



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, NOVEMBER 10, 2011

A special 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, November 10, 2011, and commenced at 11:01 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the October 20, 2011 regular meeting were approved on Motion by Mr. Kelly; Seconded by Ms. Wolford-Landers. Motion carried (6-0, Mr. Johnson abstained).

CONSENT MATTERS:

Items 3-10

Item 3 was taken off the Consent Calendar for discussion. The remaining Consent matters (Items 4-10) were acted upon as one unit upon a Motion by Ms. Wolford-Landers; Seconded by Ms. Valverde. Motion carried (7-0).

CONSENT MATTERS (continued):

3. CLARK, Gary J.: Moved to the Closed Session, Disability Matters.
4. KNOX, Michael L.: Granted a service-connected disability retirement.
5. MCCAIN, Harry L.: Granted a service-connected disability retirement.
6. Approved resolution SCERS 2011-08 extending the engagement with the law firm of Paul Hastings to provide investment-related legal services.
7. Received and filed the Selected Fees and Costs for Outside Legal Services for the quarter ended September 30, 2011.
8. Approved the recommended modifications to the capital budget for making private equity investments.
9. Received and filed the Portfolio Re-Balancing Report for the quarter ended September 30, 2011.
10. Received and filed the October 2011 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

DISABILITY MATTERS:

3. Moved from Consent Matters at the request of Mr. DeBord.

CLARK, Gary J.: Granted a service-connected disability retirement upon unanimous vote (9-0).

OPEN SESSION:

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud noted that the State Association of County Retirement Systems (SACRS) Fall Conference would be held November 15 – November 18.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that on Monday, December 12, SCERS would be conducting a retirement planning seminar for members who were late in their careers. Mr. Stensrud stated that a large turnout was again expected.

Mr. Stensrud reported that he and the Investment Staff had been in New York the week of October 24 visiting with potential hedge fund managers. Mr. Stensrud noted that the meetings were very productive and informative. Mr. Stensrud stated Staff was on target to identify 4-5 managers for funding on or about January 1, 2012, and that Staff would provide write-ups on the meetings with the managers.

Mr. Stensrud reported that the Staff was also working on transforming the existing Grosvenor Long/Short Equity fund-of-funds into the strategic partnership separate account diversified hedge fund portfolio. Mr. Stensrud stated that the target date for making the transition was December 1 and commended Staff and Grosvenor for their hard work in establishing the new engagement and transforming the portfolio.

Mr. Stensrud reported that the Staff was performing due diligence on two funds and that Staff would keep the Board advised of their findings.

Mr. Stensrud reported on the pension reform proposals introduced by the Governor. Mr. Stensrud also reported that two alternative ballot initiatives related to pension reform had recently been introduced. Mr. Stensrud stated that a joint Senate and Assembly committee in the legislature would be considering the Governor's proposals. Mr. Stensrud noted that the second hearing of that joint committee had been scheduled for early December and that SACRS was scheduled to testify.

12. Paul Angelo and Andy Yeung of The Segal Company presented the SCERS Actuarial Valuation as of June 30, 2011.

Mr. Angelo reported that in the course of preparing the June 30, 2011 valuation, Segal discovered that the liabilities portion of the June 30, 2010 valuation had not been properly calculated, resulting in an over-statement of the liabilities. This, in turn, caused the employer contribution rate to be higher than it should have been in the current fiscal year. It also meant that the employee contribution rate for certain members was slightly higher than it should have been for the current year. Mr. Angelo reported that as a result, there had been an over-payment of contributions by certain employers and plan members. Mr. Angelo reported that the corrected data for June 30, 2010 had been incorporated in the June 30, 2011 valuation. Mr. Angelo reported that additional checks have been introduced in their software to prevent such an error in the future.

ADMINISTRATIVE MATTERS (continued):

Chief Executive Officer Richard Stensrud commented that it was important to note that Segal discovered the miscalculation quickly through its due diligence process and hence the over-statement of liabilities did not continue over multiple valuations. Mr. Stensrud also noted that Segal promptly brought the matter to SCERS' attention, and as a result, the impact of the miscalculation had been contained. Mr. Stensrud noted that there were options for rectifying the problem in a timely manner, including the standard end-of-year employer contribution reconciliation process. Mr. Stensrud explained that it was common for there to be either under-payments or over-payments in employer contributions and the year-end reconciliation had been implemented to address this.

Mr. Angelo reported that the County's aggregate employer contribution rate would increase 1.09% of pay, from 21.28% to 22.37%. Mr. Angelo explained that the primary driver of the cost increase is the continuing phase-in of the investment losses from 2008 and 2009 via the smoothing process, which pushed the employer rate up 1.54%. Mr. Angelo also noted that the unfunded liability had to be spread over a smaller payroll than expected, which increased the employer rate 0.46%. Mr. Angelo stated that this cost increase was partially offset by the difference in actual versus expected salary increases (-0.50%), the difference in actual versus expected cost-of-living adjustments (COLA) increases for retirees (-0.34%), and the effect of changes in the actuarial assumptions (-0.13%).

Mr. Angelo reported that assuming SCERS meets its investment return assumption over the next seven years, Segal projects a yearly increase in the employer rate of less than one percent a year from the June 30, 2013 valuation to the June 30, 2015 valuation, followed by a drop in the employer contribution rate for the next three years. The analysis suggests that the rate would top-out at 26.17% then decline to 23.96%. Mr. Angelo noted that as recently as last year, a similar analysis by Segal projected the employer rate to increase by 2-3% per year, topping out at 33% in the June 30, 2015 valuation and remaining at that level for several years.

Mr. Stensrud noted that while any cost increase creates strain for employers in the current tight budgetary environment, this is a much smaller level of cost increases than was projected after the market collapse in 2008 and 2009 and hence constitutes a better picture than what plan sponsors should have been expecting.

Mr. Stensrud reported that the valuation as of June 30, 2011 had been conducted on the assumption that SCERS would not apply the \$77 million Contingency Reserve to the valuation reserves, but instead will continue to carry those funds outside of the valuation reserves and have them available for use in future valuations. Mr. Stensrud noted that the Segal analysis of projected future employer costs indicates that in the next valuation (i.e., as of June 30, 2012) the employer contribution rate is projected to increase by 1.96% (in contrast to the 1.09% increase in the upcoming fiscal year). Mr. Stensrud reported that if

ADMINISTRATIVE MATTERS (continued):

the \$77 million in the Contingency Reserve is applied in the June 30, 2012 valuation, the employer rate increase will drop to 1.40%, which is a more manageable increase. Mr. Stensrud noted that if the Contingency Reserve were to be applied in the current valuation, the cost would be reduced by approximately 46 basis points, but there would be nothing left to mitigate the much larger increase in the June 2012 valuation. Mr. Stensrud stated that, in light of these factors, he recommended saving the Contingency Reserve for the June 30, 2012 valuation.

Mr. Stensrud also noted that the valuation report shows the overall strength of the retirement system. Mr. Stensrud observed that the funded status remains strong and stable at 87%, and because the level of over-hanging losses from the market collapse in 2008-2009 has been significantly reduced, the funded ratio is now projected to stay above 84% even as those losses are phased-in to the valuation. Mr. Stensrud further noted that the market value, actuarial value and valuation value of assets have returned to nearly the same level as they were prior to the market meltdown.

Motion by Mr. Woods to receive and file the Actuarial Valuation as of June 30, 2011, approve the recommendation to maintain the Contingency Reserve, and adopt the proposed employer and employee contribution rates for the 2012-13 Fiscal Year; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

INVESTMENT MATTERS:

13. Patrick Thomas of Strategic Investment Solutions, Inc. (SIS) presented the Investment Performance Report for the Quarter Ended September 30, 2011.

Mr. Thomas reported that the Total Fund (TF) return for the third quarter (which is also the first quarter of SCERS' fiscal year), including the impact of the overlay program, was -10.5% gross of fees. The TF return was 1.5% below the return of the policy index benchmark which had a return of -9.0%. Mr. Thomas noted that all major asset classes except domestic fixed income and private equity experienced negative returns for the quarter. Mr. Thomas noted that the overlay program had no impact on performance for the quarter.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 1.9% below the Public Funds \$1+ Billion Median return of -8.6%. Mr. Thomas noted that longer term, the annualized TF return gross of fees for five years of 1.1% is 1.0% below the policy index benchmark for the period. Mr. Thomas further noted that the TF gross of fees return of 8.0% since the inception of SIS' data in June of 1986 is 0.5% below the Total Benchmark return of 8.5% for the period.

INVESTMENT MATTERS (continued):

Mr. Thomas reported that at the asset class level, fiscal year outperformance occurred, gross of fees, in the private equity segment. Underperformance occurred in the domestic equity, international equity, fixed income, hedge fund, and real estate segments. In the opportunistic segment, the credit strategies in aggregate underperformed the Barclays Capital Aggregate benchmark, and the commodities strategies in aggregate performed in-line with the Dow Jones UBS Commodities Index benchmark.

Motion by Mr. Kelly to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Mr. Woods. Motion carried (9-0).

14. Stephen Nesbitt of Cliffwater LLC and SCERS' Investment Staff provided an educational presentation regarding potential investments for the Opportunities component of SCERS' investment portfolio.

Deputy Chief Investment Officer Scott Chan reported that establishing the strategic direction for Opportunistic Investments will be similar to the work completed for Private Equity, Hedge Funds and Real Assets including developing Opportunistic Portfolio allocation structure and investment implementation protocol.

Mr. Chan noted that an asset class such as the Opportunistic Portfolio should provide flexibility to take advantage of drivers of return and volatility that cannot be captured in the standard asset allocation. Mr. Chan stated that the primary focus would be to invest in market opportunities that are providing significant discounts to value today (as opposed to focusing on or relying on a prediction in the future that will lead to increases in value).

Mr. Chan explained that the allocation structure of the Opportunities asset class would feature:

- An expanded scope to formally include all asset classes and vehicles (e.g. equities, fixed income, private equity, hedge funds, and real assets).
- The flexibility to be out of the market when true opportunities are not present by featuring a 0-5% allocation range rather than a fixed target.
- Forcing new opportunities to compete against the underlying asset classes for space, such that, in order to add an opportunistic investment, it would need to draw the allocation from the appropriate underlying asset class.

Mr. Nesbitt then reported that SCERS Opportunistic Investment track record was positive, investing \$129 million in five partnerships with a composite internal rate of return (IRR) of

INVESTMENT MATTERS (continued):

12%, compared with a comparable Russell 3000 index IRR equal to 4.6%. Mr. Nesbitt noted that these investments have produced a 7.37% excess return over public equities, contributing \$28 million in value added.

Mr. Nesbitt reported that Cliffwater clients have invested \$2.6 billion in 25 opportunistic partnerships and separate accounts with a composite IRR of 8.7%, compared with a comparable Russell 3000 index IRR of 3.5%. Mr. Nesbitt noted that these investments have produced a 5.19% excess return over public equities, contributing \$334 million in value added.

Motion by Mr. Johnson to receive and file the educational presentation by Cliffwater LLC and Staff regarding potential investments for the Opportunities component of SCERS' investment portfolio; Seconded by Mr. Hickox. Motion carried (9-0).

15. Pete Keliutis of Strategic Investment Solutions, Inc. (SIS) provided a presentation regarding the manager structure for the domestic and international equity asset classes.

Mr. Keliutis reviewed the manager structure of SCERS' current domestic equity portfolio. Mr. Keliutis demonstrated various scenarios for changing the structure, including adding Real Estate Investment Trusts (REITs), increasing or decreasing passive exposure, increasing active risk, and reducing the number of managers.

Mr. Keliutis also reviewed the manager structure of SCERS' current international equity portfolio. Mr. Keliutis demonstrated various scenarios for changing the structure, including adding REITs, increasing or reducing passive exposure, reducing style risk, and moving toward an All County World Index (ACWI)-oriented structure.

Discussion followed.

Motion by Ms. Wolford-Landers to receive and file the presentation regarding the manager structure for the domestic and international equity asset classes; Seconded by Mr. Woods. Motion carried (9-0).

The meeting was adjourned at 2:01 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, William D. Johnson, Diana Gin, Winston H. Hickox (arrived at 11:05 a.m.), Kathy O'Neil (arrived at 11:03 a.m.), Julie Valverde, Nancy Wolford-Landers, Robert L. Woods (arrived at 11:08 a.m.), John Conneally, and Michael DeBord.

MEMBERS ABSENT: none

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; James G. Line, General Counsel (arrived at 11:03 a.m.); 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; Thuyet Ziyalan, Accounting Manager; John Lindley, IT Administrator; Paul Angelo and Andy Yeung, The Segal Company; Pete Keliuotis, Patrick Thomas, and Stephen Quirk, Strategic Investment Services, Inc; Steve Nesbitt, Cliffwater LLC; Brad Branan, The Sacramento Bee; Michael Knox; and Karl Stensrud.

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.