



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, Vice President
Appointed by the Board of Supervisors

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

Chris A. Pittman
Elected by the Safety 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, WEDNESDAY, APRIL 17, 2013

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, April 17, 2013, and commenced at 10:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the March 20, 2013 regular meeting were approved on Motion by Ms. O'Neil; Seconded by Ms. Valverde. Motion carried (8-0).

CONSENT MATTERS:

Items 3-7

The Consent Matters were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Ms. O'Neil. Motion carried (8-0).

3. HARRIS, Carolyn L.: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

4. KACALEK, Tammy L.: Granted a service-connected disability retirement.
5. RIZZO, Maria R.: Denied a service-connected disability retirement.
6. Approved the proposed renewal of SCERS' fiduciary liability insurance coverage.
7. Received and filed the March 2013 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

8. Considered the purchase or sale of particular, specific pension fund investments pursuant to Government Code Section 54956.81.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

9. 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 IFE Market Makers conference would be held June 26-28. Mr. Stensrud stated that one spot at the conference was still available and that any Board Member who wished to attend could contact Staff for assistance.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 13-17. Mr. Stensrud noted that the date of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled to May 8. Mr. Stensrud stated that any Board Members who wish to attend the conference can contact Staff for assistance.

Mr. Stensrud reported on the recent changes in actuarial practices by the California Public Employees' Retirement System (CalPERS). Mr. Stensrud noted that Staff would be bringing a proposed actuarial funding policy to the Board in June.

Mr. Stensrud discussed recent developments with Assembly Bill 382 (AB 382) which is being promoted by the State Association of County Retirement Systems (SACRS) to address some issues related to inconsistent treatment of investment matters under the Public Records Act and the Brown Act.

ADMINISTRATIVE MATTERS (continued):

10. Outside Counsel Lance Kjeldgaard presented the proposed resolution providing authorization to the Chief Executive Officer (CEO) to settle claims for recovery.

Mr. Kjeldgaard reported that the Board had previously granted the CEO the authority to approve contracts up to \$50,000, but had not included the authority to settle claims. Mr. Kjeldgaard stated that the authority to settle claims was typically part of the contracting authority that most public entity's CEOs have. Mr. Kjeldgaard noted that currently the CEO can make some narrow decisions on overpayments, collections, and third party subrogation claims, and that the proposed resolution simply expands that authority.

Mr. Kjeldgaard reported that the proposed resolution includes four guidelines: (1) The authority is limited to \$50,000; (2) The claim would need to be reviewed by counsel; (3) The claim could not be subject to the terms of an insurance policy; and (4) Any settlement would need to be promptly reported to the Board.

Mr. Kjeldgaard stated that the proposed resolution primarily deals with money coming into SCERS. Mr. Kjeldgaard also stated that the proposed resolution would be limited by the County Employees Retirement Law of 1937, County policies, and SCERS bylaws.

Discussion followed.

Motion by Ms. O'Neil to approve the proposed resolution providing authorization to the Chief Executive Officer (CEO) to settle claims for recovery; Seconded by Ms. Gin. Motion carried (9-0).

INVESTMENT MATTERS:

12. This item was taken up out of order to accommodate the schedule of another presenter.

Chief Investment Officer Scott Chan presented the proposed real estate sub-asset class allocation plan, the twelve month real estate investment plan, and the real estate investment implementation protocol.

Mr. Chan reviewed the current structure of SCERS' real estate portfolio. Mr. Chan noted that the private core real estate portfolio is classified under real assets, the private non-core real estate portfolio is classified under opportunities, and the public REITs portfolio is classified under equities.

Mr. Chan then reviewed the long-term plan for the real estate sub-asset class. Mr. Chan stated that the allocation within the core real estate program would target a 70% allocation to separate accounts and a 30% allocation to comingled funds, with a range in each segment of +/- 30%. Mr. Chan discussed the leverage limitations and how diversification

INVESTMENT MATTERS (continued):

would be targeted by property type and geography. Finally, Mr. Chan noted that an allocation to global real estate would be given a permissible range of 0%-30% of the private portfolio.

Jennifer Young from The Townsend Group reviewed the twelve month investment plan. Ms. Young stated that guidelines would be re-written to reflect 'actively managed' core separate accounts and discussed the areas where Staff and Townsend would be more actively engaged. Ms. Young stated that the core comingled open end funds would be assessed to determine which funds provided the best complement and diversification benefits, as well as which funds showed historical underperformance compared to the benchmark. Ms. Young also stated that the twelve month investment plan included reviewing and assessing 2-3 funds recommended by Townsend.

Ms. Young reviewed the benchmarks for the real estate program. Ms. Young stated that a change to the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE) benchmark is recommended for core real estate. Ms. Young also stated that no change would be necessary for the non-core real estate benchmark, nor the public REITs benchmark.

Chief Executive Officer Richard Stensrud reviewed the real estate investment implementation protocol. Mr. Stensrud stated that all decisions would be made within the context of the strategic plan and the twelve month investment plan approved by the Board. Mr. Stensrud noted that the protocol for decisions regarding comingled funds is very similar to the protocol used with hedge funds or private equity. Mr. Stensrud stated that the process would be for Staff and consultants to identify potential investments, for information on the potential investments to be provided to the Board, and then after the proper due diligence had been performed and no objections had been raised by the Board, Staff and consultants would proceed with the investments when appropriate. Mr. Stensrud also discussed how decisions would be made regarding the separate accounts.

Discussion followed.

Motion by Mr. Fowler to approve the proposed real estate sub-asset class allocation plan, the twelve month real estate investment plan, and the real estate investment implementation protocol; Seconded by Mr. Conneally. Motion carried (9-0).

11. This item was taken up out of order to accommodate the schedule of Brandywine Global Investment Management, LLC.

Chief Investment Officer Scott Chan introduced John T. Ford and David F. Hoffman of Brandywine Global Investment Management, LLC. Mr. Chan stated that Staff and Strategic Investment Solutions were recommending that Brandywine be engaged to manage a global fixed income mandate.

INVESTMENT MATTERS (continued):

Mr. Ford reviewed the current global fixed income market and Mr. Hoffman discussed the history of the global bond market. Mr. Hoffman noted that the yields on 10-year bonds in the US, Germany, and Japan have generally been decreasing over the past 30 years. Mr. Hoffman stated that the credit ratings of developing markets have been increasing over that same time, as well as their share of global GDP. Mr. Hoffman noted that this is demonstrating a global rebalancing that is under way.

Mr. Hoffman reviewed Brandywine's history, in addition to their investment philosophy and goals. Mr. Hoffman stated that Brandywine seeks returns in the portfolio by: (1) Investing in bonds with the highest real yields; (2) Actively managing currency exposures in order to protect principal and enhance returns; (3) Patiently rotating among countries; and (4) Controlling risk by purchasing undervalued securities. Mr. Hoffman further stated that Brandywine's goals include: (1) To outperform an index of developed global bond markets by at least 2% annually over rolling 5 year periods; (2) To provide long-term returns in excess of the rate of inflation; and (3) To capture interest income and generate principal growth through capital appreciation when market conditions permit.

Mr. Hoffman provided an overview of Brandywine's investment process, as well as the allocation and performance of their portfolio.

Motion by Mr. DeVore to approve the recommendation to engage Brandywine Global Investment Management, LLC to manage a global fixed income mandate; Seconded by Mr. Fowler. Motion carried (9-0).

14. Chief Executive Officer Richard Stensrud introduced the educational presentation by Cliffwater LLC regarding the investment strategy referred to as 'shorting.'

Jamie Feidler of Cliffwater explained the term 'shorting' and provided the simplified mechanics of short selling. Mr. Feidler noted that the investor will earn a profit if the price of the security being sold declines. Mr. Feidler explained that short selling has an inverse return profile to "going long" on a security. Mr. Feidler stated that true short selling is most commonly executed with publicly traded securities; however, investors can achieve similar return profiles by trading currencies, futures, and other derivatives.

Mr. Feidler stated that investors may short securities to earn a profit from anticipated price declines. Mr. Feidler explained that this could be driven by perceived excess momentum or perceived material weaknesses not yet recognized by the market. Mr. Feidler noted that investors may also short securities to hedge other investments.

Mr. Feidler provided a detailed example of the method for short selling. Mr. Feidler then reviewed the risks associated with short selling. Mr. Feidler noted that short sellers theoretically face unlimited losses as there is no ceiling to the price of a stock. Mr. Feidler

INVESTMENT MATTERS (continued):

reviewed some additional consideration with short selling, including the fact that short sellers have to pay a fee to borrow the securities, and that sellers must pay the lenders of the securities for any dividends or coupons due during the borrow period.

Discussion followed.

Motion by Ms. O'Neil to receive and file the educational presentation by Cliffwater LLC regarding the investment strategy referred to as 'shorting;' Seconded by Ms. Gin. Motion carried (9-0).

13. Chief Investment Officer Scott Chan introduced proposed modifications to the portfolio overlay program managed by State Street Global Advisors.

Mr. Chan provided a history of the overlay program. Mr. Chan stated that the program had been managed by State Street since inception in 2006. Mr. Chan noted that the implementation instruments are mostly futures, as well as other derivatives and exchange-traded funds. Mr. Chan stated that the primary objective of the overlay program is to mitigate the risk of straying from policy benchmarks by rebalancing SCERS' asset allocation to achieve its policy targets in the most efficient and cost effective manner and eliminating performance drag from unallocated cash.

Mr. Chan reviewed SCERS' current asset allocation as compared to the previous allocation and noted that Staff believes it is the time to move the overlay program to target the current asset allocation. Mr. Chan stated that the recommendation also includes establishing new bands for each asset and sub-asset class, identifying the most efficient and optimal proxies for each asset and sub-asset class, and amending individual investment management agreements to reflect these changes.

Mr. Chan discussed the determination of bands for each asset and sub-asset class. Deputy Chief Investment Officer Steve Davis reviewed the recommended proxies for the domestic equity, international equity, fixed income, private equity, hedge funds, and real assets.

Discussion followed.

Motion by Mr. Kelly to approve the proposed modifications to the portfolio overlay program managed by State Street Global; Seconded by Mr. Fowler. Motion carried (9-0).

The meeting was adjourned at 12:55 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly (arrived at 10:03 a.m.), Keith DeVore, Richard B. Fowler II, Diana Gin, Kathy O'Neil, Chris A. Pittman, Julie Valverde, and John Conneally.

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MEMBERS ABSENT: Nancy Wolford-Landers and Michael DeBord.

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 Steve Masarik, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Young, The Townsend Group; John T. Ford and David F. Hoffman, Brandywine Global Investment Management, LLC; Paul Hight and Kris Usery, County Risk Management; John Kennedy, Nossaman LLP; Diana Ruiz, Deputy County Counsel; Daphne L. Macklin, Attorney; Tammy and Ivan Kacalek; and Maria Rizzo.

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.