



MINUTES

Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Stephen Hawley
Chief Strategy Officer

Mario Sierras
Chief Benefits Officer

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, SEPTEMBER 18, 2019
10:00 A.M.

Location: SCERS Board Room
980 9th Street, 19th Floor
Sacramento, California 95814

OPEN SESSION

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

James A. Diepenbrock
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Alan Matré, CPA
Elected by the Miscellaneous Members

Kathy O'Neil
Elected by the Retired Members

Matt Petersen
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

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

Item 2. Public Comment — None.

CONSENT MATTERS – ITEMS 3–8:

The Board approved the Consent Matters Items 3-8 (8-0).

Item 3. Disability Retirement Applications

- A. MERCURIO, John; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- B. WARD, Brian; Granted a reciprocal service-connected disability retirement as recommended by staff.
- C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 4. Minutes

The Board approved the Minutes of the August 21, 2019 meeting.

Item 5. Ratification of Service Retirement Application Approvals — August 2019

Ratified the Service Retirement Applications that were finalized in August 2019.

Item 6. Conflict of Interest Code

Amended the Conflict of Interest Code designating the Communication Officer as a Form 700 filer.

Item 7. Monthly Investment Manager Activity, Compliance and Watch List Report— August 2019 — Received and filed a report on manager compliance issues from the previous month.

Item 8. Monthly Report of Investment Activity — August 2019

Received and filed a report on investment activity from the previous month.

EXECUTIVE REPORTS:

Item 9. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern announced that ballots for Miscellaneous Representative for the SCERS Board should be reaching mailboxes soon, and voting is open from September 23-October 4, 2019.
- Mr. Stern provided information on the SACRS Fall Conference, November 12-15, 2019 in Monterey.

Item 10. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis stated that education on proxy voting would be presented at the Board meeting in October. Mr. Davis stated that the education would define proxy voting, and different approaches toward voting proxies, including the approach that SCERS has historically used. Mr. Davis stated that the Institutional Shareholder Services (ISS), who votes SCERS' proxies, will present at the meeting. Mr. Davis stated that an updated proxy voting policy will be presented at an upcoming meeting. Mr. Davis also noted that an education session about potential structures for implementing co-investments in the private equity asset class will be presented at an upcoming Board meeting.
- Mr. Davis provided an update on investment staff travel. Mr. Davis attended the ALTS Silicon Valley conference in September. Mr. Davis stated that the one-day event focused on the alternative asset industry, and Mr. Davis noted that he participated in a panel discussion focused on hedge funds. Jim Donohue attended an almond farm tour in Turlock during the month of September with a diversified agriculture manager.

ADMINISTRATIVE MATTERS:

Item 11. Electronic Signatures Policy

General Counsel Steve Lau presented the policy that authorizes the use of electronic signature formats to facilitate retirement applications and SCERS business needs.

Ms. Hoover arrived at the Board meeting during discussion of this item.

The Board approved a motion to adopt the Electronic Signatures Policy. (9-0)

Item 12. CEO Evaluation Policy

Chief Executive Officer Eric Stern presented changes to the timeframe for the Board to conduct annual and mid-year performance evaluation of the CEO.

The Board approved a motion to update the Chief Executive Officer Evaluation Policy. (9-0)

Item 13. SCERS Office Lease

Mr. Fowler announced that pursuant to Government Code section 54956.8, the Board will meet in closed session at the conclusion of the open meeting to meet with Christian Strain and Kevin Goldthwaite of Cushman & Wakefield to discuss the ongoing negotiation of lease terms with Hines for the property located at 980 9th Street in Sacramento.

Ms. O'Neil arrived at the Board meeting during discussion of this item.

Item 14. Annual Report on Disability Retirement Application Processing

Chief Benefits Officer Mario Sierras presented an overview of disability retirement applications for the fiscal year ending June 30, 2019. Mr. Sierras noted that Staff concluded fewer applications (28 applications vs. a three-year average of 52 applications) than in prior years. Mr. Sierras stated that Staff experienced high turnover and also implemented the Disability Retirement Procedures during that time. Mr. Sierras further stated that Staff is continuing to develop additional communication materials to help members better understand the disability retirement process, while improving processes and developing tools to improve workload management. Mr. Sierras introduced two new employees, Gina Cameron, Retirement Services Manager, and Chao Thor, Disability Analyst, who will be overseeing the disability retirement process.

Mr. DeVore commented that he would like to see specific targets similar to how SCERS tracks service retirement applications. Mr. Sierras responded that SCERS is learning from that service retirement experience, and SCERS is working to develop performance measures to track baseline performance and set targets. Mr. Stern further responded that most disability applications take less than a year to process while the more challenging disability claims have resulted in a backlog.

Mr. Petersen asked how SCERS data compares to other systems. Mr. Sierras responded that SCERS has not yet compared our data to other systems. Mr. Sierras

stated that SCERS has used this year as a baseline to set targets for the upcoming year. Mr. Sierras stated that SCERS is committed to improving performance in this area. Mr. Stern commented that improving disability retirement processing time is a popular topic at industry conferences, and there are a lot of good lessons and processes to be learned from other retirement systems.

Mr. Lamera asked if the volume of incoming cases has changed. Mr. Sierras said SCERS is consistently receiving about 35 new disability retirement applications a year.

Mr. Fowler said it seems the total number of disability claims that are completed are trending down but the backlog is also getting cleared.

Ms. Gin asked for clarification on the backlog. Mr. Sierras said there are approximately 56 pending cases today, compared to about 100 pending cases in 2016. He said he expects SCERS to operate on a flow basis within the next year.

Mr. Conneally asked if there is a difference in processing Safety applications compared to Miscellaneous applications. Mr. Sierras responded that there was no difference in the processing time.

The Board approved a motion to receive and file the Annual Report on Disability Retirement (9-0).

Item 15. Liquid Real Return Manager Recommendation

Chief Investment Officer Steve Davis and Investment Officer JR Pearce provided an overview and background on the search for a liquid real return manager. Based upon all relevant considerations including the initial review, subsequent manager interviews, and extended research and due diligence, Staff and Verus recommended Brookfield Asset Management, and a customized version of its Diversified Real Assets Fund for the Board's consideration. Mr. Pearce introduced the Managing Director and Portfolio Manager of Brookfield's Public Securities Group, Larry Antonatos, who provided an overview of the Firm and investment process.

Staff and Verus recommended the Board approve the following:

- 1) Structure the recently created 2% Liquid Real Return segment of SCERS' Real Return asset category with a 1% allocation to an active investment manager, and the remainder to the passive State Street Global Advisors (SSGA) liquid real return overlay proxy;
- 2) Select Brookfield Asset Management to manage approximately \$100 million in a customized version of its Diversified Real Assets (DRA) strategy within the recently created Liquid Real Return segment; and,
- 3) Reduce the passive SSGA liquid real return overlay proxy by approximately \$100 million to fund the Brookfield custom DRA allocation, and authorize Staff to determine the most effective method for transitioning the assets and execute any necessary documents or agreements to effectuate the transition.

The Board approved a motion to approve the Staff recommendations. (9-0)

Item 16. Portfolio Overlay Revisions

Chief Investment Officer Steve Davis provided a review of the Overlay Program. The overlay program is designed to rebalance SCERS' asset allocation to policy targets and minimize the risk that SCERS falls short of achieving its targeted return due to the asset allocation straying from policy target ranges, and to invest excess cash balances.

Staff and Verus recommended the Board approve the following:

- 1) Modify the Statement of Proxy Investment Vehicles to reflect recent changes to SCERS' strategic asset allocation, including: (1) reducing Domestic Equities from a target allocation of 21% to 20%, including a corresponding reduction in the Growth asset category from 59% to 58%; (2) adding a dedicated 1% cash allocation; and (3) converting the 2% Commodities allocation to a 2% Liquid Real Return allocation;
- 2) Modify the intra-quarter rebalancing bands to tighter bands for the Growth, Diversifying, and Real Return asset categories, and add a band for the Cash allocation, as follows:
 - Growth asset category: +/- 5% band around the target allocation of 58%
 - Diversifying asset category: +/- 3% band around the target allocation of 25%
 - Real Return asset category: +/- 2% band around the target allocation of 16%
 - Cash: +/- 1% band around the target allocation of 1%
- 3) Authorize the CEO to execute any necessary amendments to the Investment Management Agreement with SSGA to administer the Overlay Program as modified.

The Board approved a motion to approve the Staff recommendations. (9-0)

Item 17. Investment Policy Statement Revisions

Chief Investment Officer Steve Davis presented revisions to the Master Investment Policy Statement (IPS) that incorporate recent adjustments to the Strategic Asset Allocation. The following revisions to the Master IPS include:

- 1) Adding an implementation protocol for cash, within the Investment Program Governance section of the Master IPS.
- 2) Adding a description of the dedicated 1% cash allocation, and replacing the Commodities allocation with a Liquid Real Return allocation, within the Asset Allocation section of the Master IPS.
- 3) Updating Appendix 1 of the Master IPS to reflect the SAA adjustments, including
 - Identifying the Policy Benchmark for the Liquid Real Return asset class.
 - Adding Overnight LIBOR as the Policy Benchmark for the cash allocation.

Mr. Diepenbrock asked for additional information from staff about the risk of using a

Demand Deposit Account for the cash allocation. Mr. Davis said he would research the issue and provide the Board an update at a future meeting.

The Board approved a motion to approve staff recommendations regarding the Master IPS revisions. (9-0)

Item 18. Quarterly Investment Performance Report—Alternative Assets

Jamie Feidler of Cliffwater, LLC., presented SCERS' Alternative Assets Performance Report for the periods ending June 30, 2019, including information regarding the Absolute Return, Private Equity, Private Credit, Real Assets and Opportunities portfolios as follows:

SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY
Quarter Reporting Periods Ending June 30, 2019

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception *	Since Inception Date*
SCERS Absolute Return	1.9%	0.0%	4.0%	1.9%	4.0%	Sep-04
HFRI FoF Conservative	1.7%	2.4%	3.9%	2.2%	3.3%	
HFRI FoF Composite + 1%	1.9%	2.4%	5.3%	3.2%	4.1%	
SCERS Private Equity	5.0%	23.2%	20.3%	17.0%	14.8%	Feb-08
Cambridge Private Equity/Venture Capital	4.6%	12.9%	15.7%	13.4%	12.9%	
SCERS Private Credit	3.3%	6.3%	8.6%	7.8%	8.1%	Oct-11
Credit Suisse Leveraged Loan + 2%	4.2%	5.3%	7.9%	5.8%	7.1%	
SCERS Real Assets	2.9%	12.9%	15.4%	15.0%	14.9%	Jan-13
(45%) Cambridge Private Infrastructure; (35%) Cambridge Private Energy; (20%) NCREIF Agriculture/Timber	2.1%	4.7%	9.9%	6.5%	7.2%	
SCERS Opportunities	-0.7%	5.5%	5.3%	7.6%	18.4%	Jan-08
SCERS Portfolio Actuarial Rate of Return	1.8%	7.0%	7.0%	7.0%	7.0%	
*Note : Periods ending 3/31/19 for Private Equity, Private Credit, Real Assets, and Opportunities Periods ending 6/30/19 for Absolute Return All returns are net IRR, except Absolute Return which is time-weighted						

The Board approved a motion to receive and file the Alternative Assets Quarterly Investment Performance Report. (9-0)

Item 19. Quarterly Performance Report—Real Estate

Jennifer Stevens and Felix Fels of the Townsend Group presented SCERS' Real Estate Portfolio Performance Report for the period ending June 30, 2019 as follows:

**SCERS REAL ESTATE PERFORMANCE SUMMARY
Quarter Reporting Period Ending June 30, 2019**

SUB-ASSET CLASS	Quarter 6/30/19	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Real Estate Portfolio	1.7%	5.6%	9.8%	10.4%	8.3%	Nov-86
(65%) NFI-ODCE + (35%) NFI-ODCE + 1%	0.9%	5.9%	7.0%	9.2%	6.7%	Nov-86
Core Portfolio	2.0%	5.2%	9.4%	10.1%	6.6%	Nov-86
Separate Account	-15.4%	1.3%	8.3%	8.6%	8.8%	Nov-86
Commingled Funds	2.1%	8.2%	10.4%	11.2%	7.1%	Sep-13
NFI-ODCE Index	0.8%	5.5%	6.6%	8.8%	6.3%	
Non-Core Portfolio	1.1%	6.9%	11.1%	12.7%	5.9%	Jun-06
Value Add Portfolio	0.8%	2.5%	9.4%	11.4%	4.5%	Jun-06
Opportunistic	1.2%	10.0%	12.5%	12.7%	5.9%	May-13
NFI-ODCE + 1% Index	1.0%	6.5%	7.6%	9.8%	7.3%	

The Board approved a motion to receive and file the Quarterly Investment Performance Report—Real Estate (9-0)

CLOSED SESSION

Upon conclusion of Item 19, Mr. Fowler called for a closed session at 11:45 a.m. to discuss existing litigation (Item 20) and Conference with Real Property Negotiators (Item 21).

OPEN SESSION

Mr. Fowler reconvened the meeting in open session at 1:01 p.m., and announced that the Board met in closed session with the General Counsel to receive a status updated on existing litigation, and no action was taken during the closed session regarding Item 20. The Board also met in closed session with Cushman and Wakefield representatives to discuss lease negotiations for SCERS office space at 980 9th Street, and no action was taken regarding Item 21.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:02 p.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, James A. Diepenbrock, Diana Gin, Ben Lamera, Kathy O’Neil (arrived at 10:10), Matt Petersen, John Conneally, Martha J. Hoover (arrived at 10:05), and Rick Fowler presiding.

MEMBERS ABSENT: Alan Matré

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Stephen Lau, General Counsel; Stephen Hawley, Chief Strategy Officer; Mario Sierras, Chief Benefits Officer; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Investment Officer; Brian Miller, Investment Officer; Debbie Chan, Senior Accounting Manager; John Lindley, Senior IT Analyst; Gina Cameron, Retirement Service Manager; Steven Franco, Retirement Service Analyst; Jenna Taylor, Retirement Service Analyst; Jett Lewis, Retirement Service Analyst; Chao Thor, Retirement Service Analyst; John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Stevens and Felix Fels, The Townsend Group; Kelsey Johnson, County Counsel; and Debbie Musilli-Sidhu, Executive Secretary.

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____

Richard B. Fowler II, President

DATE: _____