



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, WEDNESDAY, MARCH 15, 2017

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, March 15, 2017, and commenced at 10:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Tom Johnson of Anderson & Johnson, LLP addressed the Board regarding his client Valentina Rodrigues whose application for disability retirement was being heard by the Board at this Board Meeting.

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2. The Minutes of the February 18, 2017 regular meeting were approved on Motion by Mr. Kelly; Seconded by Mr. DeVore. Motion carried (8-0).

CONSENT MATTERS:

Items 3-9

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

3. CLUBB, David L.: Granted a service-connected disability retirement.
4. MOORER, Lucille L.: Granted a service-connected disability retirement.
5. HUMBURG, Dawn: Denied a service-connected disability retirement.
6. RODRIGUES, Valentina: Denied a service-connected disability retirement.
7. Approved the proposed changes to the regulations necessary to comply with federal tax law.
8. Received and filed the February 2017 Monthly Investment Portfolio Activity Report.
9. Received and filed the February 2017 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 16 – 19 in Napa, CA. Mr. Stensrud noted that the date of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled to Thursday, May 11 at 10 a.m.

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.

Mr. Stensrud asked Chief Investment Officer Steve Davis to provide an update on the transition that SCERS recently conducted for the purpose of funding the new investment mandate with investment manager Walter Scott. Mr. Davis noted that Staff worked with a transition manager and was able to successfully complete the transition in just two days, and earned a net \$240,000 due to favorable market conditions when assembling the 'buy' side of the new portfolio.

Mr. Stensrud reported on SB 32, a bill introduced in the State Legislature. Mr. Stensrud stated that the bill would create a citizens pension oversight committee to serve in an advisory role to the CalSTRS and CalPERS Boards and that the oversight committee would be required to make annual reports on pension costs and obligations at those systems. Mr. Stensrud noted that the bill would require the CalSTRS and CalPERS Boards to reduce the current level of unfunded liability to the 1980 level by the year 2030, with the goal of establishing full funding, as well as a mandatory increase in the employer

contribution rate of 10% in any year in which there is unfunded liability. Mr. Stensrud stated that he would keep the SCERS Board updated on the progress of this bill.

Mr. Stensrud reported that he recently spoke at the Sacramento County Retired Employees Association (SCREA) quarterly luncheon and had provided an update on developments at SCERS.

11. Chief Executive Officer Richard Stensrud presented the request for proposals (RFP) for actuarial audit services.

Mr. Stensrud stated that, as part of the decision at the last Board Meeting to extend the contract with Segal Consulting to perform actuarial consulting services, the Board decided to continue SCERS' practice of having periodic actuarial audits. Mr. Stensrud noted that the audit will cover the triennial experience study that Segal will be performing later this year, as well as a full replication audit of an annual actuarial valuation. Mr. Stensrud explained that this latter component could be an audit of the actuarial valuation of June 30, 2016, the actuarial valuation of June 30, 2017, or both. Mr. Stensrud explained the pros and cons of the various options.

Discussion followed with the Board directing Staff to have the RFP cover only the actuarial valuation of June 30, 2016.

Motion by Ms. O'Neil to approve the proposed RFP for actuarial audit services; Seconded by Mr. Kelly. Motion carried (8-0).

12. Chief Executive Officer Richard Stensrud presented the report by the CEO Recruitment Committee.

Mr. Stensrud reported that the Committee had recently met and was bringing three recommendations to the Board: (1) That the CEO recruitment be a national recruitment; (2) That an executive recruiting firm with a national practice and expertise in recruiting public pension professionals be engaged to assist with the recruitment; and (3) That a Special Board Meeting be scheduled prior to the regular April Board Meeting for the purpose of interviewing and selecting the executive recruitment firm. Mr. Stensrud stated that the Committee had identified two leading executive recruitment firms to bring in for interviews. Mr. Stensrud noted that after sending out potential dates to the Board Members to determine availability for the special Board Meeting, that April 6 at 10 a.m. was the best possible option.

Mr. Stensrud welcomed comments from members of the committee. Committee members stated that they felt it imperative that the recruitment process begin as soon as possible. Committee members also stated that they felt the executive recruitment firms that had been identified were well qualified.

Motion by Mr. Kelly to approve the recommendations made by the CEO Recruitment Committee and to schedule a special Board Meeting for April 6 at 10 a.m.; Seconded by Mr. DeVore. Motion carried (8-0).

Mr. Stensrud also reported that he had recommended to the Committee that Assistant Retirement Administrator Annette St. Urbain would be an ideal interim CEO after Mr. Stensrud leaves SCERS and while SCERS completes the recruitment for the new CEO. Mr. Stensrud noted that prior to joining SCERS Ms. St. Urbain had been the CEO of the San Joaquin Employees' Retirement Association, and had joined SCERS to work on several initiatives related to SCERS' strategic plan and the IT Modernization Program. Mr. Stensrud reported that the Committee concurred with this recommendation, and unless there were concerns expressed by the full Board, he would move forward with Ms. St. Urbain to prepare her to take that role. The Board expressed its support.

Mr. Stensrud reported that SCERS had engaged the services of Steve Hawley to assist on the projects that Ms. St. Urbain had been working on. Mr. Stensrud stated that Mr. Hawley had recently retired as a partner at Accenture, the international consulting firm, and was relocating to the Sacramento area. Mr. Stensrud noted the Mr. Hawley had extensive experience with the projects outlined within SCERS' IT Modernization Program and would be able to provide an oversight role on those projects. Mr. Stensrud further noted that Mr. Hawley also had extensive experience in enterprise risk management, project management, change management, knowledge management and performance quality measurement, all of which were being worked on by Mr. Hawley and Ms. St. Urbain.

Mr. Stensrud noted that the work being performed by Ms. St. Urbain and Mr. Hawley in these areas was important to ensure continued forward progress on SCERS strategic and continuous improvement initiatives, and enterprise risk management, and that he would be recommending that new staff positions be created to give SCERS the internal capability to perform these tasks, as well as meet the resource demands of the IT Modernization Program.

13. Chief Executive Officer Richard Stensrud presented information for the Board to consider incorporating into a SCERS Compensation Policy which would be used to determine, explain and support the compensation decisions made by the Board.

Mr. Stensrud explained that a Compensation Policy helps provide consistency with respect to how compensation decisions are made, and helps assure that compensation is addressed on a regular basis, and not allowed to languish to where 'marking to market' is a difficult and problematic exercise. Mr. Stensrud explained that in the past, the Board has utilized many of the measures he would be outlining, but the compensation analysis has been addressed on an ad hoc basis. Mr. Stensrud recommended that the compensation analysis goals, methodology and parameters be integrated into a formal Compensation Policy, which would serve as the basis for compensation analysis going forward.

Mr. Stensrud outlined the recommended elements of a Compensation Policy, including: (1) The overall goals of a Compensation Policy; (2) The use of properly constructed compensation studies conducted by qualified compensation professionals; (3) The objectives of a compensation study; (4) The importance of compensation study data; (5) The definition of the labor market used as the source for compensation data; (6) The relative position the organization maintains in the market to ensure its recruitment and retention needs are met; (7) The combination of salary and benefits to create a total compensation package; (8) Methods used to maintain internal equity across jobs and minimize salary compaction; and (9) SCERS' historic practices with respect to such matters.

Discussion followed. Mr. Stensrud reported that as part of the CEO recruitment process, a compensation study was being performed for the CEO position. Mr. Stensrud stated that results should be available in April. Mr. Stensrud reported Ralph Andersen & Associates, a compensation consultant that has performed work for both Sacramento County and SCERS in the past, was performing the study. Mr. Stensrud also noted that the executive recruitment firms who would be interviewed in the upcoming Special Board Meeting would be asked to provide their perspective on the current CEO compensation based on their experience in conducting national recruiting efforts such a position.

Mr. Stensrud stated that a Compensation Policy could be presented for consideration at the Special Board Meeting on April 6 or at the regular Board Meeting on April 19. Discussion followed. It was agreed that a proposed Compensation Policy not be presented at the April 6 Special Board Meeting, but instead, be revisited after consideration of the CEO compensation study.

Motion by Mr. DeVore to receive and file the presentation; Seconded by Mr. Matré. Motion carried (7-0).

14. Chief Executive Officer Richard Stensrud presented the proposed nominees for the Board of Directors of the State Association of County Retirement Systems (SACRS).

Mr. Stensrud stated that Staff is recommending the nomination of incumbent SACRS Board of Directors Secretary Art Goulet to continue in his current role.

Motion by Mr. Kelly to approve the proposed nominees for the Board of Directors of SACRS; Seconded by Mr. DeVore. Motion carried (7-0).

INVESTMENT MATTERS:

15. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending September 30, 2016 and December 31, 2016, including information regarding the absolute return, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' absolute return portfolio was up 2.8% in the fourth quarter of 2016, which was above the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.3%, and the HFRI Fund of Funds Composite Index of 1.1%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was up 2.4% in the quarter, and also outperformed 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 1.2%, which outperformed the HFRI Fund of Funds Composite Index, but underperformed the 90-day T-Bills + 5%.

Mr. Feidler reported that SCERS' direct absolute return program was up 3.6% during the third quarter, which outperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler reported that, through September 30, 2016, the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 10.5% since inception compared to the Cambridge Associates Private Equity Index up 11.6% and the multiple of total value to paid in capital ("TVPI") is 1.26x 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 September 30, 2016, SCERS' real assets portfolio IRR was 7.0% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.2% and SCERS' TVPI was 1.2x.

Mr. Feidler reported that SCERS' opportunities portfolio generated a net IRR of 8.6% as of September 30, 2016 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%.

Motion by Mr. Kelly to receive and file the quarterly performance report; Seconded by Ms. O'Neil. Motion carried (7-0).

16. Robert Miranda of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended December 31, 2016.

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

Mr. Miranda reported that SCERS' total real estate portfolio returned 0.4% during the fourth quarter of 2016, which slightly outperformed SCERS' blended benchmark of 0.3%. Mr. Miranda stated that for the 12-month period ending December 31, 2016, SCERS' real estate portfolio return was 7.7% and that in the same period, the benchmark returned 7.3%.

Mr. Miranda reported that SCERS' core real estate portfolio returned 2.5% during the fourth quarter, outperforming the benchmark of 1.9%. Mr. Miranda stated that for the 12-month period ending December 31, 2016, SCERS' core real estate portfolio return was 8.5% and that in the same period, the benchmark returned 7.8%. Mr. Miranda further stated that the core separate accounts and the core commingled fund returned 3.0% and 2.1%, respectively, for the quarter.

Mr. Miranda reported that SCERS' non-core real estate portfolio returned 0.7% for the quarter, which underperformed Townsend's benchmark of the NFI-ODCE plus 100 bps benchmark of 2.1%. Mr. Miranda stated that SCERS' non-core real estate portfolio returned 7.4% for the 12-month period ending December 31, 2016, underperforming the benchmark return of 8.8%.

Mr. Miranda reported that SCERS' domestic public REIT portfolio returned -3.5%, compared to a fourth quarter return of -3.3% for the FTSE NAREIT (domestic) REIT Index. Mr. Miranda stated that for the 12-months ending December 31, 2016, SCERS' domestic public REIT portfolio earned 8.3% return, underperforming the benchmark return of 8.6%.

Mr. Miranda reported that SCERS' international REIT portfolio returned -7.8%, compared to the fourth quarter return of -7.7% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Mr. Miranda stated that for the 12-months ending December 31, 2016, SCERS' international REIT portfolio earned a 1.7% return, trailing the benchmark return of 2.0%.

Motion by Mr. Pittman to receive and file the quarterly performance report; Seconded by Ms. O'Neil. Motion carried (7-0).

17. Chief Investment Officer Steve Davis introduced the proposed plan for implementing SCERS' new asset allocation model and structure.

Mr. Davis reviewed the new asset allocation that the Board approved at the January, 2017 Board Meeting. Mr. Davis stated that the current presentation would be focused on the interim steps necessary to implement the new asset allocation policy to ensure consistency with the overall objectives and maintain a portfolio designed to achieve the desired risk/return characteristics. Mr. Davis noted that implementation steps would be necessary within growth assets, diversifying assets, and real return assets. Mr. Davis also stated that SCERS' Investment Policy Statements (IPS) will need to be updated. Mr. Davis noted that this includes the master IPS, which would be the 'Primary Policy' document that outlines fund objectives and philosophy, Board allocation policies, and plan implementation and governance. Mr. Davis also noted that the individual asset class IPS documents will be updated to outline the philosophical and structural issues specific to the asset class. Finally, Mr. Davis stated that a comprehensive benchmark study on each asset class will be conducted.

Jamie Feidler of Cliffwater, LLC reviewed the restructuring of the Private Equity asset class and the creation of the new Private Credit asset class. Mr. Feidler provided an overview of the next steps required for these asset class changes.

Mr. Feidler then discussed Absolute Return asset class strategies including segmenting the class into two categories: Diversifying strategies and growth oriented strategies.

Mr. Feidler reviewed the Private Real Assets asset class and noted that Staff and Cliffwater would return to the Board with a new commitment pacing recommendation given the increase in the asset class allocation.

John Nicolini of Verus Advisory, Inc. provided an overview of the restructuring of the Public Fixed Income portfolio. Mr. Nicolini noted that capital preservation will be emphasized within diversifying fixed income.

Margaret Jadallah of Verus Advisory, Inc. then reviewed the Public Equity asset class and the steps that will be taken to restructure that asset class. Ms. Jadallah stated that under the new allocation, Public Equity exposure will be reduced by 4%. Ms. Jadallah noted that Staff and Verus will also be reviewing active versus passive strategies within Public Equity.

Robert Miranda of The Townsend Group then discussed potential modifications to the Real Estate portfolio, including within Private Core Real Estate. Mr. Miranda noted that Real Estate benchmarks will be reviewed, including an ancillary benchmark which includes a blend of US and ex-US exposure based on the SCERS weightings.

Mr. Davis concluded the presentation by reviewing potential modifications to the Overlay program.

Motion by Ms. O'Neil to receive and file the presentation of the proposed plan for implementing SCERS' new asset allocation model and structure; Seconded by Mr. Kelly. Motion carried (7-0).

The meeting was adjourned at 1:12 p.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Keith DeVore, Steven L. Baird, Ben Lamera (departed at 11:03 a.m.), Alan Matré, Kathy O'Neil, Chris Pittman, and John Conneally (departed at 12:53 p.m.)

MEMBERS ABSENT: James A. Diepenbrock and Martha J. Hoover

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

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Pearce, Investment Officer; John Lindley, IT Administrator; Margaret Jadallah and John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Robert Miranda, The Townsend Group; Tom Johnson, Anderson & Johnson, LLP; John Kennedy, Nossaman, LLP; and Kevin Isawa

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.