



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

Dave Comerchero
Elected by the Miscellaneous Members

Diana Gin
Elected by Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Martha J. Hoover
Elected by the Retired Members

Matt Petersen
Elected by the Safety Members

Kathy O'Neil
Elected by the Retired Members

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

MINUTES

**REGULAR MEETING
OF THE
BOARD OF RETIREMENT**

**SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

WEDNESDAY, MAY 20, 2020

10:00 A.M.

Location: BLUEJEANS TELECONFERENCE

OPEN SESSION

Item 1. Call to Order—The meeting was convened at 10:02 a.m.

Mr. Fowler stated that the meeting was occurring via teleconference under Executive Order N-25-20 which relaxed provisions of the Brown Act to make it easier for local government boards to conduct board meeting without convening in the same physical location. Mr. Fowler took a roll call of other members present:

1. John Kelly
2. Keith DeVore
3. Jim Diepenbrock
4. Dave Comerchero
5. Diana Gin
6. Ben Lamera
7. Martha Hoover
8. Matt Petersen
9. Kathy O'Neil

Item 2. Public Comment—None

CONSENT MATTERS – ITEMS 3-10:

The Board approved the Consent Matters Items 3-10 (9-0).

Item 3. Disability Retirement Applications

- A. CASTILLO, Roxanne; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- B. GAYENT, Mykel; Denied a service-connected disability retirement as recommended by staff.
- C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 4. Minutes—Approved the Minutes of the April 15, 2020 meeting.

Item 5. Ratification of Service Retirement Application Approvals—April 2020—Ratified the Service Retirement Applications that were finalized in the previous month.

Item 6. State Association of County Retirement Systems Legislative Update—Received and filed the SACRS Legislative Update for May 2020.

Item 7. Trading Activity and Commission Recapture Report – First Quarter 2020—Received and filed the Quarterly Trading Cost Analysis Reports for the quarter ending March 31, 2020.

Item 8. Proxy Voting Activity Report—Received and filed the report summarizing SCERS' proxy voting results for the quarter and year ending March 31, 2020.

Item 9. Monthly Investment Manager Activity, Compliance, and Watch List Report—April 2020—Received and filed the Monthly Investment Manager Activity, Compliance, and Watch List report for the previous month.

Item 10. Monthly Report of New Investment Activity—April 2020—Received and filed the report summarizing SCERS' investment activity from the previous month.

EXECUTIVE REPORTS:

Item 11. Chief Executive Officer's Report

Mr. Stern provided the following updates on SCERS activities:

- The office remains closed and staff continues to work 100% remotely, while we make plans to slowly phase employees back into the office by the end of June or in early July. He noted the staff continues to be productive, with a median turnaround time for applications completed last month of 53 days to get new retirees their first check. While that falls short of our 45-day target, we did have

83% of members get paid within 60 days. He said new applications plummeted to only 12 in April, which should let staff catch their breath.

- Mr. Stern discussed the California Supreme Court oral arguments from May 5 in the vested rights pension case of Alameda Deputy Sheriff's Association vs. Alameda County Employees Retirement Association.
- Mr. Stern reported that our fiduciary counsel, Ashley Dunning of Nossaman, recently invited SCERS to submit an "amicus brief" in a different case involving another one of her other clients, San Joaquin County Employees' Retirement Association (SJCERA). Mr. Stern notified the Board that he agreed for SCERS to join in the amicus brief, because that case addresses a legal issue that is important to SCERS.

While SCERS is not as interested in the benefit dispute, he said SCERS is very interested in how SJCERA is able to utilize their fiduciary insurance policy to pay for the legal bills. SJCERA sought coverage from Travelers, its fiduciary liability carrier. Travelers denied coverage and argued that the policy contains an exclusion for "prior litigation," because the members' lawsuit involved the 2001 Ventura settlement and therefore arose out of prior litigation. The federal district court sided with Travelers. SJCERA is now appealing to the Ninth Circuit Court of Appeal.

SCERS is situated similarly to SJCERA. SCERS (1) entered into a post-*Ventura* agreement in 2003 similar to the one SJCERA entered into, and (2) has a fiduciary insurance policy with a similar "prior litigation" exclusion (a common exclusion).

Mr. Stern noted that SCERS is currently engaged in litigation over issues that intersect with our *Ventura* agreement; unlike SJCERA, our insurance provider is covering legal expenses under our fiduciary policy. However, if insurance companies get to deny coverage of litigation over post-*Ventura* settlement issues, that would leave a large hole in SCERS' fiduciary liability coverage.

Mr. Stern said three systems (SBCERA, KCERA, SCERS) will split the cost of the amicus brief. The brief is currently slated to be written by Manatt Phelps, who estimated the cost to be under \$50,000 (split three ways). The brief is due on July 24.

Item 12. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided a portfolio update on the following issues:

- Mr. Davis stated that SCERS has been seeing an increased pace of private market capital calls in March and April, which has subsided a bit in May. Mr. Davis stated that SCERS is in good liquidity position as we move toward the end of the fiscal year. Mr. Davis communicated that Verus plans on conducting

an annual liquidity analysis of SCERS' portfolio after the second quarter—similar to what they have done in the prior years.

- Mr. Davis stated that Verus will be presenting the quarterly performance report later in the meeting, which will show that SCERS' portfolio lost 9.7% during the first quarter, which puts SCERS' fiscal year performance at -4.3%. Mr. Davis stated that the markets are up for the second quarter, which is helping offset some of the losses. Mr. Davis stated that there was a wide range of outcomes across the portfolio, particularly within asset classes, which is common when there is a broad market dislocation. Mr. Davis pointed out that this is most evident in absolute return and public fixed income, where we have a wide range of strategies with different risk/return profiles.
- Mr. Davis stated that SCERS' first quarter performance was somewhat resilient during the market dislocation due to some of the defensive changes made to the Strategic Asset Allocation over the past few years. These include the reduced allocation to public equities, the dedicated Treasury allocation, a cash allocation, and increased exposure to less correlated and higher cash-flowing investment strategies. Mr. Davis noted that private market assets are lagged a quarter, which is skewing SCERS' overall returns a bit, and SCERS won't get a true gauge of performance until the return impact within private markets is reflected in upcoming quarters.
- Mr. Davis reminded the Board that Barry Dennis from Verus is retiring in June. Mr. Davis stated that Barry is attending this Board meeting, and he will also be attending June's Board meeting. Mr. Davis introduced Stuart Odell, who joined Verus as a Managing Director and Senior Consultant a few months ago, who will be working with John Nicolini and Margaret Jadallah from Verus for SCERS going forward.

ADMINISTRATIVE MATTERS:

Item 13. Actuarial Experience Study

Paul Angelo, Andy Yeung, and Todd Tauzer of Segal presented the actuarial experience study for the period July 1, 2016 through June 30, 2019, and recommended assumptions that will be used for the June 30, 2020 valuation.

Among the more substantial assumption changes, Mr. Angelo recommended reducing the inflation assumption rate from 3.00% to 2.75%, and reducing the current investment return assumption from 7.00% to 6.75%.

The Board approved a motion to adopt the actuarial assumptions recommended by Segal and approved a two year phase-in of the unfunded liability contribution-rate increase on employer rates.

The Board approved a motion to adopt the Actuarial Experience Study. **(9-0)**

Item 14. Update to Disability Retirement Counsel RFP

Mr. Lau announced that SCERS selected Patrick Richardson, a partner at Byers/Richardson and Eunice Majam-Simpson, a shareholder at DSR Health Law, to provide disability retirement legal services for SCERS. Mr. Lau also noted that SCERS will continue to use Nossaman, which is already under contract with SCERS, for certain disability-related matters. Mr. Lau stated that the appropriate next step is to engage Mr. Richardson and Ms. Majam-Simpson as counsel on one or two individual disability retirement matters, which can be accomplished via the Chief Executive Officer's current expenditure authority, and return to the Board later in the year for approval of longer-term arrangements.

The Board approved a motion to receive and file the update to the Disability Retirement RFP. **(9-0)**

Item 15. Election Timeline for Alternate Safety Board Member

Mr. Stern recommended that the Board postpone the election of the vacant Alternate Safety Representative seat until early 2021.

The Board approved a motion to postpone the election. **(9-0)**

INVESTMENT MATTERS:

Item 16. Education: Portfolio Allocation and Rebalancing Report—First Quarter 2020

Mr. Davis provided an educational overview on the Portfolio Allocation and Rebalancing Report. He noted the report is typically presented as a quarterly consent item; however, it has been moved to an open session agenda item to serve as an education item to ensure that the Board understands the objectives and layout of this report, and the information that it provides.

The Board approved a motion to receive and file the Quarterly asset allocation and rebalancing report. **(9-0)**

Item 17. Quarterly Investment Performance Report—First Quarter 2020

Barry Dennis of Verus Advisory provided an update of SCERS' investment performance for the previous quarter.

SCERS GROWTH Performance Summary for the periods ending 3/31/20	Quarter	Fiscal Year to-Date	1-Year	Since Inception	Since Inception Date
SCERS GROWTH ASSET CATEGORY	-16.4%	-9.3%	-5.8%	5.0%	Mar-17
Custom Benchmark	-15.6%	-9.5%	-6.1%	3.7%	
Public Equity	-21.8%	-14.5%	-11.2%	6.3%	Jun-11
MSCI ACWI	-21.4%	-14.3%	-11.3%	5.1%	
Private Equity (lagged 1 quarter)	3.7%	12.6%	18.5%	4.1%	Feb-08
Cambridge All PE	4.4%	8.8%	13.6%	10.4%	
Public Credit	-17.6%	-15.3%	-13.8%	1.0%	Nov-13
Custom Benchmark	-13.2%	-10.3%	-8.5%	2.4%	
Private Credit (lagged 1 quarter)	2.8%	6.6%	9.8%	7.1%	Mar-17
Credit Suisse Leveraged Loan + 2%	2.2%	5.7%	10.2%	6.7%	
Growth Absolute Return	-15.4%	-12.1%	-10.1%	3.6%	Aug-04
HFRI FoF Composite +1%	-8.2%	-5.8%	-4.1%	5.3%	

The Board approved a motion to receive and file the SCERS Total Fund Investment performance Report for the quarter ending March 31, 2020. **(9-0)**

Item 18. Alternative Assets Consultant Contract Extension

Jim Donohue, Deputy Chief Investment Officer, presented a recommendation to extend the Alternate Assets Consultant evaluation process and extend the term of the current contract with SCERS' alternative assets consultant, Cliffwater LLC, by one year.

The Board approved a motion to support the staff recommendation and authorized SCERS' CEO to execute any necessary documents related to the recommendations. **(9-0)**

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:30 p.m.

MEMBERS PRESENT

via teleconference: Keith DeVore, John B. Kelly, James A. Diepenbrock, Diana Gin, Ben Lamera, Dave Comerchero, Martha J. Hoover, Matt Petersen, Kathy O'Neil, and Rick Fowler presiding.

MEMBERS ABSENT: None; Alternate Safety Representative is vacant

OTHERS PRESENT

via teleconference: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Stephen Lau, General Counsel; Stephen Hawley, Chief Strategy Officer; Mario Sierras, Chief Benefits Officer; Debbie Chan, Senior Accounting Manager; John Lindley, Senior IT Analyst; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Retirement Investment

Officer; Brian Miller, Retirement Investment Officer; Joan Kudin, Public Information Officer; Stephanie Schmidt, Sr. Retirement Benefits Specialist; Jamie Feidler, Cliffwater, LLC; Barry Dennis, John Nicolini and Stuart Odell, Verus Advisory, Inc.; Andy Yeung, Paul Angelo, and Todd Tauzer, Segal; Dan Burke; Gar Chung; Greg Stuber; John Kennedy, Nossaman; 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: _____