



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Scott Chan  
Chief Investment Officer

Kathryn T. Regalia  
Chief Operations Officer

John W. Gobel, Sr.  
Chief Benefits Officer

Members of the Board of Retirement

James A. Diepenbrock, President  
Appointed by the Board of Supervisors

John B. Kelly, First Vice President  
Appointed by the Board of Supervisors

William D. Johnson, Second Vice President  
Elected by the Safety Members

Keith DeVore  
Appointed by the Board of Supervisors

Richard B. Fowler II  
Appointed by the Board of Supervisors

Diana Gin  
Elected by the Miscellaneous Members

Kathy O'Neil  
Elected by the Miscellaneous Members

Julie Valverde  
Ex Officio, Director of Finance

Nancy Wolford-Landers  
Elected by the Retired Members

John Conneally  
Elected by the Safety Members

Michael DeBord  
Elected by the Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, THURSDAY, OCTOBER 18, 2012

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 Thursday, October 18, 2012, and commenced at 11:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud introduced newly hired Investment Officer Bharat Indurkar.

##### MINUTES:

2. The Minutes of the September 20, 2012 regular meeting were approved on Motion by Mr. DeBord; Seconded by Ms. Gin. Motion carried (8-0).

##### CONSENT MATTERS:

Items 3-8

At the request of Mr. Fowler, Items 3 and 4 were taken off the Consent Calendar for separate discussion. The remaining Consent matters (Items 5-8) were acted upon as one unit upon a Motion by Mr. Fowler; Seconded by Mr. DeBord. Motion carried (8-0).

**CONSENT MATTERS (continued):**

5. PABLO, Gloria M.: Granted a service-connected disability retirement.
6. Approved matters presented for a vote by the SACRS membership at the 2012 SACRS Fall Conference.
7. Approved the proposed resolution authorizing the assignment of the Investment Management Agreement with the TCW Group.
8. Received and filed the September 2012 Monthly Investment Manager Compliance Report and Watch List.

**CLOSED SESSION:**

**LEGAL MATTERS:**

3. Moved from Consent Matters at the request of Mr. Fowler.  
BUEHLER, Valerie C.: Granted a service-connected disability retirement.
4. Moved from Consent Matters at the request of Mr. Fowler.  
GEE, Patrice D.: Granted a service-connected disability retirement.
9. Mr. Diepenbrock reported that by unanimous decision, the Board voted in closed session to adopt the proposed findings of fact, governing law, and the proposed disposition denying the appeal of Ms. Bobbie Washington to receive ongoing and retroactive disability retirement benefits. Mr. Diepenbrock explained that prior to completing her application for disability retirement benefits, Ms. Washington terminated membership in SCERS by withdrawing her retirement contributions and was no longer a member eligible to receive disability benefits.

**OPEN SESSION:**

**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 provided a reminder that the November Board Meeting would be scheduled on Thursday, November 8, so as to not interfere with the State Association of County Retirement Systems (SACRS) Fall Conference, November 13-16.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported that the SCERS Board election had recently concluded with elections for the two Safety representatives and one Miscellaneous representative. Mr. Stensrud stated that Ms. O’Neil had been re-elected as a Miscellaneous representative and Mr. Conneally had been re-elected as the alternate Safety representative. Mr. Stensrud noted that Mr. Johnson had decided not to run for another term on the Board and that Chris A. Pittman had been elected as the lead Safety representative. Mr. Stensrud reported that the overall voting turnout was disappointing particularly given the hope that the online voting platform would increase participation.

Mr. Stensrud reported that it was anticipated that new investment related policies would be brought before the Board at the November Meeting. Mr. Stensrud noted that with the ongoing establishment of direct investment engagements in the alternative assets portfolio, Staff was identifying areas where it would be appropriate for the Board to endorse a particular position or approach. Mr. Stensrud stated that one policy would propose the evaluative criteria for determining when it may be acceptable to invest with a manager who will not accept fiduciary status. Mr. Stensrud reported that another proposed policy would modify the procedures for identifying and implementing investment engagements in the Opportunities asset class, utilizing the model used previously with hedge funds, real assets, and private equity. Mr. Stensrud reported that a third policy would establish guidelines for evaluating acceptable lock-up periods in hedge fund investments. Discussion followed with Mr. Diepenbrock suggesting that the policy should not include a specific limit on acceptable lock-up periods, but that Staff should use their professional judgment in such matters. Mr. Stensrud noted that even if the Board was comfortable with Staff exercising discretion in such matters, it was important that the Board approve the proposed guidelines for how Staff would make such decisions.

Mr. Stensrud reported that at the December Board Meeting, Staff would provide an overview of how SCERS would be implementing AB 340, the pension reform legislation.

**INVESTMENT MATTERS:**

11. Pete Keliuotis and Patrick Thomas of Strategic Investment Solutions (SIS), and Chief Investment Officer Scott Chan and Deputy Chief Investment Officer Steve Davis presented an educational presentation on the Fixed Income asset class.

Mr. Keliuotis stated that the Fixed Income asset class has done a good job of fulfilling its goals relative to overall portfolio, including providing an ‘anchor to safety’ and diversification relative to equities. Mr. Keliuotis noted, however, that the bond market is coming to the end of a long secular rally and that fixed income would be facing a more challenging environment going forward, including the potential for rising rates, inflation and diminishing incremental returns. Mr. Keliuotis noted that this review of the asset class was intended to help assure that SCERS’ fixed income portfolio was well-positioned for the future.

**INVESTMENT MATTERS (continued):**

Mr. Davis reviewed the goals and objectives in designing a fixed income portfolio that will be successful in the current and expected economic environment, including: (1) Providing greater diversification; (2) Providing the flexibility to maximize opportunities and minimize risk; (3) Maintaining SCERS' exposure to duration compared to the benchmark; (4) Balancing risks; and (5) Maintaining SCERS' allocation level to fixed income.

Mr. Chan reviewed the historical performance of the different bond segments across different economic environments and relative to different macroeconomic risk factors. Mr. Chan also discussed the correlation between the bond segments over the past ten years.

Mr. Chan discussed considerations in designing a fixed income portfolio in a low interest rate environment. Mr. Chan noted the importance of balancing taking advantage of higher yielding credit opportunities with potential additional risk.

Mr. Keliutis reviewed the impact changes to the potential structure of the fixed income portfolio would have at the total fund level. Mr. Keliutis noted that the potential changes resulted in modest increases to both expected return and risk at the total fund level. Mr. Keliutis also reviewed the impact the changes would have on the expected return and risk at the Fixed Income asset class level. Mr. Keliutis stated that while both expected return and risk would also increase, the increase in the allocation to the "plus" sectors of fixed income would create a more efficient portfolio within fixed income. Finally, Mr. Keliutis summarized the potential allocation percentages within fixed income and their associated active risk.

Mr. Davis discussed SCERS' existing fixed income managers' recent positioning within the asset class and how they would fit with potential changes to the asset class structure. Mr. Davis reviewed the strengths and limitations of SCERS's existing fixed income managers.

Mr. Thomas reviewed the pros and cons of utilizing dedicated mandates in certain parts of the fixed income market versus gaining exposure to those parts of the market via broader core plus portfolios.

Mr. Chan concluded the presentation by reviewing the goals and advantages of repositioning the fixed income asset class to better fulfill its role in a more challenging bond environment.

Discussion followed.

Motion by Mr. Johnson to receive and file the educational presentation on the fixed income asset class; Seconded by Mr. Kelly. Motion carried (9-0).

**INVESTMENT MATTERS (continued):**

12. Chief Executive Officer Richard Stensrud presented a proposed resolution amending SCERS' policy on participation on investment fund advisory committees.

Mr. Stensrud reported that there is potential value for an investor in serving on an advisory committee, including: (1) The opportunity to learn more about the markets and the asset class in which the fund is investing; (2) The ability to develop greater knowledge about the investments of the fund; (3) The ability to develop greater understanding about the investment strategy of the fund; (4) The opportunity to gain insight about the general partner/investment manager; and (5) The opportunity to develop a stronger relationship with the investment manager, which can be beneficial for obtaining larger allocations in future funds.

Mr. Stensrud stated that the potential risk to an investor in serving on an advisory committee is largely a function of the type and extent of authority and confidential information given to the advisory committee. Mr. Stensrud explained that there was less risk in participating in 'administrative' decisions and more risk in 'investment' decisions. Mr. Stensrud also noted that the scope of potential risk was lower where the information provided to advisory committee members was provided to all limited partners. Mr. Stensrud further noted that, in some cases, the potential risk can be mitigated if the fund documents call for the general and limited partners to waive potential claims against the advisory committee member for actions taken in good faith, and/or that the partnership will indemnify the committee member in the case of claims where the committee member acted in good faith.

Mr. Stensrud explained that SCERS' current policy on participation on advisory committees was adopted in 2007 and reflects the minimal experience at the time with advisory committees and the relative lack of direct investments in the alternative asset classes. Mr. Stensrud noted that since that time, however, SCERS has expanded its scope of direct investments in the alternative asset classes, and has also expanded its understanding of both the value and potential risk in participating on advisory committees. Mr. Stensrud explained that the purpose of the proposed resolution is to amend SCERS' policy on participation on advisory committees to allow such participation in cases where it has been determined that role and scope of responsibility of the advisory committee has an acceptable and manageable level of risk and outlined how this would be determined. Mr. Stensrud also explained that the new policy would limit participation on advisory committees to no more than four qualifying committees, absent approval by the Board of additional advisory committee involvement.

Motion by Mr. DeVore to approve the proposed resolution amending SCERS' policy on participation on investment fund advisory committees; Seconded by Mr. Kelly. Motion carried (9-0).

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The meeting was adjourned at 2:10 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, William D. Johnson, Keith DeVore, Richard B. Fowler II, Diana Gin, Julie Valverde (arrived at 1:00 p.m.), John Conneally, and Michael DeBord.

MEMBERS ABSENT: Kathy O’Neil and Nancy Wolford-Landers.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Bharat Indurkar, Investment Officer, John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Pete Keliuotis and Patrick Thomas, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC, Bobbie Washington; Jenkins Drenlian; Andre Washington; and Alisa Morris.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
James A. Diepenbrock, 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.