



Executive Staff:

Richard Stensrud
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

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

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, MAY 11, 2017

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 11, 2017, and commenced at 9:03 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the April 6, 2017 special meeting and the April 19, 2017 regular meeting were approved on Motion by Ms. O'Neil; Second by Mr. Matré. Motion carried (9-0).

CONSENT MATTERS:

Items 3-10

Item 4 was removed for discussion in open session at the request of Mr. Matré. The remaining Consent Matters (Items 3 and 5-10) were acted upon as one unit upon a Motion by Mr. DeVore; Second by Mr. Pittman. Motion carried (9-0).

CONSENT MATTERS (continued):

3. CULVERSON, Katrina: Granted a service-connected disability retirement.
5. Approved the recommendation to engage Cherion to provide actuarial audit services.
6. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended March 31, 2017.
7. Received and filed the Placement Agent Disclosure Form Activity Report.
8. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended March 31, 2017.
9. Received and filed the Trading Cost Report for the Quarter Ended March 31, 2017.
10. Received and filed the April 2017 Monthly Investment Portfolio Activity Report.

CLOSED SESSION:

11. Motion by Mr. Matré to appoint Annette St. Urbain as SCERS' interim Chief Executive Officer; Second by Mr. Baird. Motion carried (9-0).

Motion by Mr. Diepenbrock to approve the delegation of authority to the interim Chief Executive Officer; Second by Mr. Matré. Motion carried (9-0).
12. Motion by Mr. DeVore to approve the proposed severance agreement with SCERS' Executive Staff members; Second by Mr. Kelly. Motion carried (8-1; Mr. Baird dissenting).

OPEN SESSION:

ADMINISTRATIVE MATTERS:

Item 4 was removed from the consent matters for discussion in open session.

4. Chief Operations Officer Kathy Regalia discussed the process for selecting an accounting firm to recommend for auditing services. Ms. Regalia stated that SCERS received responses from four highly qualified firms. The evaluation committee selected three firms for oral interviews, which led to further narrowing of the bidders to two finalists. Ms. Regalia stated that the evaluation committee is recommending Brown Armstrong for auditing services.

ADMINISTRATIVE MATTERS (continued):

Mr. Matré also discussed the decision. Mr. Matré noted that the committee considered the fact that changing auditors at the same time as SCERS transitions to a new Chief Executive Officer might be difficult. Mr. Matré stated that the stability in the rest of the SCERS Staff mitigated the concern.

Motion by Mr. Matré to approve the recommendation of Brown Armstrong for auditing services; Second by Mr. Pittman. Motion carried (9-0).

13. 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 State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 16 – 19 in Napa, CA.

Mr. Stensrud reported that on Monday, May 15, ICON Integration would be onsite to start the data conversion project as part of SCERS' IT Modernization Program. Mr. Stensrud thanked the County Department of Technology (DTech) for their work in preparing the data environment in which ICON would be working.

Mr. Stensrud reported that Assembly Bill 526 (AB 526), which would formalize a change in the operating authority arrangement and structure for SCERS, had been passed out of Assembly policy committee by a vote of 7-0 and passed by the State Assembly by a vote of 72-0. Mr. Stensrud stated that a representative for Sacramento County expressed some concerns with the bill at the policy committee hearing, but had no formal opposition on file at that time. Later that same week, a letter opposing AB 526 was submitted on behalf of the Sacramento County Board of Supervisors. There is no record of the matter being before the Supervisors for action. Mr. Stensrud stated that the Board would continue to be updated on the progress of AB 526.

Mr. Stensrud reported that the salary range that was approved by the Board to be used in the recruitment of the new CEO, is expected to be on the June 6 agenda of the Sacramento County Board of Supervisors. Mr. Stensrud stated that SCERS has and will continue to be in contact with the Supervisors to ensure that they understand why this item is being brought to them and of its importance.

Mr. Fowler read a resolution commending and honoring Mr. Stensrud upon his upcoming departure from SCERS for his many years of outstanding service to Sacramento County, SCERS, and its members and stakeholders.

Motion by Mr. Diepenbrock to adopt the resolution honoring Richard Stensrud; Second by Mr. Kelly. Motion carried (9-0).

ADMINISTRATIVE MATTERS (continued):

14. Paul Angelo and Andy Yeung of Segal Consulting presented the actuarial experience study for the period July 1, 2013 through June 30, 2016 and the review of economic actuarial assumptions for the June 30, 2017 actuarial valuation.

Mr. Angelo noted that pursuant to SCERS' policy, the actuarial experience study is performed every three years, and while the review of economic actuarial assumptions can be performed more frequently, the practice is to perform it on the same cycle as the experience study.

Mr. Angelo and Mr. Yeung reviewed the actuarial assumption changes recommended by Segal based on the actuarial experience study. Mr. Angelo noted that Segal made recommendations to: (1) Reduce the assumed rate of price inflation from 3.25% per annum to 3.00% per annum; (2) Reduce the current investment return assumption from 7.50% per annum to 7.00% per annum; (3) Reduce the current inflationary salary increase assumption from 3.25% to 3.00% and maintain the current real "across the board" salary increase assumption at 0.25%; (4) Adjust the retirement rates, reciprocity rates, pre-retirement mortality rates, post-retirement healthy and disabled life mortality rates, termination rates (refunds and deferred vested retirements), disability rates (duty and non-duty), and sick leave conversion at retirement.

Mr. Angelo provided an in depth look at the economic assumptions. Mr. Angelo noted that the inflation assumption is long term in nature and that the median inflation assumption from the National Association of State Retirement Administrators (NASRA) is also 3.00%.

Mr. Angelo stated that a 7.00% investment return assumption is becoming more common among California public sector retirement systems. Mr. Angelo explained that even with lowering the investment return assumption, the confidence level in relation to the return assumption also decreased. Mr. Angelo stated that this is influenced by SCERS' recent portfolio asset allocation change. Mr. Angelo noted, however, that the confidence level is still at the higher end of the 50% - 60% range that corresponds to the risk adjustments used by most of Segal's other California public retirement system clients. Discussion followed.

Mr. Angelo then reviewed the options to phase-in the increase of the employer contribution rate. Mr. Angelo presented the rates that would be adopted each year of a three year phase-in. Mr. Angelo provided details on one option where the increase to the normal cost for the employer would be recognized immediately, just as the increase to the normal cost for the employees would be, but that the cost impact of the assumption change on the unfunded actuarial accrued liability (UAAL) would be phased-in over three years. Discussion followed.

(Mr. Matré departed during the discussion. Mr. Conneally voted on motions for the remainder of the meeting.)

ADMINISTRATIVE MATTERS (continued):

Motion by Mr. Diepenbrock to receive and file the actuarial experience study, to adopt the changes to the economic and demographic actuarial assumptions recommended in the report, and to approve the three year phase-in of the increase to the employer contributions only on the UAAL; Second by Mr. Baird. Motion carried (9-0).

15. Chief Executive Officer Richard Stensrud presented the proposed modifications and additions to SCERS' staff structure.

Assistant Retirement Administrator Annette St. Urbain discussed the proposed addition to the Executive Staff of a Director of Enterprise Solutions Management. Chief Operations Officer Kathy Regalia presented the proposed changes to the Operations Staff structure, including the addition of an Accountant and a Senior Information Technology Analyst. Chief Benefits Officer John Gobel presented the proposed changes to the Benefits Staff structure, including the addition of a Retirement Services Analyst and a Retirement Services Manager.

(Mr. Diepenbrock left the meeting room prior to the Board's action on this item.)

Motion by Mr. Kelly to approve the proposed modifications and additions to SCERS' staff structure; Seconded by Mr. DeVore. Motion carried (7-0; Mr. Baird abstaining, Mr. Diepenbrock absent).

INVESTMENT MATTERS:

16. John Nicolini and Margaret Jadallah of Verus Advisory, Inc. presented the Preliminary Investment Performance Report for the Quarter Ended March 31, 2017.

Mr. Nicolini reported that the Total Fund (TF) return for the quarter, including the impact of the overlay program, was 4.4% gross of fees. The TF return was 0.3% above the policy index of 4.1%, and 0.5% about the allocation index return of 3.9%. The TF return without the impact of the overlay program was 4.3%.

Mr. Nicolini reported that on a comparative basis, the return for the quarter was slightly above the Public Funds \$1+ Billion Median return of 4.3%. The TF return ranks in the 43rd percentile in the InvestorForce Universe, which is the ranking universe used by Verus. Most of the major asset classes experienced positive returns for the quarter, except for the commodities asset class.

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

INVESTMENT MATTERS (continued):

Mr. Nicolini reported that for fiscal year-to-date, the TF return gross of fees, including the impact of the overlay program is 9.8%, which is 1.1% above the return of the policy index benchmark return of 8.7%, and 1.4% about the allocation index return of 8.4%. The return of the TF for the fiscal year-to-date without the impact of the overlay is 9.4%. The TF calendar year-to-date return was 0.6% above the Public Funds \$1+ Billion Median return of 9.2%, and ranks in the 39th percentile in the InvestorForce Universe.

Mr. Nicolini reported that the annualized TF return gross of fees for three years of 5.0% is 0.6% below the policy index return of 5.6% for the same period. The annualized TF return gross of fees for five years of 7.7% is only 0.1% below the policy index return of 7.8% for the period. The TF gross of fees return of 8.3% since the inception of SIS's data in June of 1986 is 0.3% below the Total Benchmark return of 8.6% 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 Ms. O'Neil to receive and file the quarterly report; Second by Mr. Baird. Motion carried (8-0, Mr. Diepenbrock absent).

(Mr. Diepenbrock returned to the meeting room.)

17. Jamie Feidler of Cliffwater, LLC provided an overview of the private credit asset class. Mr. Feidler discussed the inception of the asset category as a segment of SCERS' private equity portfolio. Mr. Feidler noted that SCERS already has some investments in private equity that will move to private credit. Mr. Feidler stated that SCERS has set a 4% target allocation for private credit.

Mr. Feidler then reviewed the direct lending process, which will typically include loans to middle market companies in the U.S. Mr. Feidler stated that traditionally these loans were made by banks, but now are also being made by private companies. Mr. Feidler noted that private direct lending provides 5% of U.S. corporate debt financing. Mr. Feidler then reviewed other characteristics and considerations of direct lending.

Mr. Davis then provided an overview of SCERS' private credit portfolio composition noting that direct lending investments will comprise the majority of the portfolio and that other strategies will be considered opportunistic credit. Mr. Davis stated that SCERS' current investments include both direct lending and opportunistic credit. Mr. Davis discussed the differences between direct lending and opportunistic credit.

Mr. Feidler reviewed the private credit capital budget projections and the 2017 private credit annual investment plan. Mr. Feidler stated that the target range for 2017 would be investments of \$150 - \$250 million in 3-5 funds.

INVESTMENT MATTERS (continued):

Chief Executive Officer Richard Stensrud wrapped up the presentation and noted that private credit would use the same implementation protocol as private equity.

Motion by Ms. O’Neil to approve the asset class structure for private credit, the investment implementation plan for private credit, the twelve month investment plan for private credit, and the implementation protocol for private credit; Second by Mr. Diepenbrock. Motion carried (9-0).

The meeting was adjourned at 12:30 p.m.

MEMBERS PRESENT: Richard Fowler, John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matré (departed at 11:30 a.m.), Kathy O’Neil, Chris Pittman, John Conneally, and Martha J. Hoover

MEMBERS ABSENT: None

OTHERS PRESENT: Richard Stensrud, 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; Annette St. Urbain, Assistant Retirement Administrator; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Shannon Browning, Retirement Benefits Specialist; John Nicolini and Margaret Jadallah, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Paul Angelo and Andy Yeung, Segal Consulting; John Kennedy, Nossaman LLP; and Lee Hollingsworth, Sunrise Recreation and Parks District

Respectfully submitted,

Richard Stensrud
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.