



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 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, APRIL 15, 2010

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, April 15, 2010, and commenced at 12:00 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud welcomed Julie Valverde to the SCERS Board. Ms. Valverde was appointed Sacramento County Director of Finance effective May 9, 2010 and will also be the Ex-Officio Member of the Retirement Board.

##### MINUTES:

2. The Minutes of the March 18, 2010 regular meeting were deferred.

##### EDUCATIONAL PRESENTATION:

3. Investment Officers Scott Chan and Steve Davis gave an educational presentation regarding the current economic environment, potential future economic environments and the implications for future investment considerations. Mr. Chan noted four unique risks in the current economic environment: (1) record levels of sovereign debt and the potential for higher inflation and higher interest rates; (2) the continuation of the largest debt deflation in history; (3) slow GDP growth; and (4) the potential for large tail risk. Mr. Chan and Mr. Davis highlighted investment areas that are likely to perform well during future economic

environments including infrastructure, distressed assets (corporate debt and commercial real estate in particular), global macro, real assets and clean technology.

Discussion followed.

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

**CONSENT MATTERS:**

Items 4-7, 9

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

4. MACIAS, John: Granted a reciprocal nonservice-connected disability retirement.
5. VON KNOBLAUCH, Paul A.: Granted a nonservice-connected disability retirement.
6. KIEHM, Mary J.: Granted a nonservice-connected disability retirement.
7. Adopted a change to the portfolio performance benchmark for the Capital Guardian international equity established market investment management engagement. SCERS Resolution 2010-05.
8. The Item was moved to Open Session, Administrative Matters.
9. Received and filed the March 2010 Monthly Investment Manager Compliance Report and Watch List.

**ADMINISTRATIVE MATTERS:**

8. The Item was moved from Consent Matters at the request of Chief Executive Officer Richard Stensrud since information regarding the items that would be presented for a vote by the membership at the State Association of County Retirement Systems (SACRS) Spring Conference had not yet been received. Mr. Stensrud noted that the next regularly scheduled Board Meeting would be after the Spring Conference. Mr. Stensrud recommended, therefore, that the Board consider designating him as SCERS' voting delegate with the understanding that as soon as he received the information on the decision items, he would forward it onto the Board Members and with the further understanding that he would exercise that authority in accordance with the directions normally given regarding voting matters. Mr. Stensrud also noted that if necessary, a special meeting could be called for the Board to discuss the items.

Motion by Ms. O'Neil to grant the Chief Executive Officer authority to vote on behalf of the SCERS Board and to decide how to vote on items presented at the SACRS Spring Conference; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

**CLOSED SESSION:**

**LEGAL MATTERS:**

10. 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.

11. 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 received a report from legal 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 reminded the Board that last year, the County of Sacramento authorized SCERS to offer active Miscellaneous Tier 2 members to make a one-time election to convert to Miscellaneous Tier 3 status prospectively. Mr. Stensrud noted that this offer carried with it the opportunity for employees to upgrade past Tier 2 service to Tier 3 status fully at the cost of the employee. Mr. Stensrud reported that the Sacramento County Superior Court was interested in making the same offer to their Miscellaneous Tier 2 employees. Mr. Stensrud stated that SCERS will be working with the Court to implement the tier conversion election with the same rules utilized for the County conversion. Mr. Stensrud further stated that he would be providing updates on this process as it progressed.

Mr. Stensrud reported on potential legislation that would require placement agents to register as and adhere to the rules governing lobbyists. Mr. Stensrud noted that there were two issues regarding the legislation which raised concerns in the investment management community: (1) The definition of placement agent would be extended to internal marketing staff of investment managers; and (2) Contingency fees would be abolished.

Mr. Stensrud also reported on the anti-spiking legislation that had been introduced in the State Assembly and State Senate. Mr. Stensrud noted that the Senate bill would be focusing on 1937 Act Systems, and potentially would be the only bill that would move

forward. Mr. Stensrud stated that the content of this bill was being worked on and potentially would be prospective in operation.

Mr. Stensrud reported on recent articles in *The Sacramento Bee* regarding pension funds.

13. Chief Executive Officer Richard Stensrud presented the proposed renewal of SCERS' fiduciary liability insurance coverage. Mr. Stensrud noted a new insurance carrier was being recommended (RLI Insurance Company) and that the cost of the coverage would be lower.

Motion by Mr. Johnson to approve the proposed renewal of SCERS' fiduciary liability insurance coverage; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

**INVESTMENT MATTERS:**

14. Investment Officer Steve Davis and Tom Lightvoet of Mercer Investment Consulting gave a presentation on the Investment Manager Search Report for a U.S. Equity Small Cap Growth investment management assignment. Mr. Davis noted that the objective of the search was to identify a manager to replace O'Shaughnessy Asset Management (OSAM). Mr. Lightvoet provided information on the six investment manager candidates presented in the search report.

Discussion followed regarding: (1) The background and organizational structure of the firms; (2) The strengths and weaknesses of the respective investment teams; (3) The respective investment philosophy and process of the firms; (4) The consistency of investment performance across market environments; and (5) How the strategy would complement SCERS' other investment manager in the U.S. Equity Small Cap Growth space.

Motion by Mr. Hickox to receive and file the presentation materials and to request that presentations be made to the Board by Eagle Asset Management, Oppenheimer Capital and Turner Investment Partners; Seconded by Mr. Woods. Motion carried (8-0).

15. Investment Officer Scott Chan presented a proposed change to the methodology for rebalancing the fund via the strategic overlay program.

Mr. Chan outlined the primary objectives of the strategic overlay program and the current methodology used for rebalancing. Mr. Chan explained how the impact of rebalancing via the overlay program varied based on the prevailing market environment. Mr. Chan noted that the objective of the overlay program was not to add return by forecasting market environments and seeking to choose the best rebalancing method based on that forecast but instead, the objective was to minimize the risk of broad deviation from SCERS' asset allocation targets. Mr. Chan recommended, therefore, that SCERS select a rebalancing methodology that reduces tracking error with the target allocation and performs well in a majority of market environments. Mr. Chan explained that after reviewing historical data and consultation with the overlay manager (State Street Global Advisors) Staff was recommending that the rebalancing methodology be changed from monthly to quarterly

with bands, with the bands set for each asset class consistent with SCERS' Asset Allocation Policy. Discussion followed.

Motion by Mr. DeVore to approve proposed change to the methodology for rebalancing the fund via the strategic overlay program; Seconded by Mr. Woods. Motion carried (8-0).

16. Investment Officer Scott Chan presented a proposed engagement with State Street Bank to provide portfolio compliance monitoring services. Mr. Chan outlined the reasons why such services were important and the ways in which SCERS would benefit the services. Mr. Chan also noted the various features of the compliance monitoring services. Mr. Chan explained that a few key terms of the proposed engagement had not yet been finalized but that it was anticipated that those matters would be resolved shortly.

Motion by Ms. Wolford-Landers to approve the proposed engagement with State Street bank to provide portfolio compliance monitoring services contingent on the negotiation of acceptable terms; Seconded by Ms. O'Neil. Motion carried (8-0).

17. Chief Executive Officer Richard Stensrud presented Resolution 2010-04 approving the proposed engagement of Mercer Investment Consulting to review the real estate portfolio managed by BlackRock Realty Advisors. Mr. Stensrud noted that the proposed analysis would provide: (1) Important information to assist the Board in assessing the performance of the investment manager; and (2) An opportunity to assess Mercer's capabilities as a potential retainer-based real estate consultant.

Motion by Mr. Woods to adopt Resolution 2010-04 authorizing the proposed engagement of Mercer Investment Consulting to review the real estate portfolio managed by BlackRock Realty Advisors; Seconded by Mr. Hickox. Motion carried (8-0).

18. Investment Officer Scott Chan presented a proposal from BlackRock Realty Advisors to refinance a real estate investment in Washington, D.C. Mr. Chan described the property and the existing financing for the property. Mr. Chan outlined the strong performance of the property and how that performance resulted in very favorable refinancing terms. Mr. Chan explained why BlackRock and Staff believed that the proposed refinancing was advisable and how it would add value to the overall real estate portfolio. Mr. Chan noted that the proposed refinancing would require the contribution of additional capital and that an exception to SCERS' to the normal loan-to-value limit would need to be approved. Discussion followed.

Motion by Mr. Woods to approve proposed refinancing of a real estate investment at 11 Dupont Circle in Washington, D.C. at up to 60% loan-to-value; Seconded by Mr. Hickox. Motion carried (7-0).

19. Chief Executive Officer Richard Stensrud presented a proposed change in the financing structure of a real estate investment in Florida. Mr. Stensrud outlined the factors prompting consideration of a change in the financing structure of the property. Mr. Stensrud noted that in addition to analysis and recommendations from the manager of the asset (BlackRock Realty Advisors), SCERS had engaged an independent third party consultant – Bard Consulting – to assess the options with respect to the property. Roy Schneiderman of

Bard Consulting presented his analysis of the property and the various options available. Mr. Stensrud and Mr. Schneiderman outlined the pros and cons of the various options. Discussion followed, focusing on the option of a discounted early payoff of the existing financing on the property. Mr. Stensrud noted that BlackRock was recommending this option and that Staff concurred with the recommendation. Mr. Schneiderman confirmed that he believed that a discounted early payoff of the loan was a reasonable and sensible approach in this case.

Motion by Mr. Hickox to direct Staff to negotiate optimum terms on an early payoff of the loan on the Weston, Florida property; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

The meeting was adjourned at 3:12 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, Julie Valverde (for Mark Norris), Winston H. Hickox (arrived at 1:10 p.m.), William D. Johnson (left at 2:39 p.m.), Kathy O'Neil, Nancy Wolford-Landers, Robert L. Woods (arrived at 12:12 p.m.), John Conneally (left at 2:24 p.m.), and William Cox.

MEMBERS ABSENT: John B. Kelly.

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; Thuyet Ziyalan, Accounting Manager; Julie Rucker, Senior Personnel Specialist; Tom Lightvoet and Diana Greenstone, Mercer Investment Consulting; David L. Kimport and Stephen N. Roberts, Nossaman; Roy Schneiderman and Chris R. Miers, Bard Consulting; and Paul Hight and Kristin Usery, Sacramento County Risk and Loss Control.

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.