



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, Vice President  
Appointed by the Board of Supervisors

Julie Valverde, Ex Officio  
Director of Finance

Diana Gin  
Elected by the Miscellaneous Members

Winston H. Hickox  
Appointed by the Board of Supervisors

William D. Johnson  
Elected by the Safety Members

Kathy O'Neil  
Elected by the Miscellaneous Members

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, JANUARY 20, 2011

A Special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18<sup>th</sup> Floor, Sacramento, California, on Thursday, January 20, 2011, and commenced at 10:04 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Board President James Diepenbrock welcomed new Board Members Diana Gin and Michael DeBord.

##### MINUTES:

2. The Minutes of the October 5, 2010 special meeting and the October 21, 2010, November 18, 2010, and December 16, 2010 regular meetings were approved on Motion by Mr. Woods; Seconded by Mr. Hickox. Motion carried (6-0-1, Ms. Gin abstained).

##### CONSENT MATTERS:

Items 3-4

The Consent matters were acted upon as one unit upon a Motion by Ms. Wolford-Landers; Seconded by Mr. Johnson. Motion carried (7-0).

**CONSENT MATTERS (continued):**

3. Approved the recommendation to operate with a single Board Vice President for the remainder of the fiscal year.
4. Received and filed the December 2010 Monthly Investment Manager Compliance Report and Watch List.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

5. 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 the benefit allowance cost-of-living adjustment (COLA) had been determined based on the San Francisco Bay area Consumer Price Index prepared by the U.S. Department of Labor. Mr. Stensrud stated that the base COLA would be 1.5%, with an adjustment for individuals who had unused COLA amounts in their COLA 'bank.' Mr. Stensrud explained that this would mean that Miscellaneous Tier 1 and Safety Tier 1 members who retired on or before March 31, 1980 would have a 4.0% COLA, and that Miscellaneous Tier 3 and Safety Tier 2 members who retired on or before March 31, 2008 would have a 2.0% COLA. Mr. Stensrud stated that this would be brought before the Board for formal adoption at the February Board Meeting.

Mr. Stensrud reported that seven semifinalists had been selected in the search for a general investment consultant. Mr. Stensrud reported that the semifinalists were Callan Associates, Hewitt EnnisKnupp, Meketa Investment Group, New England Pension Consultants, Pension Consulting Alliance, Inc., Strategic Investment Solutions, Inc., and Wilshire Associates. Mr. Stensrud stated that Staff would meet again with the semifinalists in early February and that three finalists would be selected to present to the Board at the February Board Meeting.

Mr. Stensrud provided an update on the work on the new administrative offices. Mr. Stensrud reported that the work was continuing on schedule and on budget.

Mr. Stensrud reported that the recruitment for an Investment Officer was ongoing and that the filing period would end January 31, 2011. Mr. Stensrud noted that there had been 22 applicants to date.

Mr. Stensrud reported on a new ballot initiative seeking to amend the state constitution to permit modification of public employee pensions. Mr. Stensrud noted that the proposal seeks to reduce the level of future benefit accruals for current, active employees when the funded status of the retirement system falls below a certain level. Mr. Stensrud noted that the methodology for determining the funded status of the system would not be the

**ADMINISTRATIVE MATTERS (continued):**

methodology used in the actuarial valuation of the system, but instead, would be an approach that is not used with public pension funds. Mr. Stensrud noted that the approach used under the ballot initiative would produce lower funded status levels and thereby trigger the benefit reduction mechanism. Mr. Stensrud noted that the proposed initiative would affect active employees only, and would not affect people already in retirement.

Mr. Stensrud reported on the ongoing federal investigation into possible insider trading by certain hedge funds. Mr. Stensrud stated that the investigation is focusing on the use of 'expert networks' for investment research. Mr. Stensrud noted that Staff had been consulting with SCERS' hedge fund-of-fund managers to determine if any of the funds they invest with on behalf of SCERS are the subject of the investigation. Mr. Stensrud reported that only one such fund has been identified as a party in the investigation, but that the fund had not been named as a target of the investigation. Mr. Stensrud stated that the fund-of-fund manager was watching the fund closely, and would likely be withdrawing from the fund. Mr. Stensrud also reported that Staff is checking with all SCERS' investment managers on their use of expert networks and their protocols for protecting against insider trading.

6. General Counsel Jim Line introduced an appeal of a benefit determination being brought by former SCERS member Nancy Lyons. Mr. Line explained that the subject of the appeal was whether Ms. Lyons was entitled to re-deposit contributions she had withdrawn from SCERS in 1985 when she left County employment as a probation officer. Mr. Line noted that it was his opinion that under the County Employees Retirement Law of 1937 ('1937 Act'), Ms. Lyons was not entitled to re-deposit her contributions.

Mr. Line explained that the general rule under the 1937 Act is that a person can re-deposit withdrawn contributions only if the person returns to work for the former employer. Mr. Line noted, however, that a provision in the 1937 Act permits a former member to re-deposit contributions if the employee worked at the time of withdrawal for a law enforcement agency and the employee's duties consisted of active law enforcement. Mr. Line stated that the issue in this case was that probation officers were not deemed part of the Safety membership of the retirement system at the time Ms. Lyons left county employment and therefore Ms. Lyons' position did not qualify as active law enforcement at that time.

Ms. Lyons asserted that the duties of a probation officer consisted of active law enforcement and that the duties were the same as they are today. Ms. Lyons also noted that subsequent to leaving county employment, the position of probation officer had been added to the Safety membership group.

Mr. Line noted that had the principal duties of probation officers in 1985 in fact consisted of active law enforcement they would have been classified as Safety members at that time. Mr. Line noted that the legislature had expanded the Safety member group over the years to include other classifications of employees whose duties had not previously been

**ADMINISTRATIVE MATTERS (continued):**

deemed active law enforcement, such as probation officers, juvenile hall or juvenile home group counselors, and group supervisors.

Discussion followed, including consideration of why the statutory provisions should not be construed in favor of Ms. Lyons and whether allowing Ms. Lyons to make the re-deposit and draw a retirement benefit from SCERS would result in any unfunded liability for the retirement system. With respect to the former question, Chief Executive Officer Richard Stensrud noted that the general rule is that re-deposits are not permitted absent re-employment, which did not occur in the case at hand, and that exceptions to the general rule should be construed narrowly. With respect to the latter question, Mr. Stensrud noted that although permitting re-deposit would return contributions and interest to the retirement system to assist in funding the benefit, because Ms. Lyons would be retiring under the reciprocity provisions, SCERS would utilize her compensation level under her final employer, which was much higher than the compensation level of her county employment. Mr. Stensrud explained that this would create unfunded liability.

Mr. Line noted that if the Board upheld the original determination that re-deposit was not permissible, Ms. Lyons could further appeal by filing a petition for writ with the Superior Court.

Motion by Ms. O'Neil to deny the appeal by SCERS member Nancy Lyons; Seconded by Ms. Wolford-Landers. Motion carried (7-0-1, Ms. Gin abstained).

7. Chief Executive Officer Richard Stensrud introduced a recommendation from Staff that SCERS file an application with the Internal Revenue Service (IRS) for a tax-qualified plan Determination Letter and an application for participation in the IRS Voluntary Correction Program (VCP).

Mr. Stensrud noted that over the past few years the IRS has made clear its intention to increase the level of scrutiny given to public pension plans. Mr. Stensrud noted that in response, the 1937 Act retirement systems had taken various steps to help assure that: (1) The IRS understood the fundamental differences between public pension plans and the corporate pension plans it typically deals with; (2) The IRS would be utilizing review processes that will provide consistent treatment of 1937 Act systems; (3) The 1937 Act has been reviewed from a federal tax compliance perspective and that proposed measures have been developed to assist with tax compliance; and (4) Systems have been provided with education and assistance in understanding their options.

Mr. Stensrud explained that to encourage pension plans to come into compliance with federal tax law voluntarily, the IRS has offered retirement systems the opportunity to apply for a 'Determination Letter,' via which the IRS certifies that the 'plan document' under which the retirement system operates complies with federal tax law. Mr. Stensrud noted that if either the plan document or the retirement system's implementation of the plan document does not comply with federal tax law, as part of the application for a Determination Letter,

**ADMINISTRATIVE MATTERS (continued):**

the IRS allows systems to apply for participation in the ‘Voluntary Correction Program’ (VCP), under which the system agrees to cooperate with the IRS in correcting any plan document or operational deficiencies identified by the IRS. Mr. Stensrud explained that interacting with the IRS via the voluntary Determination Letter/VCP process was much less antagonistic and costly than if the IRS initiated an audit of the retirement system.

Mr. Stensrud reported that to assist in the consideration of and preparation of an application for a Determination Letter and for participation in the VCP, SCERS had engaged the tax law specialists at the firm of Hanson Bridgett LLP. Mr. Stensrud introduced Judy Boyette from Hanson Bridgett LLP to explain the process.

Ms. Boyette outlined what was involved in and the process for submitting an application for a Determination Letter and participation in the VCP. Ms. Boyette outlined the various steps that had been taken to help assure that the IRS would approach such applications in a fair, informed and consistent manner. Ms. Boyette also outlined the steps that had been taken to help assure that the 1937 Act would be favorably reviewed by the IRS and noted that a ‘pilot’ application by a 1937 Act system had already been filed and was being reviewed by the IRS. Ms. Boyette further noted that she had assisted 15 public pension systems with similar applications, and she felt that the proposed application by SCERS was the ‘cleanest’ she had seen.

Motion by Ms. Gin to authorize the filing of an application with the IRS for a qualified plan Determination Letter and for participation in the Voluntary Correction Program administered by the IRS; Seconded by Mr. Johnson. Motion carried (8-0).

8. Chief Executive Officer Richard Stensrud reported on the upcoming end of the engagement with Mercer Investment Consulting and the various issues that would need to be addressed as the general investment consulting assignment was shifted to a new consultant. Mr. Stensrud noted the importance of assuring that all the necessary information was communicated to the new consultant, including historical context on the development of SCERS’ investment program. Mr. Stensrud explained that additional measures may be necessary to assure that the transition is optimal and requested that the Board authorize him to take the steps necessary to achieve such an outcome, including modification of the engagement with Mercer.

Discussion followed, including consideration of whether a ‘shadow’ quarterly performance report should be prepared by either the incoming or outgoing consultant to confirm that data has correctly transferred.

Motion by Mr. Johnson to grant the Chief Executive Officer the authority to take the necessary steps to assure an optimal transition of the general investment consulting assignment; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

**INVESTMENT MATTERS:**

9. Chief Executive Officer Richard Stensrud introduced the presentations by the finalists for the assignment of providing SCERS with alternative assets consulting services.

Mr. Stensrud noted that all three finalists were highly qualified and that any of the firms would be an excellent choice for the assignment. Mr. Stensrud noted that Staff had provided the Board with information regarding the three candidates drawn from their comprehensive review of the candidate's response to the Request for Proposals and the extended interview Staff had conducted with each candidate. Mr. Stensrud also noted that the Board had been provided with information regarding the key criteria to consider in evaluating the candidates.

John Claisse and Tom Cawkwell presented on behalf of Albourne America LLC. James B. Fiedler, and Stephen L. Nesbitt and Gabrielle Zadra presented on behalf of Cliffwater LLC. Suzanne M. Bernard, Karen E. Rode, and Peter Hill presented on behalf of Hewitt EnnisKnupp.

After the presentation and a question and answer session with each candidate, the Board discussed the qualifications of the candidate, including consideration of: (1) The consulting services capabilities and proposed consultant team; (2) The firm's manager research capability; (3) The firm's operational due diligence capability; and (4) The firm's risk management capabilities. After all the presentations had been completed, further discussion followed comparing and contrasting the capabilities of the firms.

Staff was asked which firm they viewed as the leading candidate. Mr. Stensrud explained that Staff had discussed the question extensively, and while all three firms were excellent, Staff believed that Cliffwater offered the best 'fit' for SCERS' Board and Staff and would be the best partner for helping accomplish SCERS' strategic investment plan and objectives for the alternatives portfolio.

Motion by Mr. Woods to select Cliffwater LLC as SCERS' alternative assets consultant; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The meeting was adjourned at 4:25 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Julie Valverde, Diana Gin, Winston H. Hickox, William D. Johnson, Kathy O'Neil (arrived at 10:25 a.m.), Nancy Wolford-Landers, Robert L. Woods, John Conneally, and Michael DeBord.

MEMBERS ABSENT: John Kelly

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; Suzanne Likarich, Retirement Services Manager; Scott Chan, Investment Officer; Steve Davis, Investment Officer; John Lindley, IT Analyst; Nancy and Robert Lyons; Judith Boyette, Hanson Bridgett LLP; John Claisse and Tom Cawkwell, Albourne America LLC; Gabrielle Zadra, James B. Fiedler, and Stephen L. Nesbitt, Cliffwater LLC; and Suzanne M. Bernard, Karen E. Rode, and Peter Hill, Hewitt EnnisKnupp.

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.