



Executive Staff:

Richard Stensrud
Chief Executive Officer

Vacant
Chief Investment Officer

Robert L. Gaumer
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

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

Michael DeBord
Elected by the Retired Members

James A. Diepenbrock
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Chris A. Pittman
Elected by the Safety Members

Julie Valverde
Ex Officio, Director of Finance

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, WEDNESDAY, MARCH 18, 2015

A regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Wednesday, March 18, 2015, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the February 18, 2015 regular meeting were approved on Motion by Mr. Kelly; Seconded by Ms. Valverde. Motion carried (8-0).

CONSENT MATTERS:

Items 3-7

Item 3 was taken off the Consent Calendar and deferred. The remaining Consent matters were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Mr. DeBord. Motion carried (8-0).

3. BARRINO, Sharon: Deferred.

CONSENT MATTERS (continued):

4. MEANS, Robert D.: Granted a service-connected disability retirement.
5. MCDANIEL, Charles W.: Granted a service-connected disability retirement.
6. Received and filed the February 2015 Monthly Investment Portfolio Activity Report.
7. Received and filed the February 2015 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

8. The Board discussed a public employee appointment (Chief Investment Officer) pursuant Government Code Section 54957. The Board reported that no action was taken.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

9. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud reported that the California Association of Public Retirement Systems (CALAPRS) General Assembly took place March 7 – 10 in Monterey. Mr. Conneally, Mr. Pittman, and Mr. DeBord attended and commented that excellent information was provided.

Mr. Stensrud reminded the Board that the deadline to file the annual Form 700 Statement of Economic Interests is April 1. Mr. Stensrud noted that General Counsel Robert Gaumer was available to answer any questions regarding the Form.

Mr. Stensrud reported that the November Board Meeting would be held on Monday, November 9 at 10 a.m. Mr. Stensrud noted that this change in date was due to the State Association of County Retirement Systems (SACRS) Fall Conference and the need to have the annual actuarial valuation addressed in a manner that provided sufficient time for its information to be incorporated in the Comprehensive Annual Financial Report issued in December.

Mr. Stensrud reported that Staff had been having GASB 68-related meetings with SCERS' participating employers, outside auditors, and actuary. Mr. Stensrud noted that GASB 68 was the new rule pertaining to financial reporting by participating employers.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that SCERS had received three proposals from vendors in response to the Request for Proposals for Pension Administration and Financial System Consulting Services that SCERS released in January. Mr. Stensrud thanked Mr. Pittman for his willingness to participate on the committee that will evaluate the responses.

Mr. Stensrud asked Deputy Chief Investment Officer Steve Davis to provide an update on the total return swap being utilized to provide U.S. equity small cap growth exposure pending the hiring of a new manager to replace a terminated manager. Mr. Davis stated that after terminating the small cap growth manager in 2014, SCERS had rolled those funds into a one year total return swap as it provided the most cost-effective way to maintain exposure to the sub-asset class. Mr. Davis noted that the swap exposure expires in April, 2015. Mr. Davis stated that Staff was in the process of completing the small cap growth manager search and anticipated bringing forth a candidate in May or June. Mr. Davis reported that Staff is working with SSGA, SCERS' overlay manager, to roll the funds into a three or six month swap to maintain exposure after the current swap expires. Mr. Davis noted that there would be no fees to exit the swap if a new manager was hired during that time.

10. Chief Executive Officer Richard Stensrud presented the nominations for the Board of Directors of the State Association of County Retirement Systems (SACRS). Mr. Stensrud stated that each year the SACRS member systems elect a Board of Directors at the May SACRS Conference. Mr. Stensrud noted that the process for nominating members for the SACRS Board can be summarized as follows: (1) Individuals interested in running for a SACRS Board position must submit their names to the SACRS Nominating Committee; (2) The Nominating Committee decides which individuals will be brought forward as 'recommended nominees' and the recommendations are forwarded to the member systems for consideration; (3) Individual member systems have until March 25th to bring forward alternative nominations; and (4) The recommended nominations and any alternative nominations brought forward by a system or systems are presented for a vote by the member systems at the Business Meeting at the end of the May Conference.

Mr. Stensrud stated that SCERS Board Member John Kelly had submitted his name to the Nominating Committee for consideration for the position of President. Mr. Stensrud noted that the current SACRS Board President, Yves Cherry of LACERA, had also submitted his name for consideration for President. Mr. Stensrud reported that by a 3-2 vote, the Nominating Committee chose to recommend Mr. Cherry for President.

Mr. Stensrud stated that, pursuant to the process outlined above, Mr. Kelly had requested that the SCERS Board approve a slate of nominees for the SACRS Board in which he is the nominee for President, and that the SCERS Board submit that slate for consideration by the SACRS membership at the May SACRS Conference.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud stated that SACRS Board of Director elections are often uncontested, with the member systems unanimously supporting the nominees recommended by the Nominating Committee. Mr. Stensrud noted, however, that over the last several years, races have been contested and/or alternative nominations to those recommended by the Nominating Committee have been brought forward by member systems. Mr. Stensrud noted that these cases have typically been prompted by concerns regarding decisions made, actions taken, or views expressed by a candidate.

Mr. Stensrud outlined some of the areas where it appeared that some member systems had developed concerns regarding the candidate recommended by the Nominating Committee. Mr. Stensrud noted that based on those concerns, San Joaquin CERA had already voted to support Mr. Kelly as the nominee for President and that it was expected that Sonoma CERA would do so as well.

Mr. Kelly stated that he has concerns over actions taken by the current President, and as a result, felt compelled to become a candidate for President. Mr. Kelly noted that he believed his collaborative leadership style could help resolve those concerns and bring the SACRS systems back together.

Discussion followed.

Motion by Mr. DeVore to approve the submission of an alternate set of nominations for the Board of Directors of the State Association of County Retirement Systems (SACRS) with John Kelly as the nominee for President; Seconded by Mr. Pittman. Motion carried (8-0).

INVESTMENT MATTERS:

11. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending September 30, 2014 and December 31, 2014, including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' hedge fund portfolio was up slightly, at 0.30% in the fourth quarter of 2014, underperforming the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.24% in the fourth quarter of 2014. Mr. Feidler noted that SCERS' hedge funds also underperformed the HFRI Fund of Funds Composite Index in the fourth quarter of 2014, which was up 0.93%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was down 0.1% in the quarter, and underperformed the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

INVESTMENT MATTERS (continued):

Mr. Feidler stated that for the quarter, SCARF B was down 0.32%, which was also below both the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%.

Mr. Feidler reported that SCERS' direct hedge fund program was up 0.82% during the fourth quarter.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 10.4% since inception compared to the Venture Economics Private Equity Index up 10.3% and the multiple of total value to paid in capital ("TVPI") is 1.22x since inception. Mr. Feidler noted that SCERS' private equity portfolio is still in the earlier phase/cycle of investments (j-curve effect) compared to the index.

Mr. Feidler reported that, through September 30, 2014, SCERS' real assets portfolio IRR was 6.8% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.4% and SCERS' TVPI was 1.19x.

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 8.8% as of September 30, 2014 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%.

Motion by Mr. Kelly to receive and file the quarterly performance report; Seconded by Ms. Gin. Motion carried (8-0).

12. Deputy Chief Investment Officer Steve Davis introduced the annual report on the private equity asset class. Mr. Davis provided an overview of the structure of the private equity portfolio, describing the investment objectives, the target allocation, and the strategy diversification guidelines of the private equity portfolio.

Jamie Feidler of Cliffwater, LLC stated that SCERS' existing portfolio is reasonably well-diversified, but that the amount of money invested is relatively small (4.6% of SCERS' total portfolio). Mr. Feidler noted that new commitments are intended to complement the existing investments and maintain long-term diversification.

Mr. Feidler reviewed SCERS' current fund of funds, including HarbourVest Partners VIII; Abbott Capital Private Equity Fund VI; Goldman Sachs Private Equity Partners X; and HarbourVest International Private Equity Partners VI.

Mr. Feidler reported that SCERS' private equity commitment activity since April 2014 has been both tactical and strategic, with commitments to Accel-KKR Structured Capital II; Dyal Capital Partners II; Khosla Ventures V; Linden Capital Partners III; Marlin Heritage; Spectrum Equity Partners VII; and Thoma Bravo XI. Mr. Feidler noted that SCERS continues to target hard to access, top-tier General Partners (GPs) to complement its

INVESTMENT MATTERS (continued):

existing private equity investments, noting that many of these new funds were significantly oversubscribed and/or only offered to select investors. Mr. Feidler noted that SCERS' private equity review and decision making process had contributed substantially toward enabling SCERS to gain access to top-tier GPs.

Mr. Feidler reviewed the recommended 2015 private equity annual investment plan, which targets a \$285 million commitment level over nine funds. Mr. Feidler noted that this target is generated from a proposed commitment range of \$235-\$335 million between 7-11 funds. Mr. Feidler stated that the recommended area of focus for the remainder of 2015 would include sector specific funds as well as potential "re-ups" with existing GPs, which are intended to complement the existing portfolio and take advantage of the best opportunities in the market.

Mr. Davis and Mr. Feidler discussed the potential benefits of strategic partnerships within private equity. Mr. Davis explained how one or more private equity strategic partnerships would work with and complement SCERS' direct private equity investments. Mr. Davis noted that a strategic partnership could allow SCERS to gain exposure to private equity opportunities that might be difficult to gain through the direct program due to access or staffing limitations. Mr. Davis discussed some examples of areas where a strategic partnership may be appropriate. Mr. Davis also outlined how such a strategic partnership might be structured, and the advantages that would accrue to SCERS from such a structure. Mr. Davis and Mr. Feidler noted that SCERS has had success in establishing such engagements in other asset classes.

Mr. Feidler also reviewed SCERS' private equity selection process.

Motion by Mr. Kelly to approve the proposed private equity annual investment plan for 2015 and receive and file the annual report on the private equity asset class; Seconded by Mr. DeVore. Motion carried (8-0).

13. Jennifer Young and Nick Rittenhouse of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended December 31, 2014.

Ms. Young reported that SCERS' total real estate portfolio returned 4.8% during the fourth quarter of 2014, outperforming the benchmark (NFI-ODCE) of 3.0%. Ms. Young stated that for the 12-month period ending December 31, 2014, SCERS' real estate portfolio return was 14.4% and that in the same period, the benchmark returned 12.5%.

Ms. Young reported that SCERS' core real estate portfolio returned 3.7% during the fourth quarter, outperforming the benchmark by 0.7%. Ms. Young stated that for the 12-month period ending December 31, 2014, SCERS' core real estate portfolio return was 13.2% and that in the same period, the benchmark returned 11.5%. Ms. Young further stated that the

INVESTMENT MATTERS (continued):

core separate accounts returned 3.9% for the quarter and 13.5% for the 12-month period, compared to 2.9% and 12.4%, respectively for the commingled funds.

Ms. Young reported that SCERS' domestic public REIT portfolio returned 15.4%, compared to a fourth quarter return of 12.9% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that SCERS' international REIT portfolio underperformed the FTSE EPRA/NAREIT Global ex-US REIT Index by 0.2% with a return of 1.5% in the fourth quarter. Ms. Young reported that for the 12-month period ending December 31, 2014, SCERS' domestic public REIT portfolio earned a 32.3% return beating the benchmark index of 28.0%, while SCERS' international REIT portfolio earned 2.8% return underperforming the benchmark index of 3.2%.

Mr. Rittenhouse reported that SCERS' non-core real estate portfolio returned 2.7% for the quarter, trailing the NFI-ODCE plus 100 bps benchmark, which returned 3.3%. Mr. Rittenhouse stated that SCERS' non-core real estate portfolio returned 16.4% for the 12-month period, greatly outperforming the benchmark return of 12.5%.

Motion by Mr. Kelly to receive and file the quarterly performance report; Seconded by Mr. DeBord. Motion carried (8-0).

The meeting was adjourned at 12:33 p.m.

MEMBERS PRESENT: Richard B. Fowler II, John B. Kelly, Keith DeVore, Michael DeBord, Diana Gin, Chris Pittman, Julie Valverde, John Conneally, and Martha J. Hoover (arrived 10:01 a.m.).

MEMBERS ABSENT: James A. Diepenbrock.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Jamie Feidler, Cliffwater LLC; Jennifer Young and Nick Rittenhouse, The Townsend Group; John Reed, Deputy County Counsel; and Charles McDaniel.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

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APPROVED: _____
Rick Fowler, President

DATE: _____

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.