



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, NOVEMBER 8, 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, November 8, 2012, and commenced at 11:01 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the October 18, 2012 regular meeting were approved on Motion by Mr. DeVore; Seconded by Ms. O'Neil. Motion carried (7-0).

CONSENT MATTERS:

Items 3-8

The Consent matters were acted upon as one unit upon a Motion by Ms. Gin; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

3. KOLB, Scott M.: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

4. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended September 30, 2012.
5. Approved the proposed resolution authorizing the assignment of the Investment Management Agreement with the TCW Group for the MetWest Enhanced TALF Strategy Fund, L.P.
6. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended September 30, 2012.
7. Received and filed the Trading Cost Report for the Quarter Ended September 30, 2012.
8. Received and filed the October 2012 Monthly Investment Manager Compliance Report and Watch List.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

9. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud noted that the Board Members had been provided with a preliminary assessment of AB 340, the pension reform legislation. Mr. Stensrud noted that further review would be provided at the December Board Meeting. Mr. Stensrud stated that this preliminary assessment had also been provided to the employee representation units, as well as participating employers. Mr. Stensrud noted that in both cases, the information was well received. Mr. Stensrud also stated that the assessment had been posted on the SCERS website. Mr. Stensrud pointed out that the assessment contains a disclaimer noting that the interpretation of AB 340 was still ongoing and subject to change. Mr. Stensrud reported that since the passage of AB 340, SCERS has experienced an increased number of inquiries regarding the purchase of additional retirement credit, a service purchase option that AB 340 discontinues effective January 1, 2013.

Mr. Stensrud provided a reminder that the December Board Meeting would be held on Wednesday, December 19th at 10 a.m. Mr. Stensrud noted that this meeting date and time reflects what is to become the new regular meeting schedule, with meetings being held on the third Wednesday of the month at 10 a.m.

Mr. Stensrud reported that the Board will be receiving the annual audit report and comprehensive annual financial report at the December Board Meeting.

10. Paul Angelo and Andy Yeung of The Segal Company presented the SCERS Actuarial Valuation as of June 30, 2012.

ADMINISTRATIVE MATTERS (continued):

Mr. Angelo noted that the results in this valuation reflect changes in economic assumptions approved by the Board in September, including: (1) The inflation assumption was reduced from 3.50% to 3.25%; (2) The investment return assumption was reduced from 7.75% to 7.50% due to the recommended reduction in the inflation assumption; (3) The retirement benefit cost-of-living adjustment (COLA) assumption for Tier 1 retirees was reduced from 3.40% to 3.25% to make it consistent with the recommended inflation assumption; (4) The real 'across the board' salary increase assumption was maintained at 0.25%; (5) The combined inflation and real 'across the board' salary increase assumption was lowered to 3.50%; (6) The active member payroll growth assumption was lowered to 3.50%; and (7) The COLA assumptions for Miscellaneous Tiers 3 and 4 and Safety Tiers 2 and 3 was maintained at 2.0%.

Mr. Angelo further noted that the Board approved two other measures with respect to the June 30, 2012 valuation: (1) Application of the \$77 million balance in the Contingency Reserve; and (2) Phasing-in the contribution rate change attributable to the lower investment return assumption over a two year period.

Mr. Angelo reported that the aggregate employer rate was increasing from 22.56% of payroll to 24.99% of payroll. Mr. Angelo noted there were two primary factors behind the increase in the employer contribution rates. The first was the ongoing phase-in of investment losses via the smoothing process (primarily from the substantial market collapse in 2007-2009). Mr. Angelo explained that this factor pushed the employer rates upward by 2.53%, although it was mitigated somewhat by the additional funds from the Contingency Reserve, which pushed downward on rates by 0.56%. Mr. Angelo noted that the second main driver was the change in the investment return assumption. Mr. Angelo explained that although this was offset somewhat by the lower salary increase and payroll growth assumptions, and the lower Tier 1 COLA assumption, the net effect was to push the employer rates upward by 1.44%. Mr. Angelo further explained that the noted increase was mitigated somewhat by the two year phase-in of the change in rates attributable to the lower investment return assumption, which pushed downward on the employer rates by 0.72%.

Mr. Angelo noted that other factors impacted the employer contribution rates, including: (1) Lower than expected individual salary increases, which pushed downward on the employer rates by 0.77%; (2) Addressing the unfunded liability over a lower than expected payroll, which pushed upward on employer rates by 0.29%; and (3) The cumulative effect of demographic changes and other actuarial losses, which pushed upward on employer rates by 0.24%.

Mr. Angelo reported that the aggregate member contribution rate calculated in this valuation increased from 6.17% of payroll to 6.42% of payroll. Mr. Angelo explained that the primary driver of the increase in the employee contribution rates was the reduction in the investment return assumption, which pushed upward on the employee normal cost by 0.19%. Mr. Angelo noted that demographic changes pushed upward on the employee normal cost by 0.06%.

ADMINISTRATIVE MATTERS (continued):

Mr. Angelo stated that the same drivers that pushed upward on the employer contribution rates (i.e., ongoing phase-in of investment losses and the lower investment return assumption) were also the main factors impacting the funded status of the retirement system. Mr. Angelo noted that the funded status was 83.3% (down from 87%), and that the level of unfunded liability had increased.

Mr. Angelo noted that unless it is offset by solid investment performance over the next few years, the unrecognized investment losses that remain to be phased-in via the smoothing process will press down on the system's funded ratio over the next few years and put upward pressure on employer contribution rates. Mr. Angelo further noted that the employer contribution rate is expected to increase in the next valuation by approximately 0.72% due to the phase-in of the second half of the rate change attributable to the reduction in the investment return assumption.

Mr. Angelo reported that the California Public Employees' Pension Reform Act of 2013 (CalPEPRA) passed in September will become effective on January 1, 2013. Mr. Angelo stated that CalPEPRA primarily affects new members who enter the plan on or after January 1, 2013. Mr. Angelo noted for new members there will be new plan provisions which include new benefit formulas, a cap on pensionable income, a three-year final average salary, changes to elements of pay used in determining benefits and new cost sharing by members. Mr. Angelo noted CalPEPRA also contains provisions that may affect current members, including changes to the compensation used in determining benefits and possible changes in normal cost sharing by members.

Chief Executive Officer Richard Stensrud noted that Staff is working with Segal on determining the new contribution rates for the new tiers that will be required under CalPEPRA. Mr. Stensrud noted that this information will be brought before the Board in a special meeting in early December.

Mr. Stensrud also noted that CalPEPRA provides that an existing benefit tier can be continued past January 1, 2013 if that tier has a lower normal cost than the new tiers established by CalPEPRA. Mr. Stensrud stated that the County Miscellaneous tier that was implemented in January 2012 (Miscellaneous Tier 4) is reasonably close in terms of cost to the new Miscellaneous tier established by CalPEPRA. Mr. Stensrud reported that he consulted with Segal on whether Miscellaneous Tier 4 could be continued in lieu of the new CalPEPRA tier, but Segal determined that normal cost of the new CalPEPRA tier would be slightly lower and that Miscellaneous Tier 4 could not be continued. Mr. Stensrud noted that this shows that the County was already beginning to lower the cost of pension benefits before CalPEPRA. Mr. Stensrud further noted that cost savings from the new CalPEPRA Miscellaneous tier will not be much greater than what would have been expected under Miscellaneous Tier 4.

Motion by Mr. Johnson to receive and file the Actuarial Valuation and Review as of June 30, 2012 and adopt the proposed employer and employee contribution rates for the 2013-14 Fiscal Year; Seconded by Mr. DeVore. Motion carried (8-0).

INVESTMENT MATTERS:

11. Yolanda Diaz, Karen Jacobs, Steven Medvecki, Danielle Morrissey, and Lisa Pae of State Street Bank provided a presentation regarding the custodial banking services that State Street provides to SCERS. Karen Jacobs provided a brief overview of the State Street organization. Yolanda Diaz provided an overview of the service provided by State Street to SCERS.

Motion by Ms. Wolford-Landers to receive and file the presentation by State Street regarding the custodial banking services that State Street provides to SCERS and to approve the proposed extension of the custodial engagement with State Street; Seconded by Ms. O'Neil. Motion carried (8-0).

12. Patrick Thomas and Steven Quirk of Strategic Investment Solutions (SIS), and Chief Investment Officer Scott Chan and Deputy Chief Investment Officer Steve Davis of SCERS provided a presentation regarding the proposed structure for the fixed income asset class.

Mr. Chan introduced the presentation, noting that over the past few months, Staff and SIS have been providing information to help guide the Board toward a decision on the optimal allocation and manager structure for the fixed income asset class.

Mr. Thomas reviewed the fixed income structure scenarios that were created as potential options, focusing on the specific scenario being recommended by Staff and SIS. Mr. Thomas also reviewed how the recommended structure would impact actual manager mandates and implementation. Finally, Mr. Thomas reviewed the stress tests performed by SIS on the recommended structure to see how the structure would respond in different economic environments.

Mr. Davis discussed benchmark considerations for the fixed income asset class, noting that the current overall fixed income portfolio and existing manager benchmark (Barclays Capital Aggregate Bond Index) does not include non-investment grade bonds or non-U.S. exposure. Mr. Davis noted that once the new asset class structure is in place, Staff and SIS will consider and evaluate the most relevant benchmark(s) for: (1) The overall fixed income portfolio, (2) The new investment mandates; and (3) The existing core and core-plus managers.

Mr. Chan reviewed the next steps in the process, including: (1) Developing and executing an implementation plan for the new manager structure; (2) Conducting manager searches for the new credit opportunities and global fixed income mandates; (3) Assessing potential modification of the investment guidelines for core-plus managers Bradford & Marzec and TCW/Met West; (4) Assessing benchmarks; (5) Developing a transition plan for the implementation of the new fixed income structure; and (6) Developing new policies and guidelines for the fixed income asset class.

Discussion followed.

INVESTMENT MATTERS (continued):

Motion by Mr. DeVore to receive and file the presentation regarding the proposed structure for the fixed income asset class, approve the proposed structure, and authorize SIS and Staff to develop an implementation plan for the new manager structure and to begin executing that plan; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

13. Patrick Thomas and Steven Quirk of SIS presented the Investment Performance Report for the Quarter Ended September 30, 2012.

Mr. Thomas reported that the Total Fund (TF) return for the third quarter, including the impact of the overlay program, was 5.4% gross of fees. The TF return was 0.9% above the return of the policy index benchmark which had a return of 4.5%, and 0.3% above the allocation index return of 5.1%. The overlay program had a positive impact of 0.3% during the quarter.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 0.6% above the Public Funds \$1+ Billion Median return of 4.8%. The TF return ranks in the 15th percentile in the State Street/ICC Universe, which is the ranking universe used by SIS. All major asset classes experienced positive returns for the quarter.

Mr. Thomas reported that at the asset class level, quarter outperformance occurred, gross of fees, in the international equity, domestic fixed income, hedge fund, private equity, real assets, and opportunistic segments.

Mr. Thomas reported that, for the calendar year-to-date, the TF return gross of fees, including the impact of the overlay program was 11.6%, which is 1.5% above the return of the policy index of 10.1%, and 1.2% above the allocation index of 10.4%. The TF calendar YTD return was 0.9% above the Public Funds \$1+ Billion Median return of 10.7%, and ranks in the 22nd percentile in the State Street/ICC Universe, which is the ranking universe used by SIS.

Mr. Thomas reported that at the asset class level, calendar year-to-date outperformance versus the policy benchmark has occurred, gross of fees, in the international equity, domestic fixed income, hedge fund, real assets, and opportunistic segments.

Mr. Thomas reported that the annualized TF return gross of fees for one year of 18.4% is 1.5% above the policy index benchmark for the same period. The annualized TF return gross of fees for three years of 9.4% is 0.1% above the policy index benchmark for the period. The annualized TF return gross of fees for five years of 1.5% is 0.7% below the policy index benchmark for the period. The TF gross of fees return of 8.4% since the inception of SIS' data in June of 1986 is 0.4% below the Total Benchmark return of 8.8% for the period.

MINUTES – NOVEMBER 8, 2012

PAGE 7

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

The meeting was adjourned at 1:08 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly (arrived at 1:05 p.m.), William D. Johnson, Keith DeVore, Richard B. Fowler II (arrived at 11:06 a.m.), Diana Gin, Kathy O'Neil, Julie Valverde, Nancy Wolford-Landers, 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 Dang, Accounting Manager; Bharat Indurkar, Investment Officer, John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Stephen Quirk and Patrick Thomas, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Paul Angelo and Andy Yeung, The Segal Company; Yolanda Diaz, Karen Jacobs, Steven Medvecki, Danielle Morrissey, and Lisa Pae, State Street; 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.