



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Scott Chan  
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

James A. Diepenbrock, President  
Appointed by the Board of Supervisors

John B. Kelly, Vice President  
Appointed by the Board of Supervisors

Michael DeBord  
Elected by the Retired Members

Keith DeVore  
Appointed by the Board of Supervisors

Richard B. Fowler II  
Appointed by the Board of Supervisors

Diana Gin  
Elected by the Miscellaneous Members

Kathy O'Neil  
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, THURSDAY, MAY 22, 2014

A special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Thursday, May 22, 2014, and commenced at 10:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the April 16, 2014 regular meeting were approved on Motion by Ms. O'Neil; Seconded by Ms. Valverde. Motion carried (8-0).

##### CONSENT MATTERS:

Items 3-14

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

3. BIHMS, Cynthia D.: Granted a nonservice-connected disability retirement.

**CONSENT MATTERS (continued):**

4. GILLUM, Gregory S.: Granted a service-connected disability retirement.
5. NAVARRO, Maria G.: Granted a nonservice connected disability retirement.
6. ARCOS, Saul: Denied a service-connected disability retirement.
7. ESTEP, Karen: Granted a service-connected disability retirement.
8. SODA, Carolyn: Granted a service-connected disability retirement.
9. VOLOSCIUC, Svetlana: Denied a service-connected disability retirement.
10. LEE, Yang Pao: Denied a service-connected disability retirement.
11. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended March 31, 2014.
12. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended March 31, 2014.
13. Received and filed the Trading Cost Report for the Quarter Ended March 31, 2014.
14. Received and filed the April 2014 Monthly Investment Manager Compliance Report and Watch List.

**CLOSED SESSION:**

**INVESTMENT MATTERS:**

15. Considered the purchase or sale of particular, specific pension fund investments pursuant to Government Code Section 54956.81.

Discussed an ongoing investment manager transition with Staff and Counsel.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

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

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud congratulated John Kelly on his election as the State Association of County Retirement Systems (SACRS) Vice President.

Mr. Stensrud noted that the SACRS Spring Conference was recently held in Sacramento and invited comments from the Board Members who attended. Mr. DeVore stated that the conference was very good and was impressed by the diversity of the speakers. Mr. Kelly noted that the conference covered a wide variety of subjects including board independence, sustainability, and discussions of defined contribution plans versus defined benefit plans.

Mr. Stensrud noted that the SACRS Public Pension Investment Management Program would be held July 20 – July 23 at UC Berkeley. Mr. Stensrud stated that Board Members who wish to attend should contact Staff for assistance.

Mr. Stensrud reported on the increasing discussion about phasing out defined benefit plans for public employees, specifically in Ventura County where a potential pension reform initiative has received over 40,000 signatures in an effort to get in on the ballot. Mr. Stensrud noted that groups outside of Ventura County are contributing money to help get the initiative on the ballot. Mr. Stensrud also noted that it appeared there was a lot of inaccurate information being promulgated regarding defined benefit plans and the merit of phasing them out. Mr. Stensrud stated that in response to the misinformation and/or vacuum of information, SACRS was exploring the feasibility of serving as an information resource with the focus on education, not advocacy. Discussion followed and it was the consensus of the Board that SACRS should move forward with consideration of how to provide an education role in the public debate of the issues.

Mr. Stensrud reported on recent investment activities. Mr. Stensrud noted that Staff had completed engagements with Thoma Bravo, a buyout fund focused on tech software, EnCap Flatrock, an energy infrastructure fund, and an infrastructure and real assets secondary fund strategic partnership with Pantheon Global.

Mr. Stensrud stated that SCERS was nominated for *Institutional Investor* magazine's 12<sup>th</sup> Annual Hedge Fund Industry Award as the small public plan of the year. Mr. Stensrud noted that winners would be announced on June 26. The Board expressed its congratulations to the Staff and investment partners for the award nomination.

Mr. Stensrud noted that occasionally, participating employers will leave SCERS, generally due to re-structuring. Mr. Stensrud stated that the Sacramento Area Flood Control Agency (SAFCA) was in the process of separating from Sacramento County and potentially transitioning to CalPERS for the retirement benefits for new employees and future retirement service for current employees. Mr. Stensrud reported that Staff is working with SAFCA and the County on this process, but that SAFCA may end up staying in SCERS as a separate participating employer.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud stated that there had been some recent reports on actuarial methodology used for public retirement systems, and that he would be providing the Board with information on how and why SCERS and its actuary use the methodology they use.

17. Keith Bozarth presented the proposed SCERS' strategic plan for 2014-2018. Mr. Bozarth detailed the foundation of the strategic plan and explained how the plan was developed, noting that it was grounded in SCERS' mission statement and core values. Mr. Bozarth then discussed each of the six main goals identified in the strategic plan: (1) Funding Policies and Practices; (2) Investment Program; (3) Service Delivery; (4) Fiscal Responsibility; (5) Risk Management; and (6) Aligning Authority with Duties. Mr. Bozarth and Mr. Stensrud then covered the next steps, including: (a) Review the strategic planning goals and objectives with stakeholders; (b) Identifying priorities; (c) Developing implementation plans; (d) Working with stakeholders to begin executing implementation plans; and (e) Measuring and reporting on progress on the strategic plan.

Mr. Stensrud noted that he, Keith DeVore, and Richard Fowler had met recently with the County Board of Supervisors to discuss SCERS' strategic plan. Mr. DeVore and Mr. Fowler agreed that the meetings went well and that there was general support from the Supervisors. Mr. DeVore noted that the Supervisors appreciated the fact that Mr. Stensrud was also meeting with stakeholders to discuss the strategic plan. Mr. Stensrud stated that there would be additional meetings with the Supervisors to discuss how best to incorporate the strategic plan within the current relationship between the County and SCERS.

Discussion followed, including discussion of implementation efforts that were already underway and the development of timelines for implementation of the various goals and objectives.

Motion by Mr. Pittman to approve the proposed SCERS' strategic plan for 2014-2018; Seconded by Ms. Valverde. Motion carried (9-0).

**INVESTMENT MATTERS:**

18. Patrick Thomas of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended December 31, 2013.

Mr. Thomas reported that the Total Fund (TF) return for the first quarter, including the impact of the overlay program, was 1.7% gross of fees. The TF return was 0.8% below the policy index of 2.5%, and 0.1% below the allocation index of 1.8%. The overlay program had a negative impact of 0.1% during the quarter.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 0.1% below the Public Funds \$1+ Billion Median return of 1.8%. The TF return ranks in the 55th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

**INVESTMENT MATTERS (continued):**

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

Mr. Thomas reported that, for the fiscal year-to-date, the TF return gross of fees, including the impact of the overlay program was 12.5%, which was 0.7% above the return of the policy index of 11.8% and 1.4% above the allocation index return of 11.1%. The TF fiscal year return was 0.4% above the Public Funds \$1+ Billion Median return of 12.1%, and ranks in the 36th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Thomas reported that at the asset class level, fiscal year outperformance versus the policy benchmark has occurred, gross of fees, in the fixed income, hedge fund, and real assets segments of the portfolio. Fiscal year-to-date underperformance versus the policy benchmark occurred, gross of fees, in the domestic equity, international equity, private equity, and opportunistic segments of the portfolio.

Mr. Thomas reported that the annualized TF return gross of fees for three years of 9.1% is 0.4% above the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 14.5% is 0.1% above the policy index benchmark for the period. The TF gross of fees return of 8.7% since the inception of SIS' data in June of 1986 is 0.2% below the Total Benchmark return of 8.9% for the period.

Motion by Mr. DeBord to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Ms. O'Neil. Motion carried (9-0).

19. Chief Investment Officer Scott Chan introduced Prudential Fixed Income who would be providing a presentation regarding their qualifications for managing a core-plus domestic fixed income portfolio. Mr. Chan reviewed the objectives for the core-plus mandate, the selection process that Staff used in finding a manager for the mandate, and the reasons why Staff and SIS chose to recommend Prudential.

Peter Taggart and Michael Collins from Prudential provided a presentation on their qualifications for managing core-plus domestic fixed income portfolio. Mr. Taggart reviewed the firm's history and structure. Mr. Collins provided an overview of Prudential's Core Plus Fixed Income team and discussed the objectives and processes that Prudential uses. Mr. Collins then reviewed Prudential's current views of and positions in the market.

Motion by Mr. Kelly to receive and file the presentation by Prudential Fixed Income regarding their qualifications for managing a core-plus domestic fixed income portfolio; Seconded by Mr. Fowler. Motion carried (9-0).

**INVESTMENT MATTERS (continued):**

Motion by Ms. O’Neil to approve the recommendation to engage Prudential Fixed Income to manage a core-plus domestic fixed income portfolio; Seconded by Mr. DeVore. Motion carried (9-0).

The meeting was adjourned at 12:59 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, Michael DeBord, Keith DeVore (arrived at 10:05 a.m.), Richard B. Fowler II, Diana Gin, Kathy O’Neil, Chris A. Pittman, Julie Valverde, John Conneally, and Martha J. Hoover (departed at 12:04 p.m.).

MEMBERS ABSENT: none.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment 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; JR Pearce, Investment Officer; John Lindley, IT Administrator; Patrick Thomas and John Nicolini, Strategic Investment Solutions, Inc.; Jamie Feidler, Cliffwater, LLC; Peter Taggart and Michael Collins, Prudential; Katie Briscoe, Nossaman LLP; Diana Ruiz, Deputy County Counsel; Keith Bozarth, Keith Bozarth, LLC; Carolyn Soda; and Karen Estep.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
James A. Diepenbrock, 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.