



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

Dave Irish, 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

### RETIREMENT BOARD MEETING, AUGUST 18, 2005

The 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 August 18, 2005 at 1:02 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud reported that the mother of Board Member Robert Woods had recently passed away and that arrangements would be made to send flowers on behalf of SCERS. It was also noted that Dave Irish had joined the SCERS Board, by virtue of his recent appointment as County Director of Finance. Mr. Irish replaces Mark Norris, who was promoted to Administrator of the Internal Services Agency.

##### MINUTES:

2. The Minutes of July 21, 2005, were approved on motion by Mr. Suter; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

#### CLOSED SESSION:

##### DISABILITY MATTERS:

3. KIEVERNAGEL, Joseph M: Action was taken on the Application for Survivor's Service-Connected/Line of Duty Death Benefits as indicated per confidential memorandum dated - August 22, 2005.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

4. Chief Executive Officer Richard Stensrud noted that the Board had received materials describing the current state of affairs with respect to pension reform legislation. Mr. Stensrud noted that the most recent issue of The Journal provided an excellent analysis of the existing legislative proposals, including discussion of the numerous areas of concern regarding the pending legislation. Mr. Stensrud noted that another publication, the State Association of County Retirement Systems (SACRS) Newsletter, provided an analysis of the alternative legislative proposals being advanced by SACRS, which addressed many of the same matters as the pending legislative proposals, but in a more effective and less problematic manner. Mr. Stensrud reported that it was unclear whether any pension reform legislation would be passed before the legislature adjourned, but that there was discussion underway regarding the creation of a commission to study a wide range of issues related to public pension systems.

Mr. Stensrud noted that in light of recent Board discussions, the Board had been provided with two news articles regarding real estate investments. At Mr. Stensrud's request, Chief Investment Officer Jeffrey States summarized the views expressed in the articles. Discussion followed, with no action being taken. Mr. States also provided an update on the status of the searches for REIT managers and an overlay manager.

Mr. Stensrud provided a status report on the actuarial review being conducted by John Bartel of Bartel Associates. Mr. Stensrud reported that he and staff had recently met with Mr. Bartel and had received an update of the work done to-date. Mr. Stensrud reported that Mr. Bartel had indicated that his overall impression of the actuarial work done by The Segal Company was very high and that he had not found anything that he felt was in error, but that there were a few areas he wanted to explore in more detail with Segal. Mr. Stensrud reported that after those consultations Mr. Bartel would identify any areas where he believed an alternative methodology or actuarial assumption might be utilized, and the actuarial valuation for June 30, 2004 would be re-calculated using those alternatives to determine what impact they might have. Mr. Stensrud noted that with that information the Board could assess whether the possible alternative should be utilized in future actuarial valuations. Mr. Stensrud reported that he hoped this analysis would be completed by the end of September.

Mr. Stensrud reported that SCERS' newsletters for active members and retirees were being finalized and that the active member newsletter was targeted for release by the end of September, with the retiree newsletter following in October.

Mr. Stensrud reported that a re-design of SCERS' website was underway. Mr. Stensrud reported that in addition to revising the look of the site to make it easier to navigate, information, tools and forms would be added to make it more helpful to SCERS' members. Mr. Stensrud also reported that the address of the site would be changed to SCERS.org to make it easier for members to find.

**ADMINISTRATIVE MATTERS: (continued)**

Mr. Stensrud reported that SCERS would be resuming the retirement seminars in the fall, but noted that the format would be changed somewhat, in that there would not be a two-day program as provided in the past. Mr. Stensrud reported that instead, two different versions of a one-day program would be offered, with one focused on people who are within five years of retirement, and the other focused on people who are mid-career and starting to think about retirement issues. Mr. Stensrud explained that the subjects addressed in the two programs would be similar (and similar to the information presented in the previous one-day and two-day programs), but the amount of time devoted to certain information would be tailored to the specific needs and concerns of a person at his/her particular place in life. Mr. Stensrud explained that he believed this approach would be more effective in providing people with the information that was most important to them. Mr. Stensrud further noted that the two programs would be offered in close time proximity to each other, so that a person could attend both if they desired.

5. Chief Executive Officer Richard Stensrud presented a report and recommendation regarding a proposed structure for addressing SCERS' legal service needs. Mr. Stensrud recommended a proposed structure drawing upon four sources of legal services: (1) Establishing an in-house General Counsel position to handle day-to-day legal questions and needs; (2) Continued utilization of County Counsel to supplement and assist the General Counsel as needed; (3) Continued use of County Counsel's Office for representation of the retirement system in disability proceedings; and (4) Retention of outside counsel with specialized expertise when necessary.

Mr. Stensrud outlined the research and analysis that formed the basis for the recommended structure. Mr. Stensrud explained the rationale for the recommended structure, noting that it was designed to capitalize on the relative strengths of a particular source of legal services, while providing access to complimentary or supplemental services that mitigated any drawbacks inherent in any one source. Mr. Stensrud outlined how and why the recommended structure would provide substantial value to the Board and SCERS staff in carrying out their fiduciary responsibilities in an increasingly complex environment. Mr. Stensrud outlined the costs associated with the structure, and noted that while the costs would be higher, he believed the value to SCERS of the recommended structure would more than compensate for the higher costs.

Mr. Stensrud noted that in order to implement the recommended structure, the Board would have to adopt Section 31529.9 of the 1937 Act and that a proposed resolution to that effect was included as part of his recommendation.

Mr. Stensrud noted that it was his recommendation that the in-house General Counsel position be designated as an exempt SCERS executive similar to the Chief Investment Officer, the Chief Operations Officer and the Chief Benefits Officer. Mr. Stensrud explained that this meant the General Counsel would report to and operate under the administrative direction of the Chief Executive Officer, but by virtue of the special responsibilities the position would have to the Board, combined with the professional obligations imposed on

**ADMINISTRATIVE MATTERS: (continued)**

an attorney, the result would be an effective 'dotted line' reporting relationship with the Board.

Mr. Stensrud noted that this reporting structure was utilized by virtually all retirement systems with in-house counsel, including both CalPERS and CalSTRS, and the 1937 Act systems that have internal counsel. Mr. Stensrud noted that based on his personal experience as an in-house counsel under such a reporting structure, he did not believe it would diminish the independent legal judgment counsel would provide to the Board. Mr. Stensrud explained that one of the most valuable features of having in-house counsel was the ability to integrate the skills and perspective of counsel into day-to-day operations and decision-making regarding management of the system and that this would be difficult to achieve if the position reported to the Board rather than the CEO.

Mr. Stensrud noted that if the Board approved the recommended structure, he would prepare and submit to the Board a proposed functional job description detailing the functions, duties and reporting relationship, as well as the qualifications, knowledge, skills and experience required for the position. Mr. Stensrud also noted that he would prepare and submit a proposed salary range to the Board.

Finally, Mr. Stensrud outlined options for recruiting for the in-house counsel position. Mr. Stensrud noted that whether the Board preferred to utilize a professional recruitment firm or have SCERS conduct the search, he recommended that the CEO identify the leading candidate and bring that candidate to the Board for an interview prior to any offer being made. Mr. Stensrud explained that given the special role and relationship between the Board and counsel, he felt it was important that the Board be comfortable and confident in the abilities of the individual under consideration. Mr. Stensrud noted that the ultimate goal would be to identify an individual who was a good match with the Board, the CEO and the executive team.

Supervising Deputy County Counsel Michele Bach presented a letter from County Counsel Robert A. Ryan, Jr. In his letter, Mr. Ryan reiterated his prior commitment to continue to provide general legal services to SCERS up to and through the conversion to the new structure being recommended as well as the ongoing availability of his office for necessary legal services in the future. Mr. Ryan noted, however, that he felt that the General Counsel should have a direct reporting relationship with the Board since the client was the organization itself, acting through its highest governing body. Mr. Ryan further noted that he did not believe a full-time counsel was necessary absent a substantial increase in the role to be played by such an attorney.

Extensive discussion followed, with much of the discussion focused on the appropriate reporting relationship for the General Counsel position. It was noted that County Counsel reported to the Board of Supervisors rather than the County Executive, but it was also noted that there were important differences between the operations of the County and the operation of the retirement system (e.g., a full-time governing body versus a governing body that meets once monthly; a wide-ranging set of agencies and departments with

**ADMINISTRATIVE MATTERS: (continued)**

multiple missions versus a single organization with one mission) and that the reporting structure in County government may not be the best reporting structure in the retirement system context. Concern was expressed regarding the possibility that because of the reporting structure the CEO would be in a position to pressure the General Counsel to alter or compromise the legal advice provided to the Board. It was further noted, however, that this reporting structure was utilized by virtually all retirement systems with in-house counsel and it did not appear that such problems were occurring. Mr. Stensrud reported that in his service as an in-house counsel he had never been pressured in such a manner, but that if he had, it would have been his professional duty to report that along with his unedited legal opinion to the governing board. It was also noted that having the General Counsel report to the Board rather than the CEO created the potential for problems in the supervision and direction of the General Counsel and could interfere with the CEO's ability to provide executive direction to the organization.

Discussion was held regarding whether the Board would be consulted if the CEO determined that it was necessary to terminate the General Counsel. Mr. Stensrud assured the Board that, as with any SCERS executive, absent a compelling need for immediate termination, he would consult with the Board prior to making such a decision. Mr. Stensrud further noted that while the current grant of authority to the CEO empowered him to terminate the General Counsel notwithstanding the Board's views on the matter, in practical terms the Board's views would carry substantial weight.

Discussion was also held regarding the recruitment method for the General Counsel position.

Motion by Mr. Hickox to adopt the CEO's recommendations for addressing SCERS' legal service needs, including establishing an in-house General Counsel position reporting to and under the administrative direction of the CEO; adoption of the Resolution making Section 31529.9 effective for SCERS; and authorizing SCERS staff to conduct the recruitment for the General Counsel position. Motion was seconded by Mr. Kelly. Motion carried (6-2), with Ms. Wolford-Landers and Mr. DeVore dissenting only with respect to the reporting relationship of the General Counsel.

6. Chief Operations Officer Kathryn Regalia presented the Final Budget Request for Fiscal Year 2005-2006. Ms. Regalia noted that total amount of the Final Budget Request was slightly less than the Proposed Budget Request approved by the Board in May and that the budget was within the 1937 Act limits on administrative costs. Motion by Mr. Suter to approve the Final Budget Request as presented; Seconded by Mr. Hickox. Motion carried (8-0).
7. Chief Operations Officer Kathryn Regalia presented the Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2005. The Report was received and filed on a motion by Mr. Kelly; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

**INVESTMENT MATTERS:**

8. Tom Lightvoet, Mercer Investment Consulting presented the Investment Portfolio Performance Report for periods ending June 30, 2005. Mr. Lightvoet reported that SCERS total fund had a return of 2.9% (2.8% net of fees) for the quarter and a return of 10.1% (9.8% net of fees) for the fiscal year. Mr. Lightvoet provided an overview of the asset class and individual manager performance. Mr. Lightvoet noted that he continues to have concerns regarding TCW and will need to see performance improve over the next few quarters if he is to continue to recommend that they be retained.

Chief Investment Officer Jeffrey States recommended that the Board take Independence Investment LLP off the watch list. Mr. States noted that Independence had been placed on the watch list in July of 2004 and that their performance had improved since that time. Mr. States noted that for the quarter, one and five year periods Independence had out performed its portfolio benchmark Russell 1000 Growth Index by more than 100 basis points, which is the portfolio target. Mr. Lightvoet noted that he would prefer to wait an additional quarter, but acknowledged that performance had improved. After further discussion the Board approved the CIO's recommendation to remove Independence Investment LLP from the watch list on a motion by Mr. Kelly; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The Investment Portfolio Performance Report for periods ending June 30, 2005 was received and filed on a motion by Mr. Johnson; Seconded by Mr. Hickox. Motion carried (8-0).

9. Fred Lieblich, Head of Real Estate Equity, Jill Hatton, Managing Director of Separate Accounts and Kathy Malitz, Director, all from BlackRock, Inc., presented an update on the company, a portfolio review, and a review of the 2006 Tactical Plan for investing SCERS real estate assets under their management. Discussion followed. The Portfolio Review and the Tactical Plan materials were received and filed on a Motion by Mr. Kelly; Seconded by Ms. Wolford-Landers. Motion carried (7-0).
10. Chief Investment Officer Jeffrey States presented SCERS Investment Resolution 2005-01 revising the policy on the appraisal of separately managed real estate investments. Discussion followed. SCERS Resolution 2005-01 was adopted on a motion by Mr. Hickox; Seconded by Mr. Kelly. Motion carried (7-0).
11. The Monthly Investment Compliance and Activity Report for July 2005 was received and filed on a motion by Mr. Kelly; Seconded by Mrs. Wolford-Landers. Motion carried (7-0).

The meeting was adjourned at 3:44 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock, President (departed at 3:34 p.m.); Ronald Suter, 1<sup>st</sup> Vice-President; John B. Kelly, 2<sup>nd</sup> Vice President; Keith DeVore; Dave Irish; William D. Johnson; Winton Hickox; Steven Soto (arrived at 1:27 p.m.); and Nancy Wolford-Landers.

**MEMBERS ABSENT:** Bill Cox and Robert Woods

**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; Tom Lightvoet, Mercer Investment Consulting, Inc.; Jill Hatton and Kathy Malitz, BlackRock Realty Advisors; T. Ziyalan, Personnel Specialist II; and Florence Craig, Executive Assistant.

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 (2); County Employment Records & Training (2); County Employee Benefits & Risk Management; County Labor Relations; Employee Organizations (21); Sacramento County Retired Employees' Association; SCERS Member Districts (11); Amervest Company, Inc. (2); Dickstein & Merin; and The Sacramento Bee