



Executive Staff:

Richard Stensrud
Chief Executive Officer

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

Richard B. Fowler II
Appointed by the Board of Supervisors

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

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, MAY 31, 2012

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, May 31, 2012, and commenced at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Board President James A. Diepenbrock welcomed new Board Trustee Richard B. Fowler II.

Mr. Diepenbrock announced that Board First Vice President John Kelly had been elected as Secretary to the State Association of County Retirement Systems (SACRS) Board.

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2. The Minutes of the April 19, 2012 special meeting were approved on Motion by Mr. Kelly; Seconded by Mr. Conneally. Motion carried (5-0, Ms. Gin abstained).

CONSENT MATTERS:

Items 3-12

The Consent matters were acted upon as one unit upon a Motion by Ms. Wolford-Landers; Seconded by Ms. Gin. Motion carried (6-0).

3. ROSS, George W.: Granted a service-connected disability retirement.
4. TAYLOR, Timothy J.: Granted a service-connected disability retirement.
5. CROSLAND, Sandra A.: Denied a service-connected disability retirement.
6. KUMAR, Mahendra: Denied a service-connected disability retirement.
7. LARA, Kelley L.: Granted service-connected death benefits.
8. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended March 31, 2012.
9. Received and filed the Trading Cost Report for the Quarter Ended March 31, 2012.
10. Received and filed Selected Fees and Costs for Outside Legal Services for the Quarter Ended March 31, 2012.
11. Approved the recommended increase in the contract ceiling amount for the engagement with Nossaman LLP to provide employment-related legal services.
12. Received and filed the April 2012 Monthly Investment Manager Compliance Report and Watch List.

INVESTMENT MATTERS:

13. Pete Keliutis of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended March 31, 2012.

Mr. Keliutis reported that the Total Fund (TF) return for the first quarter, including the impact of the overlay program, was 8.0% gross of fees. The TF return was 0.5% above the return of the policy index benchmark which had a return of 7.5%. The overlay program had a positive impact of 0.2% during the quarter.

Mr. Keliutis reported that on a comparative basis, the return for the quarter was 0.5% above the Public Funds \$1+ Billion Median return of 7.5%. The TF return ranks in the 29th percentile in the State Street/ICC Universe, which is the ranking universe used by SIS. All

INVESTMENT MATTERS (continued):

major asset classes except private equity and opportunistic credit experienced positive returns for the quarter.

Mr. Keliuotis reported that at the asset class level, quarter outperformance occurred, gross of fees, in the domestic equity, domestic fixed income, hedge fund, and real estate segments. In-line performance occurred in the international equity segment. Underperformance occurred in the private equity segment, which is still in its early stages and reflects the impact of the 'J-Curve' effect. In the opportunistic segment, the commodities strategies in aggregate outperformed the Dow Jones UBS Commodities Index benchmark and the credit strategies in aggregate underperformed the Barclays Capital Aggregate benchmark.

Mr. Keliuotis reported that, for fiscal year-to-date (YTD), the TF return gross of fees, including the impact of the overlay program is 2.5%, which is 1.1% below the return of the policy index of 3.6%. The TF fiscal YTD return is 30 basis points below the Public Funds \$1+ Billion Median return of 2.8%, and ranks in the 63rd percentile in the State Street/ICC Universe, which is the ranking universe used by SIS.

Mr. Keliuotis reported that at the asset class level, fiscal YTD outperformance versus the policy benchmark has occurred, gross of fees, in the domestic fixed income and private equity segments. Underperformance has occurred in the domestic equity, international equity, hedge fund, and real estate segments. In the opportunistic segment, the commodities strategies in aggregate outperformed the Dow Jones UBS Commodities Index benchmark and the credit strategies in aggregate underperformed the Barclays Capital Aggregate benchmark.

Mr. Keliuotis reported that the annualized TF return gross of fees for three years of 16.4% is 0.4% below the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 2.2% is 0.3% below the policy index benchmark for the period. The TF gross of fees return of 8.4% since the inception of SIS' data in June of 1986 is 0.4% below the Total Benchmark return of 8.8% for the period.

Motion by Mr. Kelly to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

14. Deputy Chief Investment Officer Scott Chan and Investment Officer Steve Davis reviewed the investment manager search and interview process conducted by Staff and Strategic Investment Solutions (SIS) with respect to the international equity portfolio. Mr. Chan and Mr. Davis discussed the changes to the international equity portfolio that resulted from the asset allocation study. Mr. Chan and Mr. Davis outlined how Staff and SIS narrowed down potential manager candidates and selected the proposed managers. Mr. Chan and

INVESTMENT MATTERS (continued):

Mr. Davis highlighted how the asset and manager structures were developed. Finally, Mr. Chan and Mr. Davis proposed the optimal fee structure for the recommended managers. Mr. Chan and Mr. Davis noted that Staff and SIS recommended the retention of LSV Asset Management to continue to manage an EAFE value portfolio, at an increased asset level of approximately \$310 million, under an asset-based fee structure and benchmarked against the MSCI World ex-US Index.

Managing Directors Michael A. Bennett and Anthony J. Dote, Jr. from Lazard Asset Management, LLC presented an organizational overview of their firm. Mr. Bennett and Mr. Dote reviewed Lazard's investment philosophy, noting that the firm focuses on companies that are financially productive (high ROE), but inexpensively valued and that the firm adds value through stock selection and portfolio management. Mr. Bennett and Mr. Dote reported the firm's performance summary, noting that the firm has a long history of successfully investing in emerging markets.

Discussion followed. Staff and SIS recommended that Lazard Asset Management, LLC be engaged to manage an approximately \$270 million ACWI ex-US portfolio under an asset-based fee structure and benchmarked against the MSCI ACWI ex-US Index.

Motion by Mr. Kelly to engage Lazard Asset Management, LLC on an asset-based fee structure; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

Investment Manager Jon Greenhill, Senior Vice President Michael A. Siciliano, and joining by phone Head of International and World Equity Group David Bertocchi from Barings Asset Management presented an organizational overview of their firm. Mr. Greenhill and Mr. Siciliano reviewed the firm's philosophy and research process, including the scoring process which aids portfolio decisions. Mr. Greenhill and Mr. Siciliano also reviewed the firm's performance summary.

Discussion followed. Staff and SIS recommended that Barings Asset Management be engaged to manage an approximately \$310 million EAFE growth portfolio under an asset-based fee structure and benchmarked against the MSCI World ex-US Index.

Motion by Mr. Fowler to engage Barings Asset Management on an asset based fee structure; Seconded by Ms. Gin. Motion carried (6-0, Mr. Kelly abstained).

CLOSED SESSION:

15. Consulted with Investment Staff and made changes to the investment manager lineup. Government Code Section 54956.81.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

16. 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 responses to the Request for Proposals (RFP) for real estate consulting services had been received from all but one of the consultants from which the Staff had solicited proposals. Mr. Stensrud noted that Staff had six proposals to review. Mr. Stensrud stated that interviews with candidates would be scheduled and that a recommendation was being targeted for the July Board Meeting.

Mr. Stensrud reported that, after having completing the review of the international equity manager structure, Staff would begin reviewing the fixed income manager structure. Mr. Stensrud stated that Staff and SIS would begin by providing an educational presentation on fixed income at either the July or August Board Meeting.

Mr. Stensrud reported that on May 1st, hedge fund investments with BlueCrest Capital International Limited and Third Point Partners, L.P., as well as a private equity fund investment with New Enterprise Associates 14, L.P. had been finalized.

Mr. Stensrud reported that the actuarial audit was scheduled to be completed in July, with a presentation from the auditing firm at the July Board Meeting.

Mr. Stensrud noted that a proposed actuarial funding policy, which had been the subject of an educational presentation at the April Board Meeting, would be likely be presented for consideration at the July Board Meeting.

Mr. Stensrud reported that the Sacramento County Board of Supervisors would be presented with the contribution rates for the upcoming fiscal year for adoption at the June 19th Board of Supervisors' meeting. Mr. Stensrud noted that this was an annual process.

Mr. Stensrud noted that the recent incident involving JP Morgan Chase bank and their significant trading loss illustrated the importance of actively monitoring counterparty risk exposure. Staff and consultants commented on the incident. Discussion followed.

The meeting was adjourned at 3:34 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, William D. Johnson (arrived at 1:07 p.m., departed at 3:28 p.m.), Richard B. Fowler II, Diana Gin, Nancy Wolford-Landers, John Conneally, and Michael DeBord (arrived at 1:07 p.m.).

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MEMBERS ABSENT: Winston H. Hickox, Kathy O'Neil, and Julie Valverde.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Lance Kjeldgaard, Outside 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 and Patrick Thomas, Strategic Investment Services, Inc; Jamie Feidler, Cliffwater, LLC; Diana Ruiz, County Counsel; Michael A. Bennett and Anthony J. Dote, Jr., Lazard Asset Management, LLC; and Jon Greenhill and Michael A. Siciliano, Barings Asset Management.

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.