



## MINUTES

### Executive Staff:

Eric Stern  
Chief Executive Officer

Steve Davis  
Chief Investment Officer

Robert L. Gaumer  
General Counsel

Kathryn T. Regalia  
Chief Operations Officer

John W. Gobel, Sr.  
Chief Benefits Officer

Stephen Hawley  
Chief Strategy Officer

## REGULAR MEETING OF THE BOARD OF RETIREMENT

## SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, AUGUST 15, 2018  
10:00 A.M.

Location: SCERS Board Room  
980 9<sup>th</sup> Street, 19th Floor  
Sacramento, California 95814

Members of the Board of Retirement:

Rick Fowler, President  
Appointed by the Board of Supervisors

John B. Kelly, Vice President  
Appointed by the Board of Supervisors

Keith DeVore, Vice President  
Appointed by the Board of Supervisors

Steven L. Baird  
Elected by the Miscellaneous Members

James A. Diepenbrock  
Appointed by the Board of Supervisors

Ben Lamera  
Ex Officio, Director of Finance

Alan Matré, CPA  
Elected by the Miscellaneous Members

Kathy O'Neil  
Elected by the Retired Members

Chris A. Pittman  
Elected by the Safety Members

John Conneally  
Elected by the Safety Members

Martha J. Hoover  
Elected by the Retired Members

### OPEN SESSION

**Item 1. Call to Order** — The meeting was convened at 10:00 a.m.

**Item 2. Public Comment** — None.

**Item 3. Minutes**

**The Board approved the Minutes of the July 19, 2018 meeting,  
(8-0, Mr. Lamera abstained)**

### CONSENT MATTERS – ITEMS 4 –11:

**The Board approved the Consent Matters Items 4-10 (9-0).**

**The Board approved Consent Matter Item 11 on a separate vote (9-0).**

**Item 4. Disability Retirement Applications**

A. ANDREWS, Harry; Granted a service-connected disability retirement as recommended by staff.

B. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

- Item 5. Semi-Annual Administrative Expense Report for the Six Months Ended June 30, 2018** — Received and filed the Semi-Annual Administrative Expense Report for the Six Months ended June 30, 2018 as recommended by staff.
- Item 6. Contract Activity Report for FY 2017-2018** — Received and filed a report on contracts that SCERS entered into during the previous fiscal year.
- Item 7. Fees and Costs for Outside Legal Services** — Received and filed a report on legal fees for the quarter ended June 30, 2018.
- Item 8. Portfolio Allocation and Rebalancing Report — Second Quarter 2018** — Received and filed the quarterly asset allocation and rebalancing report.
- Item 9. Trading Activity Report — Second Quarter 2018** — Received and filed a report on trading activity for the quarter ending June 30, 2018.
- Item 10. Monthly Investment Manager Activity, Compliance, and Watch List Report — July 2018** — Received and filed a report on manager compliance issues from the previous month.
- Item 11. Monthly Report of New Investment Activity — July 2018** — Received and filed a report on new investment activity from the previous month.

#### **EXECUTIVE REPORTS:**

##### **Item 12. Chief Executive Officer's Report**

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern reported that following the July Retirement Board Meeting, SCERS was informed that the Superior Court had determined it would not prepay its employer contributions for FY 2018-2019. The Board had authorized the prepayment at the July meeting.
- Mr. Stern announced that Alice Jarboe, Assistant Registrar of Voter Registration and Elections, is retiring August 24. Alice was a former Retirement Board Trustee (elected Miscellaneous Representative, from 2006-2009.)
- Mr. Stern announced that SCERS Board election period for nominations ends on Friday, August 17, 2018 for Miscellaneous members, and Safety members. Nomination papers and candidate's statement forms may be obtained and filed at Voter Registration and Elections, 7000 65<sup>th</sup> Street, Suite A, Sacramento, CA 95623, Monday through Friday, from 8:00 a.m. to 5 p.m. Ballots will be mailed to the home addresses of Miscellaneous and Safety members by September 21. The election will be held September 24 through October 5. Ballots may be returned via County inter-office mail, by U.S. mail, or in person to the Voter Registration and Elections Office. Results will be available October 12.

- Mr. Stern reported that SCERS is making progress on the final phase of the new website. Mr. Stern reported that SCERS is planning to show a demo of the new website at the September Board meeting. Mr. Stern also reported that SCERS is working with a graphic design firm to finalize a template for a regular newsletter to our members. Mr. Stern is optimistic that SCERS will have the newsletter out by late Fall.
- Mr. Stern reminded the Board that the November meeting will be held on Monday, November 5<sup>th</sup> at 10:00 a.m. to approve the actuarial valuation and to accommodate the timing of the SACRS Fall Conference.

### **Item 13. Chief Investment Officer's Report**

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis provided an update on the progression of the \$250 million separate account real estate transition. Real estate properties will be transferred to a core open-end commingled fund, in exchange for shares in the fund and cash. There are several moving pieces at work, but Staff and Townsend are hopeful that the transaction will close in the first half of September, and the Board will be informed if there are any delays.
- Mr. Davis provided an update on investment staff travel. Mr. Davis attended the Pension Bridge Private Equity Exclusive Conference in Chicago. Mr. Davis reported that the contents of the conference covered all segments of private markets that included buyouts, co-investments, venture capital, distressed debt, private credit, infrastructure, and energy.
- Mr. Davis stated that Staff and Cliffwater are contemplating an investment with a specialized Private Equity fund of funds, which could serve as a good complement to SCERS' Private Equity Portfolio. Mr. Davis said more information would be provided about the fund of funds structure at an upcoming Board meeting.

Mr. Fowler asked Mr. Davis about the fund's liquidity risk. Mr. Davis said that Staff and Verus have been analyzing liquidity, as well as the options that are available to SCERS should a dislocated market environment put stress on SCERS' liquidity profile. Mr. Davis said an agenda item will be presented to the Board at an upcoming meeting regarding SCERS's liquidity profile and potentially a cash-management policy.

### **ADMINISTRATIVE MATTERS:**

#### **Item 14. Administrative Budget for the 2018-2019 Fiscal Year**

Chief Operations Officer Kathryn Regalia presented the final SCERS budget for the 2018-2019 fiscal year. Ms. Regalia indicated that the final budget is \$36,000 lower than the preliminary budget that the Board approved at the June meeting. The most significant changes from the preliminary budget include an increase to the employee

cost-of-living adjustments to 3% to reflect collective bargaining agreements; the reclassification of costs related to a Senior Personnel Analyst position, which will provide human resources support to SCERS through the Department of Personnel Services (DPS), and the reduction of costs by six months for the two proposed Senior Retirement Investment Officer positions. A class study is in progress.

Ms. Hoover asked if SCERS would have input in the selection of the Senior Personnel Analyst; Mr. Stern said SCERS is involved in the hiring decision and a memorandum of understanding has been signed between SCERS and DPS regarding the terms and conditions of the position.

**The Board approved a motion to adopt the Administrative Budget for the 2018-2019 Fiscal Year (9-0)**

**Item 15. Legal Contract Renewal**

General Counsel Robert Gaumer discussed the variety of legal issues that Nossaman LLP handles for SCERS. Mr. Gaumer requested authority from the Board to extend a 3-year contract with Nossaman to provide legal services for litigation (not to exceed \$100,000 annually), employment matters (not to exceed \$50,000 annually), disability retirement matters (not exceed \$350,000 annually), and special projects (not to exceed \$50,000 annually).

**The Board approved a motion to contract with Nossaman for outside legal services (9-0)**

**Item 16. Estimated Benefit Payments Policy for Deferred Members with Reciprocity**

Chief Benefits Officer John Gobel discussed the delays that can occur in processing a retirement application when the member has established reciprocity and retires from another public retirement system. The policy authorizes the Staff to issue estimated benefit payments to deferred, reciprocal members who are eligible to retire from SCERS, while awaiting final wage data from the subsequent employer. The policy also directs Staff to develop processes needed to calculate estimates consistently and pay them within a standard timeframe.

**The Board approved a motion to adopt the Estimated Benefit Payments Policy for Deferred Members with Reciprocity (9-0)**

**INVESTMENT MATTERS:**

**Item 17. Alternative Asset Fee and Expense Report – Alternative Assets**

Chief Investment Officer Steve Davis presented the first annual report on alternative asset fees and expenses, as required under Section 7514.7 of the California Government Code. Mr. Davis noted that Staff and Cliffwater provided an educational overview to the Board in October 2017 related to Section 7514.7. The new law requires SCERS and other public retirement systems to provide disclosures annually in a report presented at an open meeting. Mr. Stern stated that copies of

the report were available in the back of the Board room, and the report was available on the SCERS website.

**The Board approved a motion to receive and file the Alternative Asset Fee and Expense Report (9-0)**

**Item 18. Total Fund Investment Performance Report – Second Quarter 2018**

Barry Dennis of Verus Advisory presented SCERS’ Total Fund Performance report for the period ending June 30, 2018 as follows:

**SCERS TOTAL FUND PERFORMANCE SUMMARY**  
**Quarter Reporting Periods Ending June 30, 2018**

SCERS ASSET CLASS	Quarter	Year-to-Date	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS TOTAL FUND Return w/Overlay</b>	<b>1.2%</b>	<b>1.9%</b>	<b>10.1%</b>	<b>7.6%</b>	<b>8.3%</b>	<b>8.4%</b>	Jun-86
Policy Index	0.9%	1.4%	8.2%	7.1%	7.9%	8.6%	
InvestorForce Public DB > \$1B	0.9%	0.9%	8.4%	7.0%	8.2%	8.2%	
<b>SCERS TOTAL FUND Return w/o Overlay</b>	<b>1.1%</b>	<b>1.9%</b>	<b>10.2%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>8.3%</b>	Jun-86
Policy Index	0.9%	1.4%	8.2%	7.1%	7.9%	8.6%	
<b>GROWTH ASSET CATEGORY</b>	<b>1.6%</b>	<b>2.1%</b>	<b>12.9%</b>			<b>14.3%</b>	Mar-17
Custom Benchmark	1.1%	1.4%	11.1%			12.1%	
<b>DIVERSIFYING ASSET CATEGORY</b>	<b>-0.8%</b>	<b>-1.2%</b>	<b>0.8%</b>			<b>1.9%</b>	Mar-17
Custom Benchmark	-0.3%	-0.7%	1.0%			2.1%	
<b>REAL RETURN ASSET CATEGORY</b>	<b>2.3%</b>	<b>5.3%</b>	<b>12.6%</b>			<b>11.9%</b>	Mar-17
Custom Benchmark	1.7%	4.5%	9.1%			8.1%	
<b>OPPORTUNITIES PORTFOLIO</b>	<b>-0.9%</b>	<b>-2.9%</b>	<b>-2.7%</b>	<b>5.7%</b>	<b>4.4%</b>	<b>16.0%</b>	Oct-07
Custom Benchmark	0.9%	1.4%	8.2%	7.1%	7.9%	8.0%	

Mr. Dennis discussed the strong portfolio performance of 10.1% for the fiscal year, which he said was driven largely by private asset classes, specifically private equity, real estate, and real assets. Mr. Dennis also cautioned that the economic expansion is in the “late innings.”

Mr. DeVore asked about the impact of the corporate tax cuts, and Mr. Dennis responded that the tax cuts provided a one-time boost to earnings.

Mr. Stern asked Mr. Dennis to explain the Board’s recent decision to lower the investment assumption to 7% against the backdrop of a 10.1% return. Mr. Dennis said that capital market assumptions going forward remain more conservative, and a partial correction should be expected, due to high valuations and low bond yields.

**The Board approved a motion to receive and file the Total Fund Investment Performance Report (9-0)**

**CLOSED SESSION**

Upon conclusion of Item 18, Mr. Fowler called for a closed session at 11:08 a.m. to discuss potential litigation.

**OPEN SESSION**

Mr. Fowler reconvened the meeting in open session at 12:10 p.m. and announced that no action was taken during closed session.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 12:10 p.m.

**MEMBERS PRESENT:** John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matré, Kathy O’Neil, Chris Pittman, John Conneally, Martha J. Hoover, and Rick Fowler presiding

**MEMBERS ABSENT:** None

**OTHERS PRESENT:** Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Stephen Hawley, Chief Strategy Officer; JR Pearce, Investment Officer; Brian Miller, Investment Officer; John Lindley, IT Administrator; Margaret Dugger, Retirement Service Manager; Mario Sierras, Retirement Service Manager; Joycy Escobar, Accounting Manager; Xee Vang, Accounting Manager; John Nicolini and Barry Dennis, Verus Advisory, Inc.; Felix Fels and Robert Miranda, The Townsend Group; Jamie Feidler, Cliffwater, LLC; Maddie Rubin, J.P. Morgan and Debbie Musilli-Sidhu, Executive Assistant.

Respectfully submitted,

/S/

Eric Stern  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
Richard B. Fowler II, President

DATE: \_\_\_\_\_