



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

William Cox
Elected by Retired Members

John Conneally
Elected by Safety Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, MARCH 15, 2007

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, U.S. Bank Plaza Building, 980 9th Street, 18th Floor, Sacramento, California, on Thursday, March 15, 2007, commencing at 1:03 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the February 15, 2007 regular meeting were approved on Motion made by Mr. Johnson; Seconded by Mr. Irish. Motion carried (6-0).

CLOSED SESSION:

DISABILITY MATTERS:

3. JOHNSON, Shirley J.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated March 21, 2007.
4. MELTON, Thomas E.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated April 2, 2007.

DISABILITY MATTERS (continued):

5. PETTY, Dorothy L.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated March 21, 2007.
6. ROSS, Mary L.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated April 19, 2007.
7. SMITH, Kent R.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated March 20, 2007.
8. SOMMER, Kate E.: Action taken on the Application for Disability Retirement per confidential memorandum from the Chief Benefits Officer dated March 15, 2007.

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 advised the Board that SCERS would be joining with other public retirement systems in filing a legal brief in a securities class action litigation case being heard by the United States Supreme Court. General Counsel James Line explained that the case was important because it could affect the ability of institutional investors like SCERS to successfully bring cases against and obtain recovery from companies, company officials, their auditors, and bankers who engage in fraudulent behavior that negatively affects the investment in the company by its shareholders and bondholders. Mr. Stensrud noted that the positions being argued in the legal brief were consistent with SCERS' existing practice of pursuing recovery against such wrongdoing.

Mr. Stensrud also advised the Board that SCERS would be joining with various other 1937 Act systems in filing a legal brief in a case being pursued by the Orange County Employees' Retirement System (OCERS). Mr. Stensrud explained that the case involved a recent court ruling that applied a 1937 Act provision in a manner that was inconsistent with the manner in which SCERS and other 1937 Act systems apply the law, and thus it was important that SCERS join in the legal brief arguing that the ruling should be overturned.

Mr. Stensrud reported to the Board that SCERS had been asked to join with other institutional investors in requesting that the U.S. government establish a national policy on climate change to help investors and companies manage the risks and capture the opportunities associated with climate change. Mr. Stensrud noted that while the Board had recently received an educational presentation on the investment considerations raised by climate change, and had expressed an interest in integrating such

ADMINISTRATIVE MATTERS (continued):

considerations into SCERS' investment program, the Board had not taken any formal action or adopted a policy position on the subject. Accordingly, Mr. Stensrud advised the Board that he did not feel that he should commit SCERS to participation in the submission to the U.S. government until there had been appropriate Board action on the subject.

Discussion followed, and it was agreed that it was premature for SCERS to endorse a particular approach to climate change at this time, but there would be further Board consideration of the issues associated with climate change in the near future which could lead to the adoption of policies on the subject.

Mr. Stensrud alerted the Board that he planned to bring proposed rules to the Board in April expanding the situations where non-spouse beneficiaries could make a direct rollover of SCERS' benefit payments to certain types of individual retirement accounts (IRAs), thereby deferring taxation of those payments. Mr. Stensrud explained that the expanded rollover opportunities were authorized by recent changes in federal tax law. Mr. Stensrud further noted that federal tax law also now permitted a surviving spouse to rollover the SCERS retiree death benefit to an eligible IRA, and that this would permit the taxation of those benefits to be deferred. Ms. Wolford-Landers noted that this information would be well-received by the retirees.

Mr. Stensrud noted that at a previous meeting, a question had been raised regarding the possible application of the federal Sarbanes-Oxley Act (SOX) to the audit supervision activity of the SCERS Board. Mr. Stensrud reported that General Counsel James Line had reviewed the issue and had concluded that there was nothing in SOX that would impact the service of Board members in the area of audit activities.

Mr. Stensrud provided an update on the debate in San Diego County regarding the request by the Board of Supervisors that the San Diego County Employees' Retirement System reduce the level of health care subsidy provided to a portion of their retiree population.

Mr. Stensrud noted that several Board Members had attended the recent California Association of Public Retirement System (CALAPRS) General Assembly and invited those Board Members to share their impressions of the program. Discussion followed.

Mr. Stensrud reported on the responses that had been received to his inquiry about possible dates to conduct a strategic planning session. Mr. Stensrud noted that none of the dates previously suggested would draw a full complement of Board Members and thus it would be necessary to identify some alternatives. Discussion followed, and it was agreed that certain dates in August might potentially work. Mr. Stensrud stated that he would confirm the availability of Board Members on the potential dates and report back.

Mr. Stensrud noted that the Board would be considering renewal of the system's fiduciary liability insurance coverage in April, and reminded the Board Members that they should

ADMINISTRATIVE MATTERS (continued):

be prepared to pay for the waiver of recourse component at that time. Mr. Stensrud also reminded the Board that Form 700 economic interest filings would be due April 1st.

10. Item was pulled from the Agenda.
11. Chief Operations Officer Kathryn Regalia presented a proposed one-year extension of the contract for auditing services with Macias Gini & O'Connell, LLP. Motion by Ms. Wolford-Landers to authorize a one-year extension of the contract; Seconded by Mr. DeVore. Motion carried (8-0).
12. Chief Operations Officer Kathryn Regalia presented a recommendation that the Board delete one Account Clerk III position and add one Office Assistant I/II position. Motion by Ms. Wolford-Landers to delete one Account Clerk III position and add one Office Assistant I/II position; Seconded by Mr. Woods. Motion carried (8-0).

INVESTMENT MATTERS:

13. Scott Bondurant and Elizabeth Sanders of UBS Global Asset Management made an educational presentation regarding equity investment strategies that remove the 'long-only' constraint. The presentation provided information on why removing the long-only constraint in an equity portfolio can be expected to improve risk adjusted returns; how the strategy is implemented; and how such strategies are different from a market neutral hedge fund. Discussion followed. Motion by Mr. Woods to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (8-0).
14. Tom Lightvoet and Paul Graf of Mercer Investment Consulting presented information regarding the proposed asset classes and capital market projections to be utilized in the upcoming asset/liability modeling study. Mr. Lightvoet and Mr. Graf explained that the goal of the study was to develop several alternative strategic asset allocation models that would be expected to provide an annualized investment return that meets or exceeds SCERS' actuarial investment return objective. Mr. Lightvoet and Mr. Graf explained that the study will utilize stochastic asset-liability modeling based on economic assumptions about the capital markets developed by Mercer. Mr. Lightvoet and Mr. Graf asked the Board questions about various decision factors that might affect the acceptable options for the strategic asset allocation. Discussion followed, including discussion concerning the Board's risk tolerance for variability in investment returns; the Board's goal for the actuarial funded status of the retirement system over time; and the importance of generating returns in excess of the actuarial target. The Board requested that Mercer include both commodities and private equity as asset class options in the study. Motion by Mr. Woods to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (7-0).
15. Chief Investment Officer Jeffrey States presented a report outlining potential options for modifying SCERS' investment manager Watch List policy. Mr. States explained that the

INVESTMENT MATTERS (continued):

goal of the presentation was to provide the Board with possible options regarding (1) the circumstances that trigger placement of a manager on the Watch List; (2) the criteria that must be met in order for a manager to be removed from the Watch List; and (3) How and when managers on the Watch List will be reviewed and their status considered by the Board.

Mr. States reported that retirement systems take varied approaches with respect to a Watch List. Mr. States noted that some systems do not have a Watch List, while other systems have very detailed Watch List policies and procedures. Mr. States observed that it did not appear that there was one right approach, but instead, it turned on what approach was right for the system in question. Mr. States explained that in answering that question, a Board should consider how comfortable and confident it was that it can and will make consistent decisions, based on reasonable and prudent criteria, and how much formal structure is required to assure this result.

Mr. States outlined various options the Board might want to integrate in its Watch List policy. Extensive discussion followed, including (1) consideration of the standards against which investment manager performance should be measured; (2) the length of time a manager should be permitted (or required) to remain in Watch List status; and (3) how managers on the Watch List will be reviewed and how the results of that review will be reported to the Board. It was the consensus of the Board that the Chief Investment Officer and the General Investment Consultant should (a) be authorized to place a manager on the Watch List if the manager fell below identified performance standards; (b) report to the Board on the status of all managers on the Watch List at least quarterly; and (c) make a recommendation to the Board when they believed that a manager should be removed from the Watch List, or alternatively, if they believed the manager should be terminated due to the failure to improve performance. It was the further consensus of the Board that the Watch List policy should not be so rigid as to mandate specific action with respect to a manager.

Mr. States indicated that he and Mercer Investment Consulting would draft a proposed Watch List policy incorporating the principles identified by the Board and bring it to the Board for consideration at the April Board Meeting.

Motion by Mr. Johnson to have staff develop a proposed Watch List policy that reflects the Board's discussion; Seconded by Mr. Irish. Motion carried (6-0).

16. Chief Investment Officer Jeffrey States presented the results of the evaluation survey regarding Mercer Investment Consulting. Mr. States noted that the survey indicated that the Board was generally satisfied with the services provided by Mercer, but there were certain areas where there could be improvement. Extensive discussion followed. It was the consensus of the Board that they wish to see improvement in SCERS' investment performance and that they will be looking to Mercer for leadership in developing the asset allocation and the manager structure, plus the identification of the managers who will fill that structure. It was further agreed that it would be optimal to obtain input from the entire

INVESTMENT MATTERS (continued):

Board before discussing with Mercer the matters that the Board deems important to achieving the desired level of returns.

Motion by Ms. Jarboe to continue the discussion at the April Board Meeting; Seconded by Mr. Hickox. Motion carried (6-0).

17. Chief Investment Officer Jeffrey States presented a recommendation that staff be authorized to vote on behalf of SCERS on the proposed by-law amendments, policy positions and other matters presented for vote at the upcoming the semi-annual Council of Institutional Investors meeting. Mr. States and the Chief Executive Officer outlined the matters that would be taken up, and the proposed position that would be taken on those matters. Discussion followed. Motion by Mr. Woods to vote per staff recommendation at the upcoming Council of Institutional Investors meeting; Seconded by Mr. Hickox. Motion carried (6-0). Motion by Mr. Irish to receive and file the presentation materials; Seconded by Mr. Woods. Motion carried (6-0).
18. Chief Investment Officer Jeffrey States presented the Monthly Investment Management Compliance and Activity Report for February 2007. Motion by Mr. Woods to receive and file the presentation materials; Seconded by Mr. Johnson. Motion carried (6-0).

The meeting was adjourned at 5:13 p.m.

MEMBERS PRESENT: James A. Diepenbrock; Keith DeVore (departed at 3:36 p.m.), Dave Irish, Winston Hickox; William D. Johnson; Alice Jarboe; Robert Woods, Nancy Wolford-Landers (departed at 4:00 p.m.); and John Conneally.

MEMBERS ABSENT: John B. Kelly; William Cox

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; James G. Line, General Counsel; Kathryn Regalia, Chief Operations Officer; John Gobel, Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Tom Lightvoet and Paul Graph of Mercer Investment Consulting; Scott Bondurant and Elizabeth Sanders of UBS Global Asset Management; Thuyet Ziyalan, Senior Accountant; and Jennifer Foster, Executive Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

Richard Stensrud
Chief Executive Officer

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.