



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, SEPTEMBER 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, September 16, 2015, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the August 19, 2015 regular meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. DeBord. Motion carried (8-0).

CONSENT MATTERS:

Items 3-10

The Consent Matters were acted upon as one unit upon a Motion by Mr. DeBord; Seconded by Mr. Kelly carried (8-0).

3. CALAVA, John Jr.: Granted a service-connected disability retirement.
4. SUIUGAN, Ana: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

5. KARASINSKI, Jana: Denied a service-connected disability retirement.
6. Approved the withdrawal of a reciprocal disability retirement application and submission of a service retirement application by SCERS member Michael Seipert.
7. Approved the acceptance of sponsor-provided travel and lodging for staff participation in the Global ARC Boston conference.
8. Received and filed the report on securities class action litigation activities for the 2014-2015 fiscal year.
9. Received and filed the August 2015 Monthly Investment Portfolio Activity Report.
10. Received and filed the August 2015 Monthly Investment Manager Compliance Reports and Watch Lists.

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud stated that the State Association of County Retirement Systems (SACRS) Fall Conference would be taking place in San Diego November 17-20. Mr. Stensrud noted that those interested in attending should contact Staff for assistance.

Mr. Stensrud reported that SCERS had recently hosted a delegation from the Vietnam Social Security Administration. Mr. Stensrud stated that SCERS was contacted by the Pacific Pension Institute who was scheduling meetings for the delegation with various pension organizations along the US West Coast and Western Canada. Mr. Stensrud further stated that the delegation was interested in learning more about the ways other pension organizations were managed.

Mr. Stensrud reported that efforts were continuing on the proposed ballot initiative that would call for all new public employees to be part of a defined contribution plan as opposed to the current defined benefit plan. Mr. Stensrud stated that the Sacramento County Retired Employees' Association (SCREA) was preparing an informative mailer and that SCERS would facilitate the mailing by providing mailing addresses to the printer used by SCREA. Mr. Stensrud noted that there would be no endorsement from SCERS on the mailer, and consistent with SCERS' policy on facilitating communication with SCERS members, the contact information would be kept confidential from the SCREA.

Mr. Stensrud reported that ballots for the upcoming SCERS Board election would be mailed out by September 18. Mr. Stensrud noted that the voting period would run from September 21 through October 2.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud discussed the proposed legislation that SACRS was considering for 2016. Mr. Stensrud noted that SACRS was considering proposals related to the affidavit filed by members with the retirement system; the voting authority of the alternate retiree Trustee; and the operating authority structure for 1937 Act retirement systems.

12. Chief Executive Officer Richard Stensrud reported that in the 2014-2015 fiscal year, SCERS produced unallocated earnings of approximately \$63 million. Mr. Stensrud explained that unallocated earnings result when, after application of the multi-year asset smoothing process, and after meeting the target growth rate for the fund, there are investment earnings remaining.

Mr. Stensrud stated that based on the Interest Crediting and Unallocated Earnings Policy adopted by the Board, the default approach to unallocated earnings was to apply one half to pay down unfunded liability, which creates an immediate reduction in the employer contribution rate, and apply one half to the contingency reserve where they would be available to address future cost needs. Mr. Stensrud explained the rationale for establishing co-equal priorities for the application of unallocated earnings and discussed SCERS' past practice. Mr. Stensrud noted that the policy does allow for the Board to deviate from the default approach if the Board determined that allocating more to one priority over the other would have a more beneficial impact. Mr. Stensrud noted, however, that the decision of how to apply unallocated earnings in any given year is solely a question of when they will provide positive cost impact, not whether they will provide cost impact.

Discussion followed.

Motion by Mr. DeVore to apply one half of the unallocated earnings for the June 30, 2015 actuarial valuation to unfunded liability and one half to the contingency reserve; Seconded by Mr. Diepenbrock. Motion carried (8-0).

INVESTMENT MATTERS:

13. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending March 31, 2015 and June 30, 2015, including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' hedge fund portfolio was up 0.04% in the second quarter of 2015, which was below both the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.22% and the HFRI Fund of Funds Composite Index which was up 0.18%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was up 0.44% in the quarter, and outperformed the HFRI Fund of Funds Composite Index, but underperformed the 90-day T-Bills + 5%.

Mr. Feidler stated that for the quarter, SCARF B returned 0.61%, which outperformed the HFRI Fund of Funds Composite Index, but underperformed the 90-day T-Bills + 5%.

INVESTMENT MATTERS (continued):

Mr. Feidler reported that SCERS' direct hedge fund program was down 0.45% during the second quarter, underperforming both the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%. Mr. Feidler explained that a significant driver of the underperformance was a hedge fund manager that has been terminated.

Mr. Feidler stated that third quarter to date, through July 31, 2015, SCERS' total hedge fund program is up 0.47%, the direct hedge fund program is up 0.73%, and SCARF is up 0.24%. These numbers compare to the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%, which are up 0.30% and 0.40%, respectively

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 10.33% since inception compared to the Cambridge Associates Private Equity Index up 10.14% and the multiple of total value to paid in capital ("TVPI") is 1.22x since inception. Mr. Feidler noted that SCERS' private equity portfolio shows lower relative returns due to the early phase/cycle of investments (j-curve affect) compared to the index.

Mr. Feidler reported that, through March 31, 2015, SCERS' real assets portfolio IRR was 6.46% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.23% and SCERS' TVPI was 1.18x.

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 8.4% as of March 31, 2015 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 Mr. Diepenbrock. Motion carried (8-0).

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

Ms. Young reported that SCERS' total real estate portfolio returned 1.1% during the second quarter of 2015, which was closely in-line with SCERS' blended benchmark of 1.2%. Ms. Young stated that for the 12-month period ending June 30, 2015, SCERS' real estate portfolio return was 11.3% and that in the same period, the benchmark returned 11.0%.

Ms. Young reported that SCERS' domestic public REIT portfolio returned -9.7%, compared to a second quarter return of -9.1% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that for the 12-months ending June 30, 2015, SCERS' domestic public REIT portfolio earned 5.7% return, beating the benchmark return of 4.1%.

Ms. Young reported that SCERS' international REIT portfolio returned -2.0%, compared to the second quarter return of -2.4% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Ms. Young stated that for the 12-months ending June 30, 2015, SCERS' international REIT portfolio earned a -1.3% return, beating the benchmark return of -2.9%.

INVESTMENT MATTERS (continued):

Mr. Rittenhouse reported that SCERS' core real estate portfolio returned 3.1% during the second quarter, underperforming the benchmark of 3.6%. Mr. Rittenhouse stated that for the 12-month period ending March 31, 2015, SCERS' core real estate portfolio return was 14.0% and that in the same period, the benchmark returned 13.4%. Mr. Rittenhouse further stated that the core separate accounts and the core commingled fund returned 2.7% and 4.0%, respectively, for the quarter.

Mr. Rittenhouse reported that SCERS' non-core real estate portfolio returned 5.9% for the quarter, outperforming Townsend's benchmark of the NCREIF / Townsend Value Added Funds, which returned 3.8%. Mr. Rittenhouse stated that SCERS' non-core real estate portfolio returned 13.5% for the 12-month period ending June 30, 2015, trailing the benchmark return of 14.4%.

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

15. Deputy Chief Investment Officer Steve Davis introduced the educational presentation on investing in timberland. Mr. Davis stated that SCERS has been building out its private real assets portfolio within the broader real assets asset class over the past several years. Mr. Davis noted that the majority of investments within private real assets are designated within the energy and infrastructure segments. Mr. Davis stated that there are, however, a variety of additional segments that Staff considers as viable investment opportunities within private real assets, including timberland.

Jamie Feidler and Mark Williams of Cliffwater, LLC provided the educational presentation on investing in timberland. Mr. Williams provided an overview of the timberland industry and market. Mr. Williams then discussed the history of institutional investing in timberland. Mr. Williams reviewed the role of timberland in a real assets portfolio. Mr. Williams then discussed the different options available in investing in timberland, as well as the potential risks. Finally, Mr. Williams reviewed the historical timberland investment performance.

Discussion followed.

Motion by Mr. Diepenbrock to receive and file the educational presentation on investing in timberland; Seconded by Mr. DeBord. Motion carried (8-0).

The meeting was adjourned at 12:13 p.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Keith DeVore, Michael DeBord, James A. Diepenbrock, Diana Gin, Chris Pittman, Julie Valverde, and Martha J. Hoover.

MEMBERS ABSENT: John Conneally

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; John Lindley, IT Administrator; Barry Dennis, Strategic Investment Solutions, Inc; Jamie Feidler and Mark Williams, Cilffwater LLC; Jennifer Young and Nick Rittenhouse, The Townsend Group; 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.