



## MINUTES

### REGULAR MEETING OF THE BOARD OF RETIREMENT

### SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

**WEDNESDAY, OCTOBER 19, 2022  
10:00 A.M.**

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

**Teleconference Location: SCERS Lobby Offices  
980 9th Street, 19th Floor  
Sacramento, CA 95814**

Live-stream at [www.scers.org](http://www.scers.org)

### OPEN SESSION

#### **Item 1. Call to Order/Roll Call**

President DeVore called the meeting to order at 10:01 a.m. Eric Stern, Chief Executive Officer (CEO), took roll call.

**Board Members Present:** DeVore, O'Neil, Suter, Lamera, Mangru, Noble, Giboney.

**Board Members Absent:** Aguallo, Hoover.

Also present: Eric Stern, Chief Executive Officer (CEO); Margo Allen, Chief Operations Officer (COO); Steve Davis, Chief Investment Officer (CIO); Stephen Lau, General Counsel; Mario Sierras, Chief Benefits Officer (CBO); Jim Donohue, Deputy Chief Investment Officer; Brian Miller, Senior Retirement Investment Officer; Michael Vang, Retirement Investment Analyst; and Carolyn Hill, Executive Secretary.

#### **Item 2. Public Comment**

None.

Members of the Board of Retirement:  
Keith DeVore, President  
Appointed by the Board of Supervisors  
Kathy O'Neil, Vice President  
Elected by the Retired Members (Alternate)  
Robert Aguallo Jr.  
Appointed by the Board of Supervisors  
Ronald Suter  
Appointed by the Board of Supervisors  
Vacant  
Appointed by the Board of Supervisors  
Ben Lamera  
Ex Officio, Director of Finance  
Alina Mangru  
Elected by Miscellaneous Members  
Vacant  
Elected by Miscellaneous Members  
Jack Noble  
Elected by the Safety Members  
Chris Giboney  
Elected by the Safety Members (Alternate)  
Martha Hoover  
Elected by the Retired Members

#### 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

## **CONSENT MATTERS – ITEMS 3-11:**

The Board approved a motion to approve Consent Calendar Items 3 – 11 except for Item 5. The motion carried 7-0.

**Item 3. Minutes of the September 21, 2022 Regular Meeting**—Approved the Minutes of the September 21, 2022 Regular Meeting.

**Item 4. Ratification of Service Retirement Application Approvals—August 2022**—Ratified the Service Retirement Applications that were finalized in August 2022.

**Item 5. CEO Delegated Authority Expense Report – Third Quarter 2022**

Board Trustee Suter asked a question about the relationship between the report and Item 17, and Staff responded.

**The Board approve a motion to approve Consent Calendar Item 5. The motion carried 7-0.**

**Item 6. Monthly Report of Investment Activity—August 2022**—Received and filed the report summarizing SCERS' investment activity for August 2022.

**Item 7. Portfolio Analytic Services—June 15, 2022 Board Order Correction**—Approved the June 15, 2022 Board Order Correction.

**Item 8. State Association of County Retirement Systems Legislative Update—October 2022**—Received and filed the SACRS Legislative Update for October 2022.

**Item 9. Placement Agent Disclosure Report—Second Quarter 2022**—Received and filed the Placement Agent Disclosure Report—Second Quarter 2022

**Item 10. Quarterly Investment Manager Compliance and Watch List Report—Third Quarter 2022**—Received and filed the Quarterly Investment Manager Compliance and Watch List Report for Third Quarter 2022.

**Item 11. Monthly Report of Investment Activity—September 2022**—Received and filed the report summarizing SCERS' investment activity for September 2022.

## **EXECUTIVE REPORTS:**

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

Mr. Stern reported the outcome of the Board elections stating Tepa Banda, CFO at the Sanitation District, has been elected the Miscellaneous Representative, and will be sworn in at the December meeting to fill the remaining month of the vacant term. Former County Finance Director Dave Irish will be returning as the Alternate Retiree Representative. He thanked Kathy O'Neil for her service. Lastly, Martha Hoover ran unopposed for the Retiree Representative.

Mr. Stern provided an update on the *Alameda* corrections stating 4,158 notices were mailed out to active and deferred members during the first week of September totaling almost \$3 million in refunds. The refunds varied from one (1) penny to more than \$10,000, with a median of about \$70. One-third of members has returned their distribution option forms representing two-thirds of the total dollars in refunds. He stated 42% has chosen to roll-over their refund into a 457 or 401K Plan. An additional outreach effort is in place before defaulting to processing checks. About 600 retirees impacted by *Alameda* corrections will be receiving notices who do not need further adjustments, but will be receiving refunds on overpaid contributions. Other retirees who will be receiving pension adjustment are expected to be completed by the end of the calendar year with the remainder of the group by early next year.

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

Steve Davis, Chief Investment Officer, provided the following updates:

#### **SCERS Third Quarter Preliminary Returns and Market Commentary**

- Estimate that the SCERS portfolio was down around 4% in the third quarter.
- Both equities and fixed income continue to be drags on the portfolio, down between 7% and 4.5%, respectively.
- Private equity, which is lagged a quarter, is starting to see negative returns, and it was down around 4% for the quarter through June 30th.
  - Venture capital is seeing the largest negative returns driven by holdings of publicly traded companies.
  - Buyout and distressed debt are holding up better.
- Private Credit is holding up well and was flat for the second quarter (also lagged a quarter).
- Real Assets continues to generate positive returns, and was up 4% for the second quarter (also lagged a quarter).
- Real Estate returns are moderating, though they were still slightly positive for the quarter.
- Absolute return was slightly positive for the quarter and is up around 1% for the year.
- Liquid Real Return was down 7%.
- Though the portfolio is holding up relatively well, the macroeconomic situation combined with the conflict in Ukraine have led to a very challenging year.
  - Central banks are prioritizing getting inflation under control, at the expense of the markets and potentially the economy.

- Much of the selloff in the markets to this point has been the result of multiple compression and rising interest rates.
  - While a minority of market experts are arguing that we are close to a bottom, the majority is focused on the impact on corporate profits and consumer spending, which have remained fairly resilient.
  - A deterioration in corporate earnings will put more pressure on equity prices, as price multiples would need adjust further if earnings fall, and in the credit markets, an increase in defaults would cause spreads to widen further.
- Experience guides long-term investors like SCERS to:
  - Stay disciplined to the strategic asset allocation, which is diversified across market segments.
  - Rebalance to target allocations.
  - Monitor portfolio exposures and segments, particularly those that are vulnerable.
  - While also looking for investment opportunities at attractive prices.
- Verus, Cliffwater, and Townsend will provide quarterly performance reports at the December meeting.

### **Portfolio Exposures and Rebalancing Update**

- At the end of the third quarter the Overlay Program rebalanced SCERS' portfolio back to targets at the asset category level.
  - This included:
    - Purchasing \$86 million in Growth assets (equity futures).
    - Selling \$15 million in Diversifying assets (bond futures).
    - Selling \$76 million in Real Return assets (real return commingled funds).
    - Increased cash by \$4 million.
- These Overlay trades got the asset categories back to their target weights: 58% Growth; 24% Diversifying; 18% Real Return.
- While the asset categories are at their targets, several asset classes are out of balance.
- SCERS is physically underweight public equities.
  - The current allocation to the Global Equity asset class is around 34%, which is below the 40% target and below the low end of the range of 36%.
  - The underweight is due to the fact that public markets are down and private markets are up this year.
- Private Equity (PE) on the other hand is currently at 15%, which is above the 11% target and above the high end of its range of 14%.
  - Other private market classes have moved toward or above their target allocations.

- While SCERS is physically out of balance on several asset classes, the Overlay Program rebalances allocations back towards their targets quarterly, including public equities, which are efficiently replicated using a basket of global equity futures.
- Staff is evaluating physical rebalancing options to bring out of range asset classes back within range, while being mindful of maintaining sufficient cash balances for benefit payments until the end of the fiscal year.
  - Considerations include moderate rebalancing measures within the core real estate and absolute return portfolios, as both are overweight.
    - These are open end fund structures which would provide liquidity over the next couple of quarters.
  - Staff is also evaluating bids for the secondary sale of SCERS' legacy Fund of Funds (FoF) PE exposure, which would assist in getting PE back within its targeted range.
- These measures would provide cash liquidity to physically rebalance public equities back within its targeted range and ensure healthy cash levels for benefit payments.
- Any rebalancing measures will be reported to the Board.

#### **Item 14. Chief Benefits Officer's Report**

Mario Sierras, Chief Benefits Officer, provided the following updates:

- No disability retirement items were available for review at this meeting. Several disability retirement applications are in progress in various stages of the process. Delays are due to coordinating member and doctor schedule for medical exams and the need for additional upfront review of applications to ensure members meet the filing and eligibility requirements. Staff continues to work through disability cases as quickly as possible and we continue to train staff on the disability process to help with this workload.
- Retirement application volume remains in-line with off-peak season volumes. For the month of September 2022, 38 new retirement applications were received, and 46 retirement applications were completed in a median 57-day turnaround processing time. 67% of these applications were processed within 60 days.
- Recruitment activity remains busy. Several new staff began employment with the Benefits Team over the past couple weeks and we have a couple more new hires starting in the next few weeks. This is positive news for the team. We expect to remain busy with recruiting efforts through the rest of the year in addition to focusing attention onboarding and training our new employees.

## **BENEFITS MATTERS:**

### **Item 15. Disability Retirement Procedures**

Mario Sierras, Chief Benefits Officer, presented the staff report providing a brief background of SCERS' Disability Retirement Procedures.

The Board approved a motion to re-affirm Disability Retirement Procedures with no amendments. **(7-0)**

## **INVESTMENT MATTERS:**

### **Item 16. Proxy Voting Policy**

Mr. Davis and Brian Miller, Senior Retirement Investment Officer, presented the staff report providing a PowerPoint presentation on the Proxy Voting Policy with recommendation to re-affirm the policy with no amendments. A thorough dialogue ensured between the Board and Staff responded to any questions.

The Board approved a motion to re-affirm Proxy Voting Policy with no amendments. **(7-0)**

## **ADMINISTRATIVE MATTERS:**

### **Item 17. Temporary Staffing Services**

Margo Allen, Chief Operations Officer, presented the staff report providing a brief background of the temporary staffing services, presented recommendation to authorize the Chief Executive Officer to increase the agreement with SearchPro Staffing from \$50,000 to \$250,000, and responded to any questions.

The Board approved a motion to authorize the Chief Executive Officer to increase the temporary staffing services agreement with SearchPro Staffing from \$50,000 to \$250,000. **(7-0)**

### **Item 18. Interagency Agreements**

Steve Lau, General Council, presented the staff report providing a brief background on the interagency agreements with recommendation to authorize the Chief Executive Officer to negotiate and execute agreements with County departments concerning operational issues related to the implementation of the new Pension Administration System, and responded to any questions.

The Board approved a motion to authorize the Chief Executive Officer to negotiate and execute agreements with County departments concerning operational issues related to the implementation of the new Pension Administration System. **(7-0)**

## **Item 19. Compensation Study**

Ms. Allen and Doug Johnson, Vice President representing Ralph Andersen and Associates, presented a PowerPoint presentation of the Compensation Study. A thorough dialogue ensued amongst the Board Members and staff responded to questions.

The Board approved a motion to accept the recommendation of Staff to (1) adopt the findings and recommendations of the 2022 Ralph Anderson & Associates Unrepresented Management Compensation Salary; (2) adopt the recommended amendments to the Compensation Policy; and (3) direct the Chief Executive Officer to pursue approval of the recommended salary adjustments through the Sacramento County Board of Supervisors as follows:

- a. Adjust salary range for Retirement Administrator (Chief Executive Officer) by 8.4%
- b. Adjust salary range for Chief Investment Officer – Retirement by 18.4%;
- c. Adjust salary range for Retirement General Counsel by 13.5%;
- d. Adjust salary range for Assistant Retirement Administrator – Operations (Chief Operations Officer) by 6.8%
- e. Set salary range for Assistant Retirement Administrator – Investments (Deputy Chief Investment Officer) 15% below Chief Investment Officer

**The motion carried 7-0.**

## **ADJOURNMENT**

There being no further business, President DeVore adjourned the meeting at 11:26 a.m.