



Executive Staff:

Richard Stensrud
Chief Executive 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, First Vice President
Elected by Miscellaneous Members

John B. Kelly, Second Vice President
Appointed by the Board of Supervisors

Mark Norris, Ex Officio
Internal Services Agency Administrator

Winston H. Hickox
Appointed by the Board of Supervisors

William D. Johnson
Elected by Safety Members

Kathy O'Neil
Elected by Miscellaneous 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, FEBRUARY 18, 2010

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, February 18, 2010, and commenced at 1:04 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the November 17, 2009 special meeting, November 19, 2009 regular meeting, December 17, 2009 regular meeting, and January 21, 2010 regular meeting were deferred.

CONSENT MATTERS:

Items 3-4, 6-11

The Consent matters were acted upon as one unit upon a Motion by Mr. Woods; Seconded by Mr. Hickox. Motion carried (7-0).

3. BARNSDALE, Elizabeth J.: Granted a reciprocal nonservice-connected disability retirement.
4. CARR, Katherine L.: Granted a non-service-connected disability retirement.

CONSENT MATTERS (continued):

5. KATTENHORN, Scott E.: Moved to Closed Session, Disability Matters.
6. MARTINEZ, Cinthia: Granted a non-service-connected disability retirement.
7. Received and filed the Semi-Annual Administrative Expense Report for the six months ended December 31, 2009.
8. Received and filed Selected Fees and Costs for Outside Legal Services for the quarter ended December 31, 2009.
9. Approved the proposed cost-of-living adjustment (COLA) effective April 1, 2010 for SCERS' monthly benefit payments.
10. Received and filed editorial revisions to the Investment Policy.
11. Received and filed the January 2010 Monthly Investment Manager Compliance Report and Watch List.

Chief Executive Officer Richard Stensrud requested that the Board consider an off-Agenda item in Closed Session. Mr. Stensrud explained that there was a need to confer with Counsel regarding one case of significant exposure to litigation under Government Code Section 54956.9(b)(1). Mr. Stensrud explained that this matter had come to the attention of staff only after the Agenda was posted and that there was a need for immediate action.

Motion by Mr. Kelly, Seconded by Ms. Wolford-Landers to take up the off-Agenda item as it came to the attention of staff after the Agenda was posted and there was a need for immediate action. Motion carried (7-0).

CLOSED SESSION:

DISABILITY MATTERS:

5. Moved from Consent Matters at the request of Mr. Johnson.

KATTENHORN, Scott E.: Granted a service-connected disability retirement. Motion carried (7-0).

LEGAL MATTERS:

12. 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 consulted with counsel.

LEGAL MATTERS (continued):

13. CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION
Government Code Section 54956(a)
SC East Campus, Inc. vs. Weyerhaeuser Company
Superior Court of Washington in and for King County, Case No. 08-14127-6 KNT

The Board consulted with counsel.

CONFERENCE WITH LEGAL COUNSEL – SIGNIFICANT EXPOSURE TO LITIGATION
Government Code Section 54956.9(b)(1)
One Case

The Board consulted with counsel.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

14. 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 of the filing responsibilities for the annual disclosure of economic interests (Form 700).

Mr. Stensrud reported that staff had viewed a number of potential locations for SCERS' offices and had prepared a list of potential locations for review by the Board Sub-Committee tasked with leading the analysis of office space options. Mr. Stensrud reported that the Sub-Committee would be doing the site visits on March 15th.

Mr. Stensrud reported that the Board of Supervisors was scheduled to act on the proposed re-classification of the vacant Investment Analyst position to an Investment Officer position on February 23rd. Mr. Stensrud reported that he would move to fill the position quickly once the re-classification was approved.

Mr. Stensrud reported that on February 23rd the Board of Supervisors was also scheduled to act on the proposed re-classification of a vacant position on the benefits staff to a Disability Specialist position. Mr. Stensrud noted that as part of the recent assessment of the efficacy of various changes to the process for processing disability retirement applications it was determined that having a second Disability Specialist would improve SCERS' ability to evaluate and act upon disability applications in a timely manner.

Mr. Stensrud reported that staff was finalizing informational materials and application forms for the 'un-retirement' option that had recently been approved by the Board of Supervisors. Mr. Stensrud explained that under the new option, a retiree could apply to have their retirement allowance suspended and then return to regular employment with the employer from which the person had retired. Mr. Stensrud explained how the new option differed

ADMINISTRATIVE MATTERS (continued):

from working as a ‘retired annuitant’ or as an ‘independent contractor.’ Mr. Stensrud noted that unlike the two current options for working after retirement, under the new option (a) the retirement benefit would be suspended for the period the person returned to work; (b) the person would return to work as a regular permanent employee and not in a short term, temporary capacity; and (c) when the person subsequently ‘re-retired,’ they would be entitled to an additional benefit payment based on the new service, salary and age at re-retirement. Mr. Stensrud noted that both the employers and retirees would be advised that the un-retirement option should only be used in cases where there was a mutual agreement that the person would be returning to work on a permanent, ongoing basis as opposed to a temporary, short-term basis. Discussion followed.

Mr. Stensrud reported that staff was continuing to work with State Street Bank on development of a portfolio compliance monitoring system and that he would be returning to the Board for final approval of the proposed system in the near future.

Mr. Stensrud reported that staff was preparing an update on the securities lending program and would present that report at the March Board Meeting.

Mr. Stensrud reported that staff was reviewing the portfolio re-balancing methodology in the strategic overlay program. Mr. Stensrud explained that re-balancing was important in that it assured that the fund stayed in line with the asset allocation model. Mr. Stensrud noted that maintaining consistency with the asset allocation model not only preserved the diversification benefits of the asset allocation model, but that it enabled the fund to capitalize on changes in the markets that rewarded asset categories that had previously been under-performing. Mr. Stensrud noted that while re-balancing would therefore enhance the value of the fund over time, there would be market periods where re-balancing could detract from performance. Mr. Stensrud reported that currently the total fund was being re-balanced monthly via the overlay program. Mr. Stensrud explained that in conjunction with the overlay manager (State Street Global Advisors), staff was assessing whether any changes to the current re-balancing methodology should be considered. Mr. Stensrud noted that the goal was not to try to predict what type of re-balancing methodology would be best over the near-term, but to try to identify an optimal re-balancing methodology over time and through different market environments. Mr. Stensrud reported that he anticipated the analysis and any recommendations would be presented to the Board at the April Board Meeting.

15. Chief Operations Officer Kathryn Regalia presented a proposed two-year extension of the Auditing Services Agreement with Macias Gini & O’Connell.

Ms. Regalia noted that the audit firm had done a very good job for SCERS over the course of the current engagement, and that the audits had been conducted in an efficient and professional manner. Ms. Regalia noted that the proposed fees for the contract extension were very competitive.

Motion by Ms. Wolford-Landers to approve a two year extension with Macias Gini & O’Connell to provide professional auditing services; Seconded by Mr. Johnson. Motion carried (7-0).

ADMINISTRATIVE MATTERS (continued):

16. General Counsel James Line presented proposed amendments to the SCERS Conflict of Interest Code established under the California Political Reform Act (CPRA) (Government Code Section 81000 et seq).

Mr. Line explained that under the CPRA, all public agencies are required to adopt a conflict of interest code and to periodically review the code to insure that it is up to date. Mr. Line outlined the primary elements required in the conflict of interest code and noted that since the last amendment of the SCERS Conflict of Interest Code, there had been changes in the staff structure and duties as well as changes in the recommended manner for addressing the requirements in the Code. Mr. Line explained that the proposed resolution would make the necessary changes to update the SCERS Code.

Motion by Mr. Kelly to adopt the proposed resolution amending the SCERS Conflict of Interest Code; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

INVESTMENT MATTERS:

17. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended December 31, 2009.

Mr. Lightvoet reported on the investment performance for the most recent quarter as well as for the trailing one, three, five and since-inception time periods. Mr. Lightvoet reported on the investment return results for the total fund, each asset class and sub-asset class in SCERS' strategic asset allocation, and for each investment portfolio. In addition, Mr. Lightvoet reported on: (1) a comparison of performance to the appropriate fund, asset class and individual manager benchmarks; (2) peer group rankings; (3) performance attribution; (4) risk analysis; and (5) recommendations by Mercer.

Mr. Lightvoet reported that the total Fund return for the fourth quarter, including the impact of the overlay program, was 3.5%, which was slightly above the return of the total fund benchmark. Mr. Lightvoet noted that each of the major asset classes had positive performance for the quarter except for real estate. Mr. Lightvoet explained that the largest drivers of the outperformance were domestic fixed income and the hedge fund segment. In addition, the overlay program contributed positive results.

Mr. Lightvoet noted that the total fund return for the trailing one-year period was 19.6%, which was +.6% better than the total fund benchmark. Mr. Lightvoet reported that notwithstanding the strong recent returns, because of the extremely poor returns over the previous two years, the annualized total fund return for three years was -2.4% and the annualized total fund return for five years was 3.3%. Mr. Lightvoet noted, however, that the total fund return of 8.3% since the inception of Mercer's data in July of 1986 was higher than SCERS' actuarial earnings assumption of 7.875%.

Mr. Lightvoet reported that Mercer was recommending that BlackRock Realty (Portfolios I & II), BlackRock Realty Granite Property Fund, INTECH and MetWest Enhanced TALF be added to the Watch List. Mr. Lightvoet explained that the recommendations regarding

INVESTMENT MATTERS (continued):

BlackRock and INTECH were based on performance concerns and that the recommendation regarding MetWest was due to its acquisition by Trust Company of the West (TCW). Mr. Lightvoet reported that Mercer was recommending that BlackRock Enhanced U.S. Equity be taken off the Watch List.

Mr. Lightvoet reported that Mercer was recommending that O'Shaughnessy Asset Management (OSAM) be terminated. Mr. Lightvoet noted that OSAM had been on the Watch List for a lengthy period due to performance concerns and that there had been some recent staff departures at the firm. Mr. Lightvoet explained that he had been inclined to give OSAM a little more time to see if its returns would recover but that the recent staff departures had prompted him to speed up the decision making timeline. Discussion followed.

Motion by Mr. Kelly to terminate the investment management engagement with O'Shaughnessy Asset Management; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

Staff and Mercer were directed to take the actions necessary to transition the portfolio and to establish the plan for the investment of those assets pending engagement of a replacement manager.

Motion by Mr. Woods to receive and file the quarterly performance report; Seconded by Mr. Kelly. Motion carried (7-0).

18. Chief Executive Officer Richard Stensrud presented a recommendation that SCERS not support proposed amendments to the Limited Partnership Agreement with AEW Value Investors II., L.P. (AEW Fund).

Mr. Stensrud described the investment in the AEW Fund, noting that it was a value-added real estate fund invested in a diversified portfolio of commercial real estate properties with the goal of adding value through re-positioning, re-leasing, renovation, re-capitalization and development of the properties. Mr. Stensrud explained that due to the nationwide decline in the value of commercial real estate, including the properties in the portfolio, AEW was requesting authorization to adjust the amount of leverage permitted in the portfolio so that the AEW Fund could continue to acquire new investments rather than use investor capital to bring down the leverage level on the existing investments. Mr. Stensrud reported that AEW believed that the proposed new portfolio debt restriction would allow for leverage on the new acquisitions that was consistent with the levels originally contemplated by the strategy.

Mr. Stensrud explained that staff and Mercer Investment Consulting believed the proposed new debt restriction was reasonable in the current market environment but that staff and Mercer had concerns about making the new debt limit permanent. Mr. Stensrud explained that when the commercial real estate market recovers, the value of the current properties in the AEW Fund should increase and concerns about the leverage limits should diminish. Mr. Stensrud noted that if the debt limit remained higher in spite of the recovery, the

INVESTMENT MATTERS (continued):

manager would be able to acquire new properties with a greater level of leverage than contemplated under the original investment strategy. Accordingly, staff and Mercer believed that the leverage limit should be raised for a fixed period but then returned to the current level. Mr. Stensrud noted, however, that AEW was not receptive to this suggestion, and as a result, staff and Mercer recommended that SCERS not support the proposed amendments. Discussion followed.

Motion by Ms. Wolford-Landers that SCERS not support the proposed amendments; Seconded by Mr. Woods. Motion carried (7-0).

The meeting was adjourned at 3 p.m.

MEMBERS PRESENT: Keith DeVore, John Kelly, Winston H. Hickox, William D. Johnson, Kathy O'Neil (arrived at 1:17 p.m.), Nancy Wolford-Landers, Robert Woods, John Conneally, and William Cox.

MEMBERS ABSENT: James A. Diepenbrock and Mark Norris.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; James G. Line, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Scott Chan, Investment Officer; Julia Jarvis, Paralegal; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Cindy Martinez.

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.