



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, JANUARY 15, 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, January 15, 2009, and commenced at 1:02 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the November 20, 2008 regular meeting were approved on Motion by Mr. Johnson; Seconded by Mr. Irish. Motion carried (9-0).

CONSENT MATTERS:

Items 3-5

The Consent matters were acted upon as one unit upon a Motion by Mr. Kelly; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

3. The Asset Allocation and Portfolio Re-Balancing Report for the period ended December 31, 2008 was received and filed.

MINUTES – JANUARY 15, 2009

PAGE 2

4. The December 2008 Monthly Investment Manager Compliance Report and Watch List was received and filed.
5. Authorization for payment of an expenditure in excess of the contract limit with Hanson Bridgett, LLP was approved.

CLOSED SESSION:

There were no closed session items.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud reminded the Board that the annual Form 700 Statement of Economic Interests were due at the end of March.

Mr. Stensrud reported that the annual Form 1099 statements would be going out to retirement benefit recipients shortly. Mr. Stensrud noted that as a result of system upgrades, this year the Form 1099s would report a 'taxable' amount for the annual benefits paid.

Mr. Stensrud reported that the integration of Lehman Brothers Asset Management into the Neuberger Berman Group was nearly completed and that in the near future he anticipated the Board would be asked to authorize a continuation of SCERS' investment management engagement with Lehman Brothers under the new business format.

Mr. Stensrud reported that the County Executive had recently placed limitations on various types of expenditures by County departments and agencies in an effort to provide some relief for the County's current budget problems. Mr. Stensrud noted that SCERS' budget is separately funded by the SCERS' pension trust, and thus SCERS' expenditures do not impact the County's budget. Mr. Stensrud further noted that SCERS is not experiencing the same type of budget problems as the County, and in fact, SCERS' expenditures continue to run well below both the administrative cost limitation in the County Employees Retirement Law of 1937 and the amounts budgeted for those expenditures. Nevertheless, Mr. Stensrud reported that in recognition of the overall economic situation, he had directed staff to curtail or defer expenditures in a number of areas.

Discussion followed regarding the difficult financial situation faced by the County. Mr. Irish noted that while SCERS was not subject to the County Executive's directives, he believed that SCERS' efforts to curtail costs would be appreciated. Mr. DeVore noted that he had

received reports that Mr. Stensrud had been very helpful in assisting the County in assessing possible options the County might have to consider in addressing its budget problems.

Mr. Stensrud reminded the Board about the upcoming California Association of Public Employee Retirement Systems (CALAPRS) General Assembly.

7. Debbie Chan of Macias Gini & O'Connell presented the Independent Auditor's Report, the Report on Internal Controls and Compliance, and the Report to Management for the Fiscal Years Ended June 20, 2007 and 2008.

Ms. Chan reported that her firm was presenting a 'clean' opinion on SCERS' financial statements based upon their audit. Ms. Chan also expressed her appreciation to SCERS' management for their cooperation and assistance in conducting the audit. Mr. Stensrud thanked Ms. Chan and the audit team for their work and recognized the efforts of SCERS' audit team, led by Chief Operations Officer Kathryn Regalia.

Motion by Mr. Kelly to receive and file the reports; Seconded by Mr. Woods. Motion carried (9-0).

8. Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2008 and 2007.

Mr. Irish and several other Board members complemented Ms. Regalia and her team on the highly professional and attractive publication. Mr. Stensrud noted that the document represented a very positive statement about SCERS as an organization, and for the first time, SCERS would be sending out a short form version of the CAFR to all SCERS participants.

Motion by Ms. Wolford-Landers to receive and file the report; Seconded by Mr. Irish. Motion carried (9-0).

9. Mr. Stensrud provided the Board with an update on the status of the new internal Investment Officer and Investment Analyst positions that had been authorized by the Board in May 2008. Mr. Stensrud described the various steps that had been taken to-date to establish the positions within the County Civil Service structure and where the process currently stood. At Mr. Stensrud's request, action regarding the positions and proposed salary ranges was deferred until the February 2009 Board Meeting.

INVESTMENT MATTERS:

10. Don Anderson and Rusty Reese of European Credit Management (ECM) presented a portfolio review and performance report for the European credit markets investment portfolio managed by the firm.

Mr. Reese and Mr. Anderson explained how the same factors that had overwhelmed fundamentals and resulted in a severe price dislocation in the U.S. credit markets had a similar negative impact in the European credit markets. They discussed the ongoing de-leveraging in the financial markets and how the continued lack of liquidity was evidence of the slow response of the credit markets to the various government rescue plans. They also discussed the ramifications of the increasingly difficult economic outlook. They further noted, however, that the credit markets have already re-priced and offered spreads that promised tremendous return opportunities. They also opined that the credit markets would recover faster than the equity markets.

Substantial discussion followed, including: (1) The outlook and performance expectations for the European credit markets generally and the ECM portfolio in particular; (2) The impact on ECM of the purchase of their parent company by Wells Fargo Investment Management; and (3) Liquidity considerations related to the fund and whether ECM planned to allow investors the option to add capital in order to de-leverage their investment and avoid potential liquidity issues in the future. With respect to this last item, Mr. Reese indicated that ECM was considering this option and that it could be offered in the near future. Discussion followed on the relative advantages and disadvantages of buying out of the leverage in the ECM portfolio and providing authority to de-lever if the circumstances indicated that doing so would be advisable.

Motion by Mr. Kelly to authorize staff, in consultation with Mercer Investment Consulting, to contribute capital to ECM to redeem leverage in the portfolio if such an option became available and it was determined that such action was advisable; Seconded by Mr. Woods. Motion carried (9-0).

Motion by Mr. Woods to receive and file the presentation materials; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

11. Stephen Brewster and Brian Wolf of Grosvenor Capital Management presented a portfolio review and performance report for the U.S. Equity long/short hedge fund-of-funds investment managed by the firm.

Mr. Brewster and Mr. Wolf (1) provided an update on the firm, including any changes in key personnel; (2) reviewed the fund's investment philosophy and process; (3) discussed fund performance and performance attribution; (4) discussed the current roster of hedge fund managers; (5) reviewed how the managers have performed by strategy; and (6) provided their outlook for 2009 for equity long/short hedge funds and the U.S. equity markets generally.

Discussion followed on all aspects of the presentation.

Motion by Ms. Wolford-Landers to receive and file the report; Seconded by Mr. Irish. Motion carried (9-0).

12. Chief Investment Officer Jeffrey States and Tom Lightvoet of Mercer Investment Consulting presented information regarding investment opportunities in the distressed debt and structured credit markets, including a potential investment in a structured credit fund as part of the Opportunities portfolio.

Mr. Lightvoet provided an overview of the structured credit and distressed debt markets, including: (1) an overview of the key features of the various securities that comprise these markets; (2) the issuers and buyers of such securities; (3) the general risk and return expectations for such securities; (4) the impact of recent events in the markets on the pricing, risk and return expectations for such securities; (5) the investment opportunities in many of these securities due to the artificial depression of prices well below intrinsic value; and (6) the skills and expertise necessary to correctly identify good investment opportunities.

Mr. Lightvoet and Mr. States outlined the investment management engagements through which SCERS was currently pursuing investment opportunities in these markets. Mr. Lightvoet and Mr. States noted that Mercer was recommending that 2-3% of the total fund be devoted to such investments in order to have a meaningful impact on returns, and that SCERS' allocation to such investments was currently below 2%.

Mr. States noted that he and Mercer had reviewed a number of proposals over the last several months regarding investments in a variety of strategies designed to take advantage of the upcoming opportunities in the credit markets. Mr. States explained that one such strategy – the Stone Tower Structured Credit Recovery Fund – appeared to provide a good complement to SCERS' existing investments in these markets. Mr. States noted that Mercer had performed a due diligence review of the Stone Tower fund and had rated it highly.

Mr. States and Mr. Lightvoet outlined the investment strategy pursued by the Stone Tower fund and the firm's experience and expertise in the structured credit area. Mr. Lightvoet noted that the Stone Tower strategy was relatively unique and offered strong expected returns. Mr. States noted that an investment could be made in the Stone Tower fund which would bring SCERS' investments in distressed debt and structured credit markets up to the 2% floor recommended by Mercer.

Discussion followed on the investment opportunities in the distressed debt and structured credit markets and how SCERS should pursue those opportunities. It was the consensus of the Board that various options should be considered for capturing the strong return potential in such markets, including consideration of an investment in the Stone Tower fund. Accordingly, it was agreed that Stone Tower would be asked to make a formal presentation at the February Board Meeting and that staff and Mercer would complete the necessary due diligence and negotiation of documents and terms so that an investment could move forward promptly if approved by the Board in February.

MINUTES – JANUARY 15, 2009

PAGE 6

Motion by Mr. Woods to receive and file the report materials; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The meeting was adjourned at 4:08 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, John Kelly, Dave Irish (left at 3:50 p.m.), Winston H. Hickox, Alice Jarboe (left at 2:45 p.m.), William D. Johnson, Nancy Wolford-Landers, Robert Woods, John Conneally, and William Cox (left at 4:06 p.m.).

MEMBERS ABSENT: None.

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; Thuyet Ziyalan, Senior Accountant; Julie Rucker, Personnel Specialist 2; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Debbie Chan, Macias Gini & O'Connell LLP; Don Anderson and Rusty Reese, European Credit Management; Stephen Brewster and Brian Wolf, Grosvenor Capital 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.