



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

William Cox
Elected by Retired Members

Steven Soto
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, OCTOBER 19, 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 Thursday, October 19, 2006 at 1:06 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. President James A. Diepenbrock introduced the newly elected Board Member Alice Jarboe. Ms. Jarboe was elected to the Board by the Miscellaneous membership.

MINUTES:

2. The Minutes of the September 21, 2006 special meeting were approved on Motion by Mr. Irish; Seconded by Ms. Wolford-Landers. Motion carried (7-0), with Ms. Jarboe abstaining since she was not on the Board at the time of the meeting.

CLOSED SESSION:

DISABILITY MATTERS:

3. DEMMELE, John: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated October 19, 2006.

DISABILITY MATTERS: (Continued)

4. EARLES, Jack: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated October 19, 2006.
5. GARNER, Leana: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated October 19, 2006.
6. HAMILTON-TRAVIS, Rochelle: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated October 19, 2006.
7. JOHNSON, Donnell: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated October 19, 2006.
8. LLOYD, Judith T.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated October 19, 2006.
9. JACKSON, Betty L.: Finding and Judgment from the Superior Court of the County of Sacramento was received and filed on motion by Mr. Johnson; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

OPEN SESSION:

ADMINISTRATIVE MATTERS:

10. Chief Executive Officer Richard Stensrud reported on various developments affecting SCERS and public retirement systems generally.

Mr. Stensrud provided an updated regarding the Board of Retirement election results for the Safety and Alternate Safety members and explained the provisions of the statute governing how the Alternate Safety member is determined.

Mr. Stensrud reported on the status of efforts to finalize the recently authorized investments in real estate value added funds. Mr. Stensrud reported that \$3.75 million in capital had been transmitted to the Allegis Value Trust and that he expected funding for the other two firms should begin shortly.

Mr. Stensrud reported that the conversion of SCERS' investment in the Cornerstone Property Fund to an investment in the Cornerstone Patriot Fund LP had been completed.

Mr. Stensrud noted the recent news articles regarding abuses related to 'finders fees' at a large Midwestern retirement system. Mr. Stensrud explained that such problems did not exist at SCERS due to the manner in which investment management firms are presented for consideration. Mr. Stensrud further noted that to provide additional protection against such

ADMINISTRATIVE MATTERS: (Continued)

problems, all of SCERS' investment managers were being required to formally report on any finders fee or revenue sharing arrangements that might exist with respect to the SCERS account and that such disclosure would be required on an ongoing basis in SCERS' investment management agreements.

Mr. Stensrud noted that news reports were continuing to come out regarding investor losses in the Amaranth Advisors hedge fund. Mr. Stensrud noted that at least one public fund was considering filing suit regarding its losses.

Mr. Stensrud reported that SCERS staff had recently attended an educational program regarding changes in public employee retirement law made by the Federal Pension Protection Act. Mr. Stensrud noted that the biggest change was the authorization of a tax deduction of up to \$3,000 by certain designated Safety retirees related to retirement benefit payments made directly to authorized health insurance plans to cover insurance premiums. Mr. Stensrud explained that certain decisions would have to be made before this tax deduction would be available, including establishing the definitions necessary for determining which SCERS Safety retirees would be eligible for the tax deduction. In that regard, Mr. Stensrud noted that the federal law definition for the eligible Safety retirees was not identical to how SCERS identifies Safety members and that the federal law would control the eligibility. Mr. Stensrud also noted that the federal law required that the Safety member have retired at 'normal retirement age' or via disability in order to be eligible, but that the 1937 County Employees Retirement Law ('1937 Act') does not provide a definition of 'normal retirement age.' Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) would be working on developing uniform definitions for the key provisions and would be pursuing legislation to have those definitions incorporated into the 1937 Act. Mr. Stensrud noted that it would be several months before it could be determined whether such efforts would be successful, and that SCERS staff would be ready to present definitions for SCERS to utilize if it appeared that uniform definitions would not be adopted. Mr. Stensrud explained that he did not think that delaying implementation of the new tax deduction while legislation was being pursued would result in any detriment to eligible Safety retirees since it would take only a few months of paying health insurance premiums for those retirees to earn the full \$3,000 deduction.

Mr. Stensrud reported on legislation of interest that had been signed or vetoed by the Governor. Mr. Stensrud reported that the Governor had signed AB 2863, the bill authorizing 1937 Act systems to manage assets for the sponsors of retiree health care plans and Other Post-Employment Benefit ('OPEB') plans. Mr. Stensrud noted that there had been some question about whether the Governor would sign the bill, since the Governor had vetoed a bill on the same subject submitted by CalPERS. Mr. Stensrud noted that in the end, it appeared that the Governor felt that the 1937 Act bill contained more protections against the inadvertent vesting of such benefits than the CalPERS bill. Mr. Stensrud reported that staff would be analyzing what it would take for SCERS to take on OPEB asset management for

ADMINISTRATIVE MATTERS: (Continued)

interested plan sponsors and would report back to the Board on how such a program might work.

With respect to other legislation, Mr. Stensrud reported that the Governor had surprisingly vetoed AB 1568, which would have barred a 1937 Act Board Member from marketing investment management services to another 1937 system. Mr. Stensrud noted that the bill had raised a number of concerns on the part of SACRS members, but that it had broad support in the legislature. Mr. Stensrud noted that he expected the bill's author would reintroduce the measure in the next legislative session.

Mr. Stensrud noted that the November Board Meeting would be moved up to Monday, November 13th in order to avoid a conflict with the SACRS Fall Conference, which runs from November 14th through 17th. Mr. Stensrud noted that at the November Meeting the Board would select who would vote on behalf of SCERS on items presented for membership vote at the SACRS Conference, including proposals for SACRS-sponsored legislation. Mr. Stensrud noted that those legislative proposals would be presented for the Board's consideration at the November Meeting.

11. Chief Executive Officer Richard Stensrud presented a recommendation that the SCERS Board adopt a proposed Resolution authorizing the President to execute a Memorandum of Understanding with the County of Sacramento regarding implementation of the County's Internal Revenue Code Section 415(b) Replacement Benefits Plan. Mr. Stensrud explained the purpose of the Replacement Benefits Plan and the reasons for the Memorandum of Understanding with the County. Mr. Stensrud also noted that the Replacement Benefits Plan and Memorandum of Understanding had already been approved by the County Board of Supervisors. Motion by Mr. Woods to adopt Resolution 2006-13, as presented; Seconded by Mr. Hickox. Motion carried (9-0)

INVESTMENT MATTERS:

12. Amy Adamshick, Managing Director, Client Services, Blake Gall, Vice Chairman and Charles McKenzie, CEO of OFI Institutional Asset Management (Trinity Investment Management Corp.) presented a portfolio review and firm update regarding the Large Cap Value assets managed by the firm. They reported that the portfolio had a gross of fees investment return on an annualized basis of 10.9% for the five years period ending September 30, 2006 which is 20 basis points above the return of the Russell 1000 Value Index portfolio benchmark. A description of the firm's investment process was provided along with an explanation of why the process should be expected to add value in the future. Discussion followed. The presentation report was received and filed on a Motion by Mr. Woods; Seconded by Mr. Kelly. Motion carried (8-0).
13. Mark C. Lapman, CEO & Chairman of Investment Committee and John C. Forelli, Senior Vice President of Independence Investment Associates presented a portfolio review and

INVESTMENT MATTERS: (Continued)

firm update regarding the Large Cap Growth assets managed by the firm. Mr. Lapman gave a comparison of Independence investment process and portfolio to the three investment managers recently reviewed by SCERS for a new large cap growth assignment. He explained that Independence investment process is a low tracking error strategy that is tightly controlled to track the benchmark Russell 1000 Growth Index while the other managers have fewer constraints which may allow them to achieve higher returns. He presented information showing that since the U. S. Equity markets peaked in March of 2000 that Independence had met SCERS investment objective for the portfolio of out performing the benchmark by 1.0% although the annualized return since inception of the portfolio in 1998 is below the benchmark return. He explained why he felt the Board should have confidence in Independence skill and ability to add value as a U. S. Equity Large Cap Growth portfolio manager. Discussion followed. The presentation report was received and filed on a Motion by Mr. Woods; Seconded by Mr. Kelly. Motion carried (8-0).

Upon completion of the two presentations, substantial discussion took place regarding the two managers, both of which are on the Watchlist. The discussion included: (1) A desire for more information on the extent to which individual investment managers were adding to or detracting from the total return of the fund; (2) Additional information regarding the role the investment managers were hired to play in their respective investment category and the other candidates that had been considered when the manager was hired; and (3) Reconciliation of the return information provided by the managers with the return information provided by the investment consultant and SCERS staff. Discussion was also held regarding the decline in the assets being managed by Independence in the same manner as the SCERS engagement and whether that information should have been shared with SCERS or otherwise reported earlier by the investment consultant.

Chief Executive Officer Richard Stensrud noted that no recommendation was being made regarding the two managers at the Meeting as the investment consultant was not able to attend and he believed the Board should have the opportunity to discuss the issues with the consultant before determining how it wished to proceed. Mr. Stensrud noted that the investment consultant would be present at the November Meeting and the Board would have an opportunity at that time to further discuss what, if any, action it wished to take or what additional information it desired.

14. Chief Investment Officer Jeffrey States recommended the Board approve a request by Cornerstone Realty Advisers to increase their investment allocation by \$15 million. Mr. States noted that Cornerstone was making the request because it was having difficulty finding acceptable investments for SCERS real estate portfolio with the limited dollars remaining in their current allocation. Discussion followed. Motion by Ms. Wolford-Landers moved to approve the increased allocation to Cornerstone; Seconded by Mr. Woods. Motion carried (7-0). Mr. Kelly was absent from the room and did not participate in the discussion or vote due to an ownership interest held by the parent company of Mr. Kelly's employer in Cornerstone.

INVESTMENT MATTERS: (Continued)

15. SCERS General Counsel James Line presented a request from SCERS' real estate counsel, Nossaman, Guthner, Knox & Elliot, LLP, that the Board adopt a proposed Resolution authorizing an increase in the number of directors for SCERS' real estate Title Holding Corporation from three to five to address the situation where an 'independent director' would be required to comply with the requirements of a lender or rating agency for properties financed with a securitized loan. Mr. Line and Chief Investment Officer Jeffrey States explained that such situations do not arise often, but that a Delaware company would provide such a director for a nominal fee. Mr. Line noted that the independent director would only be involved in a limited category of decisions regarding the investment property and that day-to-day management of the title holding company would remain with the current directors through creation of an executive committee. Discussion followed. Motion by Ms. Wolford-Landers to approve Resolution SCERS 2006-12, as presented; Seconded by Mr. Woods. Motion carried (8-0).
16. General Counsel James Line recommended the Board approve a request by Nossaman, Guthner, Knox & Elliott to increase the annual amount of legal fees authorized for real estate transactions. Mr. Line explained that he had reviewed the legal fees incurred to-date and that he felt the fees charged were reasonable and the service received was excellent. Mr. Line further noted that an increased fee level for the year would be necessary to allow for completion of pending and contemplated real estate transactions. Motion made by Mr. Hickox to increase the cap; Seconded by Mr. Johnson. Motion carried (8-0).
17. Chief Investment Officer Jeffrey States presented the Trade Cost Analysis Report for the funding of the INTECH Large Cap Growth portfolio. Motion by Mr. Woods to receive and file the report; Seconded by Mr. Hickox. Motion carried (8-0).
18. The Chief Investment Officer's Monthly Investment Management Compliance and Activity Report for September 2006 was received and filed on a Motion by Mr. Woods; Seconded by Mr. Kelly. Motion carried (8-0)

The meeting was adjourned at 4:46p.m.

MEMBERS PRESENT: James A. Diepenbrock; Winston Hickox; Dave Irish; Alice Jarboe; William D. Johnson; John B. Kelly; Steven Soto; Nancy Wolford-Landers; and Robert Woods.

MEMBERS ABSENT: William Cox, Keith DeVore

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; Amy Adamshick, Blake Gall, and Charles McKenzie of OFI Institutional Asset Management; Mark C. Lapman and John C. Forelli of Independence Investment Associates; 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); 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.; Dickstein & Merin; John R. Descamp; and The Sacramento Bee.