



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, 1st Vice President
Elected by Miscellaneous Members

John B. Kelly, 2nd 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, NOVEMBER 17, 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, 18th Floor, Sacramento, California, on November 17, 2005, at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud introduced Assistant County Counsel Kathleen O'Connor who was substituting for Supervising Deputy County Counsel Michele Bach.

MINUTES:

2. The Minutes of the October 5, 2005 special meeting and the October 20, 2005 regular meeting were approved on a Motion by Mr. Woods; Seconded by Mr. Kelly. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. BAKER, Oracia M.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum dated November 8, 2005.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

4. Chief Executive Officer Richard Stensrud advised the Board that SCERS new website address – www.scers.org – was operational.

At Mr. Stensrud's request, Mr. Woods, SCERS' voting delegate at the recent State Association of County Retirement Systems (SACRS) Conference, presented a report on the issues that had been discussed and voted on at the Conference. Other Board members who had attended the Conference also shared their views on the Conference.

Mr. Stensrud provided additional information regarding one of the issues discussed at the SACRS Conference – the impact of new Governmental Accounting Standards Board (GASB) rules regarding the reporting of assets and liabilities associated with non-pension post-retirement benefits such as retiree health care (often referred to as Other Post-Employment Benefits or OPEB). Mr. Stensrud explained that the new GASB rules were creating a great deal of concern for governmental employers that sponsor retiree health care plans because the new rules will require that plan sponsors report the assets on hand to pay the benefits and the liabilities associated with the benefits in the same long-term manner as pension funding is reported. Mr. Stensrud noted that many OPEB plan sponsors have not pre-funded the benefits in the same manner as pension benefits, but rather, were providing such benefits on a 'pay as you go' basis. Mr. Stensrud explained that as a result, under the new GASB rules such plan sponsors would have to show a large unfunded liability on their financial statements, which, in turn, could have a detrimental affect on the plan sponsor's financial credit rating. Mr. Stensrud noted that this could cause some plan sponsors to scale back or completely eliminate retiree health care coverage.

Mr. Stensrud reported that a number of ideas were being discussed to help address the issues related to the new GASB rules. Mr. Stensrud further reported that SACRS was considering holding a symposium for the purpose of discussing and analyzing options for dealing with OPEB-related issues, and for identifying areas where legislation might be necessary or helpful. Discussion followed, with no action taken.

Mr. Stensrud also provided information regarding another subject that had been discussed at the SACRS Conference – the possible shift of retirement coverage for Orange County employees from the Orange County Employees' Retirement System (OCERS) to CalPERS. Mr. Stensrud provided background on the impetus for the possible shift, as well as an overview of some of the issues that would have to be addressed if such a change were to move forward, as well as the possible ramifications for other retirement systems. Discussion followed with no action taken.

Mr. Stensrud discussed some recent newspaper articles concerning public pension plans. Mr. Stensrud noted that a great deal of misleading and inaccurate information regarding public pension plans continues to be disseminated in the press. As an example, Mr. Stensrud noted how critics of defined benefit pension plans often point to the 'unfunded

ADMINISTRATIVE MATTERS: (Continued)

liability' associated with some retirement plans and suggest that it is a fixed debt that will cripple public employers and have to be paid off by the taxpayers. Mr. Stensrud noted that the cost of benefits is a legitimate concern, but explained how such a characterization was misleading on several fronts.

First, Mr. Stensrud noted that the concept of unfunded liability originated as a way to help assess the financial condition of private sector pension plans as of a given point in time, since the company sponsoring the plan could go out of business the next day. Mr. Stensrud suggested that while measuring unfunded liability for public pension plans was informative, it was not as important since the governmental entity sponsoring the plan was not going to go out of existence, leaving a large, fixed debt that had to be paid. Mr. Stensrud explained that because of a public pension fund's ongoing, long-term existence, the payment of any unfunded liability was built into the overall, long-term funding plan, and was retired in a manner much like a mortgage. Mr. Stensrud also noted that the funds to pay off unfunded liability did not come exclusively from the governmental employer (and thus the taxpayers), but rather, any unfunded liability was paid off primarily from investment returns. In that regard, Mr. Stensrud noted that research had established that more than 70% of the benefits paid to public employees under a defined benefit plan come from investment earnings, with about 20% of the cost paid by the employer, and about 10% paid by the employee.

Discussion followed, with no action taken.

5. Mr. Drew James of The Segal Company presented SCERS' Actuarial Valuation and Review as of June 30, 2005.

Mr. James noted the following highlights from the Actuarial Valuation and Review: (1) Notwithstanding measures taken by the SCERS Board to help mitigate costs (e.g., revised actuarial assumptions, utilization of the contingency reserve), the average aggregate employer contribution rate will increase by 1.92% primarily due to recognition of the second year of the two-year cost increase phase-in implemented last year, and the continued phase-in of investment losses from 2000 through 2003 via SCERS' five-year smoothing technique; (2) On an important and positive note, however, due to the strong investment performance over the last two years, the deferred gains are now greater than the deferred losses under the five-year smoothing. Specifically, SCERS now has a net balance of approximately \$46 million in deferred gains that will be phased-in over the next four years to help offset possible future investment shortfalls and/or lower future costs; (3) On another positive note, due primarily to the revised actuarial assumptions, employee contribution rates will be decreasing; and (4) SCERS' funded status is down very slightly (decreasing by 0.1%), but remains very strong with a ratio of assets to liabilities of 93.2%.

Chief Executive Officer Richard Stensrud stated that he believed the Actuarial Valuation and Review reflected a very positive financial condition for the retirement system. Mr. Stensrud noted that the shift from a net balance of deferred losses to a net balance of deferred gains represented a meaningful step toward stabilizing costs. Mr. Stensrud also

ADMINISTRATIVE MATTERS: (Continued)

noted that the system had successfully moved through the rollercoaster of very strong investment market performance followed by very poor investment market performance, and that the market value of the assets of the system was now virtually identical to the actuarial value.

Mr. Stensrud noted that he had sent a copy to and discussed the results of the Actuarial Valuation and Review with Sacramento County Chief Financial Officer Geoff Davey. Mr. Stensrud reported that Mr. Davey had authorized him to convey to the Board that the County fully endorsed the conclusions and recommendations in the report.

Discussion followed. Mr. Suter made a Motion to receive and file the Actuarial Valuation and Review as of June 30, 2005; Seconded by Wolford-Landers. Motion carried (9-0). Mr. Suter made a Motion to adopt the employer and employee contribution rates, to be effective July 2007, as recommended in the Actuarial Valuation and Review; Seconded by Mr. Hickox. Motion carried (9-0).

INVESTMENT MATTERS:

6. Tom Lightvoet, Mercer Investment Consulting presented SCERS' Investment Portfolio Performance Report for periods ending September 30, 2005. Mr. Lightvoet reported the SCERS total fund had a return of 4.4%, net of fees for the quarter, and a return of 14.6% for the trailing twelve month period. Mr. Lightvoet reviewed the performance of the individual asset class returns, as well as the performance of the individual investment managers. Mr. Lightvoet and Chief Investment Officer Jeffrey States noted that for the quarter SCERS' small cap domestic equity managers had not performed well. Mr. Lightvoet and Mr. States noted the TCW small cap value portfolio was of particular concern to them, but after visiting with the portfolio manager, they felt the performance should be watched closely for an additional six months before making any decisions regarding the future of the manager. The Portfolio Report was received and filed on a Motion by Mr. Kelly; Seconded by Mr. Woods. Motion carried (9-0).
7. Prior to commencement of discussion regarding the search for Real Estate Investment Trust (REIT) manager candidates, Mr. Kelly advised the Board that his firm is affiliated with Mass Mutual, which is also the parent company of Cornerstone Realty Advisors, one of the eight firms included in Mercer Investment Consulting's REIT Manager Search Report. Mr. Kelly noted that under his firm's relationship with Mass Mutual, and the relationship between Mass Mutual and the other firms it owns, he would not benefit either directly or indirectly if Cornerstone was ultimately awarded the assignment. A discussion followed regarding the extent to which Mr. Kelly should participate in consideration of this item. Among other things, it was noted that the question before the Board was only which firms should be invited to make a presentation and not which firms should be engaged. Counsel stated that she saw no problem in Mr. Kelly sitting-in on the discussion, but that he should abstain from voting in the matter.

Allison Yager, Mercer Investment Consulting reviewed the Manager Search Report that she had prepared on prospective firms for consideration as a REIT stock portfolio manager.

INVESTMENT MATTERS: (Continued)

Ms. Yager noted that she had received and evaluated sixteen responses to a Request for Information sent out in September, and had selected the eight firms she believed were best qualified for the assignment to present to the Board as candidates. Ms. Yager discussed the differences that she felt were most important to consider in differentiating between the eight firms. At the request of the Board, Ms. Yager recommended four firms as finalists in the search: AEW Capital Management, Heitman LLC, Principal Global Investors and Urdang Securities Management.

Discussion followed regarding the candidates. Mr. Hickox asked whether any of the firms being considered were 'emerging managers' in the sense that would be considered a minority or women-owned firm. Ms. Yager responded that of the candidates only Adelante Capital Management would fit that classification. Additional discussion followed, including discussion of the investment performance history of Adelante relative to the firms recommended by Ms. Yager.

Mr. Hickox made a Motion to interview as finalists the firms recommended by the investment consultant, plus Adelante Capital Management; Seconded by Mr. Woods. Motion carried (6-1), with Mr. Johnson dissenting and Mr. Kelly and Ms. Wolford-Landers abstaining.

8. Darcy Bradbury and Stephen Sullens, both Managing Directors of Blackstone Alternative Asset Management (BAAM) presented a portfolio review and performance report on the Blackstone Hedged Equity Offshore Fund Ltd.(Fund), an equity long/short hedge fund of funds, to which SCERS committed an investment of \$100 million in August of 2004. The BAAM representatives provided an overview of the Fund's investment process and responded to questions about their due-diligence process, use of leverage in the portfolio and investment performance. They reported that the Fund is performing as expected and has had a return since its inception that exceeds the S&P 500 by 6.14% with significantly lower standard deviation. The BAAM representatives further reported that SCERS investment has returned 19.1% since inception compared to the portfolio objective return of 9.9%. Discussion followed. Motion by Mr. Woods to receive and file the portfolio review and performance report materials; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
9. Stephen Brewster, Managing Partner of Grosvenor Capital Management, L.P. presented a portfolio review and performance report on the Grosvenor Institutional U.S. Hedged Specialist Fund. L.P. (GISH L.P.), an equity long/short hedge fund of funds, to which SCERS committed \$100 million in August of 2004. Mr. Brewster gave an update on the Grosvenor organization and provided an overview on the GISH L.P. investment process and performance. Mr. Brewster reported that the GISH L.P. has had a cumulative return since inception of 13.61% (annualized return of 12.50%) with a standard deviation of 3.60%. Discussion followed. Motion by Mr. Woods to receive and file the portfolio review and performance report materials; Seconded by Mr. Suter. Motion carried (7-0).

INVESTMENT MATTERS: (Continued)

10. The Monthly Investment Management Compliance and Activity Report for October 2005 was received and filed on a Motion by Mr. Kelly; Seconded by Mr. Suter. Motion carried (8-0).

The meeting was adjourned at 4:04 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore (departed at 3:08 p.m.); Winston Hickox (arrived at 1:04 p.m.); Dave Irish (departed at 3:47 p.m.); William Johnson; John Kelly; Steven Soto; Ronald Suter; Nancy Wolford-Landers; and Robert Woods.

MEMBERS ABSENT: William Cox.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey W. States, Chief Investment Officer; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Kathleen O'Connor, Assistant County Counsel; Diana Ruiz, County Counsel; George Appel, Sacramento Metropolitan Fire District; Tom Lightvoet and Alison Yager, Mercer Investment Consulting, Inc.; Drew James, The Segal Company; Darcy Bradbury and Stephen W. Sullens, Blackstone Alternative Asset Management; Stephen J. Brewster, Grosvenor Capital Management, L.P.; 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