

MINUTES

Regular Meeting of the Sacramento City Employees' Retirement System Administration, Investment and Fiscal Management Board Monday, November 27, 2006

The Administration, Investment and Fiscal Management Board met in Regular session in the Historic City Hall Hearing Room, 915 I Street, on Monday, November 27, 2006, at 1:30 p.m.

CALL TO ORDER AND ROLL CALL

Chairperson David DeCamilla called the meeting to order at 1:30 p.m.

PRESENT: Sperling, Berke*, DeCamilla, Fehr and Kauffman

ABSENT: None

*Board Member Friery designated Tom Berke to represent him at this meeting.

1. MINUTES OF REGULAR MEETING OF OCTOBER 23, 2006 APPROVED

The Board received and reviewed the minutes of the regular meeting held October 23, 2006. Mr. Fehr moved the minutes be approved as submitted. The motion was seconded by Mr. Kauffman. The motion was carried by the following vote:

AYES: Kauffman, Sperling, Berke*, and DeCamilla

ABSTAIN: Fehr

NOES: None

2. INVESTMENT –TREASURER'S ACTIVITY REPORTS FOR OCTOBER 2006 ACCEPTED

Mr. John Colville, Sr. Investment Officer indicated he was available for questions on this informational item. There were no questions.

Mr. Sperling moved the Treasurer's Activity Report be approved as submitted. The motion was seconded by Mr. Kauffman. The motion was carried by the following vote:

AYES: Sperling, Kauffman, Berke*, Fehr, and DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

3. Small Capitalization Equity Report for Quarter Ending September 30, 2006

This is an information-only item.

4. S&P Barra Value Report for Quarter Ending September 30, 2006

This is an information-only item.

5. Fixed Alternative Equity Income Report for Quarter Ending September 30, 2006

This is an information-only item.

6. Large Capitalization/Growth Stock Report for Quarter Ending September 30, 2006

This is an information-only item.

7. International Equity Funds Report for Quarter Ending September 30, 2006

This is an information-only item.

8. CRA RogersCasey Quarterly Performance Report for Quarter Ending September 30, 2006

Sarah Cleveland, CRA RogersCasey Director, reported that the S& P is up almost 6%. Bonds are positive for this quarter. The Feds have ceased rate increases, and possible decreases may take place in the future. Ms. Cleveland reported that the City of Sacramento cash equivalent assets are at 13%. The City of Sacramento's investment strategies are in line with other individual strategies overall. The total plan review indicates that investments are out-performing actuarial assumptions for the quarter by 2.7%. Mr. DeCamilla commented that the Board would prefer the report in November.

9. Reports Presented by John Bartel and Associates

Mr. Bartel introduced Senior Actuary, Ms. Deanna Van Valer, who may return to meetings on behalf of Bartel and Associates. Mr. Bartel reported that he will submit a final report to the Board within 2 weeks. Mr. Bartel recommended that contributions be effective in the 2007/2008 fiscal year. Mr. Bartel reviewed the asset smoothing options with the Board. There are two significant factors to consider when determining whether to use smoothing methodology: first, how long a period of time should be used to show gains and losses and second, should the method be used retroactively or prospectively? Mr. Bartel recommended either 3 or 5 years smoothing methodology. Additionally, he indicated that both 10 and 15 year amortization periods would be acceptable, but he would prefer a shorter period. For demonstration

purposes Mr. Bartel discussed the retroactive method on slide 15 of the report. He acknowledged the Board decided to use smoothing methodology on a prospective basis at the last meeting. Another key issue that should be considered is the assumed rate of return. It was 7.25% in the previous year. Mr. Bartel recommended a rate of 6.50% for the next fiscal year. Mr. Bartel reported his recommendations are based on the long-term expected real rate of return including the rate of inflation. Mr. Sperling indicated that the City has never used smoothing methodology and inquired about its impact. Mr. Bartel responded that the purpose of smoothing methodology is not to hide gains or losses, but rather to mitigate losses over a longer period of time. Additionally, it results in not recognizing gains immediately, but over a period of time.

Mr. Fehr commented that the majority of 37 Act retirement systems use smoothing methodology. He recommended a shorter smoothing period because SCERS is not open to new entrants. Again, Mr. Bartel emphasized that he would not recommend a smoothing methodology beyond five years. Mr. Berke indicated that he does not favor smoothing because SCERS is unlike CALPERS or any other retirement system. Additionally, Mr. Berke commented that SCERS is limited in their investment strategy.

Mr. DeCamilla inquired about whether the recommended rate of return of 6.50% was a result of their asset allocation. Mr. Bartel commented that the assumed rate of return should not drive asset allocation. Mr. Bartel confirmed that whether the Board keeps a rate of return at 7.25% or adopts his recommendation of 6.50% the City will have to make contributions 'either today or tomorrow.' Mr. Fehr commented that the normal contributions should be made each year. Mr. Bartel indicated smoothing does not have an impact on the levels of contributions that will be required.

Mr. Fehr moved to set the rate of return to 6.50% in the 2006/2007 fiscal year. Mr. DeCamilla seconded the motion. The motion was carried by the following vote:

AYES: Sperling, Kauffman, Berke*, Fehr, and DeCamilla

NOES: None

Mr. Fehr moved to set prospective smoothing on a 3-year period in the 2007/2008 fiscal year. Mr. Kauffman seconded the motion. There was some discussion. Mr. Berke inquired about the necessity for smoothing in light of the fact that the Board passed a motion to reduce the rate of return. Mr. Bartel indicated that smoothing should be used to eliminate any surprises – as happening now. Mr. Bartel pointed out the City is going from a 0% rate of contribution to 3% rate of contribution. Mr. Fehr added that the intent of the motion is to even out the employer's contribution. Mr. Berke advocated to increase the smoothing period to a 7-year cycle because the market does not change directions in 3-year cycles. The motion was carried by the following vote:

AYES: Kauffman, Fehr, and DeCamilla

NOES: Berke*, Sperling

Mr. Fehr moved to set a 15-year amortization period in the 2007/2008 fiscal year to be reduced by one year each year. Mr. Kauffman seconded the motion. Mr. Bartel clarified his recommendation: He suggests a 15-year amortization period, but noted that future changes should be amortized separately, as there is a possibility for significant volatility otherwise. Mr. Tokunaga cautioned that the Board may only adopt recommendations of the actuarial. Mr. Fehr rescinded his motion.

The Board recessed at 3:15pm.

The Board resumed the meeting at 3:20pm.

Mr. Fehr moved to set an amortization period of 15 years for the current unfunded liability. Mr. Kauffman seconded the motion. Mr. Berke commented that the motion does not address later years. The motion was carried by the following vote:

AYES: Kauffman, Fehr, Sperling, and DeCamilla

NOES: Berke*

Mr. Fehr moved to have the Board request the City to make the normal contribution for active employees on the 2007/2008 fiscal year and in future years. Mr. DeCamilla seconded the motion. Ms. Marti Flores, Secretary to the Board, commented that this motion had been approved in the previous meeting; however, it is appropriate to decide this issue again to permit her to create resolutions for Council.

AYES: Kauffman, Fehr, Sperling, Berke* and DeCamilla

NOES: None

Mr. Bartel committed to submitting a draft actuarial report within two weeks. Mr. Tokunaga inquired about the necessity of submitting another draft report. He indicated that the final report needs to be presented to the Board before 2007. Mr. Bartel indicated the City will need to contribute \$3.54 million in the 2007/2008 fiscal year. Mr. Bartel advised that he could probably submit the report to the Board in less than two weeks time. Mr. Tokunaga advised that the report should be presented at least 72 hours prior to the next meeting. Ms. Flores indicated that she would check the availability of the hearing room, and contact Board members to schedule the next meeting.

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

NONE

REPORTS OF THE SECRETARY

NONE

CITIZENS & MEMBERS ADDRESSING THE BOARD ON MATTERS NOT ON THE AGENDA

Mr. Frank Mugartegui, retired City employee, addressed the Board. He indicated that he is disappointed that SCERS has an unfunded liability. He advised the need to re-evaluate the investment strategy.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

NONE

CLOSED SESSION

NONE

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:45 p.m. to meet again at the call of the Chair.

DAVID DeCAMILLA
Chairperson

MARTI FLORES
Secretary