



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

John Conneally
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, MONDAY, JUNE 18, 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 Monday, June 18, 2007, commencing at 1:02 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the May 17, 2007 regular meeting were approved on Motion made by Mr. DeVore; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. DULANEY, Sherry K.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated July 10, 2007.
4. HULS, Stanley R.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated July 10, 2007.

DISABILITY MATTERS (continued):

5. RUHLE, Effuah C.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated July 10, 2007.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

6. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud provided the Board with a report on retirement activity subsequent to the decision by the County Board of Supervisors on May 17, 2007 to limit eligibility for a retiree health care subsidy to individuals retiring on or before May 31, 2007.

Mr. Stensrud reported that before the Board of Supervisors' action, there were six pending retirement applications with an effective retirement date between May 17th and May 31st, and twenty-three pending retirement applications with an effective date on or after June 1st. Mr. Stensrud reported that after the Board of Supervisors' action, sixteen of the twenty-three applicants scheduled to retire after June 1st changed their retirement dates to on or before May 31st. Mr. Stensrud further reported that forty-nine new applications were received after May 17th with a retirement date on or before May 31st. Mr. Stensrud noted that the seventy-one retirement applications in May were on a par with March, which is the busiest month for retirement applications. Mr. Stensrud also noted that on average, there are typically about nineteen retirement applications in May. Mr. Stensrud reported that informational materials had been prepared counseling members to take into account all their retirement circumstances before making the decision to retire, and reminding members that there was no guarantee that a retiree health care subsidy would be offered beyond the 2008 calendar year. Discussion followed.

Mr. Stensrud reported that he and Chief Investment Officer Jeffrey States had just conducted a due diligence site visit with investment manager AXA Rosenberg and that a report on that visit would be presented at the July Board Meeting. Mr. Stensrud also noted that he and Mr. States would be traveling to Chicago at the end of July for due diligence site visits with investment managers there, and would also be making a trip to Los Angeles for site visits in August.

Mr. Stensrud invited Board Member John Conneally to provide a report on the State Association of County Retirement Systems (SACRS) investment education program that he had attended at the University of California, Berkeley. Mr. Conneally reported that the program had been very informative.

Mr. Stensrud reported that he would be testifying on behalf of SACRS at the Governor's Public Employee Post-Employment Benefits Commission hearing on July 12th. Mr. Stensrud reported that he would provide the Board with a copy of his presentation at the July Board Meeting, along with an update on the hearing.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that SACRS was moving forward with a study analyzing the economic impact of the benefit payments made to retirees by the SACRS systems. Mr. Stensrud noted that the study would develop such an analysis for the benefit payments made by SCERS alone, as well as the SACRS systems collectively. Mr. Stensrud reported that the cost to SCERS for participating in the analysis would be approximately \$5,500. Mr. Stensrud also reported that SACRS was collecting information from all the systems regarding their respective investments in California.

Mr. Stensrud invited Chief Investment Officer Jeffrey States to provide an update on recent reports on public stock offerings by SCERS' investment managers Pzena Investments and Blackstone. Discussion followed.

Mr. Stensrud reported that it had been confirmed by tax counsel that the benefit payment limitations imposed by Section 415 of the Internal Revenue Code would not limit the ability of members to purchase Additional Retirement Credit (ARC) when that purchase option became available.

Mr. Stensrud provided an update on recent developments concerning the provisions of the federal Pension Protection Act (PPA), and how those developments impact SCERS' ability to implement the \$3,000 tax exclusion for qualified health insurance payments made by SCERS on behalf of certain qualified 'public safety officers.' Mr. Stensrud reported that the Internal Revenue Service (IRS) had recently issued regulations addressing 'normal retirement age,' a key area of uncertainty under the PPA, and explained that although the Regulations were helpful in certain respects, a number of questions remained regarding what the IRS would view as an acceptable normal retirement age. Mr. Stensrud outlined the various issues that would need to be resolved and indicated that staff would be returning to the Board with more information and recommendations at a future Board Meeting. Discussion followed.

Mr. Stensrud noted that the election of SCERS Board Officers for the 2007-2008 fiscal year would be held at the July Board Meeting. Board President James Diepenbrock noted that he would not be present at the July Board Meeting, but that he had enjoyed his tenure as Board President and would be interested in serving another term if that was the pleasure of the Board.

7. Chief Operations Officer Kathryn Regalia presented a request by Sacramento County to prepay its annual employer retirement contributions for Fiscal Year 2007-2008. Motion by Ms. Wolford-Landers to accept pre-payment from Sacramento County for its annual employer retirement contributions for Fiscal Year 2007-2008; Seconded by Ms. Jarboe. Motion carried (6-0).
8. Chief Operations Officer Kathryn Regalia presented a request by the Sacramento Metropolitan Fire District to prepay its annual employer retirement contributions for

ADMINISTRATIVE MATTERS (continued):

Fiscal Year 2007-2008. Motion by Mr. Irish to accept pre-payment from Sacramento Metropolitan Fire District for its annual employer retirement contributions for Fiscal Year 2007-2008; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

9. Chief Operations Officer Kathryn Regalia presented a request by the Superior Court of California, County of Sacramento to prepay its annual employer retirement contributions for Fiscal Year 2007-2008. Motion by Mr. DeVore to accept pre-payment from the Superior Court of California, County of Sacramento for its annual employer retirement contributions for Fiscal Year 2007-2008; Seconded by Mr. Irish. Motion carried (6-0).
10. Chief Executive Officer Richard Stensrud and Chief Operations Officer Kathryn Regalia presented a recommendation on the proposed interest crediting rate for employee contribution accounts for the six month period ended June 30, 2007. Ms. Regalia recommended that interest on the member contribution reserves be set at one-half of the 5-Year Treasury Note rate as in effect on June 29, 2007, and outlined how the proposed interest crediting rate had been determined. Mr. Stensrud noted that the interest crediting rate for the other actuarial reserves, as well as the amount of 'unallocated earnings' for the fiscal year, would be determined when the fiscal year financial statements had been completed and audited, and the actuarial valuation had been completed. Mr. Stensrud noted, however, that it appeared SCERS would have approximately \$187 million in 'unallocated earnings' available for application in the fiscal year. Mr. Stensrud further noted that pursuant to SCERS Interest Crediting and Unallocated Earnings Policy, the available unallocated earnings would be divided equally between addressing earnings shortfalls from past periods and funding the contingency reserves. Mr. Stensrud explained that if the preliminary analysis was accurate, SCERS would be able to place approximately \$93 million in the contingency reserves and reduce the unfunded actuarial accrued liability by 26%.

Discussion followed. Motion by Ms. Wolford-Landers to adopt the proposed interest crediting rate; Seconded by Ms. Jarboe. Motion carried (7-0).

INVESTMENT MATTERS:

11. Discussion was held regarding the preliminary analysis by Mercer Investment Consulting regarding possible asset class combinations under consideration for SCERS' asset allocation model. The discussion was focused on two of the possible asset allocation models developed by Mercer. The two models were very similar, with both incorporating an allocation to private equity and alternative investments. One of the models provides for a five percent alternatives allocation, with the funding drawn from fixed income, and the other model provides for a two percent alternatives allocation with the funding coming from domestic equity.

Among other things, the Board discussed (1) the return and risk profiles of the two models; (2) the types of alternative investment strategies that might be included in the

INVESTMENT MATTERS (continued):

alternatives asset class; (3) how much the return and risk profile would change depending on the makeup of the strategies in the alternatives “basket”; (4) how such a basket of strategies might be assembled; (5) the timeframe for implementation of the new strategies being considered; and (6) whether the total portfolio benchmark would need to be modified to take into account an extended implementation period for the new asset classes. Staff was directed to have Mercer develop additional information concerning these issues. A decision regarding the asset allocation model will be made at the July Board Meeting.

Motion by Ms. Wolford-Landers to receive and file the presentation materials; Seconded by Mr. Hickox. Motion carried (7-0).

12. Chief Investment Officer Jeffrey States presented a proposed amendment to the Limited Partnership Agreement with Hines U.S. Office Value-Added Fund II. Mr. States explained that the proposed amendment had been requested by Hines to allow for the admission of additional investors and to increase the maximum capital raised by the Fund. Discussion followed. Motion by Mr. DeVore to adopt the amendment to the Limited Partnership Agreement with Hines U.S. Office Value-Added Fund II; Seconded by Mr. Hickox. Motion carried (7-0).
13. Chief Investment Officer Jeffrey States presented the investment transactions cost analysis for the six month period ended December 31, 2006. Mr. States outlined the highlights of the report, noting that commission costs and trade execution were in line with SCERS’ goals. Motion by Ms. Jarboe to receive and file the presentation materials; Seconded by Mr. Irish. Motion carried (7-0).
14. Chief Investment Officer Jeffrey States presented the Monthly Investment Compliance and Activity Report for May, 2007. Motion by Ms. Wolford-Landers to receive and file the presentation materials; Seconded by Mr. Hickox. Motion carried (7-0).

The meeting was adjourned at 2:42 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore; Dave Irish (arrived at 1:04 p.m.); Winston Hickox; Alice Jarboe; John Conneally; and Nancy Wolford-Landers.

MEMBERS ABSENT: John B. Kelly; Robert Woods; William Cox; and William 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; SCERS Member’s spouse, Mrs. Huls; Nechelle Snapp, Attorney; Diana Ruiz, Deputy Counsel; and Jennifer Foster, Executive Assistant.

MINUTES – JUNE 18, 2007
PAGE 6

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.