



Executive Staff:

Annette St. Urbain
Interim Chief Executive Officer

Steve Davis
Chief Investment Officer

Robert L. Gaumer
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, JUNE 21, 2017

10:00 A.M.

**Location: SCERS Board Room
980 9th Street, 19th Floor
Sacramento, California 95814**

OPEN SESSION

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

James A. Diepenbrock
Appointed by the Board of Supervisors

Ben Lamera
Ex Officio, Director of Finance

Alan Matré, CPA
Elected by the Miscellaneous Members

Kathy O'Neil
Elected by the Retired Members

Chris A. Pittman
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

ITEM 1. Call to Order – The meeting was convened at 10:00 a.m.

ITEM 2. Public Comment - None heard

ITEM 3. Minutes

The Board unanimously approved the Minutes of the May 11, 2017 special meeting (9-0).

CONSENT MATTERS – ITEMS 4-7:

Item 5 was removed for a separate vote at the request of Mr. Baird.

The Board unanimously approved the remaining Consent Matters Items 4, 6, and 7 (9-0).

ITEM 4. Disability Retirement Applications

A. AVERA, Estelita: Denied a nonservice-connected disability retirement per proposed decision of Administrative Law Judge.

- B. BROWN, Kenneth: Granted a nonservice-connected disability retirement as recommended by staff.
- C. GILBERT-CALOGERIS, Cheryl: Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- D. ROA, Ruth: Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- E. STEPHENS, Doris: Granted a nonservice-connected disability retirement as recommended by staff.
- F. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions – No action taken

ITEM 6. Monthly Report of New Investment Activity – May 2017

ITEM 7. Monthly Investment Manager Activity, Compliance and Watch List Reports April and May 2017

ADMINISTRATIVE MATTERS:

ITEM 5. Interest Crediting on Member Contribution Accounts for June 30, 2017

Mr. Baird stated that, in his view, the interest crediting rate for member accounts is too low. There was discussion that the staff recommendation was developed consistent with the Board's current interest crediting policy. Interim CEO St. Urbain noted that it appeared from the record that the Board discussed the rationale for its current policy at some length in June of 2016, but no revisions to the policy were made.

Motion to approve the interest crediting on member contribution accounts for June 30, 2017 carried (8-1; Mr. Baird dissenting).

ITEM 8. Interim Chief Executive Officer's Report

Annette St. Urbain provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities.

CEO Salary Range - The salary level that will be used for the recruitment of the next SCERS CEO was approved by the Sacramento County Board of Supervisors.

Assembly Bill 526 (AB 526) – This bill, which would formalize a change in the operating authority arrangement and structure for SCERS, is scheduled for hearing in the California State Senate retirement policy committee on July 10.

Ms. St. Urbain stated that she is also working with the County Executive's office to schedule a meeting the week of July 10th to discuss AB 526 further.

SACRS 2018 Legislative Proposals Timeline - The deadline to submit legislative proposals to the State Association of County Retirement Systems (SACRS) Legislative Committee is September 5th.

GFOA Award for Excellence in Financial Reporting - For the 18th consecutive year, SCERS has earned the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for SCERS' 2016 Comprehensive Annual Financial Report (CAFR). Ms. St. Urbain commended Staff on their accomplishment.

Investment Officer Recruitment Completed - Brian Miller has accepted SCERS offer of employment and is expected to join SCERS staff in late July or early August.

Investment Staff Travel - Chief Investment Officer Steve Davis and Investment Officer J.R. Pearce would be traveling to New York City the week of June 26th for due diligence meetings with existing investment managers and to meet with potential new investment managers.

Upcoming items of note:

- The annual waiver of recourse premium is due from each Board Member by Wednesday, June 26th, in connection with SCERS annual renewal of its fiduciary liability insurance.
- At its regular meeting on July 19th the Board will be electing its officers for the 2017-2018 fiscal year.
- The November Board Meeting will be held on Tuesday, November 7 at 1:00 p.m. to accommodate staff and trustee attendance at the SACRS Fall Conference the following week.

ITEM 9. Proposed SCERS Administrative Budget for the 2017-2018 Fiscal Year

Chief Operations Officer Kathy Regalia presented the proposed SCERS Administrative Budget for the 2017-2018 fiscal year. Ms. Regalia stated that this budget was consistent with the prior year's budget. Ms. Regalia noted that staff vacancies were anticipated to be filled during the 2017-2018 fiscal year which would result in an increase in salary expenses.

The Board unanimously approved the proposed SCERS Administrative Budget for the 2017-2018 fiscal year (9-0).

ITEM 10. Update on Corrective Actions for Member Enrollment Error and Proposed Revisions to Remediation Plan

Interim Chief Executive Officer Annette St. Urbain introduced this item. In September 2016, the Board was presented with an item regarding a member enrollment correction with the Mission Oaks Recreation and Park District (Mission Oaks) and at that time, a remediation plan was approved by the Board. Ms. St. Urbain noted that Staff recognized that there would potentially be the need to adjust that plan as they worked through the issue with Mission Oaks. Ms. St. Urbain stated that adjustments were in fact needed and that a revised remediation plan is now being presented to the Board for approval.

Ms. St. Urbain noted that Chief Benefits Officer, John Gobel and Retirement Services Manager, Suzanne Likarich have devoted a tremendous amount of time and resources to address this issue with Mission Oaks and that they should be commended for their efforts.

Ms. St. Urbain summarized the proposed revisions to the remediation plan:

- Align the treatment of corrective “member contributions” paid by Mission Oaks to SCERS under the remediation plan with the treatment of employee-paid corrective and normal member contributions paid to SCERS by the affected employees. The Remediation Plan as originally approved provides that corrective “employer-paid member contributions” will be treated differently from employee-paid member contributions.
- Add definitions for “current” and “former” employees of Mission Oaks, using the time SCERS’ receives the corrective contributions from Mission Oaks as the distinguishing factor.
- Revise provisions related to a “trustee-to-trustee” transfer of funds from the Public Agency Retirement System (PARS) directly to SCERS, as this was not how the PARS contributions for the affected employees were corrected. Instead, to correct the “mistake of fact” for Mission Oaks enrolling the affected employees in the PARS plan, PARS returned the erroneous contribution directly to Mission Oaks. Mission Oaks, in turn, will pay to SCERS the amount available from the funds it received from PARS for the corrective member contributions for the 36 months prior to the employees’ membership.

General Counsel Robert Gaumer further reviewed the three proposed revisions and provided additional details as to why the adjustments were needed. Mr. Gaumer stated that one goal of the remediation plan is to be able to use it in the future with other employers if and when other member enrollment errors requiring remediation are identified.

The Board unanimously approved the proposed revisions to the Mission Oaks Member Enrollment Remediation Plan that was approved by the Board in September 2016 (9-0).

ITEM 11. Update on Strategic Initiatives

Following Interim CEO St. Urbain's introduction, Steve Hawley, SCERS' Management Consultant, presented this item. Mr. Hawley provided background on his assignment with SCERS, noting that he was engaged to spur the completion of the initiatives remaining open from SCERS' 2014-2018 Strategic Plan. Mr. Hawley discussed his current activities, including:

- Working to establish an Enterprise Solutions Management (ESM) function for SCERS
- Developing an Enterprise Risk Management program
- Reviewing cyber security risk management
- Reviewing customer service performance management
- Assisting with Pension Administration System (PAS) vendor selection

Mr. Hawley then reviewed his future activities including the mobilization of the ESM function and oversight of the IT Modernization Program activities.

The Board unanimously received and filed the update on strategic initiatives (9-0).

INVESTMENT MATTERS:

ITEM 12. Review of Proposed Restated Master Investment Policy Statement

Barry Dennis of Verus Advisory, Inc. presented the review of the proposed restated Master Investment Policy Statement (IPS). Mr. Dennis noted that at the April Board Meeting, Staff and Verus introduced the proposed structure of the restated Master IPS and an outline of the proposed content within the document.

Mr. Dennis, along with Chief Investment Officer Steve Davis, then provided more detail on the various sections of the restated Master IPS, including the Master IPS' purpose; SCERS' investment philosophies, objectives, and strategy; asset allocation; risk management; and portfolio monitoring.

Discussion followed.

Mr. Diepenbrock asked that, considering the combined length of the Master IPS along with up to nine separate asset class IPS, would it be possible to combine redundant sections in order to streamline the combined documents. Mr. Davis and Mr. Dennis discussed the rationale for the structure of the documents, but said that

they would look into the possibility of better streamlining the combined documents. Perhaps consider combining some asset class IPS into one statement for private markets, and another for public markets. Staff and all consultants (general, alternatives and real estate) will all need to work together.

Mr. DeVore requested that pertinent elements of the IPS be included in future Staff and consultant reports to ensure it is continually before the Board.

Mr. Dennis noted that one of the remaining tasks is to establish ranges around the target allocation for each asset class, and stated that the ranges may be asymmetrical to allow for more defensive positioning consistent with the Board's goal of avoiding large drawdowns as expressed during the asset/liability study concluded earlier this year. Staff and consultants will include proposed ranges in the next version of the IPS.

The Board unanimously received and filed the review of the proposed restated Master Investment Policy Statement (9-0).

ITEM 13. Proposed Private credit Investment Policy Statement

Chief Investment Officer Steve Davis reviewed the components of the proposed Private Credit Investment Policy Statement including the investment objective, the investment guidelines, monitoring, and implementation protocol.

The Board unanimously approved the proposed Private Credit Investment Policy Statement (9-0).

ITEM 14. Quarterly Investment Performance Reports – Alternative Assets

Jamie Feidler of Cliffwater, LLC presented SCERS' Alternative Assets Investment Performance Report for periods ending December 31, 2016 and April 30, 2017, including information regarding the absolute return, private equity, real assets, and opportunities portfolios, as follows:

SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY

Sub-Asset Class	1-Year*	Fiscal Year-to-Date*	Since Inception*	Since Inception Date*
SCERS Absolute Return	8.1%	7.7%	4.3%	Sep-04
90-Day T-Bills + 5% Benchmark	5.4%	4.5%	6.3%	
SCERS Private Equity			10.5%	Oct-06
Cambridge US Private Equity Index			11.7%	Oct-06
SCERS Real Assets			7.1%	Jul-95
CPI + 5% Benchmark			7.2%	Jul-95
SCERS Opportunities			8.4%	Jun-06
Actuarial Rate of Return Benchmark			7.5%	Jun-06
<i>*Note: Period ending 12/31/16 for Private Equity, Real Assets, and Opportunities Period ending 4/30/17 for Absolute Return</i>				

Mr. Feidler reported on SCERS' absolute return portfolio performance through April 30, 2017 as follows:

Absolute Return Performance Summary for the periods ending 4/30/17	1-Year	Fiscal Year-to-Date	Since Inception	Since Inception Date
SCERS Absolute Return	8.1%	7.7%	4.3%	Sep-04
Direct Portfolio	9.0%	8.2%	6.0%	Jan-12
Fund-of-Funds	7.5%	7.4%	4.1%	Sep-04
HFRI Fund-of-Funds Index	6.3%	6.2%	3.1%	Sep-04
90-Day T-Bills + 5% Benchmark	5.4%	4.5%	6.3%	Sep-04

Mr. Feidler reported, through December 31, 2016, the following performance of SCERS' private equity portfolio:

Private Equity Performance Summary for the periods ending 12/31/16	1-Year	Fiscal Year-to-Date	Since Inception	Since Inception Date
SCERS Private Equity			10.5%	
Direct Portfolio			10.6%	Jun-11
Fund-of-Funds			10.3%	Oct-06
Cambridge US Private Equity Index			11.7%	Oct-06

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, through December 31, 2016, the following performance of SCERS' real assets portfolio:

Real Assets Performance Summary for the periods ending 12/31/16	1-Year	Fiscal Year-to-Date	Since Inception	Since Inception Date
SCERS Real Assets ex. Proxy			7.9%	
SCERS Real Assets incl. Proxy			7.1%	
Real Estate			8.4%	Jul-95
Private Real Assets			21.0%	Jan-13
Commodities			-6.4%	Jun-08
SSgA Real Assets Proxy			1.4%	Jan-06
SCERS Real Estate Benchmark			N/A	
CPI + 5% Benchmark			7.2%	Jul-95
Bloomberg Commodity Index			-7.9%	Jun-08

Mr. Feidler reported, through December 31, 2016, the following performance of SCERS' opportunities portfolio:

Opportunities Performance Summary for the periods ending 12/31/16	1-Year	Fiscal Year-to-Date	Since Inception	Since Inception Date
SCERS Opportunities			8.4%	Feb-07
Actuarial Rate of Return Benchmark			7.5%	

The Board unanimously received and filed the quarterly performance report (9-0).

ITEM 15. Quarterly Investment Performance Report – Real Estate – First Quarter 2017

Jennifer Stevens and Robert Miranda of The Townsend Group presented SCERS' Real Estate Investment Performance Report for the period ending March 31, 2017, as follows:

**SCERS REAL ESTATE PERFORMANCE SUMMARY
As of March 31, 2017**

Sub-Asset Class	Quarter (1Q17)	1-Year	Fiscal Year-to-Date	Since Inception	Since Inception Date
SCERS Real Estate Portfolio	2.4%	7.5%	4.7%	8.4%	Jul-95
Core Portfolio	2.1%	9.1%	6.8%	6.4%	Jul-95
Separate Account	1.5%	9.0%	6.5%	8.8%	Jul-95
Commingled Funds	2.4%	9.1%	7.1%	6.9%	Sep-13
SCERS Blended Benchmark	2.0%	6.5%	4.1%	N/A	N/A
NFI-ODCE Index	1.5%	7.4%	5.3%	6.3%	Jul-95
Non-Core Portfolio	3.5%	8.3%	6.4%	4.5%	Jun-06
Value Add Portfolio	3.4%	6.9%	5.6%	4.1%	Jun-06
Opportunistic	3.7%	10.7%	7.6%	7.6%	May-13
NFI-ODCE + 1% Index	1.8%	8.4%	6.1%	7.3%	Jun-06
SCERS Publicly-Traded REITS	2.2%	2.4%	-2.2%	8.2%	Mar-06
US REITS	0.8%	3.0%	-4.1%	8.0%	Mar-06
International REITS	4.2%	1.6%	0.8%	11.2%	Oct-08
FTSE EPRA NAREIT US Index	2.5%	5.3%	-2.0%	10.2%	Mar-06
FTSE EPRA NAREIT Developed ex.-US Index	4.9%	1.7%	1.0%	6.1%	Oct-08

The Board unanimously received and filed the quarterly performance report (9-0).

ITEM 16. Real Estate Program Discussion

Chief Investment Officer Steve Davis introduced the presentation by Staff and the Townsend Group of a review and analysis of structural considerations for SCERS' real estate investment program.

Jennifer Stevens of The Townsend Group reviewed SCERS' real estate portfolio composition, specifically SCERS' core portfolio. Ms. Stevens discussed separate accounts versus commingled funds and whether more emphasis should be placed on comingled funds.

Investment Officer JR Pearce reviewed SCERS' non-core real estate portfolio composition, noting that non-core includes both value-add and opportunistic real estate strategies and is included in the SCERS opportunities allocation.

Ms. Stevens provided a discussion of the benchmarks that are used when evaluating returns. Ms. Stevens noted that approximately 13% of SCERS' real estate portfolio is outside of the U.S. and that it might be beneficial to provide an alternative global benchmark.

Mr. Davis reviewed the next steps and stated that Townsend and Staff would work together to determine the best path forward for SCERS and to develop a formal recommendation to the Board for adopting/implementing any policy changes. Mr. Davis noted that Townsend and Staff would bring a revised investment policy statement for real estate with a formal recommendation.

The Board unanimously received and filed the review and analysis of structural considerations for SCERS' real estate investment program (9-0).

CLOSED SESSION

No closed session was convened

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:26 p.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matré, Kathy O’Neil, Chris Pittman, and John Conneally, and Rick Fowler presiding

MEMBERS ABSENT: Martha J. Hoover

OTHERS PRESENT: Annette St. Urbain, Interim Chief Executive Officer; Steve Davis, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Barry Dennis and John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Stevens and Robert Miranda, The Townsend Group; John Reed, Deputy County Counsel; John Kennedy, Nossaman, LLP; and Daniel Barton and Cindy Paredes-Banville, Mission Oaks Recreation and Parks District

Respectfully submitted,

Annette St. Urbain
Interim Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, 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.