



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, 1<sup>st</sup> Vice President  
Elected by Miscellaneous Members

John B. Kelly, 2<sup>nd</sup> 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, FEBRUARY 19, 2009

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18<sup>th</sup> Floor, Sacramento, California, on Thursday, February 19, 2009, and commenced at 1:04 p.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the January 15, 2009 regular meeting were approved on Motion by Mr. Johnson; Seconded by Mr. Irish. Motion carried (7-0).

##### CONSENT MATTERS:

Items 3-13

The Consent matters were acted upon as one unit upon a Motion by Mr. Johnson; Seconded by Mr. Kelly. Motion carried (7-0).

3. CARVER, Todd C.: Granted a reciprocal service-connected disability retirement.
4. KILE, Robert A.: Granted a service-connected disability retirement.

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5. KWONG, Luke: Granted a nonservice-connected disability retirement.
6. LAU, Gerry: Granted a reciprocal nonservice-connected disability retirement.
7. MAJOR, Michael D.: Granted an interim nonservice-connected disability retirement.
8. GRAYSON, Larry S.: Adopted the findings and recommendation of the referee and granted a service-connected disability retirement.
9. Semi-Annual Administrative Expense Report for the six months ended December 31, 2008, was received and filed.
10. Selected Fees and Costs for Outside Legal Services for the quarter ended December 31, 2008, were received and filed.
11. Request by the Superior Court of California, County of Sacramento ('Court'), to authorize deduction of the pertinent retiree portion of the health care premiums associated with participation in the Court health care plan from the monthly SCERS retirement benefit paid to Court retirees was approved.
12. Request from Neuberger Berman Group ('Neuberger Berman') to consent to continuation of SCERS' investment management agreement with Lehman Brothers Asset Management ('Lehman Brothers') when Lehman Brothers becomes a subsidiary of Neuberger Berman was approved.
13. The January 2009 Monthly Investment Manager Compliance Report and Watch List was received and filed.

At the request of Chief Executive Officer Richard Stensrud, Item 19 was taken up out of order.

### **CLOSED SESSION:**

#### **LEGAL MATTERS:**

19. The Board discussed anticipated litigation with legal counsel. No action was taken.

### **OPEN SESSION:**

#### **ADMINISTRATIVE MATTERS:**

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

Mr. Stensrud reminded the Board that the Form 700 financial disclosure materials were due at the end of March.

Mr. Stensrud reported that retirement planning seminars focused on late-career members would be held in March, August and November. Mr. Stensrud also reported that retirement planning seminars focused on early to mid-career members would be held in May and October.

Mr. Stensrud reported on a proposed ballot initiative that would amend the state constitution to authorize the reduction of pension benefits being paid to existing public employee retirees, and reduce the pension benefits for current active public employees.

Mr. Stensrud reported that staff was analyzing various options for enhancing workplace security at the SCERS offices and that he would be presenting recommendations on the subject to the Board in the near future.

Mr. Stensrud reported that staff was beginning to analyze options for addressing SCERS' office space needs when SCERS' current lease expires at the end of 2011 and that he would be presenting a report on the subject in the near future.

Mr. Stensrud reported that he was postponing the commissioning of the compensation study for SCERS' executive staff positions that would normally be conducted at the current time. Mr. Stensrud noted that even though it had been four years since the last compensation study had been conducted, and that he expected such a study would show compensation adjustments were warranted, and that the County had recently implemented a series of equity adjustments, he felt it was not appropriate to move forward with such a study at the current time given the widespread economic malaise. Mr. Stensrud further noted that SCERS' executive staff unanimously supported the decision to postpone the study. The Board commended the decision, but also noted its concern that the study not be delayed unduly as it would likely result in the need for larger compensation adjustments in the future.

15. Chief Executive Officer Richard Stensrud presented the proposed cost-of-living adjustment ('COLA'), effective April 1, 2009, for SCERS' monthly benefit 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 noted that the method used by SCERS for calculating the COLA – which features comparison of the average annual change in the Consumer Price Index ('CPI') rather than a comparison of the year-end CPI levels – had been very beneficial to retirement allowance recipients in light of the substantial decline in the CPI over the last quarter of 2008. Mr. Stensrud noted that a year-end comparison would have resulted in a 0% COLA. Mr. Stensrud further noted that this is why SCERS utilizes the average annual CPI, in that it mitigates intra-year volatility and provides a COLA that reflects the entire year and not just the last few months.

Mr. Stensrud noted that information describing how the COLA was calculated would be placed on the SCERS website.

Motion by Ms. Wolford-Landers to adopt the recommended COLA; Seconded by Mr. Woods. Motion carried (7-0).

16. Chief Executive Officer Richard Stensrud presented proposed position specifications, functional job descriptions and salary ranges for the new investment staff positions of Investment Officer and Investment Analyst.

Mr. Stensrud summarized the various steps that had been taken to establish the new internal investment staff positions, starting with the recognition by the Board in May 2008 of the important reasons for expanding the internal investment staff and the substantial benefits that would inure to SCERS from doing so. Mr. Stensrud explained that the proposed salary ranges for the new positions had been established based on a salary study performed by an outside consultant regarding similar positions in other public employee retirement systems, SCERS' existing salary structure, and the salary range of other arguably comparable County positions. Mr. Stensrud reported that he felt the proposed salary ranges were reasonable under the circumstances and that he was optimistic they would be sufficient to allow SCERS to attract and retain individuals with the desired skills and experience.

Finally, Mr. Stensrud noted that the salary ranges would need to be approved by the Board of Supervisors before the positions could be fully established, and that adding new staff positions at SCERS might be viewed as problematic given the staff cutbacks the County is considering in other areas. Accordingly, Mr. Stensrud noted the importance of reaffirming the Board's determination that the addition of the new investment staff positions was imperative to the successful performance of the Board's fiduciary responsibilities with respect to the management of the pension trust.

It was the consensus of the Board that the increase in the number and types of investments made by SCERS, the increased complexity of the investment management structures and vehicles through which SCERS invests, and the greater monitoring and oversight required for the investment program made it essential that SCERS expand its internal investment staff.

Motion by Mr. Woods to adopt the proposed Resolution approving the position classifications, proposed salary ranges, and the functional job descriptions for the two new internal investment staff positions; Seconded by Ms. Jarboe. Motion carried (7-0).

#### **INVESTMENT MATTERS:**

17. Tom Lightvoet of Mercer Investment Consulting presented the Investment Performance Report for the Quarter Ended December 31, 2008. Terry A. Dennison of Mercer Investment Consulting presented information on additional investment areas for consideration in the Opportunities portion of the investment portfolio.

Mr. Lightvoet reported on the investment performance by asset class, sub-asset class and by each investment manager for the most recent quarter and for the trailing one, three and five year periods. Mr. Lightvoet provided information regarding performance to applicable benchmarks and performance attribution.

Mr. Lightvoet commented on the expanding global recession and continuing credit crisis and how such forces had caused another quarter of negative investment performance. Mr. Lightvoet noted that SCERS had a return of -16.6% for the quarter and -27.7% for the 2008 calendar year.

Mr. Lightvoet reported that Mercer recommended that M.A. Weatherbie be taken off the Watch List because performance had improved in comparison to the Russell 2000 Growth Index and in the peer rankings. Staff concurred in the recommendation.

Mr. Dennison noted that many asset managers believe that the current pricing of a wide range of assets is being driven by deleveraging and is highly distorted. Mr. Dennison noted that such distortions offered investment opportunities. Mr. Dennison identified various investment categories that could provide liability hedging, inflation protection and greater diversification.

Substantial discussion followed regarding the performance report and possible investment opportunities.

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

18. Michael J. Levitt, Francis Hager and Jim Galowski of Stone Tower Capital LLC and James D. Lites, II, of Juniper Capital Group, LLC, presented information regarding a potential distressed debt/structured credit investment opportunity in the Stone Tower Structured Credit Recovery Fund LP.

The representatives from Stone Tower presented information regarding: (1) The structure of the firm and their experience in the relevant investment markets and investment instruments; (2) The portfolio composition of this particular fund; (3) The attributes of the securities that will comprise the portfolio; (4) The reasons why these markets and securities provide a good investment opportunity; (5) The target investment returns of the fund; (6) The investment period for the fund; (7) The fees associated with the fund; and (8) The ability to have full transparency and the ability to obtain verification regarding the holdings of the fund, the pricing of the assets and the flow of funds. Substantial discussion took place regarding all of these matters.

The terms and conditions of the investment were reviewed by Chief Investment Officer Jeffrey States and General Counsel James Line. Mr. States and Mr. Line reported that they had reviewed all the pertinent documents and had negotiated an acceptable side letter agreement to those documents. Tom Lightvoet of Mercer Investment Consulting reported that Mercer had reviewed the firm and fund and rated them highly. Mr. Lightvoet and Mr. States recommended that the Board approve a \$25 million investment in the fund.

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Discussion followed.

Motion by Mr. Woods to receive and file the presentation materials, approve an investment of \$25 million in the fund, approve and authorize execution of the necessary documents, and to adopt the proposed Resolution memorializing such matters; Seconded by Mr. Johnson. Motion carried (7-0).

The meeting was adjourned at 5:11 p.m.

MEMBERS PRESENT: Keith DeVore (left at 4:20 p.m.), John Kelly, Dave Irish, Alice Jarboe, William D. Johnson, Nancy Wolford-Landers, Robert Woods, John Conneally, and William Cox (left at 4:20 p.m.).

MEMBERS ABSENT: James A. Diepenbrock and Winston H. Hickox.

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; Terry A. Dennison and Tom Lightvoet, Mercer Investment Consulting; Michael Underhill, Capital Innovations; Michael J. Levitt, Francis Hager and Jim Galowski, Stone Tower Capital LLC; James D. Lites, II, Juniper Capital Group, LLC; James E. McGlamery, Attorney at Law; Rick Beard, Superior Court of California; and Michael Major.

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.