



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, WEDNESDAY, DECEMBER 19, 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 Wednesday, December 19, 2012, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud introduced newly-elected Safety Member Chris A. Pittman from the Sacramento County Sheriff's Department who will be replacing William D. Johnson on the SCERS Board effective January 1, 2013.

Mr. Johnson thanked the other Board Members for the wonderful experience of serving with them on the SCERS Board for 9 years.

Mr. Diepenbrock read Resolution 2012-18 commending and honoring Mr. Johnson 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 Mr. Conneally to adopt Resolution 2012-18 honoring William D. Johnson; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

MINUTES:

2. The Minutes of the November 8, 2012 and December 5, 2012 special meetings were approved on Motion by Mr. Kelly; Seconded by Mr. Fowler. Motion carried (9-0).

CONSENT MATTERS:

Items 3-9

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

3. BROWN, Gail A.: Granted a service-connected disability retirement.
4. ESTEP, Karen J.: Granted an interim nonservice-connected disability retirement.
5. GILDBERG, Nancy M.: Denied a service-connected disability retirement.
6. Approved the proposed interest crediting rate for member contribution accounts for the six month period ending December 31, 2012.
7. Approved a recommended increase in the authorized contract amount for the engagement with Nossaman LLP to provide legal services related to disability retirement determinations.
8. Approved a proposed change to the official day and starting time for regular SCERS Board Meetings.
9. Received and filed the November 2012 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud commended Chief Operations Officer Kathy Regalia and her staff on the work they have been doing, including the Comprehensive Annual Financial Report and the annual audit process. Mr. Stensrud also commended Chief Benefits Officer John Gobel and his staff on the work they have been doing, specifically the preparations for implementing CalPEPRA. Finally, Mr. Stensrud commended Chief Investment Officer Scott Chan and the rest of the investments staff on the work they have done regarding individual investments over the past few months, as well as the development of some macro components for the investment program.

Mr. Stensrud reported that Staff had just completed another retirement planning seminar for employees late in their career that was once again well attended and received. Mr. Stensrud noted that SCERS will continue to offer seminars in 2013.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud stated that there would be a seminar hosted by the California Association of Public Retirement Systems (CALAPRS) from January 29-31, 2013 at UCLA. Mr. Stensrud noted that the seminar was the Advanced Board Leadership Institute: Advanced Principles in Governance. Mr. Stensrud stated that details of the seminar would be provided to Board Members.

Mr. Stensrud and outside legal counsel Lance Kjeldgaard reported that there would be changes coming to the state limits on gifts received by Board Members. Mr. Stensrud noted that Staff would be providing spreadsheets to Board Members to assist in tracking any meals or gifts received throughout the year.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Fall Conference occurred in November and invited Board Members who attended to offer comments on the conference. Mr. Kelly noted that conference was very interactive and good information was provided. Mr. Fowler and Mr. DeVore both noted that they appreciated the chance to speak with members from other boards to learn how SCERS compares.

Mr. Stensrud noted that a speaker at the conference discussed certain changes that retirement systems should make in order to improve investment performance. Mr. Stensrud noted that one of those changes – Board delegation of more investment authority to staff and consultants – had already been implemented at SCERS, and commended the Board for their judgment in taking that step. Mr. Stensrud noted that he agreed with another suggestion by the conference speaker that systems should be more focused on whether they were achieving their own investment goals and not on comparing their performance to the performance of others. Mr. Stensrud noted that in that regard, while a report presented at the conference provided extensive investment performance information about the SACRS systems, the most important information was that SCERS was ranked near the top in the category of net assets available for benefits, meaning that SCERS' investment program was doing a good job at meeting its core goal of funding benefits.

14. At the request of Chief Executive Officer Richard Stensrud, item 14 was taken up out of sequence.

Mr. Stensrud provided a presentation on the California Public Employees' Pension Reform Act of 2013 (CalPEPRA). Mr. Stensrud discussed the genesis of the legislation, its evolution in the legislative process, and its eventual adoption at the end of the legislative session. Mr. Stensrud noted that CalPEPRA was continuing to undergo extensive analysis by retirement systems and their stakeholders in an effort to determine what was required by the new law. Mr. Stensrud further noted this also included discussions with legislators and their staff, who acknowledged that there were areas of uncertainty in the law and that legislation to address those areas would be forthcoming. Mr. Stensrud noted that SCERS had developed an analysis of how the new law would impact current SCERS members, new members, retirees and participating employers and reviewed the steps taken by

ADMINISTRATIVE MATTERS (continued):

SCERS to communicate this impact to stakeholders. Finally, Mr. Stensrud reviewed the implementation plan being carried out by Staff.

Mr. Stensrud outlined the recommended implementation parameters for determining, effective January 1, 2013, what will count as retirement-eligible compensation for current SCERS members ('compensation earnable') and for new members under the new CalPEPRA tiers ('pensionable compensation').

Mr. Stensrud explained that because SCERS was already fully compliant with the compensation rules established by the Ventura court decision, determining which compensation elements will count toward retirement benefits for current members under CalPEPRA was straight-forward, and that virtually all pay elements that currently count would continue to count, unless SCERS were to determine that a pay element had been provided for the principal purpose of enhancing a person's retirement benefit.

Mr. Stensrud explained that the CalPEPRA was less clear with respect to retirement-eligible compensation for new members, but based on the language of the law and the legislative intent reflected in CalPEPRA, pensionable compensation for new members would be limited to base pay, as that term is defined in participating employer compensation practices, and would not include the various differentials, allowances, and incentive payments typically paid to a person in a given job classification. Mr. Stensrud noted that this would exclude from retirement-eligible compensation a number of pay elements that have traditionally been included, and if this was not what was intended, legislation could be introduced to expand the definition of pensionable compensation. Mr. Stensrud also noted that it was possible that through collective bargaining, participating employers could decide to modify the definition of base pay to include certain skill or service-based pay elements, in which case they would be retirement-eligible. Mr. Stensrud explained that if and when the standards changed, SCERS would modify the pensionable compensation parameters accordingly.

Discussion followed, including discussion of the difficulty in getting uniformity among the retirement systems with respect to interpretation of CalPEPRA.

Motion by Ms. Gin to approve the recommended parameters for determining the pay elements that will count as retirement benefit-eligible compensation effective January 1, 2013; Seconded by Ms. Valverde. Motion carried (9-0).

11. Richard A. Green and Craig Harner of Macias Gini & O'Connell presented the Report to the Board of Retirement, the Report on Internal Controls and Compliance, and the Independent Auditor's Report for the Fiscal Years Ended June 30, 2012 and 2011.

Mr. Green noted that his firm provided three reports from their audit. The first report was the Independent Auditor's Report, which is the auditor's opinion on the basic financial statements. The second report was the Report on Internal Controls and Compliance. The third report was the Report to the Board of Retirement.

ADMINISTRATIVE MATTERS (continued):

Mr. Green stated that the audit showed no deficiencies, nor any instances of non-compliance with laws or regulations. Mr. Green stated that the audit produced an unqualified or 'clean' opinion on the basic financial statements. Mr. Green explained that this was the highest assurance possible on the state of the financial statements. Mr. Green further explained that this means that the financial statements were fairly presented in accordance with generally accepted accounting principles.

Mr. Green commended SCERS' Staff for their preparation and cooperation in conducting the audit.

Motion by Ms. Wolford-Landers to receive and file the reports; Seconded by Mr. Kelly. Motion carried (9-0).

12. Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2012 and 2011. Ms. Regalia noted that SCERS has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for SCERS' CAFRS for the past thirteen years and that the current CAFR would be presented for consideration this year.

The Board and the Chief Executive Officer commended Ms. Regalia and her team for preparing an excellent CAFR.

Motion by Mr. Fowler to receive and file the report; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

13. Chief Executive Officer Richard Stensrud reviewed the proposed SCERS Board Education Policy.

Mr. Stensrud explained that the proposed Board Education Policy largely memorializes existing Board values and practices, and reflects the Board's recognition that there is a unique body of knowledge relevant to Board Members in carrying out their important roles and responsibilities, and that education in such matters is necessary for Board Members to successfully execute their fiduciary and statutory duties. Mr. Stensrud further noted that the proposed policy also affirmed the Board's conviction that it is incumbent on each Board Member to achieve and maintain proficiency in matters central to the administration of the retirement system.

Mr. Stensrud noted that the proposed policy establishes a framework for the subject matter and types of sessions and programs through which Board Members can develop the skills and knowledge necessary to carry out their duties and responsibilities, recognizing that such information can be obtained in a variety of formats.

ADMINISTRATIVE MATTERS (continued):

Finally, Mr. Stensrud noted that the proposed Board Education Policy will also facilitate compliance with a recent addition to the County Employees' Retirement Law of 1937 (1937 Act) which, effective January 1, 2013, requires: (1) 1937 Act retirement system Board Members to have twenty-four (24) hours of qualified Board Member education within the first two years of assuming office, and for every subsequent two-year period thereafter; and (2) That information regarding compliance with the education requirements be posted on the retirement system's website.

Discussion followed.

Motion by Mr. DeVore to approve the Board Education Policy; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

15. Chief Executive Officer Richard Stensrud presented a proposed memorandum of understanding (MOU) with the Superior Court, County of Sacramento (Court) regarding a replacement benefit plan sponsored by the Court.

Mr. Stensrud explained that due to Section 415(b) of the Internal Revenue Code, which places a dollar limit on the annual benefit amount a tax-qualified plan like SCERS can pay to a retiree or beneficiary, in certain situations SCERS can be prevented from paying a retiree the full benefit that he or she has earned under the benefit provisions of the 1937 Act. Mr. Stensrud further explained that a replacement benefits plan (RBP) is a special benefit plan that is separate and apart from the SCERS plan, whose sole purpose is to pay those benefits that SCERS cannot provide due to the Section 415 limits. Mr. Stensrud noted that the RBP is separately funded, maintained, and administered by the employer and that the payments are made directly from the RBP to the affected retiree or beneficiary.

Mr. Stensrud stated that the RBP is intended to be cost neutral with respect to the overall cost to the employer for providing retirement benefits. Mr. Stensrud reported that SCERS has previously entered into such a MOU with the County concerning its RBP and that the Court is requesting that SCERS enter into a similar MOU with the Court concerning the RBP recently established by the Court. Mr. Stensrud noted that CalPEPRA prohibits an employer from establishing an RBP after December 31, 2010.

Discussion followed.

Motion by Ms. O'Neil to approve and adopt the proposed MOU, authorize the Chief Executive Officer to execute the MOU on behalf of SCERS, and authorize and direct Staff to take the necessary steps to fulfill SCERS' responsibilities under the MOU; Seconded by Mr. Fowler. Motion carried (8-0)

INVESTMENT MATTERS:

16. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending June 30, 2012 and September 30, 2012, including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' hedge fund portfolio was up 3.1% in the third quarter of 2012 and up 5.7% calendar year-to-date (as of September 30), outperforming the absolute policy benchmark (3 Month T-Bills + 5%) which was up 1.3% in the third quarter of 2012 and up 3.8% year-to-date. Mr. Feidler noted that SCERS' hedge funds outperformed the HFRI Equity Hedge Index in the third quarter of 2012, which was up 2.4%, and has outperformed year-to-date where the index was up 3.4%.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio is up 2.5% since inception compared to the Venture Economics Private Equity Index up 6.2% and the multiple of total value to paid in capital ("TVPI") is 1.04x since inception. Mr. Feidler 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. Feidler reported that SCERS' real assets portfolio IRR is 6.9% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.5% and SCERS' TVPI is 1.2x.

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 6.8% as of June 30, 2012 which has underperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.75% and SCERS' intermediate benchmark (SCERS' total portfolio policy weighted return) of 8.7%. Mr. Feidler noted, however, that the investments in the opportunistic portfolio were largely winding down and that the longer term performance of those investments was well in excess of the benchmarks.

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

17. Jennifer Young of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended September 30, 2012.

Ms. Young reported that SCERS' total real estate portfolio returned 4.7% during the third quarter of 2012, outperforming the benchmark (NCREIF Property Index + 100 basis points) by 2.1%. Ms. Young noted that the real estate portfolio's one year return is now 19.3%, outperforming the benchmark which returned 12%.

Ms. Young reported that SCERS' core real estate portfolio returned 3.3% during the third quarter, outperforming the benchmark by 70 basis points. Ms. Young noted that, for one year, SCERS' core real estate portfolio has returned 13.5%, outperforming the benchmark by 150 basis points.

INVESTMENT MATTERS (continued):

Ms. Young reported that, within core real estate, SCERS' separate account portfolio continued to outperform the commingled fund investments. Ms. Young stated that the separate accounts returned 3.4% for the quarter and 14% for one year, compared to 2.1% and 12.2% respectively for the commingled funds.

Ms. Young reported that SCERS' public REIT portfolio returned 4.5%, compared to a third quarter return of 5.5% for the FTSE NAREIT Global REIT Index and 0.2% for the FTSE NAREIT (domestic) REIT Index.

Ms. Young reported that the remaining real estate portfolio generated a return of 11.2% for the third quarter, the benchmark for which, a hybrid of the NCREIF/Townsend Value Added Funds Index and the NCREIF/Townsend Opportunity Fund Index, returned 2.8%.

Motion by Mr. Johnson to receive and file the quarterly performance report; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

18. SCERS' Investment Staff and Jamie Feidler of Cliffwater, LLC presented an analysis and recommendation to help facilitate reaching the target allocation level in the hedge fund asset class.

Chief Investment Officer Scott Chan explained that the presentation would focus on the benefits of creating an interim hedge fund component as part of SCERS' hedge fund structure. Mr. Chan reviewed the hedge fund target asset allocation that was increased from 5% to 10% of the total portfolio in 2011. Mr. Chan stated that SCERS' goal is to move to the target allocation with physical assets as quickly, but as prudently, as possible. Mr. Chan reviewed the hedge fund portfolio's implementation to-date, noting that while SCERS had established a direct multi-hedge fund strategy program and a strategic partnership with Grosvenor a 'gap' of \$314 million remained relative to the target allocation.

Deputy Chief Investment Officer Steve Davis stated that it will take approximately three to five years before the direct hedge fund portfolio is fully built. Mr. Davis noted that the current 'gap' is being filled by SCERS' overlay program, but the overlay program does not effectively replicate hedge fund exposure. Mr. Davis reviewed the goals for an interim hedge fund component, including: (1) Achieve absolute returns that diversify SCERS' portfolio; (2) Provide higher liquidity and the ability to redeem capital on a regular schedule to fund the direct hedge fund program; (3) Provide adequate diversification; (4) Be cost effective; and (5) Complement the direct hedge fund program.

Mr. Feidler and Investment Officer Bharat Indurkar reviewed various options for the interim hedge fund component, noting the advantages and disadvantages of the options.

Mr. Davis reviewed the option for the interim hedge fund component recommended by Staff and Cliffwater – i.e., a customized solution developed by Staff, Grosvenor, and Cliffwater. Mr. Davis explained that the existing SC Absolute Return Fund, LLC (SCARF A) is a

INVESTMENT MATTERS (continued):

diversified multi-strategy hedge fund portfolio currently managed by Grosvenor and that a second customized separate account (SCARF B) could be set up with minimal cost. Mr. Davis stated that SCARF B would provide SCERS' portfolio with the full benefits of its hedge fund allocation, such as the risk-return profile and diversification. Mr. Davis further stated that, like SCARF A, SCARF B would be diversified across hedge fund strategies and managers. Mr. Davis stated that SCARF B would be designed to provide greater liquidity than SCARF A and will have the capability to redeem interests to fund the direct hedge fund program on a quarterly basis. Finally, Mr. Davis noted that the Grosvenor fee structure would be very attractive.

Mr. Chan provided a summary of the possible options, comparing them based on potential performance, volatility, diversification, fees, and liquidity. Mr. Chan reiterated that Staff and Cliffwater agree that an interim Grosvenor diversified portfolio, SCARF B, would be the optimal solution.

Discussion followed.

The Board instructed Staff to move forward with development of the SCARF B component and to return to the Board with any required hedge fund policy changes for final approval.

19. Cliffwater and SCERS' Investment Staff provided an educational presentation on private equity investing in emerging markets.

Chief Investment Officer Scott Chan introduced the presentation, noting that SCERS' private equity allocation is 10% of the total portfolio. Mr. Chan stated that the purpose of investing in private equity was to enhance the returns of SCERS' portfolio by earning an illiquidity premium by investing in private companies. Mr. Chan also noted that an additional goal was to achieve diversification across multiple dimensions of risk, including diversification by private equity strategy, by sector, by vintage year or business cycle, and across geographies.

Mr. Chan stated that within the private equity, a target allocation of 20% to non-U.S. private equity was set and that investing in emerging markets would make up approximately 25% - 50% of that non-U.S. target. Mr. Chan noted that there were no private equity commitments in emerging markets yet.

Deputy Chief Investment Officer Steve Davis reviewed the opportunities and risks associated with private equity investing in emerging markets. Mr. Davis noted that among the positives are: (1) Attractive growth prospects across emerging market countries; (2) Many markets are more 'developed' than 'emerging;' (3) The advantage of underpenetrated markets; and (4) Private equity investing in emerging markets provides additional portfolio diversification.

INVESTMENT MATTERS (continued):

Mr. Davis noted that the risks of private equity investing in emerging markets included: (1) Increased political and regulatory risks; (2) The challenges of less developed capital markets; (3) The search for returns has increased the demand for emerging markets private equity; and (4) Like all private equity, emerging markets private equity investments are long-term and illiquid.

Jamie Feidler of Cliffwater, LLC discussed Cliffwater's approach to private equity investing in emerging markets. Mr. Feidler stated that Cliffwater recommends clients include emerging markets within a diversified private equity portfolio. Mr. Feidler noted that Cliffwater thinks Asia represents the best opportunity in emerging markets private equity.

Mr. Feidler reviewed the amount of emerging markets private equity investing over the past few years, with the majority of the investing taking place in China, India, and Brazil. Mr. Feidler discussed the characteristics of investment activity and the investment outlook in Central and Eastern Europe, Latin America, Middle East, Africa, and Asia. Mr. Feidler further reviewed investment strategies in Asia including geographical diversification and strategy by country. Mr. Feidler provided further detail on the private equity landscape in India. Finally, Mr. Feidler discussed the private equity landscape in China.

Mr. Davis reviewed some considerations to private equity investing in China including the concentrated group of established local firms raising significant capital; the growth of the fund universe; the evolving investment strategies in the region; regulatory considerations; and the growth of local currency funds.

Mr. Chan stated that Staff and Cliffwater believe there is a strong case for allocating to the emerging markets segment, and that the benefits outweigh the risks, but SCERS would need to assess how best to implement the allocation. Mr. Chan reviewed the different approaches in which SCERS can invest in emerging markets private equity including investing directly in local private equity funds (both large, established funds and small funds), investing directly in U.S. sponsored private equity funds with a local presence in the emerging markets, and entering into a strategic partnership with a private equity fund.

Mr. Chan concluded by stating that Staff and Cliffwater would continue to assess private equity investment opportunities within emerging markets and would come back to the Board with a recommendation to modify the current asset class investment plan if it was determined that a private equity strategic partner relationship would yield greater diversification and increase access to specialized expertise.

Discussion followed.

Motion by Mr. Johnson to receive and file the educational presentation regarding considerations in making private equity investments in emerging market countries; Seconded by Mr. Fowler. Motion carried (9-0).

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The meeting was adjourned at 2:30 p.m.

MEMBERS PRESENT: James A. Diepenbrock (away from 11:00 a.m. to 12:20 p.m.), John B. Kelly, William D. Johnson, Keith DeVore, Richard B. Fowler II, Diana Gin, Kathy O'Neil (arrived at 10:12 a.m.), Julie Valverde, Nancy Wolford-Landers (departed at 2:07 p.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; Bharat Indurkar, Investment Officer, John Lindley, IT Administrator; Margaret Dugger, Retirement Services Analyst; Michele Rovito, Retirement Services Analyst; Xee Vang, Senior Accountant; Lance Kjeldgaard, Outside Counsel; Pete Keliuotis, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Young, The Townsend Group; Richard A. Green and Craig Harner, Macias Gini & O'Connell; Seyonne Kang, Commonfund; Tim Ainsworth, Sacramento Superior Court; Diana Ruiz, Deputy County Counsel; and Chris A. Pittman.

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.