



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, OCTOBER 16, 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, October 16, 2008, and commenced at 1:00 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud advised the Board of the recent promotion of Board Member John Conneally to the position of Battalion Chief with the Sacramento County Airport Fire Department.

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2. The Minutes of the September 18, 2008 regular meeting were approved on Motion made by Mr. Johnson; Seconded by Mr. Irish. Motion carried (7-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. BATES, Donna G: Motion carried (7-0) to grant a nonservice-connected disability retirement.

DISABILITY MATTERS (continued):

4. JONES, Victor A: Motion carried (7-0) to grant a service-connected disability retirement.
5. MOGLEN, Leland L: Motion carried (7-0) to grant a nonservice-connected disability retirement.
6. TORRES, Alicia M: Motion carried (7-0) to grant a nonservice-connected disability retirement.
7. WALTERS, Samuel H: Motion carried (7-0) to grant a nonservice-connected disability retirement.
8. LAFAVE, Daniel: Motion carried (8-0) to adopt the findings of the referee and grant a service-connected disability retirement.
9. TOTH, Lisa D: Motion carried (8-0) to adopt the findings of the referee and deny a service-connected disability retirement.
10. WARREN, Linda: Motion carried (8-0) to adopt the findings of the referee and grant a non-service connected disability retirement.

LEGAL MATTERS:

11. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956.9(a)
William Woodel et al. v. Folsom Cordova Unified School District, Terry Holmes, et al.
Sacramento County Superior Court, Case No. 06AS04100

The Board received a report from legal counsel in the matter. No action was taken.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

12. 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 efforts to establish guidance and a process for the 1937 Act retirement systems that are interested in requesting a qualified plan determination letter from the Internal Revenue Service.

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.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud advised the Board that the annual independent audit of SCERS would begin the following week.

Mr. Stensrud advised the Board that the quarterly report on legal expenses would be presented to the Board in November.

Mr. Stensrud reported that he and Chief Investment Officer Jeffrey States would be making presentations to employees of interested County departments and agencies regarding the developments in the investment markets and their impact on SCERS. Mr. Stensrud reported that the gist of those presentations would be that SCERS continues to be in strong financial condition and the SCERS benefits are secure.

Mr. Stensrud reported that he had recently met with County officials to provide them with an update on various actuarial matters, including what he anticipated would be reported in the upcoming annual actuarial valuation. Mr. Stensrud noted that as part of that discussion, he had outlined the likely impact of the downturn in the investment markets on the contribution costs for the 2009-2010 fiscal year as well as the projected costs for the 2010-2011 fiscal year. Mr. Stensrud further noted that he had explained that the level of funding in the Contingency Reserve would determine how much SCERS could mitigate potential future cost increases.

Mr. Stensrud provided a report to the Board on the expenses associated with assessing and reaching decisions regarding disability retirement applications.

Mr. Stensrud reported on the status of several staff position changes.

INVESTMENT MATTERS:

13. At the suggestion of Mr. Diepenbrock, who was presiding over the meeting, Agenda Item number 16 was taken up out of sequence.

Dan McLaughlin and John Massad of BlackRock Investment Management made an educational presentation on developments in the financial markets.

The presenters chronicled the key events in the investment markets over the last 18-24 months, including: (a) The problems related to sub-prime mortgages and how those problems have spread into all other parts of the fixed income market; (b) The investment losses, liquidity and solvency issues faced by numerous financial institutions; (c) The seizing up of market liquidity; (d) The world-wide decline in equity and fixed income markets; (e) The decline in home prices; (f) The impact of deleveraging; (g) The failure of major financial institutions; (h) The federal government's investment in major financial institutions; (i) The imposition of regulatory changes on the markets; (j) The efforts of central banks to inject liquidity into the system; (k) The end of the investment banking model; and (l) The adoption by Congress of a multi-faceted plan for addressing lingering market problems.

INVESTMENT MATTERS (continued):

Substantial discussion followed. No action was requested or taken on this item.

14. At the suggestion of Mr. Diepenbrock, who was presiding over the meeting, Agenda Item number 17 was taken up out of sequence.

Mary McCarthy and David Congdon of Hines Real Estate Securities, Inc. presented a portfolio review and market report for the value-added real estate fund managed by the firm.

The presenters reported on: (a) The real estate debt market; (b) The real estate equity market; (c) Office space fundamentals; (d) The status and portfolio summary of the office-centered, value-added real estate fund managed by the firm; and (e) The implications of market developments for the fund. Discussion followed.

Motion by Mr. Kelly to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

ADMINISTRATIVE MATTERS:

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

General Counsel James Line presented a proposed resolution memorializing that the cost-of-living adjustment (COLA) provisions of the County Employees Retirement Law of 1937 (1937 Act) applicable to the benefits administered by SCERS comply with the 'safe harbor' requirements of Section 415(b) of the Internal Revenue Code (IRC).

Mr. Line explained that the IRC authorizes a different treatment under IRC Section 415(b) for the COLAs provided by government retirement plans if the COLAs meet certain requirements. Mr. Line explained that the COLAs authorized by the 1937 Act appear to meet those requirements. Mr. Line further noted, however, that an additional requirement for the differential treatment is that the retirement plan includes specific language dealing with the application of Section 415(b) to COLAs. Mr. Line explained that the 1937 Act itself does not currently include such language, but that legislation is being sponsored by the State Association of County Retirement Systems (SACRS) to address this matter. Mr. Line explained that in the interim, SCERS' tax counsel has recommended that the SCERS Board incorporate the necessary language in the retirement plan by adopting the proposed resolution.

Motion by Mr. Kelly to adopt the proposed resolution; Seconded by Mr. Irish. Motion carried (8-0).

ADMINISTRATIVE MATTERS (continued):

16. At the suggestion of Mr. Diepenbrock, who was presiding over the meeting, Agenda Item number 14 was taken up out of sequence.

Chief Executive Officer Richard Stensrud presented a report outlining and recommending the position to be taken on the legislative proposals and business matters that would be presented for a vote of the membership at the State Association of County Retirement Systems (SACRS) Fall Conference. Mr. Stensrud explained that in addition to adopting a position on the various matters, the Board needed to designate the party authorized to vote on such matters on behalf of SCERS.

Motion by Mr. Kelly that (a) SCERS adopt the positions recommended by the SACRS Legislative Committee with respect to the proposed legislation; (b) SCERS vote to approve the various business reports submitted by the SACRS Board; (c) Chief Executive Officer Richard Stensrud be authorized to vote on such items on behalf of SCERS; and (d) Mr. Stensrud be further authorized to vote on any other matters presented for consideration in the manner he deems appropriate in light of his understanding of positions or views held by the Board. The Motion was Seconded by Ms. Wolford-Landers. Motion carried (8-0).

17. At the suggestion of Mr. Diepenbrock, who was presiding over the meeting, Agenda Item number 15 was taken up out of sequence.

General Counsel James Line presented a proposed resolution increasing the real estate-related legal fees authorized under the contract with Nossaman LLP for the 2008 calendar year and a proposed amendment to the contract with Nossaman LLP to increase the annual cap on fees for future years. Mr. Line noted that the contractual limit on annual fees has needed to be waived every year since the contract was adopted in 2003. Mr. Line noted that it was reasonable and necessary to do so again this year. Mr. Line further explained that in light of this experience, he was recommending that the annual limit be increased to an amount more consistent with actual experience and the projection of future needs. Mr. Line noted that the costs under the contract would be included in the quarterly reports to the Board on outside legal service expenditures.

Motion by Mr. Hickox to (a) adopt the proposed resolution authorizing a change in the annual contractual limitation for 2008; and (b) approve the proposed contract amendment increasing the annual limit for future years. The Motion was Seconded by Mr. Irish. Motion carried (8-0).

INVESTMENT MATTERS:

18. Chief Investment Officer Jeffrey States presented information regarding a proposed investment in the PIMCO Distressed Mortgage Fund II (Fund II).

INVESTMENT MATTERS (continued):

Mr. States noted that in October 2007 the Board had authorized an investment in the PIMCO Distressed Mortgage Fund I (Fund I). Mr. States noted that the investment authorized in Fund I had to be scaled back due to limitations on the total size of the Fund. Mr. States explained that Fund II would be invested pursuant to the same strategy as Fund I, and that an investment in Fund II would allow SCERS to meet its original goal for investing in this area of the market.

Mr. States outlined the investment strategy for Fund II. Mr. States and General Counsel James Line outlined the similarities and differences in the terms and provisions of Fund I and Fund II. Mr. States noted that SCERS general investment consultant – Mercer Investment Consulting – was also recommending the investment in Fund II.

Motion by Mr. DeVore to adopt the proposed resolution authorizing the investment in PIMCO Distressed Mortgage Fund II; Seconded by Mr. Kelly. Motion carried (8-0).

19. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the business terms and documents formalizing the U.S. Small Cap Growth equity investment management engagement with O'Shaughnessy Asset Management.

Motion by Mr. Irish to adopt the proposed resolution authorizing execution of the documents necessary to effectuate the investment management engagement; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

20. Chief Investment Officer Jeffrey States and General Counsel James Line presented a report on the business terms and documents formalizing the Global ex U.S. Real Estate Investment Trust (REIT) investment management engagement with C.B. Richard Ellis Global Real Estate Securities.

Motion by Mr. Hickox to adopt the proposed resolution authorizing execution of the documents necessary to effectuate the investment management engagement; Seconded by Mr. Johnson. Motion carried (8-0).

21. Chief Investment Officer Jeffrey States presented the Asset Allocation and Portfolio Rebalancing Report for the period ending September 30, 2008.

Mr. States reported on the invested assets as of September 30th, and how the investments compared to the asset allocation parameters for each asset class and for each investment manager within an asset class. Mr. States reported that no physical rebalancing would be needed as the investments were within the parameters for their respective asset classes or could be brought within the target allocation through the strategic overlay strategy or upcoming investment commitments. Mr. States recommended that a new Russell 2000 Growth Index Fund be utilized to assist with re-balancing within the U.S. Equity Small Cap Growth segment of the domestic equity allocation.

INVESTMENT MATTERS (continued):

Motion by Ms. Wolford-Landers to receive and file the report and to authorize execution of the documents necessary to implement investment in the new Russell 2000 Growth Index Fund offered by State Street Global Advisors; Seconded by Ms. Jarboe. Motion carried (7-0).

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

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

The meeting was adjourned at 4:06 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, John Kelly (left at 3:52 p.m.), John Conneally, Winston H. Hickox, Dave Irish (arrived at 1:05 p.m.), Alice Jarboe, William D. Johnson, and Nancy Wolford-Landers.

MEMBERS ABSENT: William Cox and Robert Woods.

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; Julie Rucker, Personnel Specialist 2; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Mary McCarthy, Hines Real Estate Securities, Inc.; David Congdon, Hines Real Estate Securities, Inc.; Dan McLaughlin, BlackRock Investment Management; John Massad, BlackRock Investment Management; Linda Warren; Geoffrey A. Sutliff, Law Offices of G.A. Sutliff; Daniel LaFave; Leland Moglen; Tim Flynn, Brown & Flynn.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
James A. Diepenbrock, President

DATE: _____

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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.