



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, First Vice President
Appointed by the Board of Supervisors

William D. Johnson, Second Vice President
Elected by the Safety Members

Diana Gin
Elected by the Miscellaneous Members

Winston H. Hickox
Appointed by the Board of Supervisors

Kathy O'Neil
Elected by the Miscellaneous Members

Julie Valverde
Ex Officio, Director of Finance

Nancy Wolford-Landers
Elected by the Retired Members

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, FEBRUARY 16, 2012

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, February 16, 2012, and commenced at 9:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Ms. Gin expressed her desire that the Retirement Board take up the Sacramento County Board of Supervisors' request to re-consider the pay increases for SCERS' Exempt Executive Staff. Chief Executive Officer Richard Stensrud stated that the Retirement Board will have the opportunity to formally address the request as part of the agenda of a future meeting.

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2. The Minutes of the January 19, 2012 regular meeting were approved on Motion by Mr. Johnson; Seconded by Mr. Conneally. Motion carried (5-0-1, Ms. Gin abstaining).

CONSENT MATTERS:

Items 3-13

Item 11 was taken off the Consent Calendar for discussion at the request of Ms. Gin. The remaining Consent matters (Items 3-10 and 12-13) were acted upon as one unit upon a Motion by Mr. Kelly; Seconded by Ms. Valverde. Motion carried (6-0).

3. BANKS-CORMIER, Annie A.: Granted a service-connected disability retirement.
4. BIONDI, Mark L.: Granted a service-connected disability retirement.
5. TOWNSEND, Frank A.: Granted a service-connected disability retirement.
6. WILLIAMS, Michael C.: Granted a nonservice-connected disability retirement.
7. JOHNSON, Peggy J.: Denied a nonservice-connected disability retirement.
8. Approved proposed cost-of-living adjustment (COLA) effective April 1, 2012 for SCERS' monthly benefit payments.
9. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended December 31, 2011.
10. Received and filed the Trading Cost Report for the Quarter Ended December 31, 2011.
12. Received and filed Selected Fees and Costs for Outside Legal Services for the Quarter Ended December 31, 2011.
13. Received and filed the January 2012 Monthly Investment Manager Compliance Report and Watch List.
11. The Item was moved from Consent Matters at the request of Ms. Gin.

Ms. Gin asked why the parking fees in the Semi-Annual Administrative Expense Report were already at 81% of the budgeted amount. Chief Operations Officer Kathy Regalia stated that it was primarily due to increased parking rates subsequent to development of the budget.

Motion by Ms. Gin to receive and file the Semi-Annual Administrative Expense Report; Seconded by Mr. Johnson. Motion carried (6-0).

At the request of Chief Executive Officer Richard Stensrud the Closed Session items were deferred until the Investment Matters had been completed.

INVESTMENT MATTERS:

16. Investment Officer Steve Davis reviewed the investment manager search and interview process conducted by Staff and Strategic Investment Solutions (SIS) with respect to the large cap segment of the domestic equity portfolio. Mr. Davis explained that while Staff and SIS had intended to propose a structure with one US large cap value manager and one US large cap growth manager, the ultimate goal was to identify the best managers for the new asset class structure, while maintaining style neutrality. Mr. Davis stated that Staff and SIS had identified Eagle Capital Management, Huber Capital Management, and Brown Advisory as the best managers for the active, large cap domestic equity portfolio and that Staff and SIS were recommending engagement of all three. Mr. Davis noted that the Board had been presented with materials to help them evaluate and ask questions of the manager candidates. Finally, Mr. Davis noted that the three manager candidates had presented with SCERS' standard investment management agreement and based on discussions with the managers it was expected that those agreements could be signed shortly.

Managing Directors M. John Johnson and Adrian Meli from Eagle Capital Management presented the history of their firm and their methodology. Among other things, they explained that Eagle looks for undervalued companies similar to a typical value manager, but Eagle has a bias toward quality companies with strong franchises and less recognized growth potential. They also noted that Eagle relies less on quantitative screening to generate investment ideas, and more on knowledge of industries, companies, competitors and other industry participants.

Discussion followed. Staff and SIS noted that while Eagle is considered to be a value manager, their portfolio characteristics were very core-like. Staff and SIS also noted that Eagle's performance history was very strong and that they would be a good 'anchor' for the large cap space. Accordingly, Staff and SIS recommended that Eagle Capital Management be engaged to manage an approximately \$155 million domestic large cap assignment on an asset-based fee structure.

Motion by Mr. Kelly to engage Eagle Capital Management on an asset based fee structure; Seconded by Mr. Johnson. Motion carried (7-0).

Principal, Chief Operating Officer, and Chief Compliance Officer Gary Thomas and Principal and Portfolio Manager Gary Steiner from Huber Capital Management presented the history of their firm and their methodology. They explained that it is a young firm, the portfolio managers were very experienced, particularly the firm founder, Joe Huber. They explained how the firm approaches the research and portfolio construction process uniquely from other managers, including an understanding of the behavioral biases that affect many value investors, such as the timing of accumulating and exiting stock positions, and Huber takes these factors into account when managing the portfolio.

INVESTMENT MATTERS (continued):

Discussion followed. Staff and SIS noted that Huber was much more of a pure value manager than Eagle. Staff and SIS noted their high confidence in the Huber's capabilities but also noted that the team had not been together very long. Accordingly, Staff and SIS recommended making a smaller allocation (approximately \$75 million) to Huber Capital Management on an asset based fee structure.

Motion by Mr. Johnson to engage Huber Capital Management on an asset based fee structure; Seconded by Mr. Kelly. Motion carried (7-0).

Director of Institutional Sales Charlie Constable and Portfolio Manager Ken Stuzin from Brown Advisory presented the history of their firm and their methodology. They stated that Brown employs a more traditional investment process, where a lead portfolio manager is flanked by a team of analysts that support multiple firm strategies and are directed to work in an efficient and collaborative manner. They explained that Brown differentiates itself from many large cap growth managers in its belief in a concentrated best ideas portfolio, that is sector agnostic. They also stated that the team is looking for companies with sound and sustainable business models.

Discussion followed. Staff and SIS noted that Brown is a pure growth manager. Staff and SIS also noted that while Brown runs a concentrated portfolio, historically they have had only moderate levels of tracking error, and that this would allow the growth side offset the higher tracking error of Huber on the value side. Finally, Staff and SIS noted that balanced allocations to Huber and Brown would combine well with the core features of Eagle. For this reason, Staff and SIS recommended allocating approximately \$75 million to Brown Advisory on a performance based fee structure.

Motion by Mr. Kelly to engage Brown Advisory on a performance based fee structure; Seconded by Mr. DeBord. Motion carried (7-0).

17. Chief Executive Officer Richard Stensrud presented the proposed investment policy statement for the real assets asset class. Mr. Stensrud noted that the Board had previously adopted investment policy statements for the other alternative assets classes and that the proposed policy was similar in nature. Mr. Stensrud stated that the policy statement was intended to reflect the information previously presented to and decisions made by the Board regarding: (1) Objectives and risks in investing in the asset class; (2) Investment guidelines; (3) Sub-asset class allocation plans; (4) Annual investment plans; (5) Investment manager structure; (6) Investment implementation protocol; (7) Investment monitoring; and (8) Performance evaluation.

Motion by Ms. O'Neil to approve the proposed real assets investment policy statement and amendment of the overall investment policy statement; Seconded by Mr. Conneally. Motion carried (7-0).

INVESTMENT MATTERS (continued):

18. In introducing the quarterly performance report as of December 31, 2011, Chief Executive Officer Richard Stensrud noted that Staff and Strategic Investment Solutions, Inc. (SIS) had been discussing that the policy benchmark for the overall portfolio would need to be re-considered in light of the restricting underway in the portfolio. Mr. Stensrud noted that currently the policy benchmark was tied to the previous asset allocation targets, but that SCERS was in the process of moving away from those targets and toward new asset allocation targets. Mr. Stensrud further noted that basing the policy benchmark on the new asset allocation targets would be equally misleading because it would be several years before the portfolio reached the new targets. Mr. Stensrud stated that Staff and SIS had been discussing utilizing two policy benchmarks – one representing the current asset allocation and one representing the approved new asset allocation. Mr. Stensrud reported that these two benchmarks will be incorporated in future performance reports until the time at which the current asset allocation adequately reflects the target allocation.

Patrick Thomas of SIS presented the Investment Performance Report for the Quarter Ended December 31, 2011.

Mr. Thomas reported that the Total Fund (TF) return for the quarter, including the impact of the overlay program, was 6.1% gross of fees. Mr. Thomas noted that the TF return was 0.1% below the return of the policy benchmark which had a return of 6.2%. Mr. Thomas noted that the overlay program had a positive impact of 0.7% during the quarter.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 1.2% above the Public Funds \$1+ Billion Median return of 4.9% and that the TF return ranks in the 24th percentile in the State Street/ICC Universe, which is the ranking universe used by SIS. Mr. Thomas noted that all major asset classes except private equity and opportunistic credit experienced positive returns for the quarter.

Mr. Thomas reported that at the asset class level, quarter outperformance occurred, gross of fees, in the domestic equity, domestic fixed income, hedge fund, real estate, and private equity segments. Underperformance occurred in the international equity segment. Mr. Thomas noted that in the opportunistic segment, the commodities strategies in aggregate outperformed the Dow Jones UBS Commodities Index benchmark and the credit strategies in aggregate underperformed the Barclays Capital Aggregate benchmark.

Mr. Thomas reported that, for fiscal year-to-date (YTD), the TF return gross of fees, including the impact of the overlay program is -5.1%, which is 1.7% below the return of the passive policy benchmark of -3.4%.

Mr. Thomas reported that at the asset class level, fiscal YTD outperformance versus the policy benchmark has occurred, gross of fees, in the private equity segment.

INVESTMENT MATTERS (continued):

Underperformance has occurred in the domestic equity, international equity, domestic fixed income, hedge fund, and real estate segments. In the opportunistic segment, the commodities strategies in aggregate outperformed the Dow Jones UBS Commodities Index benchmark and the credit strategies in aggregate underperformed the Barclays Capital Aggregate benchmark.

Mr. Thomas reported that the annualized TF return gross of fees for three years of 10.4% is 0.7% below the policy benchmark for the same period. The annualized TF return gross of fees for five years of 1.1% is 1.0% below the policy benchmark for the period. The TF gross of fees return of 8.2% since the inception of SIS' data in June of 1986 is 0.4% below the Total Benchmark return of 8.6% for the period.

Motion by Ms. Valverde to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Mr. Johnson. Motion carried (7-0).

CLOSED SESSION:

14. Considered the purchase or sale of particular, specific pension fund investments per Government Code section 54956.81.
15. Consulted With Legal Counsel – Pending Litigation
Government Code Section 54956.9(C)
1 Case

OPEN SESSION:

ADMINISTRATIVE MATTERS:

16. 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 California Association of Public Retirement Systems (CALAPRS) General Assembly would be taking place March 4-6, 2012; the CALAPRS Principles of Pension Management for Trustees Program would be taking place at the Stanford University Law School March 27-30, 2012; the State Association of California Retirement Systems (SACRS) Spring Conference would be taking place May 8-11, 2012; and the SACRS Public Pension Investment Management Program would be taking place at the UC Berkeley Hass School of Business from June 16-18, 2012. Mr. Stensrud noted that

ADMINISTRATIVE MATTERS (continued):

Board Members could contact Staff if they were interested in attending any of these programs, and Staff would assist them with registration and transportation.

Mr. Stensrud reported that a number of Board Members would need to refresh their ethics training and that Staff would contact them with details. Mr. Diepenbrock recommended the online ethics course.

Mr. Stensrud noted that the annual Form 700 Statement of Economic Interests had been provided to the Members. Mr. Stensrud stated that the deadline to file is March 31, 2012.

Mr. Stensrud reported that the Investment Staff had finalized an investment with the hedge fund Elliot Associates, L.P. Mr. Stensrud stated that \$25 million had been directly invested and another \$10 million had been invested through Grosvenor.

Mr. Stensrud reported that the Investment staff had also completed a \$30 million investment with the hedge fund Claren Road and a \$15 million investment with the private equity fund Accel-KKR. Mr. Stensrud noted that the Board had been presented with due diligence reports related to these investments.

Mr. Stensrud reported that the General Counsel recruitment was underway with a close date of Feb 29, 2012 for applications. Mr. Stensrud noted that extending this date may be warranted.

Mr. Stensrud reported that the potential ballot initiative regarding pension reform had recently been dropped from consideration for this upcoming election cycle. Mr. Stensrud noted that it appeared those proposing the initiatives determined that they would not be able to secure sufficient funding to proceed. Mr. Stensrud further noted that this may have an effect on the pension reform legislation being considered in the state legislature.

20. Chief Executive Officer Richard Stensrud and Chief Operations Officer Kathryn Regalia presented the Staff recommendation regarding the firm to be hired to provide actuarial audit services. They noted that Staff was recommending EFI Actuaries due to experience of the EFI staff, and their familiarity with 1937 Act retirement systems. They also noted the lower cost proposed by EFI.

Motion by Ms. O'Neil to engage EFI Actuaries to perform actuarial auditing services for SCERS and to direct Staff to work with EFI to finalize an agreement; Seconded by Mr. Johnson. Motion carried (7-0).

The meeting was adjourned at 12:57 p.m.

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MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, William D. Johnson, Diana Gin (departed at 10:50 a.m.), Kathy O'Neil (arrived at 9:10 a.m.), Julie Valverde, John Conneally, and Michael DeBord (arrived at 9:05 a.m.).

MEMBERS ABSENT: 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; Scott Chan, Deputy Chief Investment Officer; Steve Davis, Investment Officer; Suzanne Likarich, Retirement Services Manager; John Lindley, IT Administrator; Patrick Thomas and John Nicolini, Strategic Investment Services, Inc; M. John Johnson and Adrian Meli, Eagle Capital Management; Gary Thomas and Gary Steiner, Huber Capital Management; Charlie Constable and Ken Stuzin, Brown Advisory; and Brad Branan, The 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.