



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

Ben Lamera
Ex Officio, Director of Finance

Chris A. Pittman
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, WEDNESDAY, JUNE 15, 2016

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, June 15, 2016, and commenced at 10:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the May 9, 2016 special meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. Baird. Motion carried (9-0).

CONSENT MATTERS:

Items 3-11

Item 6 was taken off the Consent Calendar for discussion in closed session at the request of Mr. Baird. The remaining Consent Matters (Items 3-5 and 7-11) were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Mr. DeVore carried (9-0).

3. MARSHALL, Brenda: Denied a service-connected disability retirement.

CONSENT MATTERS (continued):

4. ROSS, Robert E.: Granted a nonservice-connected disability retirement, but denied a service-connected disability retirement.
5. TRAVIS, Sarah: Denied a service-connected disability retirement.
7. Approved the renewal of SCERS' fiduciary liability insurance coverage.
8. Approved the amendment of the fee schedule for the engagement with Nossaman LLP to provide legal services in disability retirement matters.
9. Approved the one year extension of the engagement with Macias, Gini, & O'Connell, LLP to provide external audit services.
10. Received and filed the May 2016 Monthly Investment Portfolio Activity Report.
11. Received and filed the April and May 2016 Monthly Investment Manager Compliance Report and Watch List.

Chief Executive Officer Richard Stensrud informed the Board that an issue involving potential litigation had arisen after the agenda for the current meeting was finalized that needed to be addressed before the next scheduled Board Meeting. Mr. Diepenbrock made a motion to discuss this new issue in Closed Session; seconded by Mr. DeBord. Motion carried (9-0).

CLOSED SESSION:

6. CARONE, Paul: Granted a service-connected disability retirement.

The Board discussed a matter of potential litigation. No action was taken.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud congratulated Rick Fowler on his reappointment to the SCERS Board by the Sacramento County Board of Supervisors.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the employer contribution rates for the 2016-2017 fiscal year had recently been approved on consent and without discussion by the Sacramento County Board of Supervisors. Mr. Stensrud noted that the rates will go into effect in July.

Mr. Stensrud reported that the bill initiated by the State Association of County Retirement Systems (SACRS) pertaining to the operating authority of County Retirement Systems (AB 1853) was recently passed by the State Assembly. Mr. Stensrud stated that previously, certain labor organizations that represent employees of the retirement systems had been opposed to the bill. Mr. Stensrud reported that SACRS was able to develop a mutually satisfying accommodation with the labor organizations that prompted them to withdraw their opposition. Mr. Stensrud noted that the bill would now move to a committee hearing in the State Senate and that he would continue to update the Board on the bill's progress.

Mr. Stensrud noted that he had sent the Board some data recently regarding the 1937 Act Systems. Mr. Stensrud highlighted the fact that SCERS had the second highest funded status among the 1937 Act Systems.

Mr. DeBord noted that the Sacramento County Retired Employees Association (SCREA) Board President Kiyoshi "Pat" Adachi passed away at the age of 89 on May 14, 2016.

13. Chief Operations Officer Kathy Regalia presented the proposed SCERS administrative budget for the 2016-2017 fiscal year. Ms. Regalia stated that this budget was consistent with the prior year's budget. Ms. Regalia noted that an additional cost for this fiscal year was the inclusion of the IT Modernization Project and that the related costs are broken out separately within the budget. Discussion followed.

Motion by Mr. Diepenbrock to approve the proposed SCERS administrative budget for the 2016-2017 fiscal year; Seconded by Mr. Kelly. Motion carried (9-0).

14. Chief Executive Officer Richard Stensrud initiated the discussion regarding SCERS' Interest Crediting and Unallocated Earnings Policy. Mr. Stensrud noted that this would be a continuation of the discussion the Board had in December, 2015, regarding whether or not changes should be considering to this policy. Mr. Stensrud stated that the focus of that discussion was on the fact that the crediting rate used for member contribution accounts is a lower crediting rate than that which is utilized for the other actuarial valuation reserves. Mr. Stensrud noted that Andy Yeung from Segal Consulting, SCERS retained actuary, was present to assist with explaining the current policy and to answer any questions the Board may have.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud outlined the various reasons why the current policy had been established, noting that the factors leading to the policy continued to be operative. Mr. Stensrud also noted additional considerations that have arisen since the policy was adopted, and that the net impact of those considerations supported maintaining the current policy. Mr. Stensrud further noted that Staff's recommendation was to maintain the existing policy.

Mr. DeBord and Mr. Baird each expressed their concerns as to why the same rate isn't applied to all accounts. Discussion followed.

Mr. Yeung detailed the history of how SCERS and other 1937 Act systems came to adopt policies that provide different crediting rates for different accounts. Additional discussion followed.

Motion by Mr. Diepenbrock to reaffirm SCERS' existing Interest Crediting and Unallocated Earnings Policy; Seconded by Mr. DeVore. Motion carried (7-2), with Mr. DeBord and Mr. Baird dissenting.

15. Motion by Mr. Diepenbrock to approve the proposed interest crediting rate for member contribution accounts for the six month period ending June 30, 2016; Seconded by Mr. Kelly. Motion carried (9-0).

INVESTMENT MATTERS:

16. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending December 31, 2015 and March 31, 2016, including information regarding the absolute return, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' absolute return portfolio was down 3.09% in the first quarter of 2016, which was below both the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.30%, and the HFRI Fund of Funds Composite Index which was down 3.08%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was down 4.19% in the quarter, and underperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler stated that for the quarter, SCARF B returned -3.81%, which also underperformed the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler reported that SCERS' direct absolute return program was down 1.93% during the first quarter, which outperformed both the HFRI Fund of Funds Composite Index, but underperforms the 90-day T-Bills + 5%.

INVESTMENT MATTERS (continued):

Mr. Feidler stated that first quarter to date, through April 30, 2016, SCERS' total absolute return program is up 0.77%, the direct absolute return program is up 0.37%, and the SCARF portfolios are up 1.11%. These numbers compare to the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%, which are up 0.03% and up 0.43%, respectively.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 10.25% since inception compared to the Cambridge Associates Private Equity Index up 10.08% and the multiple of total value to paid in capital ("TVPI") is 1.23x 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 December 31, 2015, SCERS' real assets portfolio IRR was 5.39% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.15% and SCERS' TVPI was 1.14x.

Mr. Feidler reported that SCERS' opportunities portfolio generated a net IRR of 8.73% as of December 31, 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. DeBord. Motion carried (9-0).

17. Jennifer Young of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended March 31, 2016.

Ms. Young provided a summary of the real estate market for the quarter. Ms. Young also provided an overview of SCERS' real estate portfolio, including the portfolio's funding status and composition.

Ms. Young reported that SCERS' total real estate portfolio returned 2.6% during the first quarter of 2016, which underperformed SCERS' blended benchmark of 2.8%. Ms. Young stated that for the 12-month period ending March 31, 2016, SCERS' real estate portfolio return was 7.8% and that in the same period, the benchmark returned 10.2%.

Ms. Young reported that SCERS' core real estate portfolio returned 1.5% during the first quarter, underperforming the benchmark of 2.0%. Ms. Young stated that for the 12-month period ending March 31, 2016, SCERS' core real estate portfolio return was 7.8% and that in the same period, the benchmark returned 12.6%. Ms. Young further stated that the core separate accounts and the core commingled fund returned 4.8% and 13.4%, respectively, for the quarter.

INVESTMENT MATTERS (continued):

Ms. Young reported that SCERS' non-core real estate portfolio returned 2.5% for the quarter, outperforming Townsend's benchmark of the NFI-ODCE plus 100 bps benchmark, which returned 2.2%. Ms. Young stated that SCERS' non-core real estate portfolio returned 17.6% for the 12-month period ending March 31, 2016, outperforming the benchmark return of 13.7%.

Ms. Young reported that SCERS' domestic public REIT portfolio returned 6.0%, compared to a first quarter return of 5.8% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that for the 12-months ending March 31, 2016, SCERS' domestic public REIT portfolio earned 6.2% return, beating the benchmark return of 4.7%.

Ms. Young reported that SCERS' international REIT portfolio returned 4.3%, compared to the first quarter return of 5.2% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Ms. Young stated that for the 12-months ending March 31, 2016, SCERS' international REIT portfolio earned a -1.3% return, trailing the benchmark return of 0.7%.

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

18. Deputy Chief Investment Officer Steve Davis introduced the educational presentation on systematic macro absolute return strategies. Mr. Davis noted that Staff and Cliffwater are currently conducting due diligence on managers in this space and felt that it would be appropriate to provide education on the strategy.

Mr. Davis provided an overview of global macro strategies, noting that they are the most opportunistic of all hedge fund strategies. Mr. Davis stated that global macro strategies are divided into two broad styles: discretionary global macro and systematic global macro. Mr. Davis reviewed SCERS' current portfolio and where global macro strategies fit within the portfolio.

Jamie Feidler of Cliffwater LLC discussed the history of Commodity Trading Advisors (CTAs) who use the systematic global macro strategy. Mr. Feidler reviewed the representative markets traded within CTAs. Mr. Feidler then detailed the typical CTA model, the differences between CTAs, and the sub-categories of CTAs. Mr. Feidler reviewed the CTA strategy and performance characteristics, the pros and cons of CTAs, and finally some past performance data on CTAs.

Motion by Mr. Kelly to receive and file the educational presentation on systematic macro absolute return strategies; Seconded by Mr. Diepenbrock. Motion carried (9-0).

INVESTMENT MATTERS (continued):

19. Chief Executive Officer Richard Stensrud introduced the educational presentation on private equity fund transparency. Mr. Stensrud noted that this topic had been getting a lot of attention in the media recently, particularly in regards to the cost structure of private equity, and that this presentation would be the first in an ongoing discussion on the topic.

Deputy Chief Investment Officer Steve Davis reviewed the role of private equity in SCERS' portfolio. Mr. Davis and Jamie Fiedler of Cliffwater discussed how private equity has performed. Mr. Fiedler discussed the investment structures, fees, and bargaining power considerations within the private equity space.

Tom Hickey of Foley & Lardner, LLP, discussed the private equity landscape since the Global Financial Crisis (GFC), including the impact of federal legislation and review and enforcement activities by the Securities & Exchange Commission (SEC).

Mr. Davis discussed the issues with private equity fund transparency, specifically the lack of uniformity on what is reported and how it is reported. Mr. Davis then reviewed some potential remedies to this issue, including the Institutional Limited Partners Association (ILPA) fee disclosure template that attempts to drive uniformity and clarity in reporting procedures.

General Counsel Robert Gaumer then discussed legislative activity in the area of cost transparency, including the proposal in the California legislature (AB 2833). Mr. Hickey reviewed new initiatives by the SEC with respect to regulation and enforcement, both of which are intended to further improve transparency.

Mr. Davis reviewed the practices that SCERS employs to monitor private equity transactions, including initial due diligence, the engagement of outside expert legal counsel, proactive negotiation and clarification of deal terms, and post-investment monitoring. Mr. Davis then discussed the measures SCERS will be pursuing going forward.

Discussion took place throughout the presentation.

Motion by Mr. Diepenbrock to receive and file the educational presentation on private equity fund transparency; Seconded by Mr. DeBord. Motion carried (9-0).

The meeting was adjourned at 2:15 p.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Keith DeVore, Steven L. Baird, Michael DeBord, James A. Diepenbrock, Diana Gin (arrived at 11:23 a.m.), Ben Lamera, Chris Pittman, and John Conneally.

MEMBERS ABSENT: Martha J. Hoover.

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, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Young, The Townsend Group; Tom Hickey, Foley & Lardner, LLP; Andy Yeung, Segal Consulting; Pat Bianco and Steven Page, Sacramento County Risk Management; John Reed and Diana Ruiz, Deputy County Counsel; and Paul Carone.

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.