



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

Julie Valverde, Ex Officio
Director of Finance

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 L. 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 19, 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, August 19, 2010, and commenced at 1:02 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud introduced John Lindley, SCERS' new IT Administrator, who will be responsible for managing the audio-visual elements and recording for the Board Meetings.

MINUTES:

2. The Minutes of the July 15, 2010 meeting were approved on Motion by Mr. Kelly; Seconded by Mr. Johnson. Motion carried (7-0).

CONSENT MATTERS:

Items 3-13

The Consent matters were acted upon as one unit upon a Motion by Mr. Johnson; Seconded by Mr. Cox. Motion carried (6-0).

3. KUMARI WILLIAM, Rita: Granted a nonservice-connected disability retirement.

4. WEITNAUER, Andrew A.: Granted a service-connected disability retirement.
5. BLANAS, Jennifer D.: Adopted the proposed decision and findings of the Referee and denied a nonservice-connected disability retirement.
6. Approved the final reconciliation of employer contributions of Sacramento Metropolitan Fire District for Fiscal Year 2009-2010.
7. Approved the final reconciliation of employer contributions of the Superior Court, County of Sacramento for Fiscal Year 2009-2010.
8. Approved the final reconciliation of employer contributions of Sacramento County for Fiscal Year 2009-2010.
9. Received and filed the Selected Fees and Costs for Outside Legal Services for the quarter ended June 30, 2010.
10. Received and filed the Semi-Annual Administrative Expense Report for the six months ended June 30, 2010.
11. Approved the proposed final SCERS budget for the 2010-2011 Fiscal Year.
12. Approved a recommendation regarding possible financing for a real estate asset managed by BlackRock Real Estate Advisors.
13. Received and filed the July 2010 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

LEGAL MATTERS:

14. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956(a)
Sacramento Bee vs. SCERS
Superior Court of Sacramento County, Case No. 34-2010-80000514

The Board consulted with counsel.

15. 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.

16. 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.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

17. 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 the nomination period for candidates for the Miscellaneous Board Member seat, the Retiree Board Member seat, and the Alternate Retiree Board Member seat would close Friday August 20, 2010. Mr. Stensrud noted that there were already five candidates for the Miscellaneous Board Member seat currently held by Mr. DeVore, but that Mr. DeVore had decided not to run for re-election. Mr. Stensrud also noted that as of the meeting date Ms. Wolford-Landers was the only candidate for the Retiree Board Member seat she currently holds, and there was one candidate for the Alternate Retiree Board Member seat currently held by Mr. Cox. Mr. Stensrud indicated that Mr. Cox had also declined to run for re-election.

Mr. Stensrud reported that State Association of County Retirement Systems (SACRS) recently held its annual investment education program at UC Berkeley and that Chief Operations Officer Kathy Regalia attended. Ms. Regalia reported that the UC Berkeley academic staff conducted the program, with approximately 30 attendees, most of whom were trustees from other boards and were without an investment background. Ms. Regalia noted that the attendees commented that the program was different from the new trustee program at Stanford and that it focused on investments rather than the responsibilities of a board member.

Mr. Stensrud reported that the economic actuarial assumptions to be used in the actuarial valuation as of June 30, 2010 were scheduled to be presented for consideration at the September Board Meeting. Mr. Stensrud noted, however, that due to a scheduling conflict, Paul Angelo from The Segal Company would not be able to participate in the presentation if it was held at the regular September Board Meeting. Mr. Stensrud suggested that given the importance of the actuarial assumptions, it might be advisable to take up the topic at a special meeting on a date where Mr. Angelo could be present. It was the consensus of the

Board that efforts should be made to find a date and time that worked for both the Board and Mr. Angelo.

Mr. Stensrud reported that at the September Board Meeting, General Counsel James Line would be presenting the Disability Procedure and the Disability Status Update.

Mr. Stensrud reported on the recent Board of Supervisors meeting regarding certain collective bargaining agreements between county labor units and county management. Mr. Stensrud noted that SCERS had worked with both labor and management on the various proposals in an effort to ensure that the parties understood the ramifications of the proposals.

Mr. Stensrud noted that questions had been raised whether certain elements of the Sacramento collective bargaining agreements might be problematic under the proposed AB 1987 anti-spiking legislation. Mr. Stensrud noted that he had been asked to agree and commit that the provisions would not be a problem under the proposed anti-spiking legislation. Mr. Stensrud reported that he had advised the parties that while reasonable arguments could be made that the proposed anti-spiking legislation would not be a problem for these contract provisions, he could not commit SCERS to a position at this time. Mr. Stensrud explained that only the SCERS Board could make such a decision, and that any such decision would properly weigh those arguments along with any other relevant factors. The Board concurred with the position taken by Mr. Stensrud.

Mr. Stensrud reported that AB 609, the legislation seeking to address problems with the administrative cost cap applicable to SACRS systems, was also being affected by the debate over the possible impact of AB 1987 on the Sacramento bargaining agreements. Mr. Stensrud noted that efforts had been made to place amendments on AB 609 to clarify that AB 1987 was not intended to affect such bargaining provisions but the author of AB 609 was not willing to accept those amendments. Mr. Stensrud noted that as a result, it was not clear if AB 609 would be adopted, which would be very unfortunate for the SACRS systems.

Mr. Stensrud provided an update on the search for manager candidates for the separate account real estate portfolio currently managed by BlackRock Realty Advisors. Mr. Stensrud reported that the search report from Mercer Investment Consulting was expected by the end of August. Mr. Stensrud noted that upon receipt of the search report, the search could move forward in a manner similar to the manager search process recently approved by the Board for public markets assignments, under which Staff and Mercer undertake an depth analysis of the candidates, report on the results of that analysis and bring a recommended candidate to the Board for final review and approval. Mr. Stensrud suggested that alternatively, since it had been some time since the Board had conducted a search for a real estate separate account manager, there might be some educational value in having the Board more involved in the narrowing of the candidate pool. Discussion followed and it was the prevailing view of the Board that the process should be similar to the recently approved search protocol, including the preparation of materials explaining why a candidate or candidates were being recommended, what their approach would be in managing the portfolio, and how the separate account would be integrated into the broader real estate allocation. Mr. Stensrud noted that based on the search process approved by

the Board, he anticipated that a finalist or finalists would be presented to the Board in October.

Mr. Stensrud also reported that BlackRock Realty had decided not to participate in the search. Mr. Stensrud reported that BlackRock nevertheless still wished to be considered for the assignment and had offered to reduce their fees if they were allowed to continue as the manager of the real estate separate account.

Mr. Stensrud reported that pursuant to authority granted in SCERS' Investment Policy, the decision had been made to terminate the investment management engagement with European Credit Management (ECM), which was managing a portfolio of European debt instruments. Mr. Stensrud explained that in a short period of time, ECM had six departures from its investment team, including two key members of the team. Mr. Stensrud noted that this had raised concerns about the stability of the firm, and whether clients would be seeking to redeem their funds. Mr. Stensrud reported that in accordance with the Investment Policy, after consultation with Mercer Investment Consulting, the Board President, and the General Counsel, the decision was made to send a termination notice to ECM. Mr. Stensrud noted that SCERS had requested the earliest possible redemption date, but because a number of other investors were also seeking to withdraw their funds, it appeared that the redemptions would be 'gated' by ECM and that the redemption would take place in two installments and not one.

INVESTMENT MATTERS:

18. Diana Greenstone and Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended June 30, 2010.

Ms. Greenstone provided a brief capital markets overview and a summary of the total fund. Ms. Greenstone noted that the total plan performance, including the impact of the overlay program, declined 5.3% for the quarter, which was ahead of the total benchmark which declined 5.7%. Ms. Greenstone also noted that for the trailing fiscal year, the total plan returned 13.9%, which again outperformed the benchmark which returned 11.5%.

Ms. Greenstone stated that longer term results are slightly behind the benchmark. Ms. Greenstone noted that the plan allocation versus other public funds shows a fixed income allocation of 20% relative to the median plan fixed income allocation of 30%. Ms. Greenstone also reported that SCERS allocates a higher amount to real estate. Ms. Greenstone explained that this allocation decisions contributed to the poorer overall performance over the past decade relative to SCERS' peers who have a higher fixed income allocation, as the past decade has been difficult for all non-fixed income assets.

Ms. Greenstone reported that the increased allocation to alternative and opportunistic investment strategies had aided performance. Ms. Greenstone also noted that the overlay program had also aided performance.

Ms. Greenstone reported that, over the past fiscal year, positive contributions to investment returns had come from domestic equity, international equity, fixed income, hedge funds,

and opportunistic strategies. Ms. Greenstone noted that the laggards over the fiscal year were real estate and private equity.

Mr. Lightvoet reported on the various firms that were on or which Mercer was recommending be added to the Watch List. Discussion took place regarding whether Mercer's perspective had changed regarding the likely success of large cap U.S. equity enhanced index strategies and whether SCERS should consider moving away from its sub-allocation to such strategies. Discussion also took place regarding how long a firm should stay on the Watch List if they were put on the list because the firm was acquired by another entity, but there were no indications that performance was suffering. Ms. Greenstone opined that in the case of an acquisition, it is appropriate to leave a firm on the Watch List for one year.

Mr. Stensrud commented that the fiscal year return of 13.9% was a good return, particularly after the experience of the last two years. Mr. Stensrud further noted, however, that while the good year illustrated the power of a market recovery, it would take more such years to completely recover from the substantial market downturn.

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

19. The Board received an educational presentation by SCERS Staff on a proposed approach for refining the alternative assets portfolio structure.

Chief Executive Officer Richard Stensrud introduced the presentation, noting that over the last several months, the Board had received educational presentations on a variety of topics related to the alternative assets component of SCERS' investment portfolio. Mr. Stensrud explained that the current presentation was intended to build upon the prior presentations by outlining a proposed direction for the development of the structure of SCERS' alternative assets portfolio.

Mr. Stensrud explained that the analysis was motivated by the fact that the alternative asset segment of SCERS' total portfolio would be an important driver of investment returns going forward. Mr. Stensrud noted, however, that in order to capture the full return and diversification potential from the alternatives space, it would be necessary to refine SCERS' current approach to investing in alternative assets. Mr. Stensrud further noted that it would also be important that the evolution of the alternatives portfolio be properly integrated with the risk, return and liquidity considerations of the total fund. Finally, Mr. Stensrud noted that it would be critical that the proposed refinements in the alternatives space can be effectively managed and monitored by the SCERS Board and Staff, and that SCERS was able to draw upon the expertise necessary to prudently carry out these responsibilities.

Mr. Stensrud noted that the presentation materials – consisting of a detailed 'white paper' analysis and a related slide presentation – set forth what Staff considered to be the key considerations in refining the structure of SCERS' alternative assets portfolio. Mr. Stensrud explained that no action was being requested of the Board with respect to the presentation other than the Board's endorsement of the proposed direction set forth in the presentation, including the engagement of specialist alternative asset class consultant to assist in the

development and oversight of alternative assets portfolio. Finally, Mr. Stensrud recognized and commended the work of Investment Officer Scott Chan in developing the analysis reflected in the presentation.

Investment Officers Scott Chan and Steve Davis made a presentation showing how SCERS' alternative assets portfolio could be modified to lower risk, increase returns, and lower costs, while enhancing 'true diversification' for the total fund. Mr. Chan and Mr. Davis explained how SCERS could take advantage of the maturation of the alternatives industry, by moving forward in a measured evolutionary track that capitalizes on the knowledge of Staff and the expertise available in the alternatives industry.

Among other things, Mr. Chan and Mr. Davis discussed:

- The characteristics of SCERS' current asset allocation model, including the alternative assets component.
- The factors that should be considered in developing an asset allocation and portfolio structure that will perform well across economic environments.
- The ability to enhance the impact of asset allocation through a more evolved alternatives portfolio structure.
- The objectives and guiding principles in developing a new alternatives portfolio structure.
- The evolution of the alternative asset industry and how pension funds are evolving in their approach to the alternatives space.
- The opportunities for developing strategic partnerships with experts in the alternative assets arena (including current or future fund-of-fund managers) who can help facilitate the evolution of the alternative assets portfolio.
- The various investment strategies available for enhancing diversification, risk reduction and return potential from the alternative assets portfolio.
- The potential benefits in re-framing the asset categories within the alternatives portfolio.
- The opportunities for cost savings by moving away from the fund-of-funds model and toward direct investment engagements.
- The importance of having a specialist consultant with the requisite expertise in the alternative assets space.
- The importance of moving forward in a measured manner that recognizes both SCERS' strengths and limitations.

- The risks and challenges in expanding the alternative assets platform.

Discussion followed. The Board strongly endorsed the direction and proposed course of action set forth in the presentation. Mr. Stensrud noted that given that endorsement, Staff would be returning to the Board in September with a proposed Request for Proposals (RFP) for a specialist alternative assets consultant and a list of potential candidates who would be targeted for the assignment. Mr. Stensrud noted that the goal would be to conduct the search on an expedited basis, with finalist candidates presented for the Board's consideration at the November Board Meeting.

The meeting was adjourned at 4:26 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore (departed at 4:05 p.m.), John B. Kelly, William D. Johnson, Kathy O'Neil (arrived at 1:04 p.m.), Robert L. Woods (arrived at 1:08 p.m.), John Conneally, and William Cox.

MEMBERS ABSENT: Julie Valverde, Winston H. Hickox, and Nancy Wolford-Landers.

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; Steve Davis, Investment Officer; John Lindley, IT Analyst; Diana Ruiz, Deputy County Counsel; and Tom Lightvoet and Diana Greenstone, Mercer Investment Consulting.

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.