



Executive Staff:

Richard Stensrud
Chief Executive Officer

Scott Chan
Chief Investment 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

Keith DeVore
Appointed by the Board of Supervisors

Richard B. Fowler II
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

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, AUGUST 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, August 16, 2012, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the July 19, 2012 special meeting were approved on Motion by Ms. O'Neil; Seconded by Ms. Gin. Motion carried (9-0).

CONSENT MATTERS:

Items 3-10

The Consent matters were acted upon as one unit upon a Motion by Ms. Gin; Seconded by Mr. Johnson. Motion carried (9-0).

3. HANSUM, Casey K.: Granted a nonservice-connected disability retirement.

CONSENT MATTERS (continued):

4. Received and filed the final reconciliation of employer retirement contributions by the Superior Court, County of Sacramento for the 2011-2012 Fiscal Year.
5. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended June 30, 2012.
6. Received and filed the Semi-Annual Administrative Expense Report for the six months ended June 30, 2012.
7. Approved the proposed modification of the investment performance benchmark for the U.S. Equity engagement with Eagle Asset Management.
8. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended June 30, 2012.
9. Received and filed the Trading Cost Report for the Quarter Ended June 30, 2012.
10. Received and filed the July 2012 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

11. Board President James Diepenbrock reported that at the closed session of the special meeting on May 31, 2012, the Board voted to terminate international equity engagements with Capital Guardian and INVESCO. Mr. Diepenbrock stated that, as part of this decision, the assets were transitioned to new mandates with Baring Asset Management and Lazard Asset Management. Mr. Diepenbrock noted that these transitions were now complete.

Consulted With Legal Counsel – Existing Litigation
Government Code Section 54956(a)
Taylor v. DISH NETWORK, et al.
Superior Court, County of Sacramento
Case No. 34-2010-00080848

OPEN SESSION:

INVESTMENT MATTERS:

12. Pete Keliutis and Patrick Thomas of Strategic Investment Solutions (SIS) presented the Investment Performance Report for the Quarter Ended June 30, 2012.

Mr. Keliutis provided a recap of the macro-economic factors that impacted the investment markets during the quarter. Mr. Keliutis noted that the global financial markets

INVESTMENT MATTERS (continued):

experienced significant volatility and were down during the second quarter of 2012. Mr. Keliuotis observed that the 'risk-on' and 'risk-off' dynamic was in play for the quarter and was driven by global macroeconomic news and uncertainty. Mr. Keliuotis noted that the markets were down significantly in April and May but rallied in June to close the quarter on a positive note. Mr. Keliuotis observed that volatility spiked in May but has subsided since that time. Mr. Keliuotis noted that uncertainty regarding the future of the European Union and weaker economic data in China and the U.S. were the catalysts for volatility during the quarter.

Mr. Thomas reported that the Total Fund (TF) return for the second quarter, including the impact of the overlay program, was -1.9% gross of fees. The TF return was 0.1% below the return of the policy index benchmark which had a return of -1.8%, but 0.4% above the allocation index return of -2.3%. The overlay program had a negative impact of 0.2% during the quarter.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 0.1% below the Public Funds \$1+ Billion Median return of -1.8%. Mr. Thomas noted that the TF return ranks in the 60th percentile in the State Street/ICC Universe, which is the ranking universe used by SIS. All major asset classes except domestic fixed income, real assets, and opportunities experienced negative 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, real assets, and opportunistic segments. Underperformance occurred in the international equity, hedge fund, and private equity segments.

Mr. Thomas reported that, for the fiscal year ending June 30, 2012, the TF return gross of fees, including the impact of the overlay program was 0.5%, which is 1.0% below the 1.5% return of the policy index. The TF fiscal YTD return was 0.4% below the Public Funds \$1+ Billion Median return of 0.9%, and ranks in the 71st percentile in the State Street/ICC Universe, which is the ranking universe used by SIS.

Mr. Thomas reported that at the asset class level, fiscal year outperformance versus the policy benchmark occurred, gross of fees, in the domestic fixed income segment. Underperformance has occurred in the domestic equity, international equity, hedge fund, private equity, and opportunistic segments.

Mr. Thomas reported that the annualized TF return gross of fees for three years of 11.8% is 0.3% above the policy index benchmark for the same period. Mr. Thomas also noted that this performance and the TF gross of fees return of 8.3% since the inception of SIS' data in June of 1986 is above SCERS' investment return assumption of 7.75%. Mr. Thomas stated that short term investment results are very time dependent and can be full of noise. Mr. Thomas further stated that it was important to monitor and understand what is happening on a short term basis but it provides an insufficient basis for drawing strategic conclusions.

INVESTMENT MATTERS (continued):

Chief Executive Officer Richard Stensrud expanded upon Mr. Thomas' comments, noting that the ultimate goal of the investment program is to provide funding for benefits earned over SCERS' members' working careers – not one member's career, but all members – which means there is a permanent 30+ year investment time horizon. Mr. Stensrud noted that short term investment performance is relevant for assessing progress toward long term investment objectives, but short term performance is not an accurate gauge of the health of the fund today, in the near future or over the long haul. Mr. Stensrud noted that the plan continues to have a very strong funded status.

Mr. Stensrud also noted that SCERS has an important tool for addressing year-to-year investment volatility – i.e., seven year asset smoothing, which controls how investment performance gets translated into pension funding. Mr. Stensrud noted that the smoothing mechanism dampens investment volatility and stabilizes contribution levels such that a bad year does not result in a sharp upswing in cost the next year. Similarly a good year does not push the cost down sharply the next year. Mr. Stensrud noted that with seven year smoothing, adjustments to contribution rates are based on a longer market 'cycle' and not the immediate past.

Finally, Mr. Stensrud noted that SCERS was in the process of implementing a new asset allocation model which, over time, will improve diversification; disperse risk exposure; produce stronger performance across economic environments; and enhance capital preservation.

Motion by Mr. Kelly to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

13. Pete Keliuotis and Patrick Thomas of SIS, along with SCERS' investment staff, presented an educational presentation on the fixed income asset class.

Mr. Keliuotis reviewed the mechanics of bonds and bond pricing; how fixed income portfolios can be structured relative to a representative benchmark; the various types of fixed income strategies that are offered in the institutional investing landscape; SCERS' current fixed income structure; and fixed income considerations for the manager structure analysis. Mr. Keliuotis noted that historically SCERS has had a 20% allocation to fixed income, and this is the continued target allocation for the asset class going forward.

Mr. Keliuotis stated that fixed income serves as a diversifier (particularly to equities); an anchor to safety/preserver of capital (Treasuries); a source of income via coupon payments (investment grade corporate and mortgage backed securities); a return generator (high yield and emerging market debt); an inflation hedge (TIPS and floating rate notes); and a source of liquidity (Treasuries, corporate bonds).

INVESTMENT MATTERS (continued):

Mr. Keliuotis further stated that fixed income also exposes investors to and compensates investors for several risk factors that include interest rate risk (Treasuries), credit/default risk (corporate bonds), pre-payment risk (mortgage-backed securities). Mr. Keliuotis noted that this is in contrast to equities which mostly serves the role of return generator and exposes investors primarily to the equity risk premium.

Mr. Keliuotis reported that as part of the structuring analysis, Staff and SIS will look across other components of the overall portfolio where SCERS has fixed income exposure. Mr. Keliuotis noted that, in particular, several of SCERS' hedge fund managers, private equity funds, and opportunistic funds give SCERS exposure to fixed income, mostly credit exposure. Mr. Keliuotis stated that, knowing this, it will be important to view SCERS' overall fixed income exposure holistically when structuring the traditional fixed income portfolio.

Motion by Ms. O'Neil to receive and file the educational presentation on the fixed income asset class; Seconded by Mr. Johnson. Motion carried (9-0).

14. Chief Investment Officer Scott Chan summarized the search process for selecting a real estate consultant and introduced the candidates for the real estate consultant engagement.

Mr. Chan reported that six firms responded to SCERS' real estate consulting services RFP, and after a thorough review and evaluation of the responses, Staff and SIS conducted an extended interview with all six firms. Mr. Chan stated that after further review and evaluation, Staff had invited Hewitt EnnisKnupp ('Hewitt'), Pension Consulting Alliance ('PCA'), and The Townsend Group ('Townsend') to present to the Board.

Mr. Chan noted that there are two key stages of the real estate consulting engagement which, while related, will require different skill sets and resources: (1) The development of the long-term strategic plan, structure of the real estate platform, and implementation plan; and, (2) The actual execution and implementation of the plan including ongoing investing activities and monitoring of the real estate portfolio. Mr. Chan noted that Staff and SIS believed that all the finalists could help SCERS' achieve its objectives in both phases.

Suzanne M. Bernard, Chae Hong, and Catherine Polleys from Hewitt EnnisKnupp provided an overview of their firm. Ms. Polleys reviewed Hewitt's global real estate consulting practice, noting that they are a specialist real estate team within a general consulting firm. Ms. Polleys noted that the Hewitt real estate team draws from the larger firm's resources and works closely and communicates regularly with its general consulting and alternative assets consulting divisions to provide solutions for real estate that are integrated into the entire portfolio.

Discussion followed.

Christy Fields, David Glickman, and Dillon Lorda from Pension Consulting Alliance provided an overview of their firm. Ms. Fields reviewed PCA's scope of services.

INVESTMENT MATTERS (continued):

Mr. Glickman covered PCA's philosophy. Mr. Glickman noted that PCA's real estate team draws from the larger firm's resources and works closely and communicates regularly with its general consulting and alternative assets consulting divisions to provide solutions for real estate that are integrated into the entire portfolio.

Discussion followed.

Kevin W. Lynch, Micolyn Magee, and Jennifer Young from The Townsend Group provided an overview of their firm. Mr. Lynch reviewed the history and philosophy of Townsend. Ms. Magee covered Townsend's proposed strategic and investment planning.

Discussion followed regarding the attributes and capabilities of the three firms, including consideration of: (1) The staffing and resources of the firms; (2) The ability of the firms to cover and provide access to the wide range of potential real estate-based investment strategies; (3) The relative pros and cons of a dedicated real estate specialist versus a real estate team in a general consulting firm; (4) The proposed consulting team; and (5) The strengths of the firms with respect to the two stages of the consulting engagement.

Particular discussion focused on whether the firms engaged in other lines of business (e.g., discretionary management of real estate assets) that could potentially compromise the consulting guidance provided to SCERS. It was noted that Townsend's discretionary business is significant and may pose the potential for a conflict of interest between Townsend's discretionary and non-discretionary clients, however, it was also noted that the firm's discretionary business could be beneficial since it allowed them to have a greater scale, depth of resources, and access to investment opportunities.

Discussion also took place concerning which firm would provide the best complement to SCERS' Staff and other consultants.

Motion by Ms. Wolford-Landers to engage Hewitt EnnisKnupp to provide real estate investment consulting services; Seconded by Ms. Gin. Discussion followed. Motion denied (2-5).

Motion by Ms. O'Neil to engage The Townsend Group to provide real estate investment consulting services; Seconded by Mr. Johnson. Motion carried (5-2).

ADMINISTRATIVE MATTERS:

15. 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 Wednesday, September 19, 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.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud noted that the November Board Meeting would be scheduled on Thursday, November 8, so as to not interfere with the State Association of County Retirement Systems (SACRS) Fall Conference, which takes place in Hollywood, California, from November 13-16.

Mr. Stensrud reported that one of the vacant Investment Officer positions would soon be filled. Mr. Stensrud also reported that a position classification study had been conducted with respect to a number of SCERS' benefits staff positions. Mr. Stensrud explained that a primary objective of the study was to develop job classifications that accurately reflect the unique and specialized nature of many of the benefits staff positions. Mr. Stensrud explained that this would allow SCERS to focus on candidates for those positions with the most relevant experience. Mr. Stensrud also noted that it would also provide greater opportunity for existing staff to move up in the organization. Mr. Stensrud noted that the study was expected to be presented to the Sacramento County Board of Supervisors at their meeting on September 11.

Mr. Stensrud reported that substantial pension reform legislation was expected to be released soon and that Staff would analyze and report on the potential impact this legislation would have on SCERS and its stakeholders.

16. Chief Executive Officer Richard Stensrud introduced Graham Schmidt from EFI Actuaries who presented the independent audit report on SCERS' actuarial valuation and review as of June 30, 2011.

Mr. Schmidt characterized the SCERS actuarial audit as the 'cleanest' audit they have conducted. Mr. Schmidt noted that while EFI identified a few areas where SCERS and Segal may want to consider an adjustment, EFI concluded that the actuarial assumptions and methods used in the valuation were reasonable and in accordance with generally accepted actuarial principles. Mr. Schmidt stated that EFI further concluded that the liabilities and costs presented in the valuation were accurate and computed in accordance with generally accepted actuarial principles.

Mr. Schmidt provided the following findings and observations:

- With respect to plan participant data, EFI confirmed that the data file used by Segal in performing the valuation was highly accurate, with only minor differences based on the different ways the two firms annualize pay for newly hired employees (i.e., how pay for a partial year is extrapolated to what the pay would be for a full year). EFI noted that these differences would have minimal impact on the valuation results.
- With respect to demographic assumptions, EFI concluded that the assumptions used by Segal were reasonable and consistent with those used by other retirement plans.

ADMINISTRATIVE MATTERS (continued):

- With respect to economic assumptions, EFI concluded that the investment return assumption of 7.75% was reasonable given SCERS' asset allocation and the asset class return projections of the investment industry, but that investment return assumptions were trending downward.
- With respect to the long term inflation assumption (used in both the investment return assumption and the salary growth assumption), EFI concluded that the 3.5% inflation assumption used by Segal was reasonable, but suggested that the trend is to move to a somewhat lower inflation assumption. EFI further noted that subsequent to the June 30, 2011 valuation it was reviewing, Segal has also begun suggesting that clients consider lowering the inflation assumption.
- With respect to the assumptions used for the annual cost-of-living adjustments (COLAs) applied to retiree benefits, EFI concluded that the assumptions used by Segal were reasonable but suggested that SCERS may want to consider lowering those assumptions slightly.
- With respect to the actuarial cost method, EFI confirmed that the method used by Segal is required under the 1937 Act, and that it is an acceptable and appropriate cost method. EFI suggested, however, that Segal consider utilizing a different variation of this cost method, which EFI believes would produce a more accurate calculation of cost. EFI noted that if the proposed change were implemented it would increase the current employer contribution rate by approximately 1% of payroll. EFI also noted that Segal has been recommending such a change to its clients.
- With respect to SCERS' amortization policy, EFI confirmed that Segal is correctly applying the selected amortization method, and that the amortization policy meets the current GASB disclosure standards and the requirements of the 1937 Act. EFI noted, however, that GASB has recently modified the disclosure standards for future years, and is generally calling for shorter amortization periods than have been used in the past.
- With respect to asset smoothing, EFI confirmed that SCERS' asset smoothing policies satisfy the Actuarial Standard of Practice governing asset valuation methods.
- With respect to the calculation of aggregate liabilities and costs, EFI concluded that Segal's calculations were within the desired tolerance level relative to their calculations. EFI noted that the most important calculation was the present value of projected benefits, where the Segal and EFI numbers were very close. EFI further indicated that the small differences in past and future cost (i.e., unfunded liability cost and normal cost) were likely attributable to the cumulative impact of minor differences in approach featured in the actuaries' respective actuarial software.
- With respect to employee contribution rates, EFI concluded that Segal's calculation methodology was reasonable and accurately applied.

ADMINISTRATIVE MATTERS (continued):

- EFI reached a similar conclusion with respect to employer contribution rates.
- EFI found that the valuation report was complete, accurate and compliant with actuarial standards of practice. EFI did suggest that future reports include the disclosure of certain new types of information that the California Actuarial Advisory Panel (CAAP) recently recommended be incorporated in future valuation reports.

Paul Angelo from The Segal Company participated by telephone and addressed the findings of EFI with the Board. Mr. Angelo stated that Segal generally concurred with EFI's observations, and noted that many of the suggestions made by EFI had already been discussed with SCERS in the context of SCERS' actuarial funding policy earlier this year. Mr. Angelo stated that the EFI report adds considerable reliability to SCERS' actuarial process and reports.

Motion by Ms. Wolford-Landers to receive and file the EFI Actuaries independent audit report of SCERS' actuarial valuation and review as of June 30, 2011; Seconded by Ms. O'Neil. Motion carried (7-0).

17. Chief Executive Officer Richard Stensrud presented information on the secure online voting platform to be implemented for the fall 2012 SCERS Board election.

Mr. Stensrud noted this would be the first time that SCERS would be using an online voting platform. Mr. Stensrud stated that SCERS was approached by the Sacramento County Department of Voter Registration and Elections, which conducts SCERS' Board elections, regarding the possibility of using the secure online voting platform created by Everyone Counts. Mr. Stensrud noted that two goals of using the secure online voting platform were to improve voter turnout and to show other interested parties that online voting can be successful. Mr. Stensrud also noted that online voting should substantially reduce the paper required for the election materials, which in turn reduces postage costs and saves resources.

Mr. Stensrud reviewed the upcoming Fall 2012 SCERS Board election process. Mr. Stensrud noted that SCERS members would have the ability to opt-out of the online voting process and receive a paper ballot instead. Mr. Stensrud stated that active member voting participation had generally been in the range of 12-16% over the past few years. Mr. Stensrud noted that the online voting platform was easier and more convenient for members to vote and therefore would hopefully lead to higher voter participation.

Alice Jarboe of the County Department of Voter Registration and Elections reviewed the election process and explained what would be new for this election. Ms. Jarboe also reviewed the Everyone Counts platform and explained the security of the system and online process. Ms. Jarboe presented samples of the online ballot.

ADMINISTRATIVE MATTERS (continued):

Motion by Mr. Johnson to receive and file the presentation regarding the online voting platform to be implemented for the Fall 2012 SCERS Board election; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

18. Chief Executive Officer Richard Stensrud presented the proposed final SCERS budget for the 2012-2013 fiscal year.

Motion by Ms. Gin to accept the proposed final SCERS budget for the 2012-2013 fiscal year; Seconded by Mr. DeVore. Motion carried (7-0).

19. Chief Benefits Officer John Gobel presented the annual report on the processing of applications for disability retirement benefits.

Mr. Gobel reported that for the fiscal year ended June 30, 2012, 58 applications for disability retirement had been concluded, consisting of 38 staff recommendations for approval, 3 proposed hearing officer decisions for approval, 9 proposed hearing officer decisions for denial, and 8 withdrawn applications. Mr. Gobel noted that the withdrawn applications were relevant because: (1) They required the same time and resource commitment as other applications that were not voluntarily withdrawn; and (2) These applications were often withdrawn late in the assessment process (e.g., after the applicant had been examined by an independent medical examiner and had received an unfavorable assessment) and had been referred to hearing before an independent referee.

Mr. Gobel compared the disability application data to the previous two fiscal years, and noted that the number of resolved applications had increased, and in particular the number of proposed hearing officer decisions had increased. Mr. Gobel noted that while the average processing time was slightly longer than in past years, this was largely a function of more applications going to hearing, which takes more time. Mr. Gobel noted that the average processing time was also impacted by the number of applications received and moving through the assessment process, and that there has been an increase in disability applications in the past year.

Mr. Gobel outlined areas where he believed disability processing had been improved and potential areas of improvement going forward.

Discussion followed, including discussion of the staffing commitment to disability processing. Mr. Gobel outlined how other benefits staff members had been utilized in assisting the dedicated disability processing staff. Mr. Gobel stated that he believed the current staffing was sufficient, and that he believed there were opportunities to improve efficiency with the existing staff levels. Chief Executive Officer Richard Stensrud noted that funding for the processing of disability retirement applications constitutes a meaningful component of SCERS' administrative budget.

Motion by Mr. Johnson to receive and file the annual report on the processing of applications for disability retirement benefits; Seconded by Ms. Gin. Motion carried (7-0).

MINUTES – AUGUST 16, 2012

PAGE 11

The meeting was adjourned at 4:40 p.m.

MEMBERS PRESENT: James A. Diepenbrock (departed at 12:35 p.m.), John B. Kelly, William D. Johnson, Keith DeVore, Richard B. Fowler II (departed at 1:00 p.m.), Diana Gin, Kathy O'Neil, Julie Valverde, Nancy Wolford-Landers (arrived at 10:13 a.m.), John Conneally, and Michael DeBord.

MEMBERS ABSENT: None.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Ziyalan, Accounting Manager; John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Pete Keliuotis and Patrick Thomas, Strategic Investment Services, Inc; Jamie Feidler, Cliffwater, LLC, Graham Schmidt, EFI Actuaries; Suzanne M. Bernard, Chae Hong, and Catherine Polleys, Hewitt EnnisKnupp; Christy Fields, David Glickman, and Dillon Lorda, PCA, Inc; Kevin W. Lynch, Micolyn Magee, and Jennifer L. Young, The Townsend Group; and Casey and Kerri Hansum.

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.