



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, DECEMBER 15, 2011

A 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, December 15, 2011, and commenced at 11:10 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the November 10, 2011 special meeting were approved on Motion by Mr. Johnson; Seconded by Mr. DeBord. Motion carried (5-0).

CONSENT MATTERS:

Items 3-13

The Consent matters were acted upon as one unit upon a Motion by Mr. DeBord; Seconded by Mr. Johnson. Motion carried (5-0).

3. CASTELLI, Anthony R.: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

4. MANSHIP, Doris J.: Granted a nonservice-connected disability retirement.
5. MAOLINA, Camelin: Granted a service-connected disability retirement.
6. OVERTON, Richard H.: Granted a service-connected disability retirement.
7. BARRY, Steven E.: Denied a nonservice-connected disability retirement.
8. BUI, Long Dinh: Denied a service-connected disability retirement.
9. WARREN, Earl III: Granted a service-connected disability retirement.
10. Approved proposed interest crediting rate for member contribution accounts for the six month period ending December 31, 2011.
11. Approved Resolution 2011-09 extending the engagement with the law firm of Foley & Lardner LLP to provide investment-related legal services.
12. Received and filed the Investment Trading Cost Report for the quarter ended September 30, 2011.
13. Received and filed the November 2011 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

14. 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 Robert Woods would be leaving the Board effective at the end of December 2011. Mr. Stensrud noted that Mr. Woods had been a valued member of the Board for a number of years and that replacing someone of his caliber would be difficult. Mr. Stensrud reported that he would invite Mr. Woods to come to the January Board Meeting so that the Board could give him a proper send-off.

Mr. Stensrud reported that General Counsel Jim Line is planning on retiring in March, 2012. Mr. Stensrud noted that Mr. Line had done an excellent job of establishing the General Counsel position at SCERS and that it would be a challenge to find a suitable successor. Mr. Stensrud stated that recruitment for the position would begin in January, 2012.

Mr. Stensrud reported that SCERS had just conducted another retirement planning seminar for employees who are late in their career. Ms. O'Neil attended and stated that she thought the seminar was excellent. Mr. Stensrud welcomed other Board Members to attend in the future.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Fall Conference had been held in November. Mr. Johnson, Mr. Conneally, and Mr. DeBord, all noted that the conference was interesting and provided good information.

Mr. Stensrud reported that development of the direct private equity investment portfolio was continuing, and that Staff was close to finalizing one private equity investment but had decided against making an investment in a second fund.

Mr. Stensrud reported that the hedge fund separate account strategic partnership with Grosvenor became operative on December 1st and that the account was almost fully invested. Mr. Stensrud noted that by virtue of the new engagement with Grosvenor, SCERS had transformed its long/short equity-only hedge fund exposure into a broadly diversified portfolio of hedge funds.

Mr. Stensrud reported that Staff was finalizing the documentation to make SCERS' first direct hedge fund investment effective January 1, 2012. Mr. Stensrud noted that a few more hedge funds were targeted for funding on or about February 1, 2012.

Mr. Stensrud reported that in his capacity as chairman of the SACRS Legislative Committee he had recently testified before the joint state legislative committee on pension reform. Mr. Stensrud provided a hard copy of his testimony. Mr. Stensrud noted that the Governor was in attendance to present his proposals regarding pension reform. Mr. Stensrud also noted that representatives from CalPERS, CalSTRS, and the UC System also made presentations. Mr. Stensrud noted that Michael DeBord also testified before the committee on behalf of the California Retired County Employees Association (CRCEA).

15. Debbie Chan of Macias Gini & O'Connell presented the Report to the Board of Retirement, the Report on Internal Controls and Compliance, and the Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010.

Ms. Chan stated that the audit showed no deficiencies, or any instances of non-compliance with laws or regulations. Ms. Chan stated that the audit produced an unqualified opinion on the basic financial statements. Ms. Chan explained that this was a 'clean' opinion and the highest assurance possible regarding the financial statements. Ms. Chan further explained that the financial statements were fairly presented in accordance with generally accepted accounting principles.

Chief Executive Officer Richard Stensrud noted that he and Ms. Chan had discussed the potential benefit to SCERS in having an internal audit capability. Mr. Stensrud noted that this could become much more important if SCERS is tasked to provide more oversight to prevent pension spiking. Ms. Chan agreed that internal auditing would be a good and important feature.

Motion by Mr. DeBord to receive and file the reports; Seconded by Mr. Johnson. Motion carried (5-0).

ADMINISTRATIVE MATTERS (continued):

16. Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) and the Annual Financial Report Summary (Summary) for the Fiscal Years Ended June 30, 2011 and 2010. Ms. Regalia noted that the CAFR has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the past twelve years. Ms. Regalia noted that the Summary received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the GFOA last year, which was the first time it had been submitted for consideration. Ms. Regalia noted that both reports would be submitted for consideration by the GFOA again this year.

The Board and Chief Executive Officer Richard Stensrud commended Ms. Regalia and the other staff members responsible for preparing the reports for the high quality of their work.

Motion by Mr. Johnson to receive and file the report; Seconded by Ms. Gin. Motion carried (6-0).

17. Chief Executive Officer Richard Stensrud presented a proposed Request for Proposals (RFP) for actuarial auditing services.

Mr. Stensrud noted that performing a periodic actuarial audit is a component of SCERS' overall program with respect to actuarial services. Mr. Stensrud noted that in order to have the audit performed on the most current and comprehensive data, it was determined that the audit would follow the triennial experience study (which was completed in August) and the June 30, 2011 annual valuation (which was finalized in November). Mr. Stensrud noted that in order to have results of the audit in time to incorporate its findings into the next annual valuation, now was the opportune time to issue the RFP.

Mr. Stensrud noted that Staff was recommending that the RFP be sent to two very well regarded actuarial firms – EFI and Milliman. Mr. Stensrud noted that Staff would present a recommendation regarding the firm to be selected for the engagement at the February Board Meeting.

Motion by Ms. O'Neil to: (1) Approve the Request for Proposals for Actuarial Auditing Services (RFP); (2) Direct Staff to issue the RFP to the identified candidates; and (3) Direct Staff to review the responses to the RFP and develop a recommendation to the Board regarding the firm that should be selected for the engagement; Seconded by Ms. Gin. Motion carried (6-0).

18. General Counsel Jim Line presented a proposed policy regarding the confidentiality of individual member records under Government Code Section 31532 of the County Employees' Retirement Law of 1937 and the relationship between that provision and the California Public Records Act (PRA).

ADMINISTRATIVE MATTERS (continued):

Mr. Line stated that the proposed policy was intended to provide guidance following the litigation with *The Sacramento Bee* regarding which records should be protected from disclosure under the PRA and other appellate court rulings in similar cases. Mr. Line noted that within the SCERS case itself, there were conflicting directions regarding what must be disclosed. Mr. Line further noted that there were also conflicting elements between the various appellate court decisions. Accordingly, Mr. Line stated that Staff decided to develop SCERS' own policy to assist Staff and the public in knowing what information SCERS will and will not provide.

Mr. Line outlined the proposed policy. Discussion followed, including discussion of the cost associated with complying with a PRA request. Mr. Line noted that the proposed policy states that any copies produced by SCERS will be provided at \$0.25 per page. Mr. Line also stated that SCERS may charge for the actual cost of constructing any new electronic record, including costs associated with data compilation, extraction, or computer programming.

Motion by Ms. Valverde to approve the proposed policy; Seconded by Mr. Johnson. Motion carried (6-0).

19. General Counsel Jim Line presented an appeal by SCERS retiree Marilyn George of a Staff determination that she is not eligible to receive Miscellaneous Tier 1 retirement benefits.

Mr. Line stated that Ms. George was hired in 1981 – 15 days after the Miscellaneous Tier 2 had become effective. Mr. Line also stated that Ms. George had retired from Sacramento County in 1987 with a nonservice-connected disability retirement. Mr. Line reported that Ms. George appeared to have been properly classified as Miscellaneous Tier 2 internally; however, Staff recently discovered that a mistake had been made at some point and information keyed-in for County payroll purposes had erroneously classified Ms. George as Miscellaneous Tier 1.

Mr. Line explained that unlike Miscellaneous Tier 1, Miscellaneous Tier 2 does not provide an annual cost of living adjustment (COLA) to the retirement benefit. Mr. Line stated that because of the erroneous classification, Ms. George had been incorrectly receiving an annual COLA benefit, which resulted in overpaying Ms. George approximately \$46,000 since her retirement. Mr. Line reported that once the error was discovered, Staff returned Ms. George's benefit to the proper amount she was entitled to as a Miscellaneous Tier 2 retiree. Mr. Line stated that Ms. George was appealing this action, requesting that she continue to be classified as Miscellaneous Tier 1 and that her retirement benefit be returned to the Miscellaneous Tier 1 amount she had been receiving.

Mr. Line noted that the SCERS Board had previously adopted a collection policy in the case of overpayments, and consistent with that policy it had been determined that pursuing collection in this case would not net SCERS any money based on Ms. George's financial

ADMINISTRATIVE MATTERS (continued):

statements and lack of assets or income. Mr. Line noted, therefore, that the only question was whether Ms. George should be allowed to maintain her erroneous classification as a Miscellaneous Tier 1 retiree and continue to receive benefits at that level.

Mr. Line informed the Board that appellants are required to provide materials that support their appeal no later than the Thursday prior to the Board meeting in order to insure timely distribution of copies to the Board. Mr. Line informed the Board that SCERS had received additional materials from Mrs. George after the close of business on the day before the meeting, however, Mr. Line summarized the new materials as a courtesy to Mrs. George who resided in Oklahoma and was unable to attend the Board meeting. Mr. Line also noted that he would send copies of the materials after the Board meeting so that the Board could confirm that his summary of the materials was accurate.

Mr. Line reported that Ms. George claims to have received no notification of being in Miscellaneous Tier 2, nor to attending a new employee orientation. Mr. Line noted, however, that Ms. George was sent documents indicating that she was in Miscellaneous Tier 2, and that attendance at a new employee orientation was a requirement of all newly hired employees in 1981, as it is today.

Mr. Line stated that he could find no legal basis for reinstating the Miscellaneous Tier 1 benefit and recommended that Ms. George's appeal be denied.

Motion by Ms. O'Neil to deny the appeal by SCERS retiree Marilyn George of a Staff determination that she is not eligible to receive Miscellaneous Tier 1 retirement benefits; Seconded by Mr. DeBord. Motion carried (6-0).

INVESTMENT MATTERS:

20. Steve Nesbitt of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for the Quarter Ended September 30, 2011, including information regarding the hedge fund, private equity, real estate, and opportunities portfolios.

Mr. Nesbitt reported that SCERS' hedge fund portfolio is down 8.2% in the third quarter of 2011 and down 6.2% calendar year-to-date (as of September 30), underperforming the absolute policy benchmark (3 Month T-Bills + 5%) which was up 1.24% in the third quarter of 2011 and up 3.8% year-to-date. Mr. Nesbitt noted that SCERS' hedge funds outperformed the HFRI Equity Hedge Index in the third quarter of 2011, which was down 10.8%, but has underperformed year-to-date where the index was down 4.1%.

Mr. Nesbitt reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio is up 3.9% since inception compared to the Venture Economics Private Equity Index up 9.7% and the multiple of total value to paid in capital ("TVPI") is 1.07x since inception. Mr. Nesbitt noted that SCERS' private equity portfolio shows lower relative returns due to the early phase/cycle of investments (j-curve affect) compared to the index.

INVESTMENT MATTERS (continued):

Mr. Nesbitt reported that SCERS' real estate portfolio IRR is 7.9% compared to the National Council of Real Estate Investment Fiduciaries Index (NCREIF) at 10.0% and SCERS' TVPI is 1.2x.

Mr. Nesbitt reported that SCERS' opportunistic portfolio was down 8.7% in the third quarter of 2011 and down 0.6% since inception compared to the policy benchmark (Dow Jones UBS Commodity Index) down 11.3% and 4.8%, respectively.

Motion by Mr. Johnson to receive and file the quarterly performance report; Seconded by Ms. O'Neil. Motion carried (6-0).

21. Patrick Thomas and Stephen Quirk of Strategic Investment Solutions, Inc. (SIS) presented the proposed manager structure for the domestic and international equity asset classes.

Mr. Thomas reviewed the proposed changes, including adding REITS to the domestic equity class due to their high correlations to the equity markets. Mr. Thomas noted another significant proposed change to the domestic equity structure was the increase in passive exposure within the large cap space, from 32.1% to 54%. Mr. Thomas stated that the proposed final manager structure reduces style and active risk versus the current portfolio, while maintaining enough alpha to produce higher risk-adjusted returns. Mr. Thomas noted that the recommended structure also reduces the investment manager count, particularly within sub-asset classes where there is redundancy and overlap.

Mr. Thomas reported that, similar to the domestic equity portfolio, REITS would be added to the international equity portfolio. Mr. Thomas noted another significant proposed change to the international equity portfolio was the proposed addition of an ACWI ex-U.S. core manager to replace one of the dedicated developed market large cap portfolios. Mr. Thomas stated that the proposed final manager structure maintains many elements of the current structure, but allows SCERS to diversify exposure to a new sub-asset class category.

Chief Executive Officer Richard Stensrud noted that the Board was being asked to approve the manager structure, and not the specific managers that will populate that structure. Mr. Stensrud explained that this latter decision will require additional analysis, including conducting some manager searches. Mr. Stensrud also noted that it will be necessary to determine when and how possible changes in the manager roster will be made and/or changes in the allocations to managers will be implemented. Accordingly, Mr. Stensrud noted that the Board was being asked to authorize SIS and Staff to develop an overall implementation plan for the new manager structure and to begin taking the steps necessary to develop recommendations for specific decisions and bring those recommendations forward for Board approval when it is opportune.

Mr. Stensrud also reported that to help assure fairness and consistency during the period in which the ultimate make-up of the manager structure is being determined, the Board was

INVESTMENT MATTERS (continued):

being asked to approve a ‘black-out’ period with respect to communication with current or potential investment managers. Mr. Stensrud explained that during this ‘black-out’ period, investment managers will only be allowed to communicate with SCERS through SIS or Staff, and not via Board Members.

Motion by Ms. Valverde to: (1) Approve the proposed investment manager structure for the domestic and international equity asset classes; (2) Authorize Staff and SIS to develop and begin executing the plan for implanting the manager structure; and (3) Establish a “black-out” period under which current or prospective investment managers can communicate with SCERS only through SIS and Staff, and are not permitted to contact Board Members; Seconded by Ms. O’Neil. Motion carried (6-0).

22. Steve Nesbitt of Cliffwater, LLC presented the proposed investment plan for the Opportunities asset class.

Mr. Nesbitt stated that the long-term target allocation for the opportunistic portfolio would be 0%, with a permissible range of 0% to 5% of total assets. Mr. Nesbitt explained that this allocation range would provide the primary objective of tactically taking advantage of unique investment opportunities. Mr. Nesbitt noted that the current investment market provided a good environment for opportunistic investing, and that the short-term allocation would likely be in the 3% to 5% range. Mr. Nesbitt reported that each opportunistic investment would be funded from the appropriate underlying asset class.

Chief Executive Officer Richard Stensrud noted that the nature of opportunistic investments makes a fixed implementation plan or twelve month investment plan inappropriate. Mr. Stensrud explained that the proposed opportunistic investment implementation protocol would consist of Staff and Cliffwater being responsible for identifying potential investments, performing due diligence and analysis to see if the investment warrants further consideration, advising the Board that a potential investment has been identified and is being examined, and finally, if appropriate, presenting the investment to the Board with a recommended course of action including which asset class or classes should be reduced to allow for the investment. Mr. Stensrud explained that a similar process would be followed regarding possibly winding-down an opportunistic investment if/when the opportunity appeared to have run its course, and if the structure of the investment permitted it.

Motion by Mr. Johnson to approve the proposed investment plan and investment implementation protocol for the opportunities asset class; Seconded by Ms. O’Neil. Motion carried (6-0).

The meeting was adjourned at 1:27 p.m.

MEMBERS PRESENT: James A. Diepenbrock, William D. Johnson, Diana Gin, Kathy O’Neil (arrived at 11:11 a.m.), Julie Valverde (arrived at 11:39 a.m.), John Conneally, and Michael DeBord.

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MEMBERS ABSENT: John B. Kelly, Winston H. Hickox, Nancy Wolford-Landers, and Robert Woods.

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; Debbie Chan, Macias Gini & O'Connell; Patrick Thomas and Stephen Quirk, Strategic Investment Services, Inc; Steve Nesbitt, Cliffwater LLC; Diana Ruiz, Sacramento County Counsel; and Rich Overton.

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.