



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, FEBRUARY 16, 2006

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, 18th Floor, Sacramento, California, on February 16, 2006, at 10:01 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of January 19, 2006, were approved on a Motion by Mr. Johnson; Seconded by Mr. Woods. Motion carried (5-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. JACKSON, Betty L.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated February 21, 2006.
4. MARSTON, Ronald E.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated February 21, 2006.

CLOSED SESSION:

DISABILITY MATTERS: (Continued)

5. STANFILL, Roger F.: Action was taken on the Application for Disability Retirement as indicated per attached confidential memorandum from the Chief Benefits Officer dated February 21, 2006.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

6. Chief Executive Officer Richard Stensrud provided an update on recent developments affecting public retirement systems, including proposed legislation and media reports.

Mr. Stensrud provided a report on various activities of the retirement system and its staff. Mr. Stensrud reported that SCERS had issued the annual active member statements of account earlier than ever before. Mr. Stensrud also reported that SCERS had issued more than 6,000 Form 1099Rs. Mr. Stensrud reported that active member and retiree newsletters were targeted for release at the end of March. Mr. Stensrud reported that a new Member Handbook would be completed in early April. Finally, Mr. Stensrud reported that scheduling was underway for retirement planning seminars, with target dates in June and July.

Mr. Stensrud reported that the recruitment for the new General Counsel position was underway and noted the various organizations, publications, and websites where the recruitment materials had been posted.

Mr. Stensrud reported that the Board of Supervisors had approved a modified plan for providing a subsidy for retiree health care costs. Mr. Stensrud noted that under the new plan the subsidy continued to be a non-vested benefit and that the amount of the subsidy could be altered in the future and/or not provided at all. Mr. Stensrud explained that under the new plan, if funds were available, existing retirees and employees retiring before January 1, 2007 would continue to receive a subsidy in the same amount as the subsidy currently being provided. Mr. Stensrud noted that employees retiring after January 1, 2007 would be eligible to receive the same subsidy if, as of January 1, 2007, the employee had at least ten years of SCERS-covered service and met a 'rule of 60' test (i.e., a combination of age and service equal to or greater than 60). Mr. Stensrud noted that employees retiring after January 1, 2007 who did not meet the 'rule of 60' test would not be eligible for a subsidy. Mr. Stensrud noted that the County hoped to implement some form of post-employment health care savings program for such employees through the collective bargaining process. Ms. Wolford-Landers noted that the Sacramento County Retired Employees Association (SCREA) had worked with the County for several months to try to develop a subsidy program that took into account both the concerns of retirees and concerns regarding the cost of such a program. Ms. Wolford-Landers further noted concerns continued to exist regarding the cost of the subsidy program and in the future the Board of Supervisors might feel compelled to revise or terminate the program. Discussion followed.

ADMINISTRATIVE MATTERS: (Continued)

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States provided an update on the implementation and funding of the two new publicly traded Real Estate Investment Trust (REIT) managers. Mr. States also provided an update on the implementation and funding of the new residual cash and asset allocation overlay manager. Finally, Mr. States reported on the recent merger of Black Rock and Merrill Lynch Asset Investment.

7. Chief Executive Officer Richard Stensrud presented the recommendation of The Segal Company regarding the cost-of-living adjustment (COLA), to be effective April 1, 2006, for SCERS retirement allowance payments. Mr. Stensrud explained the methodology used by the actuary in determining the appropriate COLA and reported that the actuary had determined that the base COLA should be 2%, with an additional COLA of 2% (for a total COLA of 4%) for Tier 1 General and Safety members who retired on or before March 31, 1983. Mr. Stensrud explained that the additional COLA for this latter group was due to an outstanding balance in the COLA 'bank' for such individuals. Mr. Stensrud noted that information explaining how the COLA was determined would be placed on SCERS website and included with the remittance notice sent with the benefit allowance payments in April.

Discussion followed regarding the lingering confusion some people have regarding the basis for determining the COLA. One element that seems to create confusion is the actuary's use of the average annual Consumer Price Index (CPI) numbers as opposed to the year-end CPIs when computing the COLA. Mr. Stensrud noted that use of the average annual CPI 'smoothed' volatility in the CPI over the year, but that over time, the COLA would be the same under either the average annual or year-end CPIs. The Board inquired if the relevant CPI could be changed, and Mr. Stensrud reported that the Board had the authority to change the CPI. Discussion followed and it was agreed that Mr. Stensrud would ask The Segal Company to provide an analysis of the relative pros and cons of the two CPIs and the cost impact, if any, of changing to the year-end CPI in making the COLA calculation. Motion by Ms. Wolford-Landers to adopt the COLA recommended by The Segal Company; Seconded by Mr. Johnson. Motion carried (7-0).

8. Chief Operations Officer Kathryn Regalia presented a request from the County to make a mid-year pre-payment of estimated employer contributions for the fiscal year ending June 30, 2006. Ms. Regalia explained that the County was requesting that it be allowed to make the mid-year pre-payment due to the County's belief that its normal annual pre-payment of contributions would not be sufficient based on the County's assessment of its projected payroll for the remainder of the fiscal year. Motion by Mr. DeVore to accept the additional pre-payment of contributions by the County; Seconded by Ms. Wolford-Landers. Motion carried (7-0).
9. Chief Operations Officer Kathryn Regalia presented the Semi-Annual Administrative Expense Report for the six months ended December 31, 2005. Ms. Regalia's report noted

ADMINISTRATIVE MATTERS: (Continued)

the expenditures year-to-date and the applicable budget amount for each expense category. Ms. Regalia reported that overall SCERS had expended approximately forty percent of its budget at the mid-year point. Motion by Mr. Johnson to receive and file the Semi-Annual Administrative Expense Report for the six months ended December 31, 2005; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

INVESTMENT MATTERS:

10. Ellen Dempsey of Mercer Investment Consulting presented the Investment Portfolio Performance Report for the quarter ended December 31, 2005. Ms. Dempsey reported the SCERS' total fund had a return of 2.8%, net of fees, for the quarter and a return of 9.7% for the calendar year. Ms. Dempsey reviewed the performance of the individual investment manager portfolios, as well as the asset class returns. With respect to individual manager performance, Ms. Dempsey noted that the TCW small cap value portfolio continued to be of concern, but that the performance for the quarter had been good. Ms. Dempsey reported that Mercer recommended continuing the "Watch List" status of small cap value manager Dalton, Greiner and the Capital Guardian Emerging Markets Growth Fund. Ms. Dempsey reported that Mercer recommended that two additional firms, Bank of New York and Trinity Investment Management, be added to the "Watch List" because of performance concerns. Chief Investment Officer Jeffrey States agreed with these recommendations and pursuant to Board policy the two firms will be added to the "Watch List". Ms. Dempsey reported that Mercer recommended taking the Capital Guardian Developed Markets portfolio off the "Watch List". Mr. States concurred in this recommendation. A motion was made to remove the Capital Guardian Developed Markets portfolio from the "Watch List" by Mr. Suter; Seconded by Mr. Irish. Motion carried (8-0). The Portfolio Performance Report for the quarter ended December 31, 2005 was received and filed on a Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
11. Chief Investment Officer Jeffrey States presented a report from R.V. Kuhn & Associates comparing SCERS investment performance for the period ended June 30, 2005 to a customized public fund universe. Mr. States explained that the Kuhn Report compared the asset allocation, investment strategy and investment performance of SCERS to a universe of California and national public funds. Mr. States noted that he had also included information from CalPERS and CalSTRS in the comparison. Mr. States noted the reasons for the performance differences between SCERS and the other systems, and reported that overall, SCERS investment performance was in line with the median performance of the universe and with the performance of PERS and STRS. The Report was received and filed on a Motion by Mr. Woods; Seconded by Mr. Suter. Motion carried (8-0).
12. Chief Investment Officer Jeffrey States presented the Monthly Investment Manager Compliance and Activity Report for January 2006. Motion by Mr. Suter to receive and file the Report; Seconded by Ms. Wolford-Landers. Motion carried. (8-0).

ADMINISTRATIVE MATTERS: (Continued)

The meeting was adjourned at 11:33 a.m.

MEMBERS PRESENT: James A. Diepenbrock; Dave Irish (arrived at 10:55 a.m.); Winston Hickox (arrived at 10:01 a.m.); William D. Johnson; Steven Soto (arrived at 10:01 a.m.); Ronald Suter (arrived at 11:03 a.m.); Keith DeVore; Nancy Wolford-Landers (arrived at 10:04 a.m.); and Robert Woods.

MEMBERS ABSENT: William Cox; 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, County Counsel; Ellen Dempsey, Mercer Investment Consulting; 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; County Employment Services & Risk Management (2); 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