



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, 1<sup>st</sup> Vice President  
Elected by Miscellaneous Members

John B. Kelly, 2<sup>nd</sup> 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, MARCH 20, 2008

The special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18<sup>th</sup> Floor, Sacramento, California, on Thursday, March 20, 2008, and commenced at 12:00 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the February 14, 2008 special meeting and February 21, 2008 regular meeting were approved on Motion made by Mr. DeVore; Seconded by Mr. Kelly. Motion carried (7-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. FIGUEROA, Placido: Motion by Mr. Kelly to grant a non-service connected disability; Seconded by Mr. DeVore. Motion carried (7-0).
4. NISSEN, Glenn E.: Motion by Mr. Johnson to grant a service connected disability; Seconded by Mr. Kelly. Motion carried (7-0).

**DISABILITY MATTERS (continued):**

5. PACK, Bryan L.: Motion by Mr. DeVore to grant a non-service connected disability; Seconded by Ms. Wolford-Landers. Motion carried (7-0).
6. DE ANDA, Patricia: Motion by Ms. Wolford-Landers to deny a service connected disability; Seconded by Mr. Johnson. Motion carried (7-0).
7. FRANKLIN, Timothy: Motion by Ms. Wolford-Landers to grant a service connected disability; Seconded by Mr. Kelly. Motion carried (7-0).

**LEGAL MATTERS:**

8. The Board authorized legal counsel to initiate litigation. Information regarding the specific litigation will be provided, upon request, if and when formal litigation is initiated.
9. The Board consulted with legal counsel regarding Claim No. 1951196 against Reliance Insurance Company (in Liquidation) by Assignment from EMJ Construction Consultants, N.A. Inc., Cause No. 269 MD 200 (Commonwealth Court of Pennsylvania).
10. The Board consulted with legal counsel regarding S.C. Vernon Business Park, Inc. v. Novella, Inc., et al., Los Angeles Superior Court, No. BC371085.

**OPEN SESSION:**

Chief Executive Officer Richard Stensrud requested that the Board consider a non-scheduled matter. Mr. Stensrud explained that the item concerned the recent events involving Bear Stearns and the developments in the investment markets that triggered them. Mr. Stensrud explained that the proposed discussion would include an educational presentation on the problems in the sub-prime debt market, how those problems had spread to the broader debt market, and why this situation had spread to Bear Stearns. Mr. Stensrud noted that the situation with Bear Stearns had unfolded after the Agenda had been posted. Mr. Stensrud further noted that deferring the proposed discussion until the next Board Meeting would not be in the best interests of SCERS.

Motion by Mr. Woods to take up the non-scheduled matter which had arisen subsequent to establishing the Agenda, and which should not be deferred until the next Board Meeting; Seconded by Mr. Kelly. Motion carried (8-0).

Mr. Stensrud advised the Board that he had arranged for an educational presentation by Pacific Investment Management Company (PIMCO) on the sub-prime market, the current state of the broader debt market, and how the market environments were impacting firms like Bear Stearns and others. Mr. Stensrud noted that the Board had recently recognized PIMCO's expertise in these areas by authorizing an investment in a PIMCO fund focused on investment opportunities arising from such market dislocations. Mr. Stensrud noted that the

PIMCO presentation would be made via a video conference to PIMCO's offices in Southern California.

The PIMCO presentation was made by John Miller, Executive Vice President and Client Services Manager, and Saumil Parikh, Executive Vice President and Portfolio Manager on the Mortgage and Short Term Desks. Mr. Miller and Mr. Parikh provided an overview of the sub-prime mortgage market, explaining how it differed from the prime mortgage market. They explained the mortgage credit quality spectrum and where different types of mortgage-related debt instruments fell on that spectrum. They explained the difference between mortgage-backed securities and asset-backed securities, and how sub-prime asset-backed securities were structured. Mr. Miller and Mr. Parikh described the current state of the mortgage market and explained how the market had reached this state. Mr. Miller and Mr. Parikh also discussed what they thought would happen in the mortgage market, and the broader debt market, over the next eighteen months. Finally, Mr. Miller and Mr. Parikh explained how these market developments had triggered the recent events at Bear Stearns and other investment firms.

Questions were asked of Mr. Miller and Mr. Parikh throughout the presentation. Discussion of the issues by the Board followed the presentation. No action was taken.

**ADMINISTRATIVE MATTERS:**

11. 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 a retirement planning seminar focused on early-career members would be conducted on March 24<sup>th</sup>.

Mr. Stensrud reported that pursuant to a recent change in federal tax law, SCERS would start allowing direct rollovers to Roth IRAs. Mr. Stensrud stated that absent objection from the Board, he would report on any similar future changes in rollover practices, as opposed to bringing such changes to the Board for approval. The Board indicated that it agreed with that approach.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States reported on recent capital calls from SCERS' private equity and value-added real estate managers.

Mr. Stensrud reported that work was underway on developing a means for the Board to access materials electronically.

12. Chief Operations Officer Kathryn Regalia presented a proposed Request for Proposals (RFP) for Professional Auditing Services.

Ms. Regalia noted that since 2000, SCERS' annual independent audit had been conducted by Macias Gini & O'Connell. Ms. Regalia noted that the firm had done a good job in providing professional audit services during its tenure, but that it was advisable to

**ADMINISTRATIVE MATTERS: (Continued)**

periodically request proposals from other public accounting firms in order to determine if the firm continues to be the optimal service provider. Ms. Regalia noted that the proposals would be reviewed by an evaluation committee and requested that the Board select one of its Members to serve on that committee.

Motion by Mr. Johnson to issue the proposed Request for Proposals for Professional Auditing Services, and to nominate Mr. Irish as the Board Member to serve on the proposal review committee; Seconded by Mr. Woods. Motion carried (7-0).

**INVESTMENT MATTERS:**

13. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States provided an overview of the search process that had been undertaken to identify candidates for a commodities investment management assignment. Mr. Lightvoet and Mr. States explained that after interviewing four finalist candidates, the consultant and staff were recommending two firms for consideration by the Board – Blackstone Alternative Asset Management, L.P. (Blackstone) and Lehman Brothers Asset Management, Inc. (Lehman). Mr. Lightvoet and Mr. States noted that the investment strategies of the two recommended firms were more active in nature as compared to the firms not selected, which utilized an enhanced index strategy, with the bulk of the value added through collateral management rather than from their investments in commodities. Mr. Lightvoet and Mr. States explained that they believed the investment strategies of the recommended firms were better designed to take advantage of the inefficiencies in the commodities markets, and to reduce risk and volatility.

Separate presentations were made by representatives from Blackstone and Lehman. The two firms described: (a) Their organizations, resources and investment teams; (b) Their investment models and process; (c) Their performance track records; (d) The operation of the commodities markets and the problems in investing through a single commodities index; (e) the value in commodities investment as a component of the a diversified investment portfolio; (f) The management of cash collateral; and (g) Their fee structures.

Numerous questions were asked of the manager candidates by the Board. Discussion followed.

Motion by Mr. DeVore to engage both Blackstone and Lehman to manage a commodities portfolio, contingent on review by staff and Mercer of the business and legal terms of the engagement; Seconded by Mr. Hickox. Motion carried (8-0).

14. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States presented the results of the search for potential firms for an Enhanced Russell 1000 Index investment management assignment.

**INVESTMENT MATTERS: (Continued)**

Mr. Lightvoet and Mr. States summarized the search process and provided an overview of the manager candidates, including the respective firms': (a) structure, background and history; (b) investment management team; (c) investment style and process; (d) assets and accounts in the strategy; (e) performance track record; and (f) fee schedule.

Discussion followed, including consideration of: (a) the relatively small size of the candidate pool; (b) the fact that some of the candidates had been having problems meeting the performance benchmark; and (c) similarities and differences in the investment strategies of the candidates.

Motion by Mr. Woods to request that BlackRock, INTECH and Westridge Capital Management be asked to make presentations to the Board; Seconded by Mr. Kelly. Motion carried (8-0).

15. Tom Lightvoet of Mercer Investment Consulting and Chief Investment Officer Jeffrey States presented the results of the search for potential firms for a U.S. Equity Active Extension Strategy ('130/30') investment management assignment. Board President James A. Diepenbrock recused himself and left the room before consideration of the matter because one of the firms under consideration was a subsidiary of the same parent company as the firm with which Mr. Diepenbrock is affiliated.

Mr. Lightvoet and Mr. States summarized the search process and provided an overview of the manager candidates, including the respective firms': (a) structure, background and history; (b) investment management team; (c) investment style and process; (d) assets and accounts in the strategy; (e) performance track record; and (f) fee schedule.

Discussion followed, including consideration of: (a) the relatively small size of the candidate pool; (b) the relatively short performance track record for such strategies; (c) the relative performance of the 'long' and 'short' elements of the firms' respective portfolios; and (d) similarities and differences in the investment strategies of the candidates.

Motion by Ms. Wolford-Landers to request that Barclays Global Investors, INTECH, JP Morgan Asset Management, and UBS Global Asset Management be asked to make presentations to the Board; Seconded by Mr. Kelly. Motion carried (7-0), with Mr. Diepenbrock recused and absent from the room.

Discussion was held regarding the timing of the upcoming investment manager interviews and the need to start the Board Meetings earlier to accommodate those interviews.

16. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing execution of an Investment Management Agreement with Wells Capital Management to manage a U.S. Equity Large Cap Growth portfolio.

**INVESTMENT MATTERS: (Continued)**

Motion by Mr. Hickox to adopt the proposed Resolution authorizing execution of the Investment Management Agreement with Wells Capital Management; Seconded by Mr. Woods. Motion carried (8-0).

17. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing execution of an Investment Management Agreement with Wedge Capital Management to manage a U.S. Equity Small Cap Value portfolio.

Motion by Mr. DeVore to adopt the proposed Resolution authorizing execution of the Investment Management Agreement with Wedge Capital Management; Seconded by Mr. Kelly. Motion carried (8-0).

18. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing execution of an Investment Management Agreement with Thompson, Siegel, Walmsley Asset Management to manage a U.S. Equity Small Cap Value portfolio.

Motion by Mr. Kelly to adopt the proposed Resolution authorizing execution of the Investment Management Agreement with Thompson, Siegel, Walmsley Asset Management; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

19. Chief Investment Officer Jeffrey States recommended the termination of the investment management engagements with TCW Asset Management and Independence Investment, L.L.C. Mr. States also recommended that the Board authorize staff to engage appropriate transition management service providers to make an orderly transition of the assets managed by those firms to the new investment managers.

Motion by Mr. Woods to terminate the investment management engagements with TCW Asset Management and Independence Investment, L.L.C. and to authorize staff to engage appropriate transition management service providers to transition the assets to new management; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

20. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing execution of the documents necessary to formalize the private equity investment management engagement with Abbott Capital Management. Mr. States and General Counsel James Line outlined the areas where it had been necessary to negotiate clarifications or additional provisions in the documents.

Motion by Mr. Hickox to adopt the proposed Resolution authorizing execution of the documents necessary to formalize the investment management engagement with Abbott Capital Management; Seconded by Mr. Woods. Motion carried (8-0).

21. Chief Investment Officer Jeffrey States presented a proposed Resolution authorizing execution of the documents necessary to formalize the private equity investment management engagement with Goldman Sachs Asset Management. Mr. States and

**INVESTMENT MATTERS: (Continued)**

General Counsel James Line outlined the areas where it had been necessary to negotiate clarifications or additional provisions in the documents.

Motion by Mr. Woods to adopt the proposed Resolution authorizing execution of the documents necessary to formalize the investment management engagement with Goldman Sachs Asset Management; Seconded by Mr. Kelly. Motion carried (8-0).

22. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance Report for February 2008. Mr. States also provided a report on recent performance issues in the Lehman Brothers Asset Management Enhanced Fixed Income Index portfolio. Discussion followed.

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

The meeting was adjourned at 4:57 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock; Keith DeVore; John Kelly; Robert Woods (arrived at 12:35 p.m.); Winston H. Hickox; Nancy Wolford-Landers; William D. Johnson; William Cox; and John Conneally.

**MEMBERS ABSENT:** Dave Irish and Alice Jarboe.

**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; Steve Roberts and David Kimport of Nossaman, Guthner and Knox; Brian Schwartz, Halbert Lindquist, and Michael Purvis of Blackstone; Tamara Doi Ayogi of Lehman Brothers Asset Management; Douglas Hepworth of Gresham Investment; Tom Lightvoet of Mercer Investment Consulting; John Miller and Saumil Parikh of PIMCO (via video conference); Thuyet Ziyalan, Senior Accountant; and Jennifer Foster, Executive Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM

Richard Stensrud  
Chief Executive Officer

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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.