



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, MONDAY, MAY 12, 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 Monday, May 12, 2008, and commenced at 12:00 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the April 17, 2008 special meeting were approved on Motion made by Mr. Irish; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. ABDELSAYED, Nadia R: Motion carried (9-0) to grant a nonservice-connected disability retirement.
4. PEREZ, Richard P.: Motion carried (9-0) to grant a service-connected disability retirement.

**DISABILITY MATTERS (continued):**

5. ROSS, Mary L.: Motion carried (9-0) to grant a service-connected disability retirement.

**LEGAL MATTERS:**

6. The Board consulted with legal counsel regarding Eric Henrikson et al. v. Turbomeca, S.A., et al. (SCERS, Lien Claimant), U.S.D.C. for the Eastern District of CA, Case No. 2:06-cv-01563-WBS-DAD.
7. The Board authorized legal counsel to initiate litigation. Information regarding the specific litigation will be provided, upon request, if and when the litigation is formally initiated.

**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 reminded the Board about the upcoming State Association of County Retirement Systems (SACRS) Conference and the Market Makers educational program.

Mr. Stensrud noted that a retirement planning seminar focused on SCERS members in the late stages of their careers would be held on June 20<sup>th</sup>. Mr. Stensrud noted that the program was nearly fully subscribed.

Mr. Stensrud reported that SCERS would shortly be introducing a 'full service' benefits administration team on a pilot project basis. Mr. Stensrud explained that the current benefits staff structure consisted of teams that were focused on specific elements of benefits administration. Mr. Stensrud explained that this 'specialty' team structure had been established prior to the enhancement of retirement benefits as a way to handle the expected surge in retirement-related activity after the benefits were enhanced. Mr. Stensrud noted that the specialty team structure had been successful in this regard, but that it also meant that a SCERS member would be handed off from one team to another depending on the particular benefit administration need the member required. Mr. Stensrud explained that under a full service approach, all members of the team would be able to handle all benefit administration matters, and thus the SCERS member could work with one person for all their benefit needs. Mr. Stensrud noted that he believed SCERS members would like having one point of contact who could address all their benefit needs and who would remain their point of contact over time. Mr. Stensrud also noted that he believed the full service approach would be more stimulating and enjoyable for SCERS staff due to the wider range of matters they would address. Finally, Mr. Stensrud noted that having multiple staff members trained in the full range of benefit administration activities would improve the depth

**ADMINISTRATIVE MATTERS (continued):**

of the organization. Mr. Stensrud explained that while he believed the full service approach would be successful, it would be tested first via the pilot project to determine whether it should be introduced on a more expanded basis. Mr. Stensrud noted that during the full service pilot project there would continue to be specialist teams, and that these teams would continue to provide services in their specialty areas. Mr. Stensrud explained that if the full service approach proved successful and it was expanded, specialty teams would continue to be maintained but at a reduced level.

Discussion followed, and the Board expressed its support for the full service concept.

9. Chief Operations Officer Kathryn Regalia presented a report on and a recommendation regarding the responses received to SCERS' Request for Proposals for Professional Auditing Services (RFP).

Ms. Regalia reported that two accounting firms had submitted a response to the RFP – Macias, Gini & O'Connell and Brown Armstrong. Ms. Regalia explained that the proposals had been reviewed by a RFP evaluation committee comprised of SCERS' Chief Executive Officer, Chief Operations Officer and General Counsel, and SCERS Board Member Dave Irish. Ms. Regalia reported that all committee members agreed that both firms were well qualified, had relevant and substantial experience and resources, and met all the requirements of the RFP. Ms. Regalia noted that the most significant difference between the two proposals was the price and the number of hours required to perform the audit. Ms. Regalia explained that while price was not the primary factor under the evaluation criteria used by the RFP committee, the proposals were so closely rated in the other evaluation criteria that the price difference proved material. Ms. Regalia reported that the RFP committee was therefore recommending that the Board engage Macias, Gini & O'Connell as the provider of professional auditing services for the next three years.

Chief Executive Officer Richard Stensrud noted that although the RFP committee was not recommending Brown Armstrong for the primary auditing engagement, the committee had been favorably impressed by their experience with public retirement systems, and by their reputation for being good problem solvers. Accordingly, Mr. Stensrud recommended that SCERS consider utilizing Brown Armstrong for special projects that might arise from time to time. Mr. Stensrud noted that having a different consulting accounting firm from the accounting firm doing the primary auditing was prudent from a potential conflict of interest perspective.

Discussion followed, and it was agreed that it would be advisable to consider Brown Armstrong for appropriate special projects that might arise.

Motion by Ms. Wolford-Landers to adopt the proposed resolution engaging Macias, Gini & O'Connell to provide professional auditing services; Seconded by Ms. Jarboe. Motion carried (9-0).

**ADMINISTRATIVE MATTERS (continued):**

10. Chief Executive Officer Richard Stensrud presented a report detailing his recommendations regarding SCERS' internal investment staff structure.

Mr. Stensrud noted that over the last few years the size, breadth and complexity of SCERS' investment portfolio had increased substantially. Mr. Stensrud noted that despite these changes, SCERS continues to have just one internal investment staff position – the Chief Investment Officer. Mr. Stensrud noted that this one person staff structure was established in 1997 when SCERS' assets were much lower, and the investment manager structure and investments themselves were much simpler.

Mr. Stensrud noted that the Chief Investment Officer has done an excellent job in managing SCERS' investment program. Mr. Stensrud further noted, however, that there is more that SCERS can be doing, and more that SCERS would need to be doing in the future, in fulfilling SCERS' fiduciary responsibilities with respect to managing the investment program.

Mr. Stensrud noted that in some cases SCERS would be able to out-source various analytic and oversight responsibilities related to the investment program. Mr. Stensrud further noted, however, that although this would be helpful, it would carry a cost, and would not provide a substitute for having the internal capacity to review, analyze and develop recommendations based on the information produced.

Mr. Stensrud noted that, given these challenges, other retirement systems with asset levels and investment programs comparable to SCERS had determined that it was necessary to expand their internal investment staff capacity to properly oversee and manage their investment programs. Mr. Stensrud stated his belief that it was now necessary and appropriate for SCERS to do the same.

Mr. Stensrud explained that the purpose of adding to the internal investment staff would not be to increase the quantity of investment information provided to the Board, but rather, to improve the quality of the information being provided through broader, deeper and more focused analysis, and more insightful recommendations.

Mr. Stensrud outlined a number of ways in which SCERS would benefit from an expanded investment staff, including that it would: (a) Free the Chief Investment Officer from data collection, basic analysis and report preparation and allow him to focus on providing higher level analysis, tactical guidance and strategic recommendations; (b) Allow SCERS to dig more deeply into existing data and reports; (c) Allow SCERS to draw upon new sources of information; (d) Enable SCERS to develop new reporting tools and to monitor more variables; (e) Improve oversight and monitoring of SCERS' investment managers and investment portfolios; (f) Reduce reliance on outside consultants and allow for more independent analysis; (g) Enable SCERS to consider different investment strategies; and (h) Assist in succession planning and in preventing disruptions in carrying out investment responsibilities in the event of the absence or sudden loss of the Chief Investment Officer.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud stated that substantial progress toward such goals could be achieved by adding two internal investment staff positions – an Investment Officer and an Investment Analyst. Mr. Stensrud explained the relationship of the two new positions to the Chief Investment Officer and to each other. Mr. Stensrud also presented proposed functional job descriptions for all three internal investment staff positions, detailing their respective roles and responsibilities.

Mr. Stensrud recommended that the Investment Officer position be filled first, as it would bring a higher level of knowledge and experience to SCERS than the more junior Investment Analyst position. Mr. Stensrud also noted that bringing on the Investment Officer first would allow that person to gain experience with the analysis and reporting responsibilities that the person would eventually train and supervise the Investment Analyst in performing.

Mr. Stensrud noted that the two recommended internal investment staff positions would have to be established under the County Civil Service structure. Mr. Stensrud noted that he was not asking the Board to approve specific investment staff job titles, functional duties or compensation levels at this time, but instead, he was asking the Board to approve the proposed investment staff structure and authorize him to move forward as necessary to implement that structure. Mr. Stensrud noted that this would include building funding into next year's budget for the positions, and returning to the Board for further discussion of proposed compensation levels for the positions.

Discussion followed. Chief Investment Officer Jeffrey States noted that he fully agreed with and supported the proposed internal investment staff structure and the proposed roles and responsibilities of the various positions. Various Board Members expressed the view that the proposal was comprehensive, well thought out and timely.

Motion by Mr. Hickox to adopt the proposed internal investment staff structure and authorize staff to move forward as necessary to implement the structure; Seconded by Mr. Woods. Motion carried (9-0).

**INVESTMENT MATTERS:**

11. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended March 31, 2008. Mr. Lightvoet reported that SCERS had an investment return of -5.1%, net of fees, for the quarter and a return of 0.5%, net of fees, for trailing twelve months. Mr. Lightvoet reviewed the economic and financial market environment in the quarter and reviewed the performance of individual managers. Mr. Lightvoet reported that negative to weak investment performance was expected to continue for the remainder of 2008.

**INVESTMENT MATTERS (continued):**

Mr. Lightvoet noted that on a risk-return basis, SCERS' returns over the three year period were better than the median public fund. Mr. Lightvoet and Chief Investment Officer Jeffrey States noted that with the changes being implemented to the asset allocation model and the investment manager structure, SCERS' risk-return profile should continue to improve.

Discussion followed.

Motion by Mr. Woods to receive and file the report; Seconded by Mr. Irish. Motion carried (9-0).

12. Prior to consideration of the item, Board President James Diepenbrock announced that he was recusing himself from participation in the next two items because of potential personal financial considerations related to his former employer, the parent company of which is the parent company of one of the investment manager candidates under consideration.

Presentations were made by the following investment manager candidates being considered for an extended equity investment strategy ('130/30') assignment:

- Barclays Global Investors
- INTECH
- J.P. Morgan Asset Management
- UBS Global Asset Management

The firms described their respective: (a) organizations, resources and investment teams; (b) investment models and process; (c) strategy performance track record; and (d) proposed fee arrangements.

Discussion followed regarding the similarities and differences between the investment process and philosophy of the firms. Discussion included consideration of: (a) the period for which the product has been offered; (b) the performance record of the long only strategy of the managers; (c) the experience of the firms in managing a short stock portfolio; (d) the source of the beta and the alpha returns; (e) the expected performance in different economic environments and stages of the business cycle; and (f) correlation of returns between the strategies.

Mr. Lightvoet and Chief Investment Officer Jeffrey States recommended that the Board select three of the firms to manage investment assignments of \$60 million each. Mr. Lightvoet and Mr. States also recommended that the Board include both a fundamental and quantitative approach in the managers selected to provide diversification.

Motion by Mr. Woods to select J.P. Morgan Asset Management, UBS Global Asset Management and Barclays Global Investors for an extended equity strategy assignment; Seconded by Mr. Irish. Motion carried (8-0).

**INVESTMENT MATTERS (continued):**

13. Tom Lightvoet of Mercer Investment Consulting presented the results of a search for potential firms for an International Small Cap Equity investment management assignment.

Mr. Lightvoet noted that the purpose of the search was to identify a second International Small Cap Equity investment manager whose strategy would complement that of SCERS' existing investment manager AXA Rosenberg. Mr. Lightvoet discussed each of the firm's international equity small cap programs, including the firm's: (a) organization and ownership; (b) assets under management in the strategy; (c) experience of the investment professionals; (d) investment strategy and how the manager expects to add investment performance above the portfolio benchmark; (e) correlation of the investment performance with that of AXA Rosenberg; and (f) fees.

Discussion followed.

Motion by Mr. Woods that William Blair & Company, Fidelity Investments, and Victory Capital Management be selected for further consideration for the engagement; Seconded by Mr. Johnson. Motion carried (8-0).

14. Chief Investment Officer Jeffrey States presented the Asset Allocation and Rebalancing Report for the Quarter Ended March 31, 2008.

Motion by Mr. Woods to receive and file the report; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

15. Chief Investment Officer Jeffrey States presented the April 2008 Monthly Investment Manager Compliance Report and Watch List.

Motion by Mr. Kelly to receive and file the report; Seconded by Mr. Woods. Motion carried (9-0).

The meeting was adjourned at 4:09 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock, Keith DeVore, John Kelly, Winston H. Hickox (departed at 2:31 p.m.), Dave Irish, Alice Jarboe, William D. Johnson, Nancy Wolford-Landers, Robert Woods, John Conneally, and William Cox.

**MEMBERS ABSENT:** None.

**OTHERS PRESENT:** 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; Suzanne Likarich, Retirement Services Manager, Julie Rucker, Personnel Specialist 2; Tom Lightvoet of Mercer Investment Consulting; Diana Ruiz, Deputy County Counsel; Paul Sauer and J. Bratteberg, Barclays Global Investors; Betsy Flavin and J. McHugh, INTECH, Eileen Cobin and Joel Damon, JP Morgan Asset Management; Betsy Sanders and Tom Digenan, UBS Global Asset Management.

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.