



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, AUGUST 19, 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, August 19, 2015, and commenced at 10:01 a.m.

#### **OPEN SESSION:**

##### **PUBLIC COMMENT:**

1. Michael Seipert addressed the Board regarding his appeal of a benefit determination matter.

##### **MINUTES:**

2. The Minutes of the July 15, 2015 regular meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. DeVore. Motion carried (7-0, Ms. Valverde abstained).

##### **CONSENT MATTERS:**

Items 3-13

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

**CONSENT MATTERS (continued):**

3. FEUTZ, Douglas P.: Granted a nonservice-connected disability retirement.
4. IWANAGA, Mary A.: Granted a nonservice-connected disability retirement.
5. MARSHALL, Brenda D.: Granted an interim nonservice-connected disability retirement.
6. TELLEZ, Sheila R.: Denied a nonservice-connected disability retirement.
7. Approved the final reconciliation of employer contributions for Sacramento County for fiscal year 2014-2015.
8. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended June 30, 2015.
9. Received and filed the Semi-Annual Administrative Expense Report for the six months ended June 30, 2015.
10. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended June 30, 2015.
11. Received and filed the Trading Cost Report for the Quarter Ended June 30, 2015.
12. Received and filed the July 2015 Monthly Investment Portfolio Activity Report.
13. Received and filed the July 2015 Monthly Investment Manager Compliance Reports and Watch Lists.

**ADMINISTRATIVE MATTERS:**

14. 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 candidates had been identified for the upcoming SCERS Board election. Mr. Stensrud stated that incumbents Chris Pittman and John Conneally were running unopposed for the two Safety member seats. Mr. Stensrud explained that since there were only two candidates (one law enforcement and one fire suppression), the one with the larger number of votes in the election would be the lead Safety Board Member and the other would be the Alternate Safety Board Member. Mr. Stensrud also stated that there were five candidates for the vacant Miscellaneous member seat. Mr. Stensrud noted that the voting period would run from September 21 through October 2.

Mr. Stensrud reported that legislation had recently been passed giving the Ventura County Retirement System special district and official control over a segment of their staff. Mr. Stensrud noted that this legislation had already been signed by the Governor.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Pittman asked Mr. Stensrud to provide an update 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 there had not been significant news since the last Board Meeting. Mr. Stensrud noted that, to his knowledge, signature gathering for the initiative had not yet begun and that no major donors for the initiative had yet stepped forward.

15. Chief Operations Officer Kathy Regalia presented the final SCERS budget for the 2015-2016 fiscal year. Ms. Regalia noted that the primary change from the preliminary budget request that the Board approved at the June meeting was the addition of 7.5 Staff positions as discussed at the July Board Meeting.

Motion by Mr. Diepenbrock to approve the final SCERS budget for the 2015-2016 fiscal year; Seconded by Mr. Pittman. Motion carried (8-0).

16. Chief Benefits Officer John Gobel and General Counsel Robert Gaumer presented the annual report on the processing of applications for disability retirement benefits.

Mr. Gobel reviewed the annual statistics regarding resolved items via staff recommendation, decision by referees, or voluntary withdrawals by applicants. Mr. Gobel noted that the number of staff recommendations were up considerably, but that proposed decisions were down.

Mr. Gobel noted that increasing the number of hearings conducted and reducing the time it takes to resolve applications were matters that continued to be worked on both with respect to administrative practices and the procedures for handling applications. Mr. Gobel and Mr. Gaumer stated that Staff is close to finalizing new procedures to address issues with the process. Mr. Gobel further noted that Staff is also working to potentially hire a medical advisor to assist on cases. Mr. Gobel stated that Staff hopes to propose these changes at a Board Meeting during the fall.

Discussion followed.

Motion by Mr. Diepenbrock to receive and file the annual report on the processing of applications for disability retirement benefits; Seconded by Ms. Gin. Motion carried (8-0).

17. Chief Executive Officer Richard Stensrud reviewed a proposed amendment to the final compensation review process mandated by CalPEPRA. Mr. Stensrud stated that this amendment would provide Staff the authority to exclude a pay element from final compensation in those cases where the member elects not to contest its exclusion.

**ADMINISTRATIVE MATTERS (continued):**

Motion by Mr. DeVore to approve the proposed amendment to the final compensation review process mandated by CalPEPRA; Seconded by Mr. Diepenbrock. Motion carried (8-0).

**INVESTMENT MATTERS:**

18. Barry Dennis of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended June 30, 2015.

Mr. Dennis reported that the Total Fund (TF) return for the second quarter, including the impact of the overlay program, was 0.4% gross of fees. The TF return was 0.1% below the policy index of 0.5%, and 0.1% above the allocation index return of 0.3%. The TF return without the impact of the overlay program was 0.5%.

Mr. Dennis reported that on a comparative basis, the return for the quarter was in-line with the Public Funds \$1+ Billion Median return of 0.4%. The TF return ranks in the 46th percentile in the InvestorForce Universe, which is the ranking universe used by SIS. The major asset classes experienced mixed returns for the quarter.

Mr. Dennis reported that at the asset class level, quarter outperformance occurred, gross of fees, in the international equity, private equity, and opportunistic segments. Underperformance occurred in the fixed income, hedge fund, and real assets segment. The domestic equity segment performed in-line with its benchmark.

Mr. Dennis reported that for SCERS' fiscal year ending June 30, 2015, the TF return gross of fees, including the impact of the overlay program was 2.5%, which was 0.7% below the return of the policy index benchmark return of 3.2%, and 0.3% above the allocation index return of 2.2%. The return of the TF without the impact of the overlay was 2.7%. The TF fiscal year return was 0.7% below the Public Funds \$1+ Billion Median return of 3.2%, and ranks in the 69th percentile in the InvestorForce Universe.

Mr. Dennis reported that the annualized TF return gross of fees for three years of 10.6% is 0.8% above the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 10.8% is in-line with the policy index benchmark for the period. The TF gross of fees return of 8.5% since the inception of SIS's data in June of 1986 is 0.2% below the Total Benchmark return of 8.7% for the period, but above SCERS' actuarial investment return assumption which has ranged from 8.25% to 7.50% (currently) during the period.

Motion by Mr. Diepenbrock to receive and file the quarterly report; Seconded by Ms. Valverde. Motion carried (7-0).

**INVESTMENT MATTERS (continued):**

19. Barry Dennis and John Nicolini of Strategic Investment Solutions provided an educational presentation on options and applications for the management of currency exposure.

Mr. Dennis provided an overview of currency markets and explained the concept of strategic hedging. Mr. Nicolini provided historical data on how currency hedging has changed with increased globalization. Mr. Dennis then discussed SIS' forecasts for the impact of currency hedging. Mr. Nicolini reviewed SCERS current currency exposure. Finally, Mr. Dennis and Mr. Nicolini concluded that the currency hedging net portfolio benefit is marginal, though it is more significant for international fixed income than for international developed equity, and that currencies are thought to be a natural inflation hedge to a pension fund's liabilities.

Motion by Mr. Diepenbrock to receive and file the educational presentation; Seconded by Mr. DeBord. Motion carried (7-0).

20. Chief Executive Officer Richard Stensrud introduced the proposed changes to the proxy investments used in the portfolio overlay program to replicate the real assets asset class.

Deputy Chief Investment Officer Steve Davis provided a background on SCERS' overlay program. Investment Officer JR Pearce then reviewed SCERS's real asset program, including its investment objectives and its current allocation. Mr. Pearce also reviewed SCERS' current real assets proxy.

Mr. Davis then discussed potential options for modifications to the real assets proxy, including the options' forecasted returns and risk, their forward estimates, and their historical returns. Mr. Davis detailed the option Staff is proposing and the justification for that option. Finally, Mr. Davis reviewed the structure, cost, and implementation of the proposed option.

Motion by Mr. Diepenbrock to approve the proposed changes to the proxy investments used in the portfolio overlay program to replicate the real assets asset class; Seconded by Mr. DeBord. Motion carried (7-0).

The meeting was adjourned at 12:40 p.m.

**MEMBERS PRESENT:** Richard B. Fowler II, Michael DeBord, Keith DeVore, James A. Diepenbrock, Diana Gin (departed at 10:57 a.m.), Chris Pittman, Julie Valverde, John Conneally, and Martha J. Hoover.

**MEMBERS ABSENT:** John B. Kelly.

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 and John Nicolini, Strategic Investment Solutions, Inc; Jamie Feidler, Cilffwater LLC; John Kennedy, Nossaman LLP; and Michael Seipert.

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.