



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

Steven L. Baird  
Elected by the Miscellaneous Members

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, DECEMBER 16, 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, December 16, 2015, and commenced at 10:03 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Mr. Fowler read Resolution 2015-11 commending and honoring Ms. Valverde upon her upcoming retirement and her departure from the SCERS Board for her many years of outstanding service to Sacramento County, SCERS, and its members and stakeholders.

Motion by Mr. Fowler to adopt Resolution 2015-11 honoring Julie Valverde; Seconded by Mr. Diepenbrock. Motion carried (9-0).

##### MINUTES:

2. The Minutes of the November 9, 2015 special meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. Pittman. Motion carried (9-0).

**CONSENT MATTERS:**

Items 3-12

Item 10 was taken off the Consent Calendar for discussion at the request of Mr. Baird. The remaining Consent Matters Item 3 – 9, 11, and 12 were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Mr. Kelly carried (9-0).

3. KOONTZ, Daniel L.: Granted a reciprocal service-connected disability retirement.
4. WILLIAMS, Robert R.: Granted a nonservice-connected disability retirement.
5. NELSON, Julia: Granted a service-connected disability retirement.
6. CARVER, Kit: Granted a nonservice-connected disability retirement.
7. Approved a proposed resolution authorizing the assignment of the contract with Strategic Investment Solutions, Inc. (SIS) for general investment consulting services to Verus Advisory, Inc. (Verus) due to the merger of SIS into Versus.
8. Approved a proposed resolution consenting to the ownership change and assignment of the contract with Townsend Holdings LLC (Townsend) for real estate investment consulting services to the successor entity created as a result of the acquisition of Townsend by NorthStar Asset Management Group, Inc.
9. Approved a proposed two year extension of the contract with the Office of Administrative Hearings to conduct hearings in disability retirement matters.
11. Received and filed the November 2015 Monthly Investment Portfolio Activity Report.
12. Received and filed the October and November 2015 Monthly Investment Manager Compliance Reports and Watch Lists.
10. The Item was moved from Consent Matters at the request of Mr. Baird.

Mr. Baird inquired about the performance incentives that were part of the fee provisions in the proposed amendment to the investment management agreement with Weatherbie Capital. Mr. Baird questioned why a performance incentive would be provided to a manager who was performing below the benchmark. Mr. Baird asked if the performance incentive would prompt the manager to take on more risk in order to reach the performance incentive.

Deputy Chief Investment Officer Steve Davis reviewed the fee and incentive structure in the amendment explaining that the base fee was dropping considerably and that Weatherbie Capital would need to achieve substantial performance above the benchmark in order to trigger the incentive. Mr. Davis and Barry Dennis of SIS noted that the revised

**CONSENT MATTERS (continued):**

fee structure was beneficial for SCERS and resulted in a better alignment of interest with the manager. Chief Executive Officer Richard Stensrud noted that the investment mandate contained various portfolio construction parameters designed to assure that the manager stayed consistent with the portfolio they had been hired to manage, and that the portfolio compliance monitoring system used by SCERS' custodial bank would alert SCERS if there was deviation from those parameters (e.g., to take on more risk).

Motion by Mr. DeVore to approve the proposed amendment of the fee provisions in the investment management agreement with Weatherbie Capital; Seconded by Mr. Diepenbrock. Motion carried (8-1) (Mr. Baird dissenting).

**ADMINISTRATIVE MATTERS:**

13. 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 John Kelly had been reappointed by the Sacramento County Board of Supervisors for another term on the SCERS Board. Mr. Stensrud and the Board congratulated Mr. Kelly on his reappointment and thanked him for his continuing service.

Mr. Stensrud reported that Staff had recently met with Linea Solutions, Inc. for a kickoff meeting on their information technology consulting project related to the development of an integrated enterprise system for addressing SCERS' pension administration, investment, and financial needs. Mr. Stensrud stated that during this meeting, Staff and Linea outlined the work planned over the next year.

Mr. Stensrud reported that the two ballot initiatives that would make substantial changes to the retirement benefits of public employees had been titled and given a description by the State Attorney General. Mr. Stensrud stated that the proponents of the initiatives were analyzing the two proposals to decide whether to proceed with signature gathering and if so, for which proposed initiative.

14. Debbie Chan of Macias Gini & O'Connell presented the Report to the Board of Retirement, the Report on Internal Controls and Compliance, and the Independent Auditor's Report for the Fiscal Years Ended June 30, 2015 and 2014.

Ms. Chan noted that her firm provided three reports from their audit. The first report was the Independent Auditor's Report, which is the auditor's opinion on the basic financial statements. The second report was the Report on Internal Controls and Compliance. The third report was the Report to the Board of Retirement.

**ADMINISTRATIVE MATTERS (continued):**

Ms. Chan stated that the audit showed no deficiencies, nor any instances of non-compliance with laws or regulations. Ms. Chan stated that the audit produced an unqualified or 'clean' opinion on the basic financial statements. Ms. Chan explained that this was the highest assurance possible on the state of the financial statements. Ms. Chan further explained that this means that the financial statements were fairly presented in accordance with generally accepted accounting principles.

Ms. Chan commended SCERS' Staff for their preparation and cooperation in conducting the audit.

Motion by Mr. Diepenbrock to receive and file the reports; Seconded by Ms. Valverde. Motion carried (9-0).

15. Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2015 and 2014.

Ms. Regalia noted that the CAFR would be submitted to the Government Finance Officers Association (GFOA) to determine its eligibility for the Certificate of Achievement for Excellence in Financial Reporting. Ms. Regalia noted that SCERS' CAFR has received this award each year since 2000, and that Staff was optimistic that this report would earn the award once again.

Chief Executive Officer Richard Stensrud and the Board commended Ms. Regalia and the staff who worked on the CAFR for the quality of the report.

Motion by Mr. Diepenbrock to receive and file the report; Seconded by Mr. DeBord. Motion carried (9-0).

16. The Board reviewed the interest crediting provisions of SCERS' Interest Crediting and Unallocated Earnings Policy.

Chief Executive Officer Richard Stensrud explained that an interest crediting policy is a statement of the Board's goals and priorities in funding the retirement system. Mr. Stensrud noted that as fiduciaries the Board can and should take into account the respective interests of the various stakeholders in the retirement system, but the policies established must be grounded in what is in the best interest of the retirement system as a whole.

Mr. Stensrud reviewed the interest crediting provisions, noting the history and rationale leading to the current policy. Mr. Stensrud explained the reasons why a lower interest crediting rate had been established for the member contribution reserves than for the other actuarial reserves. Mr. Stensrud outlined various considerations the Board should weigh in assessing whether any changes should be made to the current interest crediting provisions.

**ADMINISTRATIVE MATTERS (continued):**

Extensive discussion followed regarding the difference in the interest crediting rate for member contribution reserves compared to the other actuarial reserves. The discussion included consideration of: The different function of the various reserves; The impact of the respective reserves on the pension benefits paid to members; The unfunded liability that results in years when it is not possible to fully meet the interest crediting target and that the cost of unfunded liability is paid by the employer; A lower member reserve interest crediting rate means the member receives less if she/he terminates service and withdraws from the plan; Whether SCERS' purpose is to fund a retirement benefit or serve as a savings account; A lower member interest crediting rate results, in certain limited cases, to a lower benefit for the member's beneficiary; A higher member interest crediting rate would result in higher contribution account balances, which increases the risk that contributions will be withdrawn; The impact of larger contribution withdrawals on the normal cost of the pension benefits; A higher member interest crediting rate results in higher cost to members who make service purchases or seek to re-deposit contributions; The impact of a higher member interest crediting rate in rising interest rate environment; and the fundamental equity of different crediting rates.

It was agreed that the discussion would benefit from additional actuarial data and information regarding practices at other 1937 Act Systems.

Motion by Mr. Kelly to reaffirm SCERS' current Interest Crediting and Unallocated Earnings Policy and to seek additional information; Seconded by Mr. Diepenbrock. Motion carried (6-2, with 1 abstention).

17. Motion by Mr. Diepenbrock to approve the proposed interest crediting rate for member contribution accounts for the six month period ending December 31, 2015; Seconded by Mr. Kelly. Motion carried (7-1, with 1 abstention).

**INVESTMENT MATTERS:**

18. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending June 30, 2015 and September 30, 2015, including information regarding the absolute return, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' absolute return portfolio was down 2.77% in the third quarter of 2015, which was below the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.23%, but above the HFRI Fund of Funds Composite Index which was down 3.52%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was down 3.66% in the quarter, and underperformed both 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 returned -3.30%, which outperformed the HFRI Fund of Funds Composite Index, but underperformed the 90-day T-Bills + 5%.

Mr. Feidler reported that SCERS' direct absolute return program was down 1.87% during the third quarter, which outperformed the HFRI Fund of Funds Composite Index, but underperformed the 90-day T-Bills + 5%.

Mr. Feidler stated that fourth quarter to date, through October 31, 2015, SCERS' total absolute return program is up 1.08%, the direct absolute return program is up 1.95%, and the SCARF portfolios are up 0.36%. These numbers compare to the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%, which are up 0.87% and 0.41%, respectively.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 11.14% since inception compared to the Cambridge Associates Private Equity Index up 10.60% and the multiple of total value to paid-in capital ("TVPI") is 1.24x since inception. Mr. Feidler noted that SCERS' private equity portfolio shows lower relative returns due to the early phase/cycle of investments (j-curve effect) compared to the index.

Mr. Feidler reported that, through June 30, 2015, SCERS' real assets portfolio IRR was 6.37% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.26% and SCERS' TVPI was 1.18x.

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 8.66% as of June 30, 2015 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%.

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

19. Jennifer Young and Nick Rittenhouse of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended September 30, 2015.

Ms. Young reported that SCERS' total real estate portfolio returned 1.3% during the third quarter of 2015, which underperformed SCERS' blended benchmark of 2.3%. Ms. Young stated that for the 12 month period ending September 30, 2015, SCERS' real estate portfolio return was 10.7% and that in the same period, the benchmark returned 11.4%.

Mr. Rittenhouse reported that SCERS' core real estate portfolio returned 1.9% during the third quarter, underperforming the benchmark of 3.4%. Mr. Rittenhouse stated that for the 12 month period ending September 30, 2015, SCERS' core real estate portfolio return was 12.0% and that in the same period, the benchmark returned 13.9%. Mr. Rittenhouse further stated that the core separate accounts and the core commingled fund returned 1.0% and 3.7%, respectively, for the quarter.

**INVESTMENT MATTERS (continued):**

Mr. Rittenhouse reported that SCERS' non-core real estate portfolio returned 2.3% for the quarter, underperforming Townsend's benchmark of the NFI-ODCE plus 100 bps benchmark, which returned 3.7%. Mr. Rittenhouse stated that SCERS' non-core real estate portfolio returned 12.3% for the 12 month period ending September 30, 2015, trailing the benchmark return of 14.9%.

Mr. Rittenhouse reported that SCERS' domestic public REIT portfolio returned 3.1%, compared to a third quarter return of 1.0% for the FTSE NAREIT (domestic) REIT Index. Mr. Rittenhouse stated that for the 12 months ending September 30, 2015, SCERS' domestic public REIT portfolio earned 12.7% return, beating the benchmark return of 7.8%.

Mr. Rittenhouse reported that SCERS' international REIT portfolio returned -5.6%, compared to the third quarter return of -5.4% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Mr. Rittenhouse stated that for the 12 months ending September 30, 2015, SCERS' international REIT portfolio earned a -1.7% return, beating the benchmark return of -2.6%.

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

20. Deputy Chief Investment Officer Steve Davis introduced the annual report on the Real Assets asset class.

Mr. Davis provided an overview of the Real Assets asset class including the investment objectives, the benchmark, and the sub-asset class targets.

Investment Officer JR Pearce reviewed the real asset activities over 2015. Mr. Pearce discussed activities within core and non-core real estate and private real assets.

Mr. Davis then reviewed the actual and target allocations for this asset class. Mr. Davis noted that the gaps between the actual and target allocations were being filled by the overlay program.

Jamie Feidler of Cliffwater, LLC presented the recommended 2016 private real assets plan. Mr. Feidler stated that Staff and consultant were recommending a \$200 million annual commitment budget, with a range of \$150 - \$250 million over 3 – 7 commitments.

Motion by Mr. Diepenbrock to approve the proposed real assets investment plan for 2016; Seconded by Mr. Kelly. Motion carried (8-0).

Motion by Mr. DeVore to receive and file the annual report on the real assets asset class; Seconded by Mr. Diepenbrock. Motion carried (8-0).

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The meeting was adjourned at 12:50 p.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Steven L. Baird, Michael DeBord, Keith DeVore, James A. Diepenbrock, Diana Gin, Chris Pittman, Julie Valverde (departed at 11:30 a.m.), John Conneally, and Martha J. Hoover.

MEMBERS ABSENT: none.

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; Tae-Young Weiler, Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Barry Dennis, Strategic Investment Solutions, Inc; Jamie Feidler, Cilffwater LLC; Jennifer Young and Nick Rittenhouse, The Townsend Group; Debbie Chan, Macias Gini & O'Connell; and John Kennedy, Nossaman LLP.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

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.