



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, JUNE 18, 2009

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, June 18, 2009, and commenced at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the May 21, 2009 regular meeting were approved on Motion by Mr. Johnson; Seconded by Mr. Irish. Motion carried (7-0).

CONSENT MATTERS:

Items 3, 5-9

The Consent matters were acted upon as one unit upon a Motion by Ms. Wolford-Landers; Seconded by Mr. Woods. Motion carried (7-0).

3. GILLOCK, Gregory: Granted a nonservice-connected disability retirement.
4. ROSEL, Rosa: Moved to the Closed Session, Disability Matters.

CONSENT MATTERS (continued):

5. SOLORIO, Fernando: Granted a nonservice-connected disability retirement.
6. Approved a request by the Superior Court, County of Sacramento to pre-pay its annual employer retirement contributions for the Fiscal Year 2009-2010.
7. Approved a request by the Sacramento Metropolitan Fire District to pre-pay its employer retirement contributions for the Fiscal Year 2009-2010.
8. Approved amendment and renewal of the investment management agreement with Cornerstone Realty Advisors. SCERS Resolution 2009-14.
9. Received and filed the May 2009 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

DISABILITY MATTERS:

4. Moved from Consent Matters at the request of Mr. Johnson.

ROSEL, Rosa: Granted a service-connected disability retirement. Motion carried (7-0).

LEGAL MATTERS:

10. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956(a)
SC East Campus, Inc. vs. Weyerhaeuser Company
Superior Court of Washington in and for King County, Case No. 08-14127-6 KNT.

Consulted with counsel.

11. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956(a)
Securities and Exchange Commission vs. WG Trading Investors, L.P., et al
U.S. District Court, Southern District of N.Y., Case No. 09CIV 1750

Consulted with counsel.

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 reported that the application period for the new internal Investment Officer position had started and would close at the end of June.

Mr. Stensrud and Chief Investment Officer Jeffrey States reported on the recently announced merger of BlackRock and Barclays Global Investors and noted that per the Investment Policy, the firms would be put on the Watch List while the change in ownership and the firms' re-structuring were being worked out.

Mr. Stensrud and Chief Benefits Officer John Gobel reported on SCERS' participation in the outplacement events being sponsored by Sacramento County for the employees who were being laid off.

Mr. Stensrud noted that a question had been raised at a recent County Board of Supervisors meeting regarding the feasibility of SCERS making a loan to the County to cover the County's costs of providing a subsidy for retiree health care coverage. Mr. Stensrud reported that staff had advised the County that such a loan would be problematic and/or not permissible for various reasons. Discussion followed.

Mr. Stensrud advised the Board that like SCERS, retirement systems across the state were continuing to weigh the merits of modifying certain actuarial parameters in light of the substantial decline in investment performance. Mr. Stensrud noted that CalPERS had recently decided to modify their approach to market value corridors in order to help manage the phase-in of the anticipated cost increases associated with the market downturn.

Mr. Stensrud reported that the Governmental Accounting Standards Board (GASB) was considering making changes to the financial reporting requirements for public retirement systems. Mr. Stensrud noted that the GASB determinations would be very important as GSAB was being pressed to require the reporting of 'market value liability' by public retirement systems notwithstanding that such a calculation was inappropriate for and irrelevant to understanding the soundness of a public retirement system. Mr. Stensrud reported that public retirement systems and the actuaries who analyze such systems were endeavoring to convince GASB that such a requirement would be ill-advised and could lead to significant and detrimental changes in the way public retirement systems are funded and the way they invest their assets. Discussion followed.

Mr. Stensrud reported on state legislation of interest to SCERS, including the legislative proposals advanced by the State Association of County Retirement Systems (SACRS). Discussion followed.

ADMINISTRATIVE MATTERS (continued):

13. Chief Operations Officer Kathryn Regalia presented the proposed SCERS Administrative Budget for the Fiscal Year 2009-2010.

Ms. Regalia provided an overview of the proposed administrative budget and noted that despite the significant reduction in asset levels due to the downturn in the markets, the administrative costs continued to be well below the eighteen hundreds of one percent cap on administrative costs set under the County Employees' Retirement Law of 1937.

Motion by Ms. Jarboe to approve the proposed budget; Seconded by Mr. Woods. Motion carried (7-0).

14. Chief Executive Officer Richard Stensrud presented the proposed interest crediting rate for member contribution accounts for the six-month period ending June 30, 2009.

Mr. Stensrud reported that due to the extremely poor investment performance, SCERS would not be able to meet its overall target interest crediting rate for the actuarial valuation reserves of 3.9375% for the period; and thus, pursuant to SCERS' Interest Crediting and Unallocated Earnings Policy, no interest should be credited to the member contribution reserves for the six-month period ending June 30, 2009. Mr. Stensrud reported that on a more positive note, the investment markets had improved considerably over the last two months, and while the return for the fiscal year would be extremely poor in absolute terms, it would be much better than where it had been a few months ago. Mr. Stensrud noted that as a result, he would ask the actuary to update the recent study on the projections of future employer contribution rates and the plan's funded status to reflect the improvement in investment performance relative to the estimated returns utilized in the original analysis.

Motion by Mr. Johnson to approve crediting on interest to member contribution reserves for the period; Seconded by Mr. Woods. Motion carried (7-0).

15. Chief Operations Officer Kathryn Regalia and Chief Executive Officer Richard Stensrud presented a request that the Board authorize the engagement of a consultant to assist with development of SCERS' business resumption/disaster recovery plan.

Ms. Regalia and Mr. Stensrud explained that while SCERS has a number of recovery elements in place, should there be a disruption in business, having a comprehensive business resumption plan would be advisable as it would minimize the potential for loss and save valuable time and resources in enabling SCERS to resume serving its members as quickly as possible. Ms. Regalia and Mr. Stensrud noted that a consultant who specializes in developing business resumption plans that encompass all aspects of the organization would provide important guidance in developing such a plan. Ms. Regalia outlined the various areas of analysis, plan development, testing and training that would be provided by such a consultant, and the estimated cost for such services. Ms. Regalia and Mr. Stensrud requested that the Board grant staff the authority to identify and engage a consultant for the assignment.

ADMINISTRATIVE MATTERS (continued):

Motion by Mr. Irish to authorize staff to identify and engage a consultant to assist with SCERS' business resumption plan; Seconded by Mr. Woods. Motion carried (7-0).

INVESTMENT MATTERS:

16. Chief Executive Officer Richard Stensrud presented a proposed policy regarding disclosure of third party representation of and fee sharing by SCERS' investment managers.

Mr. Stensrud summarized the various situations that have been recently reported in the press regarding 'placement agents' and other parties seeking to serve as 'gatekeepers' for investment opportunities with public pension funds. Mr. Stensrud explained that the participation of third parties in the representation of investment management entities to investors was not new or inherently bad. Mr. Stensrud noted that many investment managers do not have internal marketing or business development staff dedicated to presenting the firm's investment products to potential investors. Mr. Stensrud explained that in such a case, engagement of a third party professional to assist the investment manager can be an important factor in whether the investment firm will be successful. Mr. Stensrud noted that professional third party representation can add value to the investment manager by virtue of their contacts in the industry, their understanding of the decision-making process of a given investor, their knowledge about whether a given investor would be interested in the investment products offered by the firm, their ability to develop and present information about the investment opportunity in a way that meets the needs of a potential investor, and their professional credibility in the eyes of a potential investor. Mr. Stensrud further noted that third party representatives can also add value for investors, by helping to assure that investors are made aware of good investment opportunities. Mr. Stensrud explained that in sum, professional third party representatives can serve many legitimate and valuable functions in the investment process.

Mr. Stensrud noted that the current investigative and enforcement activities are focused on different and highly problematic activities carried out by a few third party representatives – i.e., individuals who use influence and leverage, as opposed to investment expertise and investment merit, to get investment ideas in front of investment decision-makers, and in some cases, trade on their influence to extract 'pay to play' compensation for their 'services.'

Mr. Stensrud explained that the proposed Policy Regarding Disclosure of Third Party Representation of and Fee Sharing by SCERS' Investment Managers ('Third Party Representation Disclosure Policy' or simply, 'Policy') is intended to reduce the possibility that this latter type of 'illegitimate' third party representation could occur in investments made by SCERS. Mr. Stensrud explained that the Policy will do this by enhancing transparency in the investment consideration process thereby helping to prevent impropriety or the appearance of impropriety in that process. Mr. Stensrud noted that, as

INVESTMENT MATTERS (continued):

such it will help ensure that SCERS' investment decisions are: (1) Consistent with SCERS' Investment Policy and Objectives; (2) Reasonable and prudent from a fiduciary perspective; and (3) Made solely on the basis of merit.

Mr. Stensrud noted that SCERS has required disclosure of third party representation and fee sharing by its investment managers since December 2007. Mr. Stensrud noted that since that time, only two managers have utilized third party marketing or client service firms, and in both cases, the parties were licensed by and/or registered with the Financial Industry Regulatory Association or the Securities and Exchange Commission. Mr. Stensrud noted that none of the parties who have done business with SCERS have been implicated in any of the ongoing investigations. Mr. Stensrud further noted that SCERS Board members, staff and consultants are subject to numerous legal requirements intended to ensure their ethical conduct, compliance with fiduciary responsibilities, and to prevent conflict of interest. Mr. Stensrud also noted that SCERS has other practices and policies that would make it highly unlikely that SCERS would experience the type of problems that have befallen other retirement systems.

Mr. Stensrud explained that notwithstanding these factors, he was recommending that the Board adopt the proposed Third Party Representation Disclosure Policy as a way to add to the transparency of the investment decision-making process. Mr. Stensrud also noted that adoption of the proposed policy would allow SCERS to 'pre-comply' with the provisions of pending legislation (AB 1584) that will require such a policy if passed into law.

Mr. Stensrud outlined the key features of the proposed Policy. Discussion followed.

Motion by Ms. Jarboe to adopt the proposed policy; Seconded by Mr. Woods. Motion carried (7-0).

17. Terry Dennison of Mercer Investment Consulting presented information regarding possible investment through the federal Term Asset-Backed Loan Facility (TALF) program. Mr. Dennison explained the rationale for and investment opportunities available through the TALF program. Mr. Dennison explained how the TALF program would operate, including the investment structure, the expected benefits and the potential risks associated with a TALF investment.

Two firms recommended by Mercer and staff for consideration for such an investment assignment made presentations regarding their respective TALF investment funds. Bruce Brittain and Rick Fulford made a presentation on behalf of Pacific Investment Management Company (PIMCO). Bryan Whalen and David Vick made a presentation on behalf of Metropolitan West Asset Management (MetWest). The two firms described their views of the TALF investment opportunity, including their respective investment strategies, potential returns and risks, and their expertise with the securities available through the TALF program.

INVESTMENT MATTERS (continued):

Extensive discussion followed, including consideration of the federal government loan funding provided in the TALF program, management of the credit and interest rate risk, and the exit strategy for the investments.

Motion by Mr. Woods to engage PIMCO and MetWest to manage respective TALF investment portfolios; Seconded by Mr. Johnson. Motion carried (6-0).

18. Chief Investment Officer Jeffrey States and Chief Executive Officer Richard Stensrud presented a proposed process and proposed criteria for evaluating responses to SCERS' Request for Proposals for Investment Consulting Services (RFP).

Mr. States and Mr. Stensrud noted that when the Board approved the issuance of the RFP in May, it was agreed that there would be a follow-up discussion regarding the process for evaluating the RFP, including identification of the skills, consulting approach, expertise, work product and other features deemed to be most important for selecting an investment consultant.

Mr. States and Mr. Stensrud recommended that the initial evaluation of the candidates be focused on a review and scoring of the responses to the questions set forth in the RFP. Mr. States and Mr. Stensrud noted that they believed the questions did a good job of eliciting the broad fundamental information regarding the candidates' experience, expertise and capacity for providing investment consulting services to a fund like SCERS. Mr. States and Mr. Stensrud described the proposed weight to be given to the various components of the candidates' submission, explaining that the proposed weighting was based on previous comments and observations of the Board regarding investment consulting services. Mr. States and Mr. Stensrud explained that if the Board concurred with the proposed weighting, staff could then review and rank the candidates for the Board's consideration, and the candidates who would move forward to the next step could be identified.

Mr. States and Mr. Stensrud recommended that the second step in the evaluation process be more subjective and focused on deeper analysis of the qualities and services the Board deems most important in an investment consultant. Mr. States and Mr. Stensrud suggested that this could be accomplished by presenting the remaining candidates with a new set of questions designed to gain deeper insight into the philosophy, style and approach of the firm in providing consulting services. Mr. States and Mr. Stensrud presented examples of the topics that would be addressed and the questions that would be posed. Mr. States and Mr. Stensrud noted that the responses to the second round of questions could be reviewed and rated by both the Board and staff, with the goal of identifying two or three finalists who would be invited to make a presentation to the Board. Mr. States and Mr. Stensrud also noted that at this juncture, it could be determined whether one general investment consultant could cover all SCERS' consulting needs or whether the services of a specialist consultant would be advisable.

Discussion followed.

INVESTMENT MATTERS (continued):

Motion by Ms. Wolford-Landers to approve the proposed process and criteria for evaluating the candidates responding to the RFP for investment consulting services; Seconded by Mr. Johnson. Motion carried (5-0).

The meeting was adjourned at 4:55 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Dave Irish, Alice Jarboe (left at 3:30 p.m.), William D. Johnson, Nancy Wolford-Landers, Robert Woods (left at 4:42 p.m.), John Conneally, and William Cox (left at 4:34 p.m., returned 4:36 p.m.).

MEMBERS ABSENT: Keith DeVore, John Kelly 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, Senior Personnel Specialist; Diana Ruiz, Deputy County Counsel; Terry A. Dennison, Mercer Investment Consulting; David L. Kimport and Stephen N. Roberts, Nossaman LLP; Bryan T. Whalen and David Vick, MetWest; W.H. Bruce Brittain and Rick Fulford, PIMCO; and Patrick T. Kendall, Cornerstone.

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.