



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

John Conneally
Elected by Safety Members

William Cox
Elected by Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, NOVEMBER 8, 2007

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, November 8, 2007, commencing at 10:03 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the September 20, 2007 and October 18, 2007 regular meetings were approved on Motion made by Ms. Jarboe; Seconded by Mr. Johnson. Motion carried (7-0).

INVESTMENT MATTERS:

3. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States provided an overview of the search to identify private equity fund-of-fund managers to implement SCERS' new allocation to private equity. Mr. Lightvoet and Mr. States noted that the purpose of the present search was to select two or three fund-of-fund private equity funds to manage a total of approximately \$200 million in a broadly diversified private equity portfolio.

INVESTMENT MATTERS (continued):

Presentations were made by the following private equity fund-of-fund investment management candidates: (a) Abbott Capital Management; (b) Goldman Sachs Asset Management; (c) HarbourVest Partners; and (d) JP Morgan Asset Management.

The firms discussed: (1) their investment philosophy; (2) their process for building and managing a fund of private equity partnerships; (3) the segments of the private equity market where they invested funds and the asset allocation structure they recommended for SCERS; (4) the expected diversification of the ultimate fund-of-funds by private equity market segment and by geography; (5) vintage year diversification; (6) the investment performance of the funds they had previously managed; and (7) the fee structure for the investment.

Substantial discussion was held among the Board and with the investment manager candidates, including consideration of: (a) the relative allocation of funds between the various segments of the private equity market; (b) geographical diversification, including investments outside the U.S.; (c) fees and costs; (d) the number of fund-of-fund managers to select; (e) where the respective funds stood with respect to fundraising and investing; (f) the timing of capital calls; and (g) the length of the investment cycle, the point when investments could begin to be harvested, and the expected duration of the funds.

After thorough discussion of the relative capabilities of the candidates, their fund offerings and their fee structures, it was the consensus of the Board that three managers should be hired for the purpose and intent of achieving the desired level of diversification. Staff recommended that any manager selection be contingent on a comprehensive review of the offering and contractual documents related to the fund, and upon completion of that review, the proposed engagement be brought back to the Board for final consideration and approval. In this regard, it was noted that at least one of the manager candidates was ready to close its fund offering and therefore review of and negotiation regarding the terms of the engagement would need to be undertaken promptly if SCERS wanted to invest in the fund.

Motion by Mr. Irish to: (1) Authorize a \$75 million investment in the private equity fund-of-fund offerings from Abbott Capital and Goldman Sachs Asset Management; (2) Authorize a \$50 million investment in the domestic private equity fund-of-fund offering from HarbourVest Partners and a \$50 million investment in the international private equity fund-of-fund which will be offered by HarbourVest beginning in the first quarter of 2008; and (3) Authorize and direct Staff and the investment consultant to (a) review the documentation for the proposed engagements, (b) negotiate any necessary terms, and (c) report back to the Board on whether they believe the business and legal terms of the proposed engagement are reasonable. Motion seconded by Mr. Woods. Motion carried (8-0).

CLOSED SESSION:

PUBLIC EMPLOYEE PERFORMANCE EVALUATION:

4. The Board conducted an evaluation of Chief Executive Officer Richard Stensrud.

DISABILITY MATTERS

5. GOULD, Michael D.: Motion by Mr. Kelly to grant a service-connected disability retirement; Seconded by Mr. DeVore. Motion carried (8-0).
6. HUMPHREY, Alan E.: Motion by Mr. Johnson to grant a service-connected disability retirement; Seconded by Mr. Woods. Motion carried (8-0).

LEGAL MATTERS:

7. The Board consulted with legal counsel regarding potential litigation.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

8. 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 non-official results of the election for the Alternate Retiree seat on the SCERS Board and one of the two Miscellaneous member seats on the SCERS Board indicated that Mr. Cox had been re-elected as the Alternate Retiree representative and Mr. DeVore had been re-elected as one of the two Miscellaneous member representatives. Mr. Stensrud noted that Ms. Wolford-Landers had been unopposed as the primary Retiree representative on the SCERS Board, and pursuant to the 1937 Act, would be certified for a new term by action of the County Board of Supervisors.

Mr. Stensrud reported that the field work for the annual independent audit was nearly completed. Mr. Stensrud noted that the results of the audit would be presented at the December Board Meeting along with the SCERS Comprehensive Annual Financial Report (CAFR) for the years ending June 30, 2007 and 2006.

Mr. Stensrud reported that because the Distressed Mortgage Fund (Fund) being formed by Pacific Investment Management Company (PIMCO) had been over-subscribed, the \$25 million investment in the Fund authorized by the Board in October had to be scaled back to \$18 million. Mr. Stensrud and Chief Investment Officer Jeffrey States noted that other investment management firms would be forming funds targeting this investment area in the future and that Staff and the investment consultant would advise the Board if they became aware of any investment opportunities that merited the Board's attention.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud provided the Board with updates on: (a) The opportunity being offered to active Miscellaneous Tier 2 members to elect to convert to Tier 3 for prospective service; (b) The information being provided regarding the potential \$3,000 federal income tax exclusion for qualified 'public safety officer' retirees; and (c) The implementation of the Additional Retirement Credit (ARC) service purchase option.

Given the recent liquidity and credit issues in certain segments of the fixed income markets, Mr. Stensrud requested that Chief Investment Officer Jeffrey States provide the Board with an update on how SCERS' collateral is managed under the securities lending program operated by State Street Securities Finance. Mr. States noted that SCERS' collateral is not invested in the more aggressive collateral investment vehicles utilized by some securities lending participants, and therefore SCERS had not experienced the loss in value and liquidity issues experienced by some securities lending participants. Mr. States outlined the investment strategy and holdings of the collateral investment vehicles used by SCERS, noting that the relevant State Street funds were invested in high quality, short duration holdings, with minimal exposure to the sub-prime market. Discussion followed.

9. Andy Yeung of The Segal Company presented the SCERS Actuarial Valuation and Review as of June 30, 2007. Prior to the presentation, Ms. Jarboe advised the Board that she might have a possible conflict of interest based on a possible personal financial effect on her compensation as a County employee, and to be prudent, she would not be present for or participate in consideration of the item. Ms. Jarboe then left the Board chambers.

Mr. Yeung summarized the actuarial assumptions and methodology used in the preparation of the actuarial valuation.

Mr. Yeung noted the following highlights in the actuarial valuation: (a) The County's employer contribution rate and contribution costs in the 2007-2008 fiscal year will be lower than the past year; (b) The decrease in the employer's cost is due to the cumulative impact of the phase-in of deferred net gains under the 5-year smoothing process used by SCERS, changes in the demographic profile of SCERS' membership, and other 'actuarial gains'; (c) The downward pressure on costs was offset by the actuarial experience regarding individual salary increases, which was greater than the actuarial assumption in this area; (d) The system's funding ratio increased from 93.0% to 93.4%; (e) The system's funded status would have improved more but for the actuarial loss attributable to the higher than expected level of salary increases; (f) Due to the strong investment performance over the last few years, SCERS has approximately \$569.5 million in deferred net gains which will be phased-in via the smoothing process over the next five years; and (g) Employee contribution rates will be increasing slightly due to net changes in the actuarial assumptions and changes in the composition of the SCERS' membership. Discussion followed.

Motion by Mr. Kelly to ratify the actuarial assumptions utilized in the actuarial valuation; Seconded by Mr. Irish. Motion carried (5-0-1) with Ms. Wolford-Landers abstaining, and Ms. Jarboe recused.

ADMINISTRATIVE MATTERS: (continued)

Motion by Mr. Kelly to adopt the contribution rates recommended in the actuarial valuation; Seconded by Mr. Irish. Motion carried (5-0-1) with Ms. Wolford-Landers abstaining, and Ms Jarboe recused.

Motion by Mr. Johnson receive and file the actuarial valuation materials; Seconded by Mr. DeVore. Motion carried (6-0) with Ms. Jarboe recused.

10. General Counsel James Line and Chief Executive Officer Richard Stensrud presented a proposed policy concerning the collection of erroneous overpayments made to SCERS benefit recipients.

Mr. Line noted that for various reasons, on occasion, it was possible that an overpayment of benefits could occur. Mr. Line noted that in such cases SCERS has a responsibility to take reasonable steps to collect the overpayment, but that the system could also consider any practical or equitable constraints associated with such collection efforts. Mr. Line explained that the proposed policy was intended to provide a framework within which the Chief Executive Officer, in consultation with the General Counsel, may negotiate reasonable terms for the repayment of overpaid amounts. Mr. Line outlined the provisions of the proposed policy. Mr. Stensrud noted that the proposed policy was premised on the assumption that it was preferable to reach a voluntary agreement regarding repayment, while avoiding undue hardship on a non-culpable payment recipient. Discussion followed.

Motion by Ms. Wolford-Landers to adopt the proposed policy concerning the collection of overpayments made to SCERS benefit recipients; Seconded by Mr. Johnson. Motion carried (7-0).

INVESTMENT MATTERS:

11. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended September 30, 2007.

Mr. Lightvoet reported that SCERS' investment portfolio had a return of 1.9% for the quarter, net of fees. Mr. Lightvoet provided an overview of those areas of the portfolio, and the particular investment managers, that had added to or detracted from the performance. Mr. Lightvoet also commented on the investment managers on SCERS' watchlist. Discussion followed.

Motion by Mr. Kelly to receive and file the Investment Performance Report for the Quarter Ended September 30, 2007; Seconded by Mr. Johnson. Motion carried (7-0).

12. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented information regarding the proposed structure and sub-asset allocations for SCERS' investment portfolio.

INVESTMENT MATTERS: (continued)

Mr. States and Mr. Lightvoet outlined the previous analyses, discussion and decisions regarding the subject. Mr. States noted that in this final implementation decision, Staff was recommending a slight variation from the recommendation previously made by Mercer. Mr. States identified the areas where the Staff recommendation differed from the Mercer recommendation and he explained the reasons for the alternative approach. Mr. States discussed: (a) The proposed changes to the sub-allocation structure in the domestic equity, international equity, and fixed income areas; (b) The portfolio and investment manager modifications that would need to take place to implement the proposed sub-allocation structure; (c) The investment manager decisions that would need to be made to implement the private equity and opportunities allocations; and (d) The timeline for making the decisions necessary to fully implement the new asset allocation model. Mr. Lightvoet noted that he concurred in the recommendations made by Staff.

Discussion followed regarding the sub-allocation structure, the investment managers that would populate that structure, and the timeline for implementation of the structure. Discussion also took place regarding the timing of manager transitions and the optimal method for making such transitions.

Motion by Mr. Kelly to: (a) Adopt the structure and sub-asset allocations for SCERS' investment portfolio recommended by Staff; (b) Authorize Staff and the investment consultant to identify and recommend to the Board an investment manager to provide a Russell 2000 Index Fund; (c) Terminate the investment management engagement with O.F.I.-Trinity, and utilize a transition manager to transition the assets to the remaining managers in the Large Cap Value portion of the sub-allocation structure; and (d) Approve ending the investment management engagement with the other investment managers recommended for termination upon completion of the search for replacement managers. Motion Seconded by Ms. Wolford-Landers. Motion carried (7-0).

13. Chief Investment Officer Jeffrey States presented a proposed amendment to the limited partnership agreement governing SCERS' real estate investment in the Cornerstone Patriot Fund. Mr. States outlined the changes that would be made by the proposed amendment, which had been requested by Cornerstone, and noted that the amendment would be beneficial to SCERS in several respects.

Motion by Ms. Wolford-Landers to adopt the Resolution authorizing an amendment to the limited partnership agreement governing the Cornerstone Patriot Fund; Seconded by Mr. Kelly. Motion carried (7-0).

14. Chief Investment Officer Jeffrey States presented a proposed amendment to the investment management agreement governing SCERS' investment in a Small Cap Growth portfolio managed by Bear Stearns Asset Management. Mr. States outlined the changes that would be made by the proposed amendment, which had been requested by Bear Stearns, and noted that the amendment would not alter the investment strategy or the individuals managing the portfolio.

INVESTMENT MATTERS (continued):

Motion by Mr. Kelly to adopt the Resolution authorizing an amendment to the investment management agreement with Bear Stearns Asset Management; Seconded by Mr. Johnson. Motion carried (7-0).

15. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for October 2007.

Motion by Mr. Kelly to receive and file the Monthly Investment Management Compliance Report for October 2007; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

The meeting was adjourned at 4:37 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore; John B. Kelly; Dave Irish (arrived at 10:36 a.m.); William D. Johnson; Nancy Wolford-Landers (arrived at 10:08 a.m.); Robert Woods (departed at 3:00 p.m.); Alice Jarboe; John Conneally; and William Cox (departed at 3:42 p.m.).

MEMBERS ABSENT: Winston Hickox

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; James G. Line, General Counsel; John Gobel, Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Tom Lightvoet, Mercer Investment Consulting; Charles Van Horn, Abbott Capital Management; Mike Kehoe, Mike Miele, and Rob Ehrhart, Goldman Sachs Asset Management; Kevin Debridge, Greg Stento, and Julie Ocko, HarbourVest Partners; Thomas McComb, Laureen Costa, Jarred Fong and Joel Damon, JP Morgan Asset Management; Rachel L. Kelstein, Alliance Bernstein; and Jennifer Foster, Executive Assistant.

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.; Mark Merin; John R. Descamp; and The Sacramento Bee.