



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, AUGUST 20, 2009

The regular 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, August 20, 2009, and commenced at 1:00 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the May 8, 2009 special meeting were approved, and the Minutes of the June 18, 2009 and July 16, 2009 regular meetings were deferred on Motion by Mr. Woods; Seconded by Mr. Johnson. Motion carried (9-0).

##### CONSENT MATTERS:

Items 3-10

The Consent matters were acted upon as one unit upon a Motion by Mr. Irish; Seconded by Mr. Hickox. Motion carried (9-0).

3. KELLY, Verna J.: Granted a service-connected disability retirement.

**CONSENT MATTERS (continued):**

4. LOEWEN, Sheila D.: Adopted the findings and recommendation of the referee and denied the service-connected disability retirement.
5. Approved the final reconciliation of employer contributions by Sacramento County for Fiscal Year 2008-2009.
6. Approved the final reconciliation of employer contributions by Sacramento Metropolitan Fire District for Fiscal Year 2008-2009.
7. Approved the final reconciliation of employer contributions by the Superior Court of California, County of Sacramento for Fiscal Year 2008-2009.
8. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended June 30, 2009.
9. Received and filed the Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2009.
10. Received and filed the July 2009 Monthly Investment Manager Compliance Report and Watch List.

**CLOSED SESSION:**

**LEGAL MATTERS:**

11. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION  
Government Code Section 54956(a)  
Securities and Exchange Commission vs. WG Trading Investors, L.P., et al  
U.S. District Court, Southern District of N.Y., Case No. 09CIV 1750.

The Board discussed the case with counsel.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

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

Mr. Stensrud reported on the upcoming SCERS Board election. Mr. Stensrud noted that nominations closed on August 14<sup>th</sup> and that there were four candidates for the Board seat selected by the Miscellaneous members of the system and three candidates for the two Board seats (primary and alternate) selected by the Safety members. Mr. Stensrud reported that ballots for the election would be mailed in September.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reminded the Board about the upcoming Fall Conference of the State Association of County Retirement Systems (SACRS).

Mr. Stensrud updated the Board on the status of the modifications to the qualifications for the new internal Investment Officer and Investment Analyst positions.

Mr. Stensrud provided a report on the costs associated with addressing disability retirement applications. Mr. Stensrud noted that the costs were down slightly from last year.

Mr. Stensrud and Chief Investment Officer Jeffrey States provided an update on the investment consultant Request for Proposals, noting that SCERS had received ten responses. Mr. Stensrud noted that staff would be presenting a report to the Board in September with its recommendations regarding the candidates who should move to the next level of assessment.

Mr. Stensrud and Chief Investment Officer Jeffrey States discussed the results of the survey that had been conducted with the Board regarding possible topics for future investment education presentations.

Mr. Stensrud reported on the proposed regulations announced by the Securities and Exchange Commission (SEC) regarding placement agents and campaign contributions. Mr. Stensrud noted that the proposed SEC regulations would prohibit the use of placement agents, and that this was in contrast to the approach taken in pending state legislation (AB 1584) and the recently adopted SCERS policy on the subject, which both address the topic via extensive mandatory disclosure. Mr. Stensrud noted that he expected that the SEC would receive a number of objections to the proposed prohibition on placement agents.

Mr. Stensrud also advised the Board that AB 1584 had been amended to expand the provision currently in the law prohibiting a 1937 Act Board member who is an investment professional from selling or marketing an investment product to another 1937 Act retirement system. Mr. Stensrud advised the Board that the restriction was being extended to prohibit selling or marketing an investment product to any California public retirement system. Mr. Stensrud noted that this amendment was ill-advised as it could result in a number of experienced, highly qualified 1937 Act system trustees determining that they could no longer serve on our boards. Mr. Stensrud noted that the expertise such investment professionals brought to 1937 Act boards could not be easily replaced and could impede the ability of 1937 Act systems to successfully respond to the substantial downturn in the investment markets. Mr. Stensrud noted that there were already a number of measures in the law that address fiduciary duties and potential conflict of interest and that the proposed prohibition on legitimate, arms-length business transactions would add nothing. Mr. Stensrud suggested that mandatory disclosure of a person's status as a

**ADMINISTRATIVE MATTERS (continued):**

trustee would be a better approach and consistent with the approach AB 1584 proposes regarding placement agents and campaign contributions. Mr. Stensrud noted the irony in that disclosure was deemed sufficient with respect to these latter two topics, on which there have been numerous reports of potential abuse, while disclosure was not deemed sufficient with respect to a trustee's professional business dealings with another retirement system, on which there have been no reports of abuse. Discussion followed.

Mr. Stensrud reported on the decision by the San Diego County ERA to out-source its Chief Investment Officer position and duties.

Mr. Stensrud reported that he would be speaking at the upcoming joint County/Sacramento County Management Association (SCMA) meeting. Mr. Stensrud reported that he would be discussing the 'state of the retirement system.'

At the request of President James A. Diepenbrock, Item 15 was taken up out of order.

15. Chief Operations Officer Kathryn Regalia presented the final SCERS Budget for Fiscal Year 2009-2010. Ms. Regalia outlined the minor changes from the preliminary budget adopted in June.

Motion by Mr. Kelly to approve the final SCERS Budget for Fiscal Year 2009-2010; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

13. Chief Executive Officer Richard Stensrud explained that over that last few years substantial efforts had been made to upgrade the appearance and quality of the 'face' SCERS presents to the world. Mr. Stensrud explained that the goal of such efforts had been to project the image and establish the impression of SCERS as a top-tier provider of retirement-related services and information. Mr. Stensrud noted that to that end, SCERS had begun implementing a consistent design, style and imagery into SCERS publications and communications tools. Mr. Stensrud recommended that SCERS now adopt a new logo design based upon those features.

Paul Page and Heather Orr-Martinez of Page Design Group presented the proposed new design for SCERS logo. They explained how the logo design had been developed, the imagery used and the impressions it conveyed, and how those features tied into the roles SCERS performs.

Discussion followed.

Motion by Mr. Johnson to adopt the proposed new SCERS logo design; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

14. Chief Executive Officer Richard Stensrud presented Resolution 2009-10 concerning the application of County furlough policies and other work reduction measures to SCERS staff.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud noted that at the May 8th Special Board Meeting, at his request, and with the unanimous endorsement of the SCERS Executive Staff, the Board had adopted a resolution authorizing application of the County furlough measures to the SCERS Executive Staff. Mr. Stensrud noted that including SCERS staff in the furlough program would not provide any cost savings to the County as the SCERS' personnel costs are drawn from the SCERS trust and not from the County budget. However, Mr. Stensrud noted that by participating in the furlough program even though it was not required, it would be a gesture of support for both the concept of cost reduction and the impacted County personnel. Mr. Stensrud further noted that the resolution provided that the Board reserved the right to alter that decision and to determine which County work reduction measures would be applicable to SCERS in the future.

Mr. Stensrud explained that at the time the resolution was adopted, it was recognized that mandating time off by the Executive Staff could complicate accomplishment of business objectives but that he believed SCERS could continue to effectively meet its responsibilities. Mr. Stensrud noted that since that time, however, the County furlough program had been expanded to include a number of other SCERS positions. Mr. Stensrud reported that this included all mid-manager and supervisor positions, and key single-person positions such as the disability specialist and information technology specialist. As a result, Mr. Stensrud reported that accommodating the expanded furlough mandates was making it increasingly more difficult to carry out core responsibilities.

As a result, Mr. Stensrud recommended that the Board adopt a new resolution directing that the County furlough program as well as future potential work schedule or workforce reduction measures not apply to SCERS staff. Mr. Stensrud noted that it was regrettable that this would disrupt the equity between SCERS' employees and other County employees, but that he believed assuring that SCERS could effectively carry out its fiduciary responsibilities was a higher priority. Mr. Stensrud provided examples of how the optimal level of member services and the prompt delivery of benefits could be impaired if SCERS remained subject to County work schedule reduction measures.

Discussion followed.

Motion by Ms. Jarboe to adopt the proposed resolution exempting SCERS staff from County work schedule and workforce reduction measures; Seconded by Mr. Johnson. Motion carried (7-1), with Mr. DeVore dissenting and Mr. Irish abstaining.

16. Chief Executive Officer Richard Stensrud and General Counsel James Line presented a proposed policy regarding post-retirement employment of a SCERS retiree by a participating SCERS employer.

Mr. Stensrud and Mr. Line explained that the post-retirement employment policy was intended to provide guidance to both participating employers and retirees regarding the rules on post-retirement employment set forth in the 1937 Act and federal tax law. They

**ADMINISTRATIVE MATTERS (continued):**

explained that compliance with these rules was important for maintaining SCERS' status as a qualified plan under the Internal Revenue Code. Mr. Stensrud and Mr. Line explained that in addition to post-retirement employment being limited to certain permitted situations, tax law mandates that there must first be a legitimate severance from employment, and that if there was a pre-arrangement to return to work, the Internal Revenue Service (IRS) would likely conclude that a bona fide severance had not occurred. They explained that the IRS would also likely look at the amount of time between the date of retirement and the return to work in assessing whether there had been a legitimate severance of employment. Mr. Stensrud and Mr. Line explained that tax counsel had been engaged to assist in developing a policy that would address these and other important considerations. They also noted that the proposed policy had been discussed with the County.

Discussion followed, including consideration of the impact of the proposed policy on participating employers, including the Sheriff's Department. Mr. Stensrud noted that certain provisions of the proposed policy could require employers to change some of their current practices regarding post-retirement employment, but that with clear guidance and understanding of what is permitted, employers would be able to comply and cover their employment needs. Mr. Stensrud explained that to that end, the initial focus would be on educating both employers and retirees about the rules, and working progressively toward full implementation of the policy.

Motion by Mr. DeVore to approve the proposed policy on post-retirement employment; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

At the request of President James A. Diepenbrock, Item 18 was taken up out of order.

18. Chief Executive Officer Richard Stensrud noted that the lease for SCERS' office space expires at the end of 2011, and that there were significant market factors currently working in favor of potential lessees or buyers of commercial office space. Mr. Stensrud explained that for those reasons, he believed the Board should begin considering options on how to address SCERS' office space needs and that a first step in that regard should be the engagement of a real estate professional. Mr. Stensrud recommended that an ad hoc Board committee be formed to work with staff to facilitate consideration of such matters.

Discussion followed, after which Board President James Diepenbrock named himself, Mr. Kelly, Mr. Hickox, and Mr. Conneally to serve as an ad hoc Board committee to assess options and develop recommendations for the full Board. No other action was taken.

17. Chief Executive Officer Richard Stensrud presented a draft of the updated actuarial analysis performed by The Segal Company regarding the projected impact of alternative asset smoothing periods and market value corridors. Mr. Stensrud explained that the draft was being presented for discussion purposes only and that no action would be taken. Mr. Stensrud further noted that The Segal Company would make a formal presentation of

**ADMINISTRATIVE MATTERS (continued):**

the updated study at the September meeting, at which time the Board would be asked to decide upon the smoothing period, market value corridors and other actuarial parameters to be used in the June 30, 2009 valuation.

Mr. Stensrud explained that the original report, which had been presented in May, had been updated to reflect the actual investment performance for the 2008-2009 fiscal year rather than investment performance assumption used in preparing the original report. Mr. Stensrud noted that while the actual investment performance was very poor in absolute terms, it was much better than the assumed performance in the original report and therefore the projections regarding future employer contribution rates and future funded status of the plan had improved relative to the projections in the original report.

Mr. Stensrud summarized the actuarial terminology and methodology featured in the Segal analysis, and pointed out important context and qualifications regarding the analysis. Mr. Stensrud described the key actuarial parameters discussed in the Segal study and how professional actuarial standards and fiduciary considerations would impact the possible modifications to the parameters. Mr. Stensrud noted the arguments that could be made for or against modifying the parameters.

Mark Norris, the Administrator of the County Internal Services Agency, was invited to address comments to the Board. Mr. Norris expressed his appreciation for the efforts of both the Board and staff in discussing the information in the Segal analysis with the County and its labor organizations. Mr. Norris explained that he understood that the Board must take a number of things into consideration in determining whether any changes to the smoothing period or corridor approach were warranted, but that he respectfully requested that the Board consider changing to seven-year smoothing and 70%/130% corridors as it would help the County to adjust to the higher projected contribution costs.

Discussion followed. No action was taken.

**INVESTMENT MATTERS:**

19. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended June 30, 2009.

Mr. Lightvoet reported on investment performance for the most recent quarter and for the trailing one, three and five year periods for the total fund, and by each asset class, sub-asset class and investment manager. The investment performance was compared to appropriate benchmarks and performance attribution was discussed.

Mr. Lightvoet reported that the total fund return of 10.6% for the quarter had substantially improved the total fund return for the fiscal year, bringing it up to -21.8% after it had been at -29.8% as of March 31<sup>st</sup>. Mr. Lightvoet noted that the recent market performance reflected growing confidence that the aggressive fiscal and monetary actions taken by the

**INVESTMENT MATTERS (continued):**

government were having the expected and desired effects. Mr. Lightvoet cautioned that it was not likely that double digit returns would continue, but that positive returns for the remainder of 2009 and continuing into 2010 were possible.

Mr. Lightvoet and Chief Investment Officer Jeffrey States reported that both Mercer and staff agreed that Neuberger Investment Management should be taken off the Watch List.

Discussion followed.

Motion by Mr. Woods to remove Neuberger Investment Management from the Watch List and receive and file the quarterly performance report; Seconded by Mr. Johnson. Motion carried (8-0).

20. The Board heard a panel discussion regarding possible additional fixed income investment strategies that might be included in the fixed income component of the strategic asset allocation. Presentations were made by Brad Tank of Neuberger Investment Management, Tad Rivelle of Metropolitan West Asset Management and Terry Reidt of Bradford & Marzec.

The panelists presented their views on the optimal structures and strategies, utilizing the full range of fixed income investments available in the financial markets, to create a well diversified fixed income portfolio that retains or improves the risk and return characteristics of the asset class. Discussion followed, including consideration of the impact of such changes on the fixed income class and the portfolio as a whole.

No action was taken.

The meeting was adjourned at 4:50 p.m.

MEMBERS PRESENT: James A. Diepenbrock (left at 3:12 p.m.), Keith DeVore, John Kelly, Dave Irish (left at 4:11 p.m.), Winston H. Hickox, Alice Jarboe, William D. Johnson, Nancy Wolford-Landers, Robert Woods (left at 4:00 p.m.), and William Cox (left at 4:30 p.m.).

MEMBERS ABSENT: John Conneally.

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, Senior Personnel Specialist; Mark Norris, Sacramento County Internal Services Agency Administrator; Rick Beard, Superior Court of California, County of Sacramento; Tom Lightvoet and Ana Tom-Chow, Mercer Investment Consulting; David Vick and Tad Rivelle,



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Metropolitan West Asset Management; Tamara Doi Aoyagi and Brad Tank, Neuberger Berman, LLC; Terry Reidt, Bradford & Marzec; Paul Page and Heather Orr-Martinez, Page Design; T. Neukranz, ING; and Tracy Petrie, Law Enforcement Management Association.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

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.