



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

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

Julie Valverde, Ex Officio
Director of Finance

Diana Gin
Elected by the Miscellaneous Members

Winston H. Hickox
Appointed by the Board of Supervisors

William D. Johnson
Elected by the Safety Members

Kathy O'Neil
Elected by the Miscellaneous Members

Nancy Wolford-Landers
Elected by the Retired Members

Robert L. Woods
Appointed by the Board of Supervisors

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, MAY 19, 2011

A special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Thursday, May 19, 2011, and commenced at 11:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the April 21, 2011 regular meeting were approved on Motion by Ms. Gin; Seconded by Mr. Conneally. Motion carried (5-0).

CONSENT MATTERS:

Items 3-11

Item 4 was taken off the Consent Calendar and withdrawn. The remaining Consent matters (Items 3 and 5-9) were acted upon as one unit upon a Motion by Mr. Kelly; Seconded by Ms. Valverde. Motion carried (5-0).

CONSENT MATTERS (continued):

3. Carrasca, Bernadette: Granted a reciprocal nonservice-connected disability retirement.
4. McKenna, Toby A.: Withdrawn.
5. Reich, Sally J.: Granted a nonservice-connected disability retirement.
6. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended March 31, 2011.
7. Received and filed the Asset Allocation and Rebalancing Report for the Quarter Ended March 31, 2011.
8. Received and filed the Trading Cost Report for the Quarter Ended March 31, 2011.
9. Received and filed the April 2011 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

LEGAL MATTERS:

10. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956(a)
SCERS vs. Superior Court of Sacramento County (Sacramento Bee et al.)
Court of Appeal of the State of California, 3rd Appellate District, Case No. C065730

Mr. Diepenbrock reported that the Board would not be appealing the decision to the California Supreme Court, but that SCERS would be petitioning the Court of Appeals requesting clarification regarding the decision.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

11. 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 alternative assets quarterly performance report from Cliffwater LLC would be presented in June.

Mr. Stensrud reported that recruitment has commenced to fill the Investment Officer position vacated by the promotion of Scott Chan to Deputy Chief Investment Officer.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) would be holding their annual Public Pension Investment Management Program at UC Berkeley July 11-13. Mr. Stensrud stated that Board Members interested in attending should contact Staff for assistance with registration.

Mr. Stensrud reported that the SACRS Spring Conference had just concluded. Mr. Kelly, Mr. Conneally, and Mr. Woods, all noted that the conference was interesting and provided good information.

Mr. Stensrud reported that once again the topic of pension 'spiking' was being addressed in the state legislature. Mr. Stensrud noted that SACRS was working with legislative staff to develop an approach that effectively addressed the topic while taking into consideration the limitations placed on county retirement by the court ruling in the 'Ventura' cases.

Mr. Stensrud reported on potential ballot initiatives concerning public employee pensions. Mr. Stensrud noted that the potential initiatives contained provisions that would affect not only newly hired employees, but also, in some cases, current employees. Mr. Stensrud noted that an attempt to change the pension benefits for current employees would almost certainly be challenged in the courts. Mr. Stensrud also noted that none of the current potential ballot initiatives would impact existing retirees. Mr. Stensrud stated that he would keep the Board informed of developments in this area.

INVESTMENT MATTERS:

12. Strategic Investment Solutions, Inc. (SIS) presented the Investment Performance Report for the Quarter Ended March 31, 2011. Before SIS presented, Mr. Stensrud noted that SIS and Staff had identified an error in the data previously presented by Mercer Investment Consulting regarding the impact of the overlay program on investment performance. Mr. Stensrud noted that the problem did not materially change the performance report, but that the problem had been corrected and the impact of the overlay program would be properly reported going forward.

Patrick Thomas and Anne Ward of SIS presented the Investment Performance Report for the Quarter Ended March 31, 2011. The total fund return for the fourth quarter, including the impact of the overlay program, was 4.3% gross of fees. The total fund return was 0.4% above the return of the policy index benchmark, which had a return of 3.9%. The overlay program had no impact on performance for the quarter. The total fund return ranked in the 34th percentile in the State Street/ICC Universe, which is the ranking universe used by SIS.

Mr. Thomas and Ms. Ward reported that outperformance occurred, gross of fees, in the domestic equity, domestic fixed income, hedge fund and real estate segments. They reported that in the opportunistic segment, the credit strategies in aggregate outperformed the Barclays Capital Aggregate benchmark, and the commodities strategies in aggregate outperformed the Dow Jones UBS Commodities Index benchmark. They noted that underperformance occurred in the international equity and private equity segments.

INVESTMENT MATTERS (continued):

Mr. Thomas and Ms. Ward reported that for fiscal year-to-date (YTD), the total fund return gross of fees including the impact of the overlay program is 21.2%, which is 0.2% below the return of the policy index benchmark of 21.4%. The total fund fiscal YTD return ranked in the 29th percentile in the State Street/ICC Universe.

Motion by Mr. Woods to receive and file the quarterly performance report; Seconded by Mr. Kelly. Motion carried (6-0).

13. SCERS' investment staff and Strategic Investment Solutions (SIS) provided an educational presentation regarding the ongoing asset/liability modeling study.

Deputy Chief Investment Officer Scott Chan and Investment Officer Steve Davis presented information regarding SCERS' current asset allocation. Mr. Chan and Mr. Davis also discussed how asset allocation models are generally constructed and how viewing asset allocation models from alternative perspectives such as the impact of different economic environments on the model or to assess the model based on risk exposure can help assure that the model provides full diversification. Mr. Chan and Mr. Davis also discussed how such considerations could impact how asset classes are composed and the role of a given asset class relative to the total portfolio.

John Meier and Patrick Thomas from SIS presented information on asset class objectives, asset mix optimization, establishing expectations for return and risk for various asset classes, some examples of asset class combinations and how the return and risk varies. They also presented information on how the retirement system's liabilities are integrated with the investment expectations on the assets side to assure that sufficient assets will be available to address the benefit obligations.

Discussion followed.

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

14. SCERS' investment staff and Stephen L. Nesbitt and James B. Fiedler from Cliffwater LLC presented a proposed a sub-asset class allocation plan and a twelve month investment plan for private equity. Staff presented a proposed protocol for making private equity investments pursuant to the proposed plans.

Mr. Fiedler and Mr. Nesbitt outlined the proposed private equity class structure, including the proposed asset allocation ranges by strategy and geography and the target number of private equity funds in the overall program. They also discussed the pace and level of investment commitments that will need to be made in order to achieve SCERS' target level of private equity exposure, and the capital budgeting and cash flow projections associated with such a plan.

INVESTMENT MATTERS (continued):

With respect to the twelve month investment plan, Cliffwater and Staff recommended that SCERS commit \$70-\$90 million to private equity over the next twelve months. They recommended that this capital be committed to 4-7 private equity funds, across various strategies and regions, with a range of \$10-\$30 million per fund. They further recommended that the investment plan be updated annually, or as market conditions warranted.

Motion by Mr. Kelly to approve the proposed sub-asset class allocation plan and the proposed twelve month investment plan for private equity; Seconded by Mr. Woods. Motion carried (8-0).

Chief Executive Officer Richard Stensrud outlined a proposed investment implementation protocol for carrying out the private equity investment plans. Mr. Stensrud explained that the proposed investment protocol for private equity was very similar to the investment protocol approved by the Board for screening and selecting public markets managers in that there would be a delegation of substantial investment decision making responsibilities to Staff and the consultant, combined with an appropriate level of oversight and control by the Board.

Mr. Stensrud explained that under the proposed investment protocol Cliffwater and Staff will identify the most qualified candidates for a prospective private equity investment commitment based on the allocation model for the Private Equity asset class plan and the twelve month private equity investment plan approved by the Board. Mr. Stensrud explained that Staff will prepare a report for the Board outlining why a given private equity manager had been identified for closer scrutiny for a possible private equity commitment and that Cliffwater would prepare comprehensive investment strategy and operational due diligence reports. Mr. Stensrud noted that Staff and Cliffwater will pursue extensive due diligence on the manager candidate, including conducting extended interviews with the portfolio managers and other key members of the investment team. Mr. Stensrud further noted that legal counsel will review the documentation for the potential commitment and assist Staff in the negotiation of deal terms. Mr. Stensrud noted that if/when Staff and Cliffwater concluded that an investment commitment should be made, Staff would prepare a report for the Board outlining the basis for the decision, the proposed commitment amount and the target date for closing on the commitment. Mr. Stensrud explained that under the proposed investment protocol, absent objection from the Board, Staff was authorized to finalize and execute the necessary documentation for the investment.

Mr. Stensrud noted that if the Board approved the proposed investment implementation protocol, in accordance with the protocol, Cliffwater and Staff planned to make a commitment to the Waterland Private Equity Investment Fund V in the amount of \$15 - \$20 million. Cliffwater and Staff noted that the fund is targeted for a hard close on May 31, 2011.

INVESTMENT MATTERS (continued):

Motion by Mr. Woods to approve proposed private equity investment implantation protocol and to grant the Board President or the Chief Executive Officer the authority to execute any documents necessary to effectuate investments made pursuant to the protocol; Seconded by Ms. Valverde. Motion carried (8-0).

The meeting was adjourned at 3:44 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John Kelly, Julie Valverde, Diana Gin, Winston H. Hickox (arrived at 2:26 p.m.), Nancy Wolford-Landers (arrived at 12:55 p.m.), Robert L. Woods (arrived at 11:05 a.m., departed at 3:15 p.m.), John Conneally, and Michael DeBord (arrived at 12:55 p.m.).

MEMBERS ABSENT: William D. Johnson.

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; Scott Chan, Deputy Chief Investment Officer; Steve Davis, Investment Officer; John Lindley, IT Analyst; John Kennedy, Nossaman, LLP; Anne Ward, Patrick Thomas, and John Meier, Strategic Investment Solutions, Inc; Stephen L. Nesbitt and James B. Fiedler, Cliffwater LLC; Ed Mendel, Calpensions.com; Brad Branan, Sacramento Bee.

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.