



Executive Staff:

Richard Stensrud
Chief Executive Officer

Jeffrey W. States
Chief Investment Officer

James G. Line
General Counsel

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

Keith DeVore, 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

Winston H. Hickox
Appointed by the Board of Supervisors

Alice Jarboe
Elected by Miscellaneous Members

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

John Conneally
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, FEBRUARY 15, 2007

The regular 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 Thursday, February 15, 2007, commencing at 1:03 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the December 21, 2006 regular meeting and January 18, 2007 special meeting were approved on Motion made by Mr. Kelly; Seconded by Mr. Johnson. Motion carried (7-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. JORDAN, Richard R.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated February 8, 2007.
4. STWORA-HAIL, Dawn R.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated February 9, 2007.

LEGAL MATTERS:

5. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
(Government Code Section 54956.9 (a))

Martha Rivera v. TSR Paging, Inc., Superior Court of California, County of Sacramento, Case No. 01AS06104.

After consultation with counsel, the Board elected not to pursue litigation in the matter.

6. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
(Government Code Section 54956.9 (a))

Claim No. 1951196 Against Reliance Insurance Company (in Liquidation) by Assignment from EMJ Construction Consultants, N.A., Inc., Cause No. 269 MD 200 (Commonwealth Court of Pennsylvania)

The Board consulted with counsel. No action was taken.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud reported that he would be meeting with the facilitator for the upcoming strategic planning session and thereafter would be contacting the Board Members regarding their availability on various potential dates being considered for the session.

Mr. Stensrud reported that the SCERS' Member's Annual Statements would be sent out in the next few days.

Mr. Stensrud provided a follow-up report on the problems encountered in processing the January pension payroll. Mr. Stensrud reported that all the retirees who receive their retirement allowance via direct deposit had received their allowances within twenty-four hours of the time when the payments should have been received. Mr. Stensrud also reported that the County Department of Finance had been working with the various financial institutions where the direct deposit recipients had accounts to try to assure that the retirees did not incur any fees or charges due to the delay in the transmission of the allowances. Mr. Stensrud commended Mr. Irish and his staff for their prompt and professional response in addressing the situation. Mr. Irish explained how the problem had occurred and noted that measures had been put in place to assure that the situation would not be repeated.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud provided an update on the implementation of the Federal Pension Protection Act provisions regarding the \$3,000 tax exclusion for certain qualified 'public safety officers.'

Mr. Stensrud reported on the hearing conducted by the County Board of Supervisors regarding the retiree health care subsidy. Mr. Stensrud provided a summary of the testimony and discussion at the hearing, including the options being considered. Mr. Stensrud noted that he believed it was important to provide clarifying information regarding certain comments made at the hearing, specifically the suggestion that a substantial cause of the current unfunded liability of the retirement system (and the County's decision to address that liability through the issuance of pension obligation bonds) was the funding SCERS had provided in the past for the retiree health care subsidy. Mr. Stensrud noted that this use of funds had a very minor impact on the funded status of the retirement system when compared to the impact of the County's decision to offer the 'golden handshake,' create new retirement tiers, enhance the benefit formulas, and the extended downturn in the investment markets. Mr. Stensrud also noted that the decision to use SCERS funding to provide the subsidy had been made with the concurrence of the County, including annual approval by the Board of Supervisors. Finally, Mr. Stensrud noted that notwithstanding the funds utilized for the subsidy, SCERS had been able to establish substantial contingency reserves which it utilized to help offset subsequent investment shortfalls and address the County's 'Ventura' litigation liability.

8. Chief Executive Officer Richard Stensrud presented information in support of his recommendation that interest be credited at the rate of 4.076% to the actuarial valuation reserves (excluding the member contribution reserves), effective December 31, 2006.

Mr. Stensrud noted that the interest crediting rate for the member contribution reserves had been authorized at the December Board Meeting. Mr. Stensrud noted that the Board had been presented with materials prepared by Chief Operations Officer Kathryn Regalia explaining how the recommended interest crediting rate had been determined. Mr. Stensrud noted that due to the strong investment performance over the past six months, and deferred gains produced by the five year smoothing process (reflective of the strong investment performance over the last few years), SCERS would be able to fully meet its interest crediting target for the first time since December 2003. Mr. Stensrud further noted that it would be the first time since June 2000 that the investment returns from the current period were sufficient, by themselves, to meet the interest crediting target.

Mr. Stensrud also reported that after meeting the interest crediting target, SCERS had \$79.6 million in available unallocated earnings. Mr. Stensrud explained that under the SCERS Interest Crediting and Unallocated Earnings Policy, unless and until certain funding thresholds had been met, unallocated earnings are to be applied equally to (a) address earnings deficiencies from past periods; and (b) to establish target contingency reserve levels. Mr. Stensrud noted that the SCERS' historic practice has been to not

ADMINISTRATIVE MATTERS (continued):

apply unallocated earnings at mid-year, but rather, to wait until fiscal year-end to determine the final amount of unallocated earnings for the year and then determine how to apply the funds. Mr. Stensrud recommended that the Board continue this practice defer application of the unallocated earnings until fiscal year-end.

Discussion followed. Motion by Mr. Kelly to approve the proposed interest crediting rate on SCERS' reserves for the six months ended on December 31, 2006 and to defer application of the unallocated earnings until fiscal year-end; Seconded by Mr. Woods. Motion carried (7-0).

9. Chief Executive Officer Richard Stensrud presented information regarding the proposed cost-of-living adjustment (COLA), effective April 1, 2007, for SCERS' retirement allowance payments. Mr. Stensrud explained that the proposed COLA had been calculated in accordance with the requirements of the 1937 Act and the methodology historically utilized by SCERS. Mr. Stensrud reported that this analysis produced a recommended base COLA of 3.0%, but that the actual COLA a person would receive would be dependent on the person's retirement tier and date of retirement, including consideration of whether the person had any accumulated carry-over in his/her 'COLA Bank.' Mr. Stensrud also noted information describing how the COLA was calculated would be placed on the SCERS website. Motion by Mr. Johnson to approve the proposed cost-of-living adjustment (COLA), effective April 1, 2007 for SCERS' retirement allowance payments; Seconded by Mr. Irish. Motion carried (7-0).
10. Chief Executive Officer Richard Stensrud presented a report on the recent business meeting and educational symposium conducted by the State Association of County Retirement Systems (SACRS). Mr. Stensrud described the various matters that had been presented for a vote at the business meeting, including certain legislative proposals, and reported on how he had voted on behalf of SCERS on those matters. Discussion followed. Motion by Mr. Woods to ratify the actions taken on behalf of SCERS at the business meeting; Seconded by Mr. Kelly. Motion carried (7-0).

INVESTMENT MATTERS:

11. Chief Investment Officer Jeffrey States presented the proposed timeline for implementation of the upcoming asset/liability study and manager structure review, including the educational presentations that would be held as part of those projects. Discussion followed. No action was taken.
12. At the suggestion of Mr. DeVore, who was presiding over the meeting, Agenda Item number 14 was taken up out of sequence.

INVESTMENT MATTERS: (Continued)

Chief Investment Officer Jeffrey States provided information and materials regarding the proposed process for evaluating the Mercer Investment Consulting, the general investment consultant. Discussion followed. Motion by Mr. Kelly to approve the process for evaluating the general investment consultant; Seconded by Mr. Woods. Motion carried (7-0).

13. At the request of Mr. DeVore, who was presiding over the meeting, Agenda Item number 15 was taken up out of sequence.

Chief Investment Officer Jeffrey States presented a recommendation that SCERS make an additional investment in the Grosvenor Institutional U.S. Hedged Equity Specialist Fund, L.P. as part of the asset allocation rebalancing. Mr. States explained that if the recommended investment was approved, it would be necessary for SCERS to execute some new documentation as certain contractual terms of the Fund had changed since SCERS' original investment. Mr. States and General Counsel James Line described the differences in the contractual terms. Discussion followed.

Motion by Mr. Kelly to approve the additional investment in the Grosvenor Institutional U. S. Hedged Equity Specialist Fund, L.P., and authorizing the execution of the necessary documents; Seconded by Mr. Woods. Motion carried (7-0).

14. At the request of Mr. DeVore, who was presiding over the meeting, Agenda Item number 12 was taken up out of sequence.

Tom Lightvoet of Mercer Investment Consulting made an educational presentation on the private equity asset class. Mr. Lightvoet explained the characteristics of the various types of private equity investments and the pros and cons of investing in the asset class, including the risk and return characteristics. Discussion followed and it was the consensus of the Board that private equity should be included as a potential asset class in the upcoming asset/liability modeling.

Motion by Mr. Woods to receive and file the presentation materials; Seconded by Mr. Kelly. Motion carried (7-0).

15. At the request of Mr. DeVore, who was presiding over the meeting, Agenda Item number 13 was taken up out of sequence.

Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for Periods Ending December 31, 2006. Mr. Lightvoet reported that SCERS had an investment return of 5.8%, net of fees, for the last quarter of 2006, and a return of 14.5%, net of fees, for calendar year 2006. Mr. Lightvoet reviewed the performance of the various asset classes in which SCERS invests and discussed the performance of each of the portfolio managers. Mr. Lightvoet recommended that the Capital Guardian

INVESTMENT MATTERS: (Continued)

emerging markets fund be removed from the SCERS Watchlist as the performance over the past year had improved. Discussion followed. Motion by Mr. Kelly to remove the Capital Guardian emerging markets fund from the Watchlist; Seconded by Mr. Irish. Motion carried (7-0).

Motion by Mr. Woods to receive and file the presentation materials; Seconded by Mr. Johnson. Motion carried (5-0).

16. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for January 2007. Mr. States noted that in addition to the usual information, the Report contained information regarding a due diligence meeting that had been held with Bear Stearns Asset Management concerning the Small Cap Growth portfolio the firm manages for SCERS. Mr. States noted that going forward, the Monthly Investment Management and Compliance Activity Report would discuss any due diligence activities that had taken place during the month.

With respect to the Bear Stearns meeting, Mr. States described the firm's investment strategy, including the somewhat unique feature that absent a dramatic event, once the portfolio is established for a client, it is not modified for the remainder of the quarter. Mr. States noted that this quarterly reconstitution of portfolios occurred at different points in time for the firm's various clients, meaning that there could be wide performance dispersion between client portfolios. Mr. States explained that this had been the case since the SCERS portfolio had been funded in July 2006, and that the SCERS portfolio had been one of the firm's poorer performing portfolios during the time period. Mr. States explained that Bear Stearns stated that such a result was not uncommon, and that based on past analysis, they expected the performance of the SCERS portfolio to move toward the median return of the composite of all portfolios over the next few quarters. Discussion followed.

Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Ms. Jarboe. Motion carried (5-0).

The meeting was adjourned at 3:42 p.m.

MEMBERS PRESENT: Keith DeVore, John B. Kelly, Dave Irish; William D. Johnson; Alice Jarboe; Robert Woods (departed at 3:35 pm); John Conneally and William Cox (departed at 3:35 pm).

MEMBERS ABSENT: James A. Diepenbrock; Winston Hickox; Nancy Wolford-Landers.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; James G. Line, General Counsel; Kathryn Regalia, Chief Operations Officer; John Gobel, Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Tom Lightvoet of Mercer Investment Consulting; Richard R. Jordan, Member (Disability matter); and Jennifer Foster, Executive Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

Richard Stensrud
Chief Executive Officer

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.