



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, FEBRUARY 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, February 18, 2015, and commenced at 10:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the January 21, 2015 regular meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. Kelly. Motion carried (6-0).

CONSENT MATTERS:

Items 3-12

The Consent Matters were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Mr. DeBord. Motion carried (6-0).

3. BARBER, Gerald R.: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

4. CHAVEZ, Sophia: Granted a nonservice-connected disability retirement.
5. ROBINSON, Karyn: Denied a service-connected disability retirement.
6. Approved proposed cost-of-living adjustment (COLA) effective April 1, 2015, for SCERS' monthly benefit payments.
7. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended December 31, 2014.
8. Received and filed the Semi-Annual Administrative Expense Report for the six months ended December 31, 2014.
9. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended December 31, 2014.
10. Received and filed the Trading Cost Report for the Quarter Ended December 31, 2014.
11. Received and filed the January 2015 Monthly Investment Portfolio Activity Report.
12. Received and filed the January 2015 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

13. 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:

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

Mr. Stensrud noted that the California Association of Public Retirement Systems (CALAPRS) General Assembly would be March 8 – 10 in Monterey.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 12 – 15 in Anaheim. Mr. Stensrud noted that the date of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled to May 6.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that SCERS would be hosting another retirement planning seminar for employees late in their career on March 17. Mr. Stensrud stated that the seminar, once again, was fully subscribed.

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.

15. Chief Benefits Officer John Gobel introduced the semi-annual update on the processing of applications for disability retirement benefits. Mr. Gobel stated that previously, this update was provided annually, but in an effort to provide more information to the Board, this semi-annual update was prepared.

Mr. Gobel reported that for the semi-annual period ended 12/31/2014, the pace of staff recommendations for approval was ahead of the previous year's pace. Mr. Gobel noted that the number of proposed hearing officer decisions was lower than the previous year's pace and that SCERS had engaged additional legal counsel on an ad hoc basis to help increase the number of hearings conducted. Mr. Gobel stated that increasing the number of attorneys will help in the short-term, but is not seen as a long-term solution. Mr. Gobel stated that the best opportunity for reducing overall processing times is to change when and how hearings are conducted for applications in dispute. Mr. Gobel noted that, under current bylaws, applications for disability retirement have to navigate the entire process through hearing, even though a significant number of the applicants referred to hearing over the past three years have provided minimal evidence to support their claims and have been reticent to move forward with the required proceedings.

General Counsel Robert Gaumer stated that Staff is preparing new disability retirement procedures that will enable the Board to deny applications for disability retirement without the formality of a hearing and establish clear guidelines for applicants who choose (but are not compelled) to go to hearing. Mr. Gaumer further stated that incorporated into these new disability retirement procedures are several practices that are noticeably different than those provided by the current bylaws, including: (1) Empowering Staff to present a recommendation to deny an application without going to hearing; (2) Retaining a medical advisor to assist the Board in disability determinations; (3) Improving the pre-hearing conference process; and (4) Providing means for dismissing an application when an applicant does not comply with the disability retirement procedures. Mr. Gaumer noted that these new procedures would be formally presented to the Board for consideration in the next few months.

Discussion followed.

Motion by Mr. Diepenbrock to receive and file the semi-annual update on the processing of disability retirement applications; Seconded by Mr. Kelly. Motion carried (6-0).

INVESTMENT MATTERS:

16. Chief Executive Officer Richard Stensrud introduced the presentation of the 2014 Investment Year in Review.

Mr. Stensrud noted that the purpose of the Investment Year in Review report is to: (a) Summarize the major events and developments of the past year, including investment performance; (b) Remind the Board of what has been accomplished over the year; (c) Highlight the decisions that were made, the rationale for those decisions and the direction(s) established going forward; and (d) Preview the investment program projects, issues, and objectives for the year to come.

Mr. Stensrud stated that in 2014, SCERS leveraged the expertise of its internal investment staff, investment consultants, and key investment partners to continue to implement the asset allocation structure adopted in 2011, which was designed to reduce risk, increase diversification and improve investment performance across economic environments. Mr. Stensrud noted that SCERS' Investment Staff received recognition from the investment industry for their excellence in investment management, being nominated for two awards and winning one. Mr. Stensrud stated that SCERS continues to work on maintaining a strong internal investment Staff.

Deputy Chief Investment Officer, Steve Davis provided an overview of the domestic and international markets in 2014. Mr. Davis stated that the results of 2014 highlight the importance of having a diversified portfolio and maintaining both discipline and flexibility in the asset allocation/manager structure. Mr. Davis noted that SCERS' asset allocation structure is designed to provide diversified exposure across asset classes along with the flexibility to allocate capital toward the most attractive relative value investment opportunities within each asset class. Mr. Davis noted that as the market cycle matures, capital preservation becomes more important for SCERS' portfolio, and this is accomplished by positioning the portfolio to better weather potential recessionary and dislocating periods.

Mr. Davis then reviewed SCERS' portfolio, noting that significant progress had been made in the implementation of the asset allocation model, but that it would take a few years to reach the target allocation levels in certain of the alternative asset classes. Mr. Davis also stated that strategic partnerships have taken an increasing role in SCERS' portfolio, in that they provide an opportunity to serve as an extension of staff in areas where SCERS' access or expertise might otherwise be constrained. Mr. Davis noted that these strategic partnerships are designed to provide greater control in the investment guidelines, terms, and portfolio holdings.

Mr. Davis then reviewed the performance of the portfolio for 2014. Mr. Davis stated that SCERS' portfolio returned 5.5% in 2014, which underperformed the policy index by 0.9%, but outperformed the allocation index by 0.2%. Mr. Davis noted that SCERS' portfolio has had strong absolute and excess returns over longer periods, with a 3-year absolute return of 11.9% and a 5-year absolute return of 9.7%.

INVESTMENT MATTERS (continued):

Mr. Davis then provided in-depth reviews of the domestic equity, international equity, hedge fund, and private equity asset classes, while Investment Officer JR Pearce did the same for the fixed income, real assets, and opportunities asset class. Mr. Davis and Mr. Pearce discussed the developments within each asset class over the year, the asset class performance, and the goals for the asset class for 2015.

Mr. Davis reported on other investment accomplishments in 2014 and the goals for investment activities in 2015.

Patrick Thomas from Strategic Investment Solutions, Jamie Feidler from Cliffwater, and Jennifer Young from The Townsend Group each provided a brief summary of SCERS' performance in 2014 and outlook for 2015 from their point of view. Each commended Staff on their work in 2014 and noted that SCERS was well positioned for 2015 and beyond.

Motion by Mr. Kelly to receive and file SCERS' 2014 Investment Year in Review report; Seconded by Mr. Diepenbrock. Motion carried (6-0).

17. Patrick Thomas of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended December 31, 2014.

Mr. Thomas reported that the Total Fund (TF) return for the fourth quarter, including the impact of the overlay program, was 2.0% gross of fees. The TF return was 1.2% above the policy index of 0.8%, and 1.0% above the allocation index of 1.0%. The return of the TF without the impact of the overlay program was 1.3%.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 0.7% above the Public Funds \$1+ Billion Median return of 1.3%. The TF return ranks in the 34th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Thomas reported that at the asset class level, quarter outperformance occurred, gross of fees, in the domestic equity, fixed income, private equity, and opportunistic segments. Underperformance occurred in the international equity, hedge fund, and real assets segments.

Mr. Thomas reported that, for the calendar year-to-date, the TF return gross of fees, including the impact of the overlay program was 5.5%, which was 0.9% below the return of the policy index of 6.4% and 0.2% above the allocation index return of 5.3%. The TF calendar year return was 0.1% below the Public Funds \$1+ Billion Median return of 5.6%, and ranks in the 54th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Thomas reported that the annualized TF return gross of fees for three years of 11.9% is 0.7% above the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 9.7% is 0.2% above the policy index benchmark for the

INVESTMENT MATTERS (continued):

period. The TF gross of fees return of 8.6% since the inception of SIS' data in June of 1986 is 0.2% below the Total Benchmark return of 8.8% for the period.

Motion by Mr. Diepenbrock to receive and file the quarterly performance report; Seconded by Mr. Pittman. Motion carried (6-0).

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

MEMBERS PRESENT: Richard B. Fowler II, John B. Kelly, Michael DeBord, James A. Diepenbrock, Chris Pittman, John Conneally and Martha J. Hoover (arrived 10:08 a.m.).

MEMBERS ABSENT: Keith DeVore, Diana Gin, and Julie Valverde.

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; Patrick Thomas, Strategic Investment Solutions, Inc.; Jamie Feidler, Cliffwater LLC; and Jennifer Young, The Townsend Group.

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; Mark Merin; John R. Descamp; and The Sacramento Bee.