



Executive Staff:

Richard Stensrud
Chief Executive Officer

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

Richard B. Fowler II
Appointed by the Board of Supervisors

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, JUNE 21, 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, June 21, 2012, and commenced at 1:02 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud reported that SCERS Board appointments were acted upon by the Sacramento County Board of Supervisors this month. Mr. Stensrud noted that James A. Diepenbrock had been reappointed to the SCERS Board. Mr. Stensrud also noted that Winston H. Hickox was stepping down from the SCERS Board, and that former Board Member Keith DeVore had been appointed to replace Mr. Hickox.

Mr. Hickox thanked the other Board Members and reviewed some of his experiences from the 14 years he served on the SCERS Board. Mr. Hickox noted that SCERS was the best-run and best-managed organization with which he has been associated.

Mr. Diepenbrock read Resolution 2012-12 commending and honoring Mr. Hickox upon his departure from the SCERS Board for his many years of outstanding service to Sacramento County, SCERS, and its members and stakeholders.

Motion by Ms. Gin to adopt Resolution 2012-12 honoring Winston H. Hickox; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

MINUTES:

2. The Minutes of the May 31, 2012 special meeting were approved on Motion by Mr. Hickox; Seconded by Ms. Gin. Motion carried (8-0).

CONSENT MATTERS:

Items 3-7

The Consent matters were acted upon as one unit upon a Motion by Mr. Hickox; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

3. CORRINGTON, Christopher C.: Granted a nonservice-connected disability retirement.
4. BLY-MAGAW, Judi E.: Granted a service-connected disability retirement.
5. DAVIS, Kymberly P.: Granted a nonservice-connected disability retirement.
6. Approved the proposed interest crediting rate for member contribution accounts for the six month period ending June 30, 2012.
7. Received and filed the May 2012 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

Subsequent to the posting of the agenda, a matter had arisen regarding potential litigation (1 case) that could not be deferred until the next meeting. Motion by Mr. Hickox to take up the matter in Closed Session; Seconded by Mr. Johnson. Motion carried (8-0).

The Board consulted with legal counsel regarding the matter.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

8. 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 on Friday, June 22, SCERS would be conducting a retirement planning seminar for those members who were late in their careers. Mr. Stensrud stated that a large turnout was again expected.

Mr. Stensrud reported that it was anticipated that the actuarial audit will be presented at the July Board Meeting.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that Staff had begun reviewing the responses to the Request for Proposals for real estate investment consulting services. Mr. Stensrud noted that the responses would also be available for review by the Board.

Mr. Stensrud reported that the recruitment for the Investment Officer position was moving forward with a good candidate pool. Mr. Stensrud stated that Staff had conducted telephone interviews and a group of seven candidates had been identified for potential in-person interviews.

Mr. Stensrud reported that the contribution rates for the 2012-2013 fiscal year were approved as a consent item by the Sacramento County Board of Supervisors at their June 19th meeting.

Mr. Stensrud reported that the international equity transition had been completed. Deputy Chief Investment Officer Scott Chan and Investment Officer Steve Davis reviewed the process of the transition.

Mr. Stensrud reported that legislature had passed and the Governor had signed legislation sponsored by the State Association of County Retirement Systems (SACRS) requiring retirement systems operating under the County Employees Retirement Law of 1937 to adopt a trustee education policy that would require trustees to achieve 30 hours of continuing education over a two-year period. Mr. Stensrud noted that the retirement systems would be required to post their policy on their website, as well as report on their trustees' compliance with the continuing education requirements. Mr. Stensrud reported that legislation authorized the retirement system to determine the types of education that would qualify under the policy, and that educational presentations during Board Meetings, conferences targeting retirement system trustees, and even professional training that trustees may receive outside of the retirement system could all potentially count toward the continuing education requirements. Mr. Stensrud stated that Staff would present a proposed education policy soon.

Mr. Stensrud reported on recent elections in San Jose and San Diego in which voters had approved measures modifying their public employee pension plans. Mr. Stensrud stated that these election outcomes would increase the attention on pension reform in the legislature. Mr. Stensrud noted that it was important to keep the election outcomes in context as the San Jose and San Diego systems have recently had funding issues. Mr. Stensrud also noted that there were legal challenges to the proposed measures in both cities.

9. Chief Operations Officer Kathy Regalia presented the proposed SCERS Administrative Budget for the 2012-2013 Fiscal Year. Ms. Regalia outlined the changes relative to the preceding fiscal year and noted that the administrative expense cap for retirement systems is 0.21% of the actuarial accrued liability, excluding IT costs. Ms. Regalia stated that 2012-2013 Fiscal Year Administrative Budget is 0.09% of actuarial accrued liability, excluding IT costs, which is well below the cap.

ADMINISTRATIVE MATTERS (continued):

Ms. Gin commended Ms. Regalia and Staff on earning the Certificate of Achievement for Excellence in Financial Reporting and the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association (GFOA).

Motion by Mr. Hickox to approve the proposed SCERS Administrative Budget for the 2012-2013 Fiscal Year. Seconded by Ms. Wolford-Landers. Motion carried (8-0).

INVESTMENT MATTERS:

10. Stephen Nesbitt of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for the Quarter Ended March 31, 2012, including information regarding the hedge fund, private equity, real estate, and opportunities portfolios.

Mr. Nesbitt reported that SCERS' hedge fund portfolio was up 3.3% in the first quarter of 2012, whereas the absolute policy benchmark (3 Month T-Bills + 5%) was up 1.2% in the first quarter of 2012. Mr. Nesbitt noted that SCERS' hedge funds slightly underperformed the HFRI Equity Hedge Index in the first quarter of 2012, where the index was up 3.4%. Mr. Nesbitt stated that while SCERS' hedge fund portfolio was down 3.7% in 2011, it outperformed the HFRI Fund of Funds Composite Index which was down 5.7%, but underperformed the 3 Month T-Bills + 5% benchmark which was up 5.1%.

Mr. Nesbitt reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio is up 1.7% since inception compared to the Venture Economics Private Equity Index up 5.2% and the multiple of total value to paid in capital ("TVPI") is 1.03x since inception. Mr. Nesbitt noted that SCERS' private equity portfolio shows lower relative returns due to the early phase/cycle of investments (j-curve affect) compared to the index.

Mr. Nesbitt reported that SCERS' real estate portfolio IRR is 6.8% compared to SCERS' real assets portfolio benchmark (CPI+5%) at 7.4% and that SCERS' TVPI is 1.2x.

Mr. Nesbitt reported that SCERS' opportunistic portfolio generated a net IRR of 5.0% in the first quarter of 2012, which underperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.75% and SCERS' immediate benchmark (SCERS' total portfolio policy weighted return) of 11.8%. Mr. Nesbitt noted, however, that several of SCERS' opportunistic investments were winding down and returning capital, and hence no longer seeing an increase in value.

Motion by Mr. Hickox to receive and file the quarterly performance report; Seconded by Ms. Valverde. Motion carried (8-0).

11. Deputy Chief Investment Officer Scott Chan and Investment Officer Steve Davis provided an overview of the potential issues regarding SCERS' foreign exchange (FX) transactions, presented the results of a recently completed study on FX transactions, and reviewed the next steps that will be taken by Staff.

INVESTMENT MATTERS (continued):

Mr. Chan stated that Staff had employed the services of Zeno Consulting to analyze the FX trading of SCERS' international equity managers over the past two years. Mr. Chan noted that while FX trading costs are a marginal component of an international equity manager's overall trading cost structure, they are costs which have generated significant press recently due to the alleged poor execution quality of FX trades by plan custodians who act as broker-dealers. Mr. Chan stated that Staff felt it was prudent to have a firm understanding of the methods SCERS' investment managers employ to execute their FX trades and the execution quality of these trades.

Mr. Davis reviewed the FX trading analysis performed by Zeno Consulting. Mr. Davis noted that Zeno's analysis focused on several points, including:

- The amount of FX that was being traded with SCERS' custodian, State Street, versus that which was being traded by non-custodian counterparties.
- The trading costs associated with FX trading, including the cost of trading with the custodian versus the non-custodian.
- The level of counterparty exposure for each manager.
- Trends over a multi-year period related to the above.

Mr. Chan reported that one trend noted in the analysis is that most of SCERS' international equity managers have decreased the level of FX trading exposure with the custodian and that overall execution quality has increased. Mr. Chan noted that it appears that investment managers are implementing improved practices to achieve better execution of FX trades. Mr. Chan stated that in order to ensure that SCERS' international equity managers are receiving best execution on FX trades, in addition to its overall trading activity, specific language related to efforts by the managers to obtain best execution on foreign exchange trades placed with broker-dealers and the custodian has been added to the investment management agreements of recently hired and retained international equity managers.

Mr. Chan noted that Staff believes a similar analysis should be performed by Zeno on a periodic basis going forward.

Motion by Mr. Hickox to receive and file the report on foreign exchange trading within SCERS' international equity portfolio; Seconded by Ms. Gin. Motion carried (8-0).

The meeting was adjourned at 3:37 p.m.

MEMBERS PRESENT: James A. Diepenbrock, William D. Johnson, Richard B. Fowler II, Diana Gin, Winston H. Hickox, Kathy O'Neil, Julie Valverde, Nancy Wolford-Landers (arrived at 1:05 p.m.), John Conneally, and Michael DeBord (arrived at 1:05 p.m.).

MINUTES – JUNE 21, 2012

PAGE 6

MEMBERS ABSENT: John B. Kelly.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Lance Kjeldgaard, Outside 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; Thuyet Ziyalan, Accounting Manager; John Lindley, IT Administrator; Stephen Nesbitt, Cliffwater, LLC; Dan L. Rainsbury, David Allen & Associates; and Judi Bly-Magaw.

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.