



Executive Staff:

Richard Stensrud
Chief Executive 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

John B. Kelly, First Vice President
Appointed by the Board of Supervisors

William D. Johnson, Second Vice President
Elected by the Safety Members

Diana Gin
Elected by the Miscellaneous Members

Winston H. Hickox
Appointed by the Board of Supervisors

Kathy O'Neil
Elected by the Miscellaneous Members

Julie Valverde
Ex Officio, Director of Finance

Nancy Wolford-Landers
Elected by the Retired Members

Robert L. Woods
Appointed by the Board of Supervisors

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, OCTOBER 20, 2011

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Thursday, October 20, 2011, and commenced at 11:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. Ms. Gin requested an amendment to the proposed Minutes regarding her vote on the consent matters. The amended Minutes of the September 15, 2011 regular meeting were approved on Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (5-0).

CONSENT MATTERS:

Items 3-8

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

3. EKPO, Newton: Granted a nonservice-connected disability retirement.
4. HANRAHAN, Susan M.: Granted a service-connected disability retirement.
5. NEELY, Jim A.: Granted a service-connected disability retirement.
6. Approved matters presented for a vote by the SACRS membership at the 2011 SACRS Fall Conference.
7. Approved the final reconciliation of employer retirement contributions made by the Sacramento Metropolitan Fire District for the 2010-2011 Fiscal Year.
8. Received and filed the September 2011 Monthly Investment Manager Compliance Report and Watch List.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

9. 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 Investment Staff would be in New York the week of October 24th visiting with potential hedge fund managers. Mr. Stensrud noted that Staff had scheduled 15 meetings over the five days they would be in New York.

Mr. Stensrud reported that the annual external audit was underway which would produce information that would be included in the Comprehensive Annual Financial Report (CAFR). Mr. Stensrud noted that the CAFR would be presented at the December Board Meeting.

Mr. Stensrud reported that the November Board Meeting would be moved up one week to November 10th due to the date of the State Association of County Retirement Systems (SACRS) Fall Conference. Mr. Stensrud noted that any Board Member interested in attending the SACRS Fall Conference should contact Staff for assistance in making travel arrangements.

Mr. Stensrud noted that the annual actuarial valuation would be presented at November Board meeting.

Mr. Stensrud reported that the County of Sacramento has decided to postpone the implementation date for the new retirement tiers for new hires. Mr. Stensrud noted that the original target date was in early November, but was going to be changed to January 1, 2012.

Mr. Stensrud reported that a class action lawsuit in which SCERS had participated had reached a settlement in litigation with AXA Rosenberg, who previously managed a small cap international equity assignment for SCERS. Mr. Stensrud noted that the litigation was related to programming errors that were not appropriately disclosed by AXA Rosenberg. Mr. Stensrud stated that AXA Rosenberg had originally settled with the SEC for approximately \$217 million and the new settlement will provide an additional \$65 million for investors.

Mr. Stensrud reported that Ms. Gin recently attended a conference sponsored by the Public Retirement Journal and invited her to share her observations regarding the program with the Board. Ms. Gin reported that she would type up her notes from the conference and make them available to the rest of the Board.

Mr. Stensrud reported that Staff had just completed another retirement planning seminar for employees late in their career. Mr. Stensrud stated that Staff was projecting to reach 800 members through seminars over the course of 2011, with a special onsite half-day seminar for employees of the Sacramento Employment and Training Agency (SETA) at the end of October, as well as another standard seminar in December.

Mr. Stensrud reported that the joint State Assembly and Senate committee formed for the purpose of developing a comprehensive approach to pension reform had announced its first hearing, which would be taking place October 26th in Southern California. Mr. Stensrud stated that the hearing was scheduled for four hours and would include a series of panels featuring state and local government, as well as employer and employee groups. Mr. Stensrud also noted that the Governor had been commenting recently on potential pension reform, even suggesting that some element of the reform might require constitutional changes. Ms. Wolford-Landers asked if any discussion on potential constitutional changes included changing benefits for current retirees. Mr. Stensrud stated that he had not heard any discussion of such changes.

INVESTMENT MATTERS:

10. Jamie Feidler and Daniel Stern of Cliffwater, LLC and Pete Keliuotis and Mike Beasley of Strategic Investment Solutions, Inc. provided an educational presentation regarding the current macro-economic environment and the ramifications of potential changes in the economic environment.

Mr. Stern reported that the current global economy was in the early stages of a protracted and slow deleveraging process. Mr. Stern stated the challenges facing the United States included persistent high unemployment and continued malaise in the housing market. Mr. Stern noted that Europe was in an even worse position with high unemployment, slow growth, and sovereign risk in a number of peripheral countries. Mr. Stern also noted that the Japanese markets had been stagnant for years and could not be expected to be a leading driver of global growth. Mr. Stern stated that emerging markets were the growth

engines in the global economy, were beginning to slow. Mr. Stern reported that the consensus estimates projected US growth between 1% – 2% and European growth in the same range, but likely on the lower end.

Mr. Stern stated that Europe had a credibility issue as to whether there would be support for the peripheral countries which are unable to pay their debts. Mr. Stern noted that Greece and Portugal are technically bankrupt, and to a great extent Spain. Mr. Stern stated that Europe needs to find a way to restructure the debt of these countries before the crisis spreads to countries such as Italy, which are so large that they would be unmanageable. Mr. Stern noted that this has created tremendous volatility in the global market.

Discussion followed.

Mr. Beasley discussed the role of the Board in carrying out its fiduciary duties with respect to managing the investment program and how an investment consultant should assist the Board in its task. Mr. Beasley discussed the concept of ‘human nature risk,’ particularly in a volatile investment environment, and noted that to achieve success, an investment program needed to be disciplined, patient and committed to re-balancing to the established asset allocation levels. Mr. Beasley also noted that there could be tactical opportunities when the market exhibited excesses, and that an investor should be open to capitalizing on such opportunities.

Discussion followed.

No action was taken on this item.

11. Pete Keliuotis of Strategic Investment Solutions, Inc. (SIS) made a presentation regarding the investment manager structure for implementing SCERS’ allocation to the equity asset class. Mr. Keliuotis reviewed the variables that will be used in modeling manager structures, including:

- The proper number of managers to retain
- The degree of active and passive exposure utilized
- The decision around using higher active risk managers versus lower active risk managers
- The proper exposure to styles and market capitalizations
- The level and manner with which REITs will be allocated

Mr. Keliuotis discussed various types of risk that can arise from a manager structure. Mr. Keliuotis noted that two sources of risk are Style Risk and Active Risk. Mr. Keliuotis stated that investors are not compensated over the long term by taking on Style Risk. Mr. Keliuotis suggested that SCERS should seek a combination of managers that maximizes Active Risk within an acceptable level of Benchmark Risk.

Motion by Mr. Woods to receive and file the presentation regarding the investment manager structure for implementing SCERS' allocation to the equity asset class; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

12. SCERS Investment Staff and Cliffwater, LLC presented the sub-asset class allocation plan for real assets, the twelve month investment plan for real assets, and the real assets investment implementation plan.

Staff noted that the overall role and investment objective of the real assets asset class is as follows:

- Hedge against inflation risk by investing in assets that respond positively to unanticipated inflation
- Provide higher levels of income and cash flow generation
- Provide attractive returns on a real (net of inflation) basis
- Provide greater consistency in the return distribution and muted downside risk
- Provide additional portfolio diversification, particularly for equities

Jamie Feidler of Cliffwater, LLC provided an overview of the recommended asset class targets and allocation ranges. Mr. Feidler stated that the overall real assets asset class target allocation is 15%, broken down as follows:

	Target Range	Target %
Core Real Estate	4%-9%	7%
Private Real Assets	3%-8%	6%
Commodities	0%-3%	2%
TIPS	0%-3%	0%

Mr. Feidler noted that core real estate and commodities are currently near their recommended allocation targets within SCERS' existing portfolio. Mr. Feidler outlined the pacing schedule for new private real assets investments. Mr. Feidler noted that TIPS allocations should be viewed opportunistically, based upon prevailing market conditions.

Staff presented the twelve month investment plan for real assets which included Cliffwater and Staff's recommendation to maintain SCERS' existing investment levels in core real estate and commodities. Staff also noted the planned investments in private real assets funds, including the level of commitments planned for the next twelve months, the size, range, and maximum level of each commitment, and the investment priorities and number of funds broken out by strategy.

Staff also proposed a real assets investment implementation protocol, under which the screening and decision process for making private real assets investments is delegated to the Staff and Cliffwater, within the parameters of the sub-asset allocation plan and twelve month investment plan approved by the Board. Staff noted that the proposed private real assets investment protocol was the same as that previously approved with respect to

similar private market investments in hedge funds and private equity. Staff further noted that because investment decisions in real estate and commodities did not typically have the same time constraints as with private assets, the investment protocol would be different, with the Staff and consultant making recommendations to the Board regarding proposed courses of action.

Motion by Mr. Hickox to approve sub-asset class allocation plan for real assets, the twelve month investment plan for real assets, the real assets investment implementation plan, and Resolution No. SCERS 2011-07; Seconded by Mr. Woods. Motion carried (9-0).

13. Chief Executive Officer Richard Stensrud presented proposed investment policy statements for private equity and hedge fund asset classes. Mr. Stensrud noted that new, specialized investment policy statements were prepared to reflect the various changes made in the way SCERS' will approach the private equity and hedge fund asset classes.

Mr. Stensrud noted that if the Board approves the proposed investment policy statements, SCERS' overall Investment Policy Statement will be amended to incorporate the new specialized statements so that the overall Investment Policy Statement continues to provide correct and consistent information regarding how SCERS will invest in these asset classes.

Motion by Mr. Kelly to approve the proposed investment policy statements for private equity and hedge fund asset classes; Seconded by Ms. O'Neil. Motion carried (9-0).

The meeting was adjourned at 1:30 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly (arrived at 11:03 a.m.), Diana Gin, Winston H. Hickox (arrived at 11:02 a.m.), Kathy O'Neil (arrived at 11:02 a.m.), Julie Valverde (arrived at 11:03 a.m.), Nancy Wolford-Landers, Robert L. Woods, John Conneally, and Michael DeBord.

MEMBERS ABSENT: William D. Johnson

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; James G. Line, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Scott Chan, Deputy Chief Investment Officer; Steve Davis, Investment Officer; Suzanne Likarich, Retirement Services Manager; John Lindley, IT Administrator; Pete Keliuotis, Mike Beasley, and Stephen Quirk, Strategic Investment Services, Inc; and Jamie Feidler and Daniel Stern, Cliffwater LLC.

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.