



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

John Conneally
Elected by Safety Members

William Cox
Elected by Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, SEPTEMBER 18, 2008

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18th Floor, Sacramento, California, on Thursday, September 18, 2008, and commenced at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the August 21, 2008 regular meeting were approved on Motion made by Mr. Woods; Seconded by Mr. Johnson. Motion carried (8-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. RICHARDSON, Idella M.: Motion carried (8-0) to grant a nonservice-connected disability retirement.

MINUTES – SEPTEMBER 18, 2008
PAGE 2

4. TAYLOR, Anthony B.: Motion carried (8-0) to grant a service-connected disability retirement.
5. BUELOW, Gail A.: Motion carried (8-0) to deny a service-connected disability retirement.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud provided an update on the debate within the actuary community regarding whether Market Value Liability (MVL) should be reported for public pension plans. Mr. Stensrud noted that a number of parties had submitted written comments to the American Academy of Actuaries (AAA) opposing the proposal that public plans report MVL, including the State Association of County Retirement Systems (SACRS). Mr. Stensrud noted that the SACRS comments outlined the various reasons why MVL reporting for public plans was inappropriate, unnecessary, and would be confusing for plan stakeholders. Mr. Stensrud also noted that SACRS objected to the fact that no representatives from public plans or public plan sponsors were invited to testify before the AAA on the subject.

Mr. Stensrud provided an update on the efforts underway to establish guidance and a process for the 1937 Act county retirement systems interested in working with the Internal Revenue Service to obtain a qualified plan determination letter. Mr. Stensrud reported on a recent meeting with a key IRS official on the subject, as well as a recent hearing on the topic held by the Congressional House Ways and Means Committee.

7. Andy Yeung of The Segal Company presented the Review of Economic Actuarial Assumptions for the June 30, 2008 actuarial valuation.

Mr. Yeung reported that the recommended actuarial assumptions were unchanged from those used for the June 30, 2007 actuarial valuation. Mr. Yeung discussed the various assumptions and how they had been determined. Mr. Yeung also noted that The Segal Company had not had sufficient time to analyze the data submitted by the County regarding the County's merit and promotional salary increase experience, and thus no change in the assumption related to that component would be made for the pending valuation. Mr. Yeung further reported that the analysis would be completed and any recommendations made in time for use in the June 30, 2009 valuation.

The Board acted to receive and file the report by The Segal Company and adopt the actuarial assumptions recommended presented therein on a Motion by Mr. Woods; Seconded by Mr. Hickox. Motion carried (8-0).

INVESTMENT MATTERS:

Chief Executive Officer Richard Stensrud requested that the Board take up an off Agenda item regarding events related to the recent collapse of Lehman Brothers and other associated market developments. Mr. Stensrud explained that the matter had arisen after the posting of the Agenda and the information to be discussed should not be deferred to a subsequent Board Meeting. General Counsel James Line advised the Board of the requirements for taking up an item not on the Agenda. Motion by Mr. DeVore to take up a matter that had arisen after the posting of the Agenda and that it would not be in the best interest of SCERS to defer discussion of the matter to a subsequent meeting; Seconded by Ms. Jarboe. Motion carried (8-0).

Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented a report on various matters related to the failure of Lehman Brothers, including: (1) SCERS' holdings in Lehman Brothers stock and bonds; (2) SCERS' exposure to Lehman Brothers as the provider of investment vehicles or as a counter-party in investment transactions, including securities lending; and (3) the impact of the failure of the parent company on the Lehman Brothers Asset Management subsidiary. With respect to the first two items, Mr. States reported that the exposure to Lehman Brothers was nominal and had been scaled back significantly by SCERS' investment managers in the period preceding the collapse. With respect to the impact on the asset management arm of the firm, Mr. States and Mr. Lightvoet reported that it appeared the asset management arm would remain intact and be acquired by another firm or firms. Mr. States and Mr. Lightvoet reported that the investment team managing SCERS' enhanced index fixed income portfolio was unchanged. They also reported that the investment management arrangement regarding SCERS' commodities portfolio was not affected by the developments.

Discussion followed. No action was taken.

8. Presentations were made by the following Global (ex-U.S.) Real Estate Investment Trust (REIT) investment manager candidates.
 - C.B. Richard Ellis Global Real Estate Securities
 - E.I.I. Realty Securities

The firms described their respective: (a) organizations, resources and investment teams; (b) investment models and investment process; (c) strategy performance and track record; and (d) proposed fee arrangements.

Discussion followed, including consideration of: (1) how the manager evaluates and picks stocks; (2) how the manager's process is expected to perform in a variety of economic environments; (3) how decisions are made regarding regional/country allocations; and (4) their performance track record, and in particular, the reasons why recent performance had been below the benchmark. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting reported that after considering possible passive

strategies for investing in this segment of the market, it was their recommendation that active management would be preferable as it should out-perform the benchmark over time.

Motion by Mr. Hickox to select C. B. Richard Ellis for the engagement; Seconded by Mr. Irish. Motion carried (8-0).

9. Chief Investment Officer Jeffrey States presented a report recommending that SCERS enter into an investment management engagement with O'Shaughnessy Asset Management (OSAM) pursuant to which OSAM would continue to manage the U.S. Small Cap Growth Equity portfolio previously managed by OSAM pursuant to a sub-advisory relationship with Bear Stearns Asset Management. Mr. States also recommended that SCERS not add funds to OSAM via the re-balancing process until OSAM had been removed from the Watch List. Finally, Mr. States recommended that staff be authorized to identify an alternative investment vehicle for the funds that would otherwise have been allocated to OSAM via re-balancing so that SCERS could remain fully invested in the U.S. Small Cap Growth segment of the market.

Discussion followed. Motion by Mr. Woods to authorize the engagement with OSAM, and approve the other recommendations of the Chief Investment Officer; Seconded by Mr. Cox. Motion carried (7-0).

10. Rich Pzena and Bill Lipsey of Pzena Investment Management presented a portfolio review and performance report for the U.S. Large Cap Value Equity portfolio managed by the firm.

Mr. Pzena and Mr. Lipsey discussed the portfolio construction and the market environment. They acknowledged that the portfolio performance had been very weak, and that the firm had not properly prepared for the dramatic drop in the price of various financial sector stocks. They argued, however, that the market was significantly, and irrationally, undervalued and that there would be substantial price recovery in a number of the stocks in the portfolio. They contended that the financial sector in particular would recover strongly when the fundamentals of such stocks were rationally analyzed. They further contended that based on historic data, when the market is as disconnected from fundamental value attributes as it currently is, the market performance that follows results in substantial out-performance for value strategy investors.

Discussion followed, including consideration of the performance, the portfolio over-weight to financial sector stocks, the losses associated with Fannie Mae and Freddie Mac, and when a recovery in financial stocks might occur.

Motion by Mr. Woods to receive and file the report; Seconded by Mr. Irish. Motion carried (7-0).

11. Chief Investment Officer Jeffrey States presented the August 2008 Monthly Investment Manager Compliance Report and Watch List.

MINUTES – SEPTEMBER 18, 2008
PAGE 5

Motion by Mr. Woods to receive and file the report; Seconded by Mr. Irish. Motion carried (7-0).

The meeting was adjourned at 5 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore (left at 4:05 p.m.), John Conneally (arrived at 1:05 p.m.), William Cox, Winston H. Hickox (left at 4:02 p.m.), Dave Irish, Alice Jarboe, William D. Johnson, and Robert Woods.

MEMBERS ABSENT: John B. Kelly and Nancy Wolford-Landers.

OTHERS PRESENT: 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; Suzanne Likarich, Retirement Services Manager; Renu Khilnani, Personnel Specialist 2; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Idella M. Richardson; Andy Yeung, The Segal Company; Steve Carroll, CB Richard Ellis; Jeremy Anagnos, CB Richard Ellis; Kirsten McElroy, European Investors; James Rehlaender, European Investors; Richard Pzena, Pzena Investment Management; and William Lipsey, Pzena Investment Management.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

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.