No formal action was taken.

MINUTES:

4. Approval of the Minutes for July 20, 2006 regular meeting was deferred to the September Board meeting.

CLOSED SESSION:

DISABILITY MATTERS:

5. Kramer, Karl J.: Action was taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated August 21, 2006.
6. Vivas, Melinda A.: Action was taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated August 21, 2006.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

7. Chief Executive Officer Richard Stensrud provided a report on developments affecting public retirement systems, including the recent news reports regarding ongoing issues involving the City of San Diego Employees' Retirement System. Discussion followed. No action was taken.

Mr. Stensrud shared with the Board some recent information that had been provided by the County Risk Management Office regarding the system's fiduciary insurance coverage.

Mr. Stensrud noted various matters that would be addressed at the September Board Meeting, including proposed amendments to the Investment Policy and presentation of a proposed interest crediting and excess earnings policy. Mr. Stensrud also noted that the actuarial valuation process had begun and that The Segal Company would be presenting the economic assumptions recommended for use in the valuation to the Board at the September meeting. Mr. Stensrud suggested that given what appeared to be a full agenda

ADMINISTRATIVE MATTERS: (continued)

for the September meeting it might be advisable to consider an earlier start time for the meeting. Discussion followed, and Mr. Stensrud noted that he would follow up with the Board to confirm that an earlier start time was feasible.

Mr. Stensrud reported that the SCERS Board election process was underway and the nomination period for candidates for the two Safety member representatives to the SCERS Board and one of the Miscellaneous member representatives to the Board would be closing August 18, 2006.

Mr. Stensrud reported that the end of the 2005-2006 fiscal year 'true up' had been completed for the pre-paid employer contributions by the Sacramento Metropolitan Fire District. Mr. Stensrud reported that the Fire District had overpaid by \$148 dollars and that this amount would be offset against the Fire District's employer contributions for fiscal year 2006-2007.

Mr. Stensrud reported that the retirement planning seminar scheduled for the Board of Supervisors Chambers in September was full.

Mr. Stensrud reported that work was continuing on the Memorandum of Understanding between SCERS and the Sacramento County Superior Court regarding an actuarial analysis requested by the Court. Mr. Stensrud summarized the nature of the analysis and the work that had been done to-date. Discussion followed. No action was taken.

Mr. Stensrud noted that the State Association of County Retirement Systems (SACRS) Conference would be held November 14-17, 2006. Mr. Stensrud noted that this created a conflict with the scheduled date for the November Board Meeting and inquired if it would be feasible to change the Board Meeting to Monday, November 13th in order to allow Board Members to attend the Conference. Discussion followed regarding the Board Members' availability on that date. Mr. Stensrud indicated that he would follow up with the Board to confirm that a November 13th meeting was feasible.

8. Board President James A. Diepenbrock presented a Resolution recognizing SCERS Board Member Ron Suter's upcoming retirement from the County of Sacramento and his services to the County and the SCERS Board. Mr. Hickox moved to approve the proposed Resolution; Seconded by Mr. Kelly. Motion carried (8-0).
9. Chief Operations Officer Kathryn Regalia presented the Semi-Annual Administrative Expense Report for the Six Months ended June 2006. Motion by Mr. Kelly to receive and file the report; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
10. Chief Operations Officer Kathryn Regalia presented the Final SCERS Budget for Fiscal Year 2006-2007. Motion by Mr. DeVore to adopt the final budget; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

INVESTMENT MATTERS:

- 10A. Chief Executive Officer Richard Stensrud advised the Board that on Wednesday afternoon, August 15th, SCERS had been contacted by Cornerstone Realty Advisors to request that SCERS authorize an increase in the funds allocated to Cornerstone so that Cornerstone could continue negotiations for the purchase of property for SCERS' real estate portfolio. Mr. Stensrud reported that if the proposed acquisition went through, it would result in the Cornerstone account exceeding its current allocation by approximately \$15 million. Mr. Stensrud noted that this request had been received beyond the time when the Agenda could be amended to add the matter. Mr. Stensrud also noted that the matter could not be held over until the next Board Meeting since Cornerstone needed to make a response in the negotiations and a good faith deposit on Friday, August 17th (the day after the Board Meeting). General Counsel James Line advised the Board that in order to take up the matter, the Board would have to find by a two-thirds vote that the matter came to the attention of SCERS after the Agenda was capable of being amended and that there was a need for immediate action. Motion by Mr. Suter that the required elements had been met; Seconded by Woods. Motion carried (8-0). Upon the decision to take up the matter as an 'Ex-Agenda' item, Mr. Kelly recused himself and left the room because of the subsidiary relationship between Cornerstone and a business entity with which he was affiliated.

Chief Investment Officer Jeffrey States provided information on the history and status of the Cornerstone allocation. Mr. States noted that Cornerstone was currently under its allocation ceiling, but that the proposed purchase would push it beyond the ceiling. Mr. States noted that Cornerstone could be told to limit purchases to the funds available in the current allocation, but that it might be some time before an appropriate property could be found that fit within the remaining allocation. Mr. States noted that SCERS had not yet reached its overall target real estate allocation and that the proposed acquisition was a property type in which SCERS was under-weight relative to the NCREIF Index. Accordingly, Mr. States recommended that the Board approve the requested increase in the Cornerstone allocation.

Motion by Mr. Suter to approve an increase in the funds allocated to Cornerstone in the amount necessary to allow them to move forward with the proposed acquisition; Seconded by Mr. Soto. Motion carried (8-0).

11. Chief Investment Officer Jeffrey States presented Resolution No. SCERS 2006-05 authorizing the Board President to execute the documents and perform other necessary actions to allow for the conversion of SCERS' current investment in the BlackRock Realty Tower Fund to an investment in the BlackRock Granite Property Fund, Inc. Mr. States and General Counsel James Line outlined the differences in the legal structure and the terms and conditions of the two investment vehicles. Discussion followed. Motion by Mr. Kelly to approve Resolution No. SCERS' 2006-05; Seconded by Mr. DeVore. Motion carried (9-0).
12. Chief Investment Officer Jeffrey States presented a request by BlackRock Realty Advisors to authorize an exception in a pending real estate transaction to the investment management agreement provisions regarding business dealings with related financial

INVESTMENT MATTERS: (Continued)

entities. Mr. States explained that in preparation for the acquisition, BlackRock had identified a remote financial interest by an affiliated unit of BlackRock Asset Management in the loan on the property that is being assumed as part of the purchase. General Counsel James Line and Jill Hatton of BlackRock Realty Advisors responded to questions from the Board on the nature of the financial interest. Discussion followed. Motion by Mr. DeVore to authorize the Chief Executive Officer to sign the letter the letter authorizing the contract exception in this case; Seconded by Mr. Kelly. Motion carried (9-0).

13. Chief Investment Officer Jeffrey States presented Resolution No. SCERS 2006-06 authorizing the Board President to execute the proposed investment management agreement with Enhanced Investment Technologies, LLC (INTECH) for management of a Large Cap Growth portfolio. Motion by Mr. Woods to approve Resolution No. SCERS 2006-06; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
14. Tom Lightvoet of Mercer Investment Consulting presented the Quarterly Investment Performance Report for the Quarter Ended June 30, 2006. Mr. Lightvoet reported that SCERS investments had a return of -0.8 % for the quarter and a return for of 11.7%, net of fees for the fiscal year. Discussion followed regarding how SCERS' investment managers had performed relative to their respective benchmarks. Motion by Mr. Suter to receive and file the report; Seconded by Mr. Woods. Motion carried (9-0).
15. Chief Investment Officer Jeffrey States presented Resolution No. SCERS 2006-07 approving an amendment to the investment guidelines in the investment management agreement with Pzena Investment Management. The amendment modifies the limitation on the sector weightings in the Pzena portfolio in comparison to its benchmark Russell 1000 Value Index sector weights. Mr. Hickox moved to approve Resolution No. SCERS' 2006-07; Seconded by Mr. Irish. Motion carried (8-0).
16. Chief Investment Officer Jeffrey States presented Resolution No. SCERS 2006-08 approving an amendment to the fee agreement in the investment management agreement with Metropolitan West Asset Management. Mr. Hickox moved to approve Resolution No. SCERS" 2006-08; Seconded by Mr. Woods; Motion carried (8-0).
17. Allison Yager of Mercer of Investment Consulting and Chief Investment Officer Jeffrey States provided an overview of the value-added real estate manager search process and the four firms that had been selected to make presentations at the meeting. Mr. States and Ms. Yager noted that the objective of the search was to select up to three value-added funds and that the combined total of the commitments was to be \$75 million.

General Counsel James Line provided the Board with information on the differences between the legal structure of the value-added funds as compared to SCERS' typical separate account real estate investments and public fixed income and equity investments. Mr. Line noted that the value-added investments would be made via a private real estate

INVESTMENT MATTERS: (Continued)

investment trust (REIT) or Limited Partnership format which provided limited options for redemption of SCERS' investment. Mr. Line noted that this meant that SCERS would effectively be committing funds for the seven to ten year life of the fund.

Following the remarks; presentations were made by the following firms: (a) Hines U.S. Office Value Added Fund II represented by Charles Baughn, Executive Vice President, Capital Markets Group; David Congdon, Senior Vice President and Dedicated Fund Manager; and Mary McCarthy, Vice President, Capital Markets Group; (b) AEW Value Investors II, L.P. represented by Pamela Herbst, Principal, Head of AES Direct Investment Group; Maureen Joyce, Principal AEW Value Investors Portfolio Manager AEW Direct Investment Group; David McWhorter, Principal, Marketing and Client Service; (3) GE Asset Management represented by Philip Riordan, Senior Managing Director – Real Estate; Brad Barrett, Managing Director – Real Estate; and (4) UBS Realty Investors LLC represented by Jeff Maguire, Portfolio Manger, Allegis Value Trust; Lawrence Dobb, Client and Portfolio Services, Deborah Ulian, Client and Portfolio Services.

The respective investment funds presented information regarding the history and structure of their organizations; the background and experience of their investment team; their investment process and how and why it would add value over the benchmark; and their performance. Questions were asked of the presenters regarding various aspects of their presentations.

Motion by Mr. Kelly to receive and file the presentation materials provided by the firms; Seconded by Mr. Suter. Motion carried (8-0). Board President James A. Diepenbrock recused himself and left the room before consideration of the matter because one of the presenting firms was a subsidiary of the same parent company as the firm with which Mr. Diepenbrock is affiliated.

18. Extensive discussion followed regarding the four value-added funds. Ms. Yager and Mr. States reviewed the key differences between the firms and their relative strengths and weaknesses. Motion by Mr. Kelly to engage Hines U.S. Office Value Added Fund II; A.E.W. Value Investors II, L.P.; and Allegis Value Trust to manage the value-added real estate assignments; Seconded by Mr. Suter. Motion carried (8-0).
19. Chief Investment Office Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for July 2006. Motion by Mr. Suter to receive and file the report; Seconded Mr. Woods. Motion carried (8-0).

The meeting was adjourned at 5:20 p.m.

MEMBERS PRESENT: James A. Diepenbrock (left at 2:10 p.m.); Keith DeVore; John B. Kelly; Dave Irish; William Cox (left at 1:56 p.m.); Winston Hickox; Steven Soto; Ronald D. Suter (arrived at 11:32); Nancy Wolford-Landers; and Robert Woods (arrived at 1:16 p.m.).

MEMBERS ABSENT: William D. Johnson.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; James G. Line, General Counsel; Kathryn Regalia, Chief Operations Officer; John Gobel, Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Ziyalan, Investment Accountant; Tom Lightvoet and Allison Yager of Mercer Investment Consulting; Alistair Lowe and Neil Tremblay of State Street Global Advisors; Charles M. Baughn, David J. Congdon, Mary R. McCarthy of Hines; Pamela J. Erbst, Maureen A. Joyce, and David R. McWhorter of AEW Capital Management, L.P.; Philip A. Riordan, Brad Barrett of GEAM Asset Management; Jeff Maguire, Lawrence M. Dobb, and Deborah A. Ulian of UBS Global Asset Management; and Teresa Kennedy, Office Specialist.

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.