



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, JANUARY 17, 2008

The regular 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, January 17, 2008, commencing at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the December 20, 2007 regular meeting were deferred to the next meeting.

CLOSED SESSION:

DISABILITY MATTERS:

3. CHAND, Vineeta L.: Motion by Mr. DeVore to grant a non-service connected disability; Seconded by Mr. Irish. Motion carried (8-0).
4. HICKEY, Steven G.: Motion by Mr. Conneally to grant a service connected disability; Seconded by Mr. DeVore. Motion carried (8-0).

DISABILITY MATTERS (continued):

5. MARTINEZ, Jimmy J.: Motion by Ms. Jarboe to deny a service connected disability; Seconded by Mr. Irish. Motion carried (7-1, with Mr. Woods dissenting).
6. NGUYEN, Vu: Motion by Mr. Conneally to grant survivor's service connected death benefits; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

LEGAL MATTERS:

7. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9: One case

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 provided an update on the purchase of Additional Retirement Credit (ARC). Mr. Stensrud reported that to-date there were sixty-nine contracts, collectively totaling \$6.9 million.

Mr. Stensrud reported that SCERS had been approached by the Superior Court of the County of Sacramento regarding conducting a Tier 2 to Tier 3 conversion election for Tier 2 Court employees similar to the election that had been conducted in the past fall for County Tier 2 members. Mr. Stensrud noted that he would report back to the Board when a timeframe for the election had been established.

At Mr. Stensrud's request, General Counsel James Line presented a report on the recent U.S. Supreme Court decision in the case of Stonebridge Investment Partners v. Scientific-Atlanta, Inc. and Motorola, Inc. Mr. Line noted that SCERS had joined in an Amicus brief in the case, which involved the standards for recovering damages from 'third party' defendants in securities fraud class action lawsuits (e.g., accounts, bankers, etc.). Mr. Line reported that the Supreme Court had raised the standard for bringing an action against such a third party, with the result that it would make it more difficult to recover damages even though the party was a participant in the scheme to defraud investors.

Mr. Stensrud noted that the Governor's Public Employee Post-Employment Benefit Commission had recently issued its report and he provided an overview of the Commission's findings and recommendations.

Mr. Stensrud reported that there had been two participants in the County's Replacement Benefit Plan in the 2007 calendar year.

ADMINISTRATIVE MATTERS (continued):

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States reported that the investment with European Credit Management Limited would be funded at the end of January.

Mr. Stensrud reported that in the first week of February he and Chief Investment Officer Jeffrey States would be traveling to New York to conduct on-site due diligence meetings with SCERS' New York-based investment managers. Mr. Stensrud reported that during the trip he would also be participating in a roundtable discussion regarding actuarial valuation and disclosure standards at the American Academy of Actuaries.

9. Chief Operations Officer Kathryn Regalia presented the Semi-Annual Administrative Expense Report for the Six Months ended December 31, 2007. Ms. Regalia outlined the expenditures to-date in the various budget categories, noting that overall administrative expenses were below mid-year projections and well below the administrative expense limit in the County Employees' Retirement Law of 1937 (1937 Act).

Motion by Mr. Woods to receive and file the Semi-Annual Administrative Expense Report for the Six Months ended December 31, 2007; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

10. Chief Executive Officer Richard Stensrud presented a proposed Resolution amending the interim process previously adopted by the Board for implementing the retired 'public safety officer' federal tax exclusion under IRC Section 402(l).

Mr. Stensrud noted that when the interim process for implementing the federal tax exclusion had been adopted in January 2007, there were a number of uncertainties regarding how the Internal Revenue Service (IRS) would approach the exclusion. Mr. Stensrud noted that over the year there had been several developments in federal tax law which allowed for a simpler and more direct method of implementation. Mr. Stensrud explained that it was now no longer necessary for the retirement system to determine whether an individual qualified for the exclusion, and instead, it would be the responsibility of the individual retiree to determine whether he/she was eligible, and if so, claim the exclusion on his/her tax return.

Accordingly, Mr. Stensrud explained that under the amended implementation plan SCERS would provide information to a potentially qualified retiree: (a) Outlining the considerations for determining whether an individual qualifies for the tax exclusion; (b) Noting that it is the responsibility of the individual to determine whether he/she qualifies for the tax exclusion and that it is his/her responsibility to claim the exclusion; and (c) Alerting the individual that he/she assumes the risk that the Internal Revenue Service might come to a different conclusion regarding eligibility for the tax exclusion. Mr. Stensrud also noted that SCERS would provide the retiree with information regarding the amount that SCERS paid to qualified health care plans on the retiree's behalf during the tax year, which the retiree could then use in pursuing the tax exclusion if he/she determines he/she qualifies.

ADMINISTRATIVE MATTERS (continued):

Motion by Ms. Wolford-Landers to approve the proposed Resolution amending the SCERS IRC Section 402(l) implementation plan; Seconded by Mr. Conneally. Motion carried (8-0).

11. Chief Executive Officer Richard Stensrud presented a report and recommendations to the Board in response to certain requests from the County Executive regarding the actuarial decision-making process and timeline.

Mr. Stensrud's report: (a) Described the elements of the annual actuarial valuation (including the annual experience adjustment) and the triennial experience study (including the adoption of actuarial assumptions); (b) Explained the current process and timeline for making these actuarial determinations; (c) Described the important fiduciary and operational considerations associated with actuarial determinations; (d) Outlined the requests submitted by the County; and (e) Recommended alternative measures that were both less problematic and more effective for addressing the County's concerns.

Specifically, Mr. Stensrud recommended that the current process for addressing actuarial decisions in the years when there is a triennial experience study be modified so that the triennial experience study is taken up after the annual actuarial valuation rather than before the annual actuarial valuation. Mr. Stensrud explained that under such an approach, any new actuarial assumptions approved as part of the triennial experience study in December would be incorporated in the annual actuarial valuation as of the next June and then implemented in the contribution rates effective in July of the following year. Mr. Stensrud noted that this would: (1) Provide more time to assess potential assumption changes in the triennial experience study because the time constraints related to completing the current year annual actuarial valuation would be removed; and (2) Provide more time to plan for a potential change in contribution rates in those years where the magnitude of the change could be greater due to assumption changes (i.e., it would extend the implementation date for the new rates from eight months to twenty months).

Mr. Stensrud also proposed that SCERS staff meet on a quarterly basis with the appropriate County staff to help them assess how the actual investment and demographic experience to-date for the fiscal year compared to the actuarial assumptions. Mr. Stensrud explained that by looking at this information the County could develop a reasonable estimate of the annual experience adjustment that would likely follow in the next annual actuarial valuation.

Discussion followed, and it was the consensus of the Board that Mr. Stensrud's analysis and recommendations fully reflected the Board's view and position on the issues, and should be so communicated to the County Executive.

Motion by Ms. Wolford-Landers to adopt the staff analysis and recommendations; Seconded by Mr. Hickox. Motion carried (8-0).

INVESTMENT MATTERS:

12. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented the Manager Search Report for a U.S. Equity Large Cap Growth investment manager prepared by Mercer Investment Consulting.

Mr. States and Mr. Lightvoet recommended that the Board select three of the seven firms identified in the report to make formal presentations to the Board in February. Mr. States and Mr. Lightvoet described the major differences between the firms and identified those managers that they believed best fit SCERS' investment objectives for the sub-asset class allocation.

Discussion followed. Motion by Mr. Woods to have Turner Investment Partners, Winslow Capital Management and Wells Capital Management make formal presentations for consideration as a U.S. Equity Large Cap Growth manager; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

Motion by Mr. Woods to receive and file the presentation materials; Seconded by Mr. Irish. Motion carried (8-0).

13. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented the Manager Search Report for a U.S. Equity Small Cap Value investment manager prepared by Mercer Investment Consulting.

Mr. States and Mr. Lightvoet recommended that the Board select three of the seven firms identified in the report to make formal presentations to the Board in February. Mr. States and Mr. Lightvoet described the major differences between the firms and identified those managers that they believed best fit SCERS' investment objectives for the sub-asset class allocation.

Discussion followed. Motion by Mr. Hickox to have Numeric Investors, Thompson, Siegel & Walmsley, and WEDGE Capital Management make formal presentations for consideration as a U.S. Equity Small Cap Value Manager; Seconded by Mr. Woods. Motion carried (8-0).

Motion by Mr. Woods to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

14. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing an amendment to the Investment Management Agreement with State Street Global Advisors (SSGA) governing the Strategic Overlay Program. Mr. States explained that the amendment was needed to allow SSGA to enter into the Russell 2000 Index Total Return Swap previously authorized as the optimal way to replicate exposure to the Private Equity asset class.

Motion by Mr. Woods to adopt the proposed Resolution authorizing an amendment to the Investment Management Agreement with State Street Global Advisors regarding permitted

INVESTMENT MATTERS (continued):

investments under the Strategic Overlay Program; Seconded by Mr. DeVore. Motion carried (8-0).

15. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing execution of the trust documents necessary to implement an investment option under the Strategic Overlay Program administered by State Street Global Advisors (SSGA). Mr. States explained that the trust documents would allow investment in the SSGA real asset investment product previously authorized as the optimal way to replicate exposure to the Opportunities asset class.

Motion by Mr. DeVore to adopt the Resolution authorizing execution of the trust documents necessary to implement the real asset investment option under the Strategic overlay Program administered by State Street Global Advisors; Seconded by Mr. Irish. Motion carried (8-0).

16. Chief Investment Officer Jeffrey States presented proposed amendments to the SCERS Investment Policy and Objectives. Mr. States provided an overview of the proposed amendments, which are intended to incorporate into the Investment Policy the decisions previously made by the Board regarding SCERS' investment objectives, asset allocation model, sub-asset allocations, permitted investments, and other investment-related matters.

Motion by Mr. Woods to adopt the proposed amendments to the SCERS Investment Policy and Objectives; Seconded by Mr. Irish. Motion carried (8-0).

17. Chief Investment Officer Jeffrey States presented the R.V. Kuhns Public Fund Universe Analysis Report for the period ending June 30, 2007. Mr. States explained that the Report provides comparisons of the asset allocation, investment strategy and investment performance for a large universe of public funds, and as such, is useful for identifying differences between the SCERS' investment program and the programs at other public funds. Mr. States noted that the Report was also useful for identifying potential alternative investment strategies that might offer opportunities for improving risk-adjusted performance.

Motion by Mr. Woods to receive and file the Report; Seconded by Mr. Hickox. Motion carried (8-0).

18. Chief Investment Officer Jeffrey States presented the Asset Allocation and Rebalancing Report for the quarter ended December 31, 2007. Mr. States highlighted the differences in the portfolio as invested relative to SCERS' new strategic asset allocation and outlined the actions being planned to implement the new allocation.

Motion by Ms. Wolford-Landers to receive and file the Report; Seconded by Mr. Woods. Motion carried (8-0).

INVESTMENT MATTERS (continued):

19. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for December 2007.

Motion by Mr. DeVore to receive and file the Report; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

Discussion was held regarding the possibility of conducting a Special Board Meeting on February 14, 2008 for the purpose of having investment manager presentations by the U.S. Equity Large Cap Growth and Small Cap Value manager candidates. It was the consensus of the Board that such a Special Meeting would be better than trying to conduct such interviews as part of the regular Board Meeting on February 21st.

The meeting was adjourned at 3:21 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore; Dave Irish; Winston Hickox; Nancy Wolford-Landers; Robert Woods; Alice Jarboe; William Cox (departed at 3:19 p.m.); and John Conneally.

MEMBERS ABSENT: William D. Johnson; John Kelly

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; Claire Van Dam, Deputy Counsel; Diana Ruiz, Deputy Counsel; Tom Lightvoet of Mercer Investment Consulting; 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.