



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Jeffrey W. States  
Chief Investment Officer

John W. Gobel, Sr.  
Chief Benefits Officer

Kathryn T. Regalia  
Chief Operations Officer

Members of the Board of Retirement

James A. Diepenbrock, President  
Appointed by the Board of Supervisors

Ronald D. Suter, 1<sup>st</sup> Vice President  
Elected by Miscellaneous Members

John B. Kelly, 2<sup>nd</sup> Vice President  
Appointed by the Board of Supervisors

Mark Norris, Director of Finance  
Ex-Officio

Keith DeVore  
Elected by Miscellaneous Members

Winston Hickox  
Appointed by the Board of Supervisors

William D. Johnson  
Elected by Safety Members

Nancy Wolford-Landers  
Elected by Retired Members

Robert Woods  
Appointed by the Board of Supervisors

William Cox  
Elected by Retired Members

Steven Soto  
Elected by Safety Members

## MINUTES

### SPECIAL RETIREMENT BOARD MEETING, JUNE 16, 2005

The special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, U.S. Bank Plaza Building, 980 9th Street, 18<sup>th</sup> Floor, Sacramento, California, on June 16, 2005 at 10:17 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of May 19, 2005, were approved on motion made by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (5-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. JENNINGS, Sheryl C.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated June 9, 2005.
4. ROSS, Bruce A.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated June 9, 2005.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

5. Chief Executive Officer Richard Stensrud provided a status report on the analysis of options for addressing SCERS' legal services needs. Mr. Stensrud outlined the analysis that had been performed to-date and stated that he would be bringing a full report and recommendation to the Board in August. Mr. Stensrud also reported that County Counsel had reiterated his willingness to continue to provide legal services to SCERS until such time as SCERS might choose to utilize other counsel.

Mr. Stensrud presented a report prepared by Chief Benefits Officer John Gobel regarding measures that SCERS takes or could take to re-evaluate the status of disability retirees. Mr. Stensrud reported that SCERS directs re-examination in cases where it is presented with information suggesting re-evaluation is warranted, and that historically, SCERS had mailed annual Statement of Disability forms to all disability retirees in which the disability retiree must attest whether they were employed during the past year and whether they had been treated in the past year by a physician for the injury or condition forming the basis for the disability. Mr. Stensrud noted that if a re-examination determined that the individual was no longer disabled, the matter would proceed as a contested case, much like the initial disability application process, with legal representation, competing medical evidence, a hearing and a right to appeal to the SCERS Board. Mr. Stensrud noted that even if the SCERS Board ultimately determined that the individual was no longer disabled, the disability allowance could not be cancelled unless the individual was reinstated in County service. Mr. Stensrud reported that based on the experience of retirement systems that pursued an extensive re-examination process, the former employer was rarely willing or able to reinstate such individuals. Mr. Stensrud suggested that such an impediment was an important consideration in determining the appropriate level of resources to apply to post-award re-examinations. Discussion followed. No action was taken, but Mr. Stensrud stated that he would return to the Board at a later date with recommendations regarding possible changes to the existing process that made sense from a cost/benefit perspective.

Mr. Stensrud reported that he had had a number of discussions with various parties, including other retirement administrators, actuaries and the County, regarding extended asset/liability smoothing such as the fifteen-year smoothing technique recently adopted by CalPERS. Mr. Stensrud observed that the concept offered potential for reducing contribution rate volatility and for that reason was worth exploring in more detail. Mr. Stensrud further noted, however, that the concept should be approached cautiously since to-date only CalPERS had adopted the method and there was no track record of how effective it would be over time. Mr. Stensrud also noted the potential problems the methodology could present with respect to prospective versus retroactive implementation; having the discipline to maintain a long smoothing cycle in periods where the investment returns were very strong and the plan sponsor wanted to see the cost reductions sooner rather than later; and the perception that the actuarial value of the fund was too disconnected from the current market value of the fund. Mr. Stensrud stated that in consultation with the County he would have the actuary analyze the concept in detail to provide more information to assist the Board in assessing whether such an approach was appropriate for SCERS.

**ADMINISTRATIVE MATTERS: (continued)**

Mr. Stensrud reported that he and Mr. Diepenbrock had met with each member of the Board of Supervisors, and with the County Executive's Office, regarding the recent changes in the actuarial assumptions and the cost increases resulting from those changes. Mr. Stensrud reported that the purpose of the meetings had been to try to enhance the County's confidence that the actuary's recommendations were sound, and while the cost increases were substantial, they were consistent with the experience in other public retirement systems in California. Mr. Stensrud reported, with Mr. Diepenbrock's concurrence, that notwithstanding the information presented, there continued to be concerns in some quarters over the soundness of the actuarial work. Mr. Stensrud stated that he believed SCERS should be proactive in asking and answering questions regarding the validity of the actuary's recommendations, and accordingly, under his delegated contract authority, he had engaged an independent actuary – John Bartel – to review the work done by The Segal Company. Mr. Stensrud noted that Mr. Bartel has done extensive retirement-related actuarial work for plan sponsors throughout California, and has been an advisor to the League of Cities, and to a lesser extent CSAC, on the recent pension reform proposals. Mr. Stensrud further noted that Mr. Bartel was currently undertaking an identical review for the plan sponsor in Orange County (where the retirement system just received a similar experience study from Segal). Mr. Stensrud noted that Mr. Bartel had not previously done work for SCERS. Mr. Stensrud expressed his belief that Mr. Bartel's background, experience and independence from SCERS would provide a highly credible assessment of Segal's work. Mr. Stensrud reported that Mr. Bartel's analysis should be completed by late July or early August. Mr. Diepenbrock stated that he concurred with the decision to have the actuarial work reviewed. Discussion followed, with the Board indicating that it supported the actuarial review.

Mr. Stensrud provided an update on pension reform developments.

Mr. Stensrud reported that SCERS had recently received an analysis by Macias Consulting Group of SCERS' investment accounting process. Mr. Stensrud noted that the study was intended to address matters discussed in the last annual audit. Mr. Stensrud reported that he felt the study would be very helpful for SCERS in improving its investment accounting process.

Mr. Stensrud reported that Chief Investment Officer Jeffrey States had compiled some interesting information regarding the comparative investment performance of SCERS, CalPERS and CalSTRS. Mr. States reported that the data showed that over the last ten calendar years, SCERS' annualized performance compared favorably to the two state funds. Mr. States also reported SCERS had out-performed both funds in five out of the ten calendar years. Mr. States noted various distinctions between the investment strategies pursued by the funds. Discussion followed.

6. Chief Operations Officer Kathryn Regalia presented SCERS Proposed Operating Budget for Fiscal Year 2005-2005. Ms. Regalia noted the highlights of the Proposed Budget, including the significant changes from the 2004-2005 Budget. Ms. Regalia noted that the total Proposed Budget was 3.28% higher than the total 2004-2005 Budget. Ms. Regalia also noted that the Proposed Budget was 31.2%

**ADMINISTRATIVE MATTERS: (continued)**

below the statutory budget limit for administrative expenses of eighteen hundredths of one percent of total assets. Discussion followed with the Board commending Ms. Regalia on the Proposed Budget materials. Mr. Woods moved to approve the Proposed Budget as presented; Seconded by Ms. Wolford-Landers. Motion carried (6-0).

7. Chief Executive Officer Richard Stensrud presented a proposed Resolution in which the SCERS Board would reaffirm its long-standing policy that SCERS employees receive the cost-of-living adjustments and other employee benefits provided to other County employees in their respective job classifications or representation groups. Mr. Stensrud reported that notwithstanding a consistent past practice to include SCERS employees when such matters were presented to the Board of Supervisors for approval, SCERS had recently been advised that this would not be done in the future without express authorization by the SCERS Board to do so. Mr. Stensrud noted that the proposed resolution was framed as an ongoing policy of the SCERS Board so that it would not be necessary for the Board to take the matter up each year. Motion by Mr. Suter to adopt the Resolution as presented; Seconded by Mr. Johnson. Motion carried (6-0).

**INVESTMENT MATTERS:**

8. Terry A. Dennison, Mercer Investment Consulting, discussed with the Board his letter providing information on the examination of investment consultants being done by the SEC and the status of Mercer Investment Consulting with respect to this matter. Mr. Dennison assured the Board that Mercer has not violated any laws and that the SEC has not imposed any fine or sanction on Mercer or indicated an intent to impose any fine or sanction. Mr. Dennison noted that the examination is industry-wide and Mercer is cooperating with the SEC staff by continuing to respond to requests for information. Mr. Dennison provided the Board with additional information summarizing Mercer's review of its investment manager search activity for their consulting clients and their conclusion that the data showed that investment management firms that had done business with Mercer were not treated more favorably in the investment manager searches. The presentation materials were received and filed on a motion by Mr. Woods; Seconded by Mr. Suter. Motion carried (6-0).
9. Mr. Dennison made an educational presentation on the use of financial futures and options in various overlay investment strategies. Mr. Dennison described how an overlay strategy featuring futures and options can reduce performance drag from residual cash and how such strategies can aid in portfolio rebalancing by improving portfolio trading efficiency. Mr. Dennison also provided examples of more sophisticated strategies such as alpha transport strategies. Mr. Dennison explained that overlay strategies can be safely implemented through development of appropriate guidelines and effective monitoring for compliance with established parameters. Discussion followed, with the Board indicating an interest in moving forward with identification of an overlay strategy designed to add value through reduced cash drag and more cost-effective portfolio rebalancing. The Board directed Mercer and staff to return with a plan for implementing such a strategy. The Board further directed Mercer and staff to evaluate the more sophisticated uses of overlay strategies, and to return with

**INVESTMENT MATTERS: (continued)**

recommendations as to their merit. The presentation was received and filed on a motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (6-0)

10. Ben Lazarus, Director of Marketing, and Rich Ballsrud, Senior Portfolio Manager, from the Clifton Group made a presentation on the potential benefit for SCERS of a synthetic index overlay strategy. The basic program they described was one that could be used to implement a futures overlay similar to the one described by Mr. Dennison to reduce cash drag. They also presented information on the potential benefits SCERS could derive from the program based on their evaluation of SCERS general level of cash over the past year, SCERS asset allocation and the benchmark indexes used by SCERS. Their analysis indicated that SCERS potentially could earn from \$12.5 million to \$25 million over a five year period. They reported that the main risk in achieving these results would be an environment with inflation and an inverted yield curve. The presentation materials were received and filed on a motion made by Ms. Wolford-Landers; Seconded by Mr. Woods. Motion carried (7-0).
11. On the recommendation of Chief Investment Officer Jeffrey States and Chief Executive Officer Richard Stensrud the Board adopted Resolution No. SCERS 2005-05 authorizing the Board President to sign the amendment to the investment management agreement with Capital Guardian Trust Company providing for a performance fee for the management of the non-dollar developed markets equity portfolio. Motion by Mr. Suter; Seconded by Mr. Woods. Motion carried (7-0).
12. On the recommendation of the CIO and CEO the Board approved an investment of \$50 million in the BlackRock Tower Fund, a commingled core real estate fund, and authorized the CEO to sign the Group Annuity Contract and Amendment No. 1. Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (7-0).
13. The Monthly Investment Compliance and Activity Report for May 2005 was received and filed on a Motion by Ms. Wolford-Landers; Seconded by Mr. Devore. Motion carried (7-0).

**ADMINISTRATIVE MATTERS:**

14. Drew James of The Segal Company made an educational presentation on the relevant considerations in developing an interest crediting and excess earnings policy. Mr. James provided an overview of reserves, interest crediting and excess earnings mechanics. Mr. James reviewed SCERS reserve structure and current interest crediting and excess earnings policy. Mr. James identified issues the Board might want to address, including the appropriate interest crediting rate on employee contributions; the appropriate definition of excess earnings; the possible transfer of funds from the Contingency Reserve to the core benefit reserves; the use of a Contra Account; and establishing more substantial contingency reserves. Discussion took place throughout the presentation. CEO Richard Stensrud noted no action was being requested at this time, and that there would be further discussion of the issues at the next Board Meeting with the goal of trying to build consensus on the ultimate elements of an interest crediting and excess earnings policy.

**ADMINISTRATIVE MATTERS: (continued)**

The presentation materials were received and filed on a Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

15. Discussion was held regarding the appropriate format for evaluating the Chief Executive Officer. Consideration was given to utilizing an outside consultant to develop and conduct the evaluation, but the Board determined that it would prefer to develop and conduct the evaluation itself. Board President James A. Diepenbrock appointed a committee consisting of himself, Ms. Wolford-Landers and Mr. Woods to develop a proposed evaluation form for the Board's consideration.

The meeting was adjourned at 3:21 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock, President; Ronald Suter, 1<sup>st</sup> Vice-President; Members Robert Woods; William D. Johnson; Keith DeVore (arrived at 10:31 a.m.); Winton Hickox (arrived at 12:56 p.m.); Nancy Wolford-Landers; William Cox; and Steven Soto (arrived at 12:54 p.m.).

**MEMBERS ABSENT:** Mark Norris and John B. Kelly.

**OTHERS PRESENT:** Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; Kathryn Regalia, Chief Operations Officer; John Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Michele Bach, Supervising Deputy County Counsel; Diana Ruiz, Deputy County Counsel; Terry Dennison, Mercer Investment Consulting; Drew James, The Segal Company; Ben Lazarus and Rich Ballsrud, the Clifton Group and; Micki De La Fuente, Interim Executive Secretary.

**MINUTES – JUNE 16, 2005**  
**PAGE 7**

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM

Richard Stensrud,  
Chief Executive Officer

APPROVED: \_\_\_\_\_  
James A. Diepenbrock, President

DATE: \_\_\_\_\_

cc: Retirement Board (11); Clerk, Board of Supervisors (6); County Counsel (2); County Executive; Employee Organizations (21); Sacramento County Retired Employees' Association; SCERS Member Districts (11); and The Sacramento Bee.