



Executive Staff:

Eric Stern
Chief Executive Officer

Margo Allen
Chief Operations Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Mario Sierras
Chief Benefits Officer

MINUTES

**REGULAR MEETING
OF THE
BOARD OF RETIREMENT**

**SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

Wednesday, January 19, 2022

10:00 A.M.

Zoom Teleconference

OPEN SESSION

Members of the Board of Retirement:

Rick Fowler, President
Appointed by the Board of Supervisors

Vacant
Appointed by the Board of Supervisors

Keith DeVore, Vice President
Appointed by the Board of Supervisors

Vacant
Appointed by the Board of Supervisors

Dave Comerchero
Elected by the Miscellaneous Members

Alina Mangru
Elected by Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Martha J. Hoover
Elected by the Retired Members

Jack Noble
Elected by the Safety Members

Kathy O'Neil
Elected by the Retired Members

Chris Giboney
Elected by the Safety Members

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

Mr. Stern took roll and noted all members were attending remotely.

Item 2. Swearing in of New Trustees

Florence Evans, Clerk of the Board of Supervisors, administered the Oath of Office for Board Members Keith DeVore, Alina Mangru, Jack Noble, and Chris Giboney.

Item 3. Public Comment

Katheleen Wilbourn addressed the Board regarding her disability retirement application.

CONSENT MATTERS – ITEMS 4-16:

The Board approved the Consent Matters Items 3-14 (7-0).

Item 4. Teleconferencing Rules Under Ralph M. Brown Act—Approved staff's recommendation.

Item 5. Minutes of the December 8, 2021 Regular Meeting—Approve the Minutes of the December 8, 2021 Regular Meeting.

- Item 6. Minutes of the November 10, 2021 Special Meeting**—Approved the Minutes of the November 10, 2021 Special Meeting.
- Item 7. Minutes of the December 21, 2021 Special Meeting**—Approved the Minutes of the December 21, 2021 Special Meeting.
- Item 8. Disability Retirement Applications**
- A. CANO, Ricardo—Granted a service-connected disability as recommended by staff.
 - B. NEFF, Tyler—Granted a service-connected disability as recommended by staff.
 - C. PETTY, Albert—Granted a service-connected disability as recommended by staff.
 - D. WILBOURN, Katheleen—Denied a service-connected disability as recommended by the Administrative Law Judge.
 - E. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions
- Item 9. Ratification of Service Retirement Application Approvals—November and December 2021**—Ratified the Service Retirement Applications that were finalized in the months of November and December 2021.
- Item 10. State Association of County Retirement Systems Legislative Update—January 2021**—Received and filed the SACRS Legislative Update for January.
- Item 11. Quarterly CEO Delegated Authority Expense Report**—Approved the Quarterly CEO Delegated Authority Expense Report.
- Item 12. Pension Administration System Quarterly Review**—Received and filed the Pension Administration System Quarterly Review.
- Item 13. Board Education Compliance Report for 2021**—Received and filed the Board Education Compliance Report for 2021.
- Item 14. Placement Agent Disclosure Report—Fourth Quarter**—Received and filed the Placement Agent Disclosure Report for the Fourth Quarter.
- Item 15. Monthly Investment Manager Activity, Compliance, and Watch List Report—November and December 2021**—Received and filed the Monthly Investment Manager Activity, Compliance, and Watch List Report for November and December 2021.
- Item 16. Monthly Report of Investment Activity—December 2021**—Received and filed the report summarizing SCERS' investment activity for December 2021.

EXECUTIVE REPORTS:

- Item 17. Chief Executive Officer's Report**

Chief Executive Officer Eric Stern wished the Board a Happy New Year and welcomed the new board members.

Mr. Stern provided the following updates on the priorities for 2022:

Core Business - Mr. Stern stated that SCERS' focus is keeping SCERS core business process of moving retirement applications through quickly.

Alameda Corrections - Mr. Stern stated that SCERS has been working with LifeWorks on automating the *Alameda* corrections, cleaning the data and setting up the computer scripts so SCERS can push through hundreds of retirement adjustments and thousands of contribution refunds.

Mr. Stern informed the Board that there had been misstep this past month when staff was reviewing data and needed to regroup as there are more than 100,000 data records going back to 2013. Mr. Stern stated there is a renewed focus on completing this project this quarter.

Mr. Stern stated that staff continues to review all new retirement applications coming in to remove the excluded pay elements and that the county updated its payroll system back to July 2020 to ensure retirement contributions are not being deducted on the excluded items.

Next Phase of IT Project - Mr. Stern notified the Board that the go-live target is mid-May for the next phase of the IT project, which is synching SCERS' payroll module to the calculation engine. Mr. Stern explained that this functionality will bring a major leap forward in efficiency, reduce duplicate work, and allow SCERS to stop using many parallel processes. Mr. Stern also stated that the long-awaited member portal should be put in production, which will allow members to access account statements, 1099s, pay advices, and receive other communications.

Item 18. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

Regarding the Q4 Preliminary Returns:

- Estimate that the SCERS portfolio returned approximately 3% in Q4
- Domestic equities led the market, and were up 9% for the quarter
 - International equity up 2%
 - Fixed Income markets and hedge funds were mostly flat
 - Liquid real assets were up around 4%
- Through the first 2 quarters of SCERS' fiscal year, the portfolio is up around 5%

Regarding the IYR/Annual Plan:

- Staff will be presenting the Investment Year and Review and Annual Investment Plan at the February meeting
- It will cover the investment activity during calendar year 2021
- It will also present recommended 2022 annual investment plans for each of the major asset classes for the Board to consider

Regarding the Core Plus Fixed Income Search:

- Staff and Verus are currently conducting the investment manager search for a core plus fixed income mandate as part of the revised Fixed Income structure approved in October
- In December, Staff and Verus held interviews with five investment managers, and are currently evaluating the candidates further and determining next steps
- We expect to bring a manager recommendation to either the February or March Board meeting, where the recommended manager will present to the Board for approval

Regarding the Private Equity Secondary Investing:

- At an upcoming Board meeting, Staff and Cliffwater are going to provide an educational presentation on private equity secondary sales
- Secondary sales involve the sale of existing private market funds from one limited partner to another
- With the maturation of SCERS' Private Equity portfolio, and with it being overweight to its target as a result of very strong performance, adding the ability to use the secondary market to sell funds in order to more efficiently manage SCERS' Private Equity portfolio has become an important consideration
 - It is also a common tool used among institutional investors
- The presentation will focus on:
 - The reasons for considering using the secondary market
 - The process for selling positions in the secondary market
 - And recommended implementation protocols for secondary investing

Item 19. Chief Benefits Officer's Report

Chief Benefits Officer Mario Sierras provided the following updates:

- Focus on core business continues. Progress has been made in recent months with the volume and timing of retirement applications being processed improving and stabilizing.
- For the month of December, 48 retirement applications were completed with greater than 70% of retirees being paid in under 60 days. Since July, progress has been made month-over-month in getting retirees paid in 60 days or less.
- With peak retirement season ahead, Staff continues to keep an eye on the volume of new retirement applications being received. Increases in the volume of applications received is expected to continue over the next few months. Staff is strategizing to address retirement application volumes.
- Recruitment efforts continue. Interviews were conducted last week and will continue over the next few weeks in an effort to recruit qualified candidates and fill vacancies for various job classifications.

INVESTMENT MATTERS:

Item 20. Asset Class Restructuring: Real Estate

Chief Investment Officer Steve Davis, Senior Investment Officer JR Pearce, and Chris Cunningham of Townsend presented the recommendation to approve the implementation plan and make the following revisions to the structure of the Real Estate asset class:

- Adopt revised sub-strategy and geographic target allocations, including:
 - Revise target Core/Non-Core real estate weighting from 65%/35% to 60%/40%.
 - Increase Ex-US policy limit maximum from 30% to 35%.
 - Revise U.S. geographic diversification weightings from +/- 10% of the NFI-ODCE index to a similar geographic weighting as NFI-ODCE.
- Adopt a revised policy benchmark for the total real estate portfolio from a blend of 65% NFI-ODCE plus 35% NFI-ODCE + 1% to 60% NFI-ODCE plus 40% NFI-ODCE + 1%.
- Direct staff to make conforming changes to the Real Return Asset Category and Master Investment Policy Statements for approval by the Board at a future meeting.

Mr. DeVore asked for clarification from Mr. Cunningham regarding a cash-flow chart in the presentation, which was provided. Mr. Comerchero asked about a reference in the Townsend memo regarding SCERS' geographic exposure being greater than other Townsend clients and the geopolitical risk that comes with more exposure in Asia. Mr. Pearce noted that SCERS' future Asia investments in real estate are targeting the developed markets in Japan and South Korea. Mr. Cunningham added that SCERS is not focused on volatile markets and has a diversified portfolio that overall aligns with the priorities of other institutional clients.

The Board approved a motion to adopt the staff recommendation. **(7-0)**

Item 21. Asset Class Restructuring: Real Assets

Chief Investment Officer Steve Davis, Senior Investment Officer JR Pearce, and Jamie Feidler of Cliffwater presented the recommendation to approve the implementation plan and make the following revisions to the structure of the Real Assets asset class:

- Rename the 'Energy' sub-strategy to 'Energy and Power'.
- Adopt revised sub-strategy target allocations and ranges as follows:
 - 60% target allocation to the Infrastructure sub-strategy with a range of 45% to 75%.
 - 30% target allocation to the Energy and Power sub-strategy with a range of 15% to 45%.
 - 10% target allocation to the Agriculture, Timber, Other sub-strategy with a range of 0% to 20%.
- Adopt revised blended policy index benchmark for Real Assets as follows:
 - 60% Cambridge Associates Private Infrastructure
 - 30% Cambridge Associates Private Energy
 - 10% NCREIF Farmland
- Maintain a range of +/-2% around the 7% Real Assets target allocation.

- Direct staff to make conforming changes to the Real Return Asset Category and Master Investment Policy Statements for approval by the Board at a future meeting.

The Board approved a motion to adopt the staff recommendation. **(7-0)**

Item 22. Education: Investment Implementation Protocols

Chief Executive Officer Eric Stern and Chief Investment Officer Steve Davis presented the Education on Investment Implementation Protocols and recommended the Board establish an ad hoc investment governance committee. Mr. DeVore stated the issues were worth exploring more. Mr. Fowler concurred but noted the discussion would be better served once the two remaining vacancies were filled. Mr. Comerchero and Ms. Hoover also stated a preference to delay establishing an ad hoc committee until later in the year.

The Board approved a motion to receive and file the presentation and tabled the establishment of an ad hoc committee. **(6-0)**

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:53 a.m.

MEMBERS PRESENT

via teleconference: Keith DeVore, Dave Comerchero, Ben Lamera, Alina Mangru, Jack Noble, Martha Hoover, Chris Giboney, Kathy O’Neil, and Rick Fowler presiding.

MEMBERS ABSENT: None.

OTHERS PRESENT Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Margo Allen, Chief Operations Officer; Mario Sierras, Chief Benefits Officer; Stephen Lau, General Counsel; John Lindley, Senior IT Analyst; Jim Donohue, Deputy Chief Investment Officer; Brian Miller, Senior Investment Officer; JR Pearce, Senior Investment Officer; Michael Vang, Retirement Investment Analyst; Jamie Feidler, Cliffwater LLC; John Nicolini, Verus; and Chris Cunningham and Dick Brown, Townsend.

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____



Retirement Board Order

Sacramento County Employees' Retirement System

**Before the Board of Retirement
February 16, 2022**

AGENDA ITEM:

Minutes of the January 19, 2022 Regular Meeting

THE BOARD OF RETIREMENT hereby approves the Minutes of the January 19, 2022 regular meeting.

I HEREBY CERTIFY that the above order was passed and adopted on February 16, 2022 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

Richard B. Fowler II
Board President

Eric Stern
Chief Executive Officer and
Board Secretary