



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, SEPTEMBER 15, 2011

The regular 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, September 15, 2011, and commenced at 11:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the August 18, 2011 regular meeting were approved on Motion by Ms. Valverde; Seconded by Mr. DeBord. Motion carried (7-0).

CONSENT MATTERS:

Items 3-9

The Consent Matters were acted upon as one unit upon a Motion by Mr. Woods; Seconded by Ms. O'Neil. Motion carried (7-0; Ms. Gin abstained on items 3, 4, and 5).

3. BARONE, Susan J.: Granted a service-connected disability retirement.
4. BERRICK, Nathalie: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

5. BESSETTE, Karen A.: Granted a nonservice-connected disability retirement.
6. COOK, Valencia R.: Denied a nonservice-connected disability retirement.
7. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended June 30, 2011.
8. Received and filed the Trading Cost Report for the Quarter Ended June 30, 2011.
9. Received and filed the August 2011 Monthly Investment Manager Compliance Report and Watch List.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

10. 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 on October 14, SCERS would be conducting a retirement planning seminar for those members who are late in their careers. Mr. Stensrud noted that the seminar was already full even though SCERS had not yet begun to advertise it.

Mr. Stensrud reported that two potential private equity commitments were scheduled to close at the end of September. Mr. Stensrud noted that Staff would continue to keep the Board apprised of developments.

Mr. Stensrud reported that Staff was moving forward on development of the hedge fund portfolio. Mr. Stensrud stated that Staff had been working with Grosvenor Capital Management, LP on establishing the hedge fund separate account, as well as working on building SCERS' direct hedge fund portfolio. Mr. Stensrud noted that he, Deputy Chief Investment Officer Scott Chan, and Investment Officer Steve Davis would be traveling to New York City during the fourth week of October to meet directly with potential hedge fund managers. Mr. Stensrud stated that Staff and alternative assets consultant Cliffwater LLC hoped to identify 4-5 managers for the first direct commitments.

Mr. Stensrud noted that this year the fall conference of the State Association of County Retirement Systems (SACRS) would take place during the regularly scheduled SCERS Board Meeting in November. Mr. Stensrud stated that Staff would contact Board Members to identify an appropriate alternate date for the November Board Meeting.

Mr. Stensrud reported that SCERS had received an inquiry from *The Sacramento Bee* for information regarding Additional Retirement Credit (ARC). Mr. Stensrud provided the Board with information regarding ARC purchases through the end of August 2011.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the California Retired County Employees Association (CRCEA) had requested permission from him and the Sacramento County Retired Employees' Association (SCREA) to reprint excerpts from the luncheon presentation Mr. Stensrud had given to SCREA and which was published in the SCREA newsletter. Mr. Stensrud noted that he had given his permission to reprint his remarks with the proviso that the views expressed were his and did not necessarily reflect official positions held by SCERS or the SCERS Board.

Mr. Stensrud reported that all pending state legislation on the subject of pension reform had been withdrawn and that a special joint Assembly and Senate committee had been formed and tasked with developing a comprehensive set of bills addressing pension reform.

Mr. Stensrud reported that a new proposed ballot initiative had just been released. Mr. Stensrud stated that the initiative included a number of proposals, including the creation of a defined benefit pension plan for private sector workers that would mirror the defined benefit plan of public sector workers in CalPERS. Mr. Stensrud further noted that there were other provisions in the proposed initiative that would likely be controversial.

Mr. Stensrud reported that virtually all California public retirement systems, including SCERS, had received a Public Records Act request for information from *The Los Angeles Times*. General Counsel Jim Line reported that the recent appellate court decision involving the Sonoma County Employees' Retirement Association had provided more clarification regarding the information that should and should not be released pursuant to a Public Records Act request and that Staff would be developing a written policy regarding Public Records Act disclosure.

Mr. DeBord asked Mr. Stensrud to comment on a report he had seen stating that CalPERS was planning on investing in local government projects. Mr. Stensrud stated that the report concerned CalPERS' plan for investing in infrastructure projects, and that while some projects would be in California, infrastructure investments would be made globally and not just locally. Mr. Stensrud noted that SCERS would also be considering investing in infrastructure projects as part of the real assets segment of the investment program.

11. Andy Yeung of The Segal Company (Segal) presented the Review of Economic Actuarial Assumptions for the June 30, 2011 Actuarial Valuation.

Mr. Yeung reported that Segal is recommending that the economic assumptions used for the June 30, 2010 valuation continue to be used for the valuation as of June 30, 2011. Mr. Yeung noted that those assumptions include: (1) A 7.75% investment return assumption; (2) A 3.5% inflation assumption; (3) A 0.25% real 'across the board' salary increase assumption; and (4) A 3.75% active member payroll increase assumption.

ADMINISTRATIVE MATTERS (continued):

Mr. Yeung stated that the Segal analysis illustrates that the 3.5% inflation assumption is a reasonable long term inflation assumption, validated by the fact that it is the median inflation assumption used by 125 large public pension funds across the country and by Segal's California pension fund clients (including Alameda, Contra Costa, Fresno, Orange, San Diego and San Bernardino Counties).

Mr. Yeung reported that the new asset allocation model approved by the SCERS Board is projected to yield 50 basis points more in real return than the previous asset allocation model, with virtually the same standard deviation as the previous model. Mr. Yeung stated that, based on SCERS' investment return assumption of 7.75%, Segal concluded that the 'confidence level' that the actual investment return over a 15-20 year period will meet or exceed the investment return assumption has increased from 60% to 65%. Mr. Yeung noted that this places SCERS at the high end of the confidence continuum relative to other public funds.

Mr. Yeung reported that SCERS' 7.75% investment return assumption is in the predominant range of investment return assumptions for California public funds (i.e., the 7.75% to 8.00% range). Mr. Yeung noted that the trend, both nationally and within California, is toward lowering investment return assumptions to this range, and in particular, toward the lower end of the range where SCERS is already located.

Motion by Mr. Woods to receive and file the Review of Economic Actuarial Assumptions and to adopt the actuarial assumptions recommended in the report; Seconded by Ms. Gin. Motion carried (7-0).

12. Andy Yeung of The Segal Company (Segal) presented the recommended contribution rates for the new retirement tiers being implemented by Sacramento County.

Mr. Yeung noted that the report presents the recommended employer and employee contribution rates for the new tiers in the form of two options: (a) One set of rates if the decision is made to have the members pay the full member portion of the normal cost as set forth in the statute that authorizes the given formula (the 'full rate'); and (b) A second set of rates if the decision is made to have the members pay half of the member's portion of the normal cost (the 'half rate'). Mr. Yeung stated that when the member pays more toward the normal cost (i.e., the full rate), the employer contribution rate is lower than when the member pays the half rate. Mr. Yeung noted that the decision of whether to use the full or half member rate rests with the County, subject to any agreement made via collective bargaining.

Mr. Yeung reported that, if the member pays the full rate for their portion of the normal cost (the approach now established by the County for virtually all Safety members), the benefit formula for new Safety members will yield an employer contribution rate of 30.17% (17.25% for normal cost plus 12.92% for unfunded liability). Mr. Yeung noted that, as a point of comparison, the benefit formula for current Safety members yields an employer contribution rate of 32.49% (19.57% for normal cost plus 12.92% for unfunded liability).

ADMINISTRATIVE MATTERS (continued):

Mr. Yeung reported that the benefit formula for new Miscellaneous members will actually be the formula that was in effect prior to benefit enhancements in 2003. Mr. Yeung stated that, if the member pays the full rate for their portion of the normal cost (the standard County practice for Miscellaneous members), the benefit formula for new members will yield an employer contribution rate of 13.37% (8.84% for normal cost plus 4.53% for paying the unfunded liability). Mr. Yeung noted that, as a point of comparison, the benefit formula for current members yields an employer contribution rate of 18.94% (14.41% for normal cost plus 4.53% for unfunded liability).

Mr. Yeung noted that returning to the pre-benefit enhancement formula for new Miscellaneous members also rectified an anomaly in the statutory language governing the benefit formula for current Miscellaneous members. Mr. Yeung explained that the statute governing current Miscellaneous members utilizes a different approach for setting the employee cost than the standard full rates and half rates found in other statutes, and as a result, the employer cost is higher. Mr. Yeung noted that the statute governing the formula for new employees utilizes the standard full rates and half rates, which results in the employer contribution rate being lower.

Discussion followed.

Motion by Ms. O'Neil to adopt the recommended contribution rates for the new retirement tiers being implemented by Sacramento County; Seconded by Ms. Gin. Motion carried (7-0).

13. General Counsel Jim Line presented the annual report on the processing of applications for disability retirement benefits.

Mr. Line reported that the number of disability applications that had progressed to final disposition was down slightly from the previous year, but the average processing time was consistent with the previous year. Mr. Line noted that the number of Staff recommendations to approve applications was consistent with past years, but the number of proposed decisions by hearing officers continued to be lower than in the past. Mr. Line explained that various measures had been implemented to speed up the scheduling of hearings, and thereby increase the number of proposed decisions; however, the number of hearings continued to lag due, among other reasons, to furloughs, increased case loads and budgetary constraints at the Office of Administrative Hearings (OAH). Mr. Line reported that it appears the issues with the OAH are improving. Mr. Line further reported that substantial efforts were being made on the SCERS end to expedite the scheduling of hearings, including having additional staff temporarily assigned to disability processing and steps to improve and streamline the assembling of disability materials for hearings. Mr. Line also noted that additional legal counsel had been secured to supplement the work being done by County Counsel.

ADMINISTRATIVE MATTERS (continued):

Chief Executive Officer Richard Stensrud noted that SCERS was continuing to apply significant resources to addressing disability applications. Mr. Stensrud noted that some of SCERS' most capable employees had been temporarily assigned to assist the regular disability staff in speeding up the processing of applications. Mr. Stensrud also noted that a class study was underway to revise the job specifications and minimum qualifications for the disability specialist position. Mr. Stensrud explained that the desired changes would better reflect the tasks performed and experience needed for the position, and also expand the candidate pool for the position, including allowing more SCERS staff to qualify for the position.

Motion by Mr. Conneally to receive and file the annual report on the processing of applications for disability retirement benefits; Seconded by Mr. DeBord. Motion carried (6-0).

INVESTMENT MATTERS:

14. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for the Quarter Ended June 30, 2011, including information regarding the hedge fund, private equity, real estate, and opportunities portfolios.

Mr. Feidler reported that SCERS' hedge fund portfolio is up 2.2% calendar year-to-date (as of June 30) compared to the policy benchmark (3 Month T-Bills + 5%) of 2.6%. Mr. Feidler noted that the risk policies and strategies of hedge funds have led to performance lagging in 2011 compared to equity indices.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio lagged the benchmark (the Venture Economics Private Equity Index) due to the early phase/cycle of SCERS' private equity investments (the 'j-curve' affect) compared to the Index.

Mr. Feidler reported that SCERS' real estate portfolio IRR for the quarter is 7.58% compared to the National Council of Real Estate Investment Fiduciaries Index (NCREIF) at 9.88%.

Mr. Feidler reported that SCERS' opportunistic portfolio was down 3.4% in the second quarter of 2011 and up 1.8% since inception compared to the policy benchmark (Dow Jones UBS Commodity Index) down 6.4% and 1.4%, respectively.

Motion by Mr. Woods to receive and file the quarterly performance report; Seconded by Mr. DeBord. Motion carried (6-0).

15. Patrick Thomas of Strategic Investment Solutions, Inc. (SIS) made an educational presentation regarding the upcoming analysis of SCERS' investment manager structure.

INVESTMENT MATTERS (continued):

Mr. Thomas noted that the decision regarding the asset allocation model typically accounts for 80% of investment performance, but that the investment manager structure to implement the asset allocation model accounts for approximately 10% of performance, with the remaining 10% attributable to investment manager selection.

Mr. Thomas outlined the guiding principles in determining the manager structure, including: (1) The objective of establishing diversification and risk control; (2) A combination of active and passive styles; (3) Fewer managers is better; (4) Managers should be diversified across investment styles; (5) Style neutrality should be maintained; and (6) Alpha should be pursued from active risk, not style risk.

Mr. Thomas noted that the expected results from the manager structure analysis would include:

- Improved probability of consistently adding value.
- Improved clarity/understanding of manager roles/contributions.
- Minimizing risk of underperforming (or outperforming) due to style bias.
- Few managers = meaningful allocations, lower fees, and improved oversight control.
- Removal of unintended/uncompensated risk.

Mr. Thomas noted that the manager structure analysis would start with the U.S. and international equity asset classes and then move to the fixed income asset class. Mr. Thomas outlined a projected timeline for the analysis, noting that U.S. and international equity asset class manager searches were expected to be conducted, as needed, in the first quarter of 2012, and fixed income asset class manager searches were expected to be conducted, as needed, in the second quarter of 2012.

Discussion followed. No action was requested or taken.

16. Jamie Feidler of Cliffwater, LLC made an educational presentation regarding potential components in SCERS' allocation to the real assets asset class.

Mr. Feidler noted that "real assets" is a designation often given to assets that tend to appreciate during periods of inflation. Mr. Feidler stated that more institutional investors are creating a separate Real Assets category as a hedge against inflation. Mr. Feidler noted that SCERS will be constructing a Real Assets portfolio based on a 15% allocation of the total fund. Mr. Feidler noted that the strategic direction for Real Assets will follow a very similar process to the work completed for Private Equity and Hedge Funds including: (1) A proposed long-term Real Assets allocation structure; (2) A proposed twelve-month Real Assets investment plan; and, (3) A proposed Real Assets implementation protocol.

INVESTMENT MATTERS (continued):

Mr. Feidler outlined the various types of investments that could be included in the Real Assets portfolio, and the risk and return attributes of those investments.

Discussion followed. No action was requested or taken.

The meeting was adjourned at 2:08 p.m.

MEMBERS PRESENT: William D. Johnson, Diana Gin, Winston H. Hickox (departed at 12:08 p.m.), Kathy O’Neil, Julie Valverde, Robert L. Woods, John Conneally, and Michael DeBord.

MEMBERS ABSENT: James A. Diepenbrock, John B. Kelly, and Nancy Wolford-Landers.

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; Scott Chan, Deputy Chief Investment Officer; Steve Davis, Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Ziyalan, Accounting Manager; John Lindley, IT Administrator; Andy Yeung, The Segal Company; Patrick Thomas, Strategic Investment Services, Inc; and Jamie Feidler, Cliffwater LLC.

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.