



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

Stephen Hawley
Chief Strategy Officer

MINUTES

SPECIAL MEETING OF THE BOARD OF RETIREMENT SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

TUESDAY, NOVEMBER 7, 2017
1:00 P.M.

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

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 Matr , 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

OPEN SESSION

- Item 1.** Call to Order - The meeting was convened at 1:00 p.m.
- Item 2.** Public Comment - None
- Item 3.** The Board unanimously approved the Minutes of the October 18, 2017 Regular Meeting (7-0).

CONSENT MATTERS- ITEMS 4-8:

The Board unanimously approved the Consent Matters Items 4-8 (7-0).

- Item 4.** Disability Retirement Applications
- A. BENUZZI, Mark; Granted a service-connected disability retirement as recommended by staff.

- B. CAPANNA, John; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- C. NOBLE, Deborah M.; Denied a non-service connected disability retirement per proposed decision of Administrative Law Judge.
- D. ROBERTS, Kenneth M.; Granted a service-connected disability retirement as recommended by staff.
- E. SCHUMAKER, Shannon; Granted a service-connected disability retirement per proposed decision of Administrative Law Judge.
- F. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

Item 5. Quarterly Summary of Selected Fees and Costs for Outside Legal Services – First Quarter FY

Item 6. Portfolio Rebalancing Report – Third Quarter 2017

Item 7. Quarterly Trading Activity and Commission Recapture Report – Third Quarter 2017

Item 8. Monthly Report of New Investment Activity – October 2017

ADMINISTRATIVE MATTERS:

Item 9. Interim Chief Executive Officer’s Report

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

IRS Tax Withholding Issue – SCERS has reached out to tax counsel at Hanson Bridgett for guidance on the IRS tax withholding issue for 2015 currently effecting SCERS’ payees. Counsel expressed concern that the situation could create real problems for the affected retirees and advised working with the IRS to get evidences of the deposits. SCERS will work with County Department of Finance to give Hanson Bridgett power of attorney on behalf of both SCERS and Sacramento County to work with the IRS to resolve this issue.

Federal Tax Reform Bill – A provision has been added to the Federal Tax Reform Bill that proposes to apply unrelated business income tax (UBIT) to governmental plans. SCERS’ would be impacted primarily with regard to its private investments and will be keeping a close eye on this proposed provision.

Rio Linda Elverta Recreation and Park District – Chief Benefits Officer John Gobel and Retirement Services Supervisor Jenna Taylor met with the employees of Rio Linda Elverta Recreation and Park District and provided the employees with a new member orientation.

Actuarial Valuation – Ms. St. Urbain met with Sacramento County officials to share the results of the actuarial valuation. The County has asked SCERS for assistance in creating examples to demonstrate the impact on contributions for members.

SACRS Fall Conference – Will be held November 14-17, 2017 in Burlingame at the Hyatt Regency San Francisco Airport. Six trustees, five staff and one staff designee will be in attendance.

Other Upcoming Events – CALAPRS General Assembly will be held March 3-6, 2018 in Indian Wells at the Renaissance Indian Wells Resort. CALAPRS Advanced Principles of Pension Management for Trustees will be held March 28-30, 2018, in Los Angeles at the UCLA Meyer and Renee Luskin Conference Center.

Staffing Update

- a. After nearly 37 years of County service, most of it with SCERS, Retirement Services Manager Suzanne Likarich is planning to retire in 2018. Ms. St. Urbain noted that Suzanne is extremely dedicated to serving SCERS members and stakeholders. She has a wealth of knowledge, experience and institutional memory that will be a challenge to replicate. We sincerely appreciate Suzanne's outstanding service to SCERS and our members, and look forward to working with her on her transition to retirement in a way that meets her needs and helps assure SCERS' continued success.
- b. SCERS will formally welcome CEO designee Eric Stern on December 4, 2017, and he will be introduced to the SACRS community at the Fall Conference.
- c. Ms. St. Urbain thanked the Board for the opportunity to serve as SCERS Interim CEO, and thanked the Executive Team and all the SCERS staff who have provided outstanding support to her in this role for the past six months. She is looking forward to facilitating a smooth transition of the CEO responsibilities to Mr. Stern.

Item 10. Actuarial Valuation and Review and GASB 67 Report as of June 30, 2017

Paul Angelo and Andy Yeung of Segal Consulting (Segal) presented the SCERS Actuarial Valuation as of June 30, 2017.

Mr. Angelo began with a brief overview of SCERS' funding policy and the layered amortization method and periods for the unfunded actuarial accrued liability (UAAL). Mr. Angelo also noted that SCERS UAAL balance as of June 30, 2012, is amortized separately from any future changes in UAAL over a declining 23-year period. Layered amortization applies to any new UAAL, with an amortization period of 20 years for actuarial gains or losses or changes in actuarial assumptions, 15 years for plan amendments, and up to 5 years for retirement incentive programs.

Mr. Angelo presented the funding status as follows:

Funding Status					
Year Ending June 30	(1) Actuarial Accrued Liability	(2) Market Value of Assets	(3) Market Value of Assets as a % of Actuarial Accrued Liability (2)/(1)	(4) Actuarial Value of Assets	(5) Actuarial Value of Assets as a % of Actuarial Accrued Liability (4)/(1)
2017	\$10,680,998	\$8,584,225	80.4%	\$8,665,226	81.1%
2016	9,436,090	7,680,865	81.4%	\$8,236,402	87.3%

Mr. Angelo reported that member and employer contribution rates increased primarily due to changes in actuarial assumptions adopted by the Retirement Board in May 2017 as recommended by the actuary following completion of the triennial experience study for the three years ended June 30, 2016.

The aggregate employer contribution rate has increased from 20.82% to 28.41% before the 3-year phase-in of the cost impact of the assumption changes on the UAAL contribution rate that was approved by the Board in May 2017. Mr. Angelo reported that the aggregate employer contribution rate as 24.53%, after the 3-year phase-in.

Mr. Angelo reported that the aggregate member contribution rate across all member categories and benefit tiers would increase from 9.91% of payroll to 11.84% of payroll.

The total net unrecognized loss is \$81.0 million, which will be recognized in the determination of the actuarial value of assets for funding purposes over the next six years under the seven-year asset smoothing pursuant to SCERS' funding policy.

Mr. Angelo briefly commented on the GASB 67 actuarial valuation report as of June 30, 2017. GASB uses the same Entry Act Normal cost method and same expected return on assets discount rate for participating employers to report their share of pension liability as SCERS uses for plan funding, The net pension liability reported in GASB 67 is therefore very similar to the UAAL calculated on a market value, rather than smoothed actuarial value, of assets basis.

Item 11. Consulting Actuary's Comments on Auditing Actuary's Report

Paul Angelo and Andy Yeung of Segal Consulting (Segal) presented Segal's comments on the recent actuarial audit performed by Cheiron. Cheiron replicated the actuarial valuation as of June 30, 2016, and confirmed that Segal's results are reasonably accurate and were computed in accordance with generally accepted actuarial principles. Chieron also reviewed the economic and demographic

assumptions recommended in Segal's actuarial experience study for the three years ended June 30, 2016 and found the assumptions to be reasonable and in accordance with generally accepted actuarial principles.

Cheiron recommended that Segal review the assumptions for rates of service retirement and post-retirement mortality. More specifically, Cheiron suggests including years of service, rather than using age only, in determining the probability of retirement. While Segal generally agrees with Cheiron's comment and has used service-based service retirement assumptions with other clients, the need to introduce that type of assumption depends on the years of service breakpoint, the number of member who actually retired above the service breakpoint and the resultant contribution rate impact of that type of assumption. In reviewing SCERS experience, Segal did not find that incorporating a service-based assumption would make a material difference.

Cheiron also recommended that benefit-weighted, rather than headcount-weighted, mortality assumptions be used by SCERS. Segal noted that the recent assumption changes adopted by the Retirement Board incorporate a generational approach to predict future post-retirement mortality improvements. Segal prefers to defer this change in mortality assumption until more information pertaining to the income effect on mortality for public plans becomes available from the Society of Actuaries. Mr. Angelo reported that the current benefit-weighted table was not prepared with public pension plan data and that before the next experience study for SCERS in 2019, the Society of Actuaries would be releasing a benefit-weighted table based on public plan experience.

Mr. Angelo stated that in response to Cheiron's comment, regarding Segal's terminology used to describe the "risk adjustment" component of the investment return, Segal would be providing a revised and clarified description of the risk adjustment in its valuation report.

Mr. Angelo concluded by stating, while the demographic assumption recommendations made by Cheiron were reasonable and would likely be incorporated into future SCERS actuarial valuations, there was not a significant enough difference to compel an out-of-cycle assumption review or change.

Item 12. Proposed Amendments to SCERS' Bylaws

At staff's request, the Chair put this item over to the next regular meeting of the Retirement Board.

Item 13. Proposed Contract for Pension Administration System (PAS) Implementation Oversight

Stephen Hawley, Chief Strategy Officer, presented staff's recommendation to contract with Linea Solutions, Inc. for project management oversight and consulting services for PAS implementation, subject to successful negotiation of terms acceptable to SCERS, and to authorize the Board President or Chief Executive

Officer to execute an agreement with Linea Solutions in an amount not to exceed \$3,300,000 and to adopt Resolution SCERS 2017-09 to effect the Board's approval of the aforementioned recommendations.

The Board adopted Resolution 2017-09 to effect the Board's approval of staff's recommendations on proposed contract with Linea Solutions, Inc. for PAS project management oversight and consulting services. (6-0, Baird abstained)

INVESTMENT MATTERS:

Item 14. Implementation of Strategic Asset Allocation for Fixed Income Portfolio

Steve Davis, Chief Investment Officer, and Barry Dennis, Margaret Jadallah, and John Nicolini of Verus Advisory presented Staff's and Verus' recommendations to (1) Use an existing core fixed income allocation as the funding source for a recently Board approved dedicated U.S. Treasury allocation; (2) Retain an existing SCERS core fixed income manager to implement the newly created U.S. Treasury allocation using a broad market U.S. Government index as the benchmark; and (3) Adopt Resolution 2017-10 to effect the Board's approval of the recommendations.

Mr. Davis began by reviewing the changes that were made to SCERS' Fixed Income portfolio as a result of SCERS' recently approved strategic asset allocation, which included carving out a dedicated Treasury allocation, and using SCERS' Core/Core Plus Fixed Income exposure as the source of capital.

Following a review of policy risk and manager tracking errors and correlations, Staff and Verus recommended converting the existing Neuberger Berman Core Fixed Income portfolio to a Treasury portfolio and retaining Neuberger Berman to manage the new Treasury portfolio.

Discussion followed.

The Board adopted Resolution 2017-10 to effect the Board's approval of staff's recommendations on the implementation of strategic asset allocation for Fixed Income Portfolio. (7-0)

Item 15. Update on Core Real Estate Implementation Plan

Investment Officer, JR Pearce, and Jennifer Stevens of Townsend provided the Board with an update on SCERS' Core Real Estate implementation plan regarding the Board-approved strategy to sell SCERS' separate account individual core real estate properties and transition the exposure to core real estate open end commingled funds ("OECFs"). Mr. Pearce gave a review of the existing Separate Account Assets as follows:

Name	Property Type	City, State	SF or Units	% Leased	Est. NAV	Mortgage	Est. GAV
Core Assets							
Lake Washington	Office	Seattle, WA	72,237	100%	\$ 38.80	\$ -	\$ 37.60
The Tower at Hollywood Hills	Apartment	Los Angeles, CA	80	92%	\$ 16.08	\$ 11.00	\$ 28.80
Harbour Point	Retail/Grocer Anchored	Everett, WA	113,449	94%	\$ 38.47	\$ -	\$ 41.90
1811 Brittmore	Industrial	Houston, TX	140,181	81%	\$ 12.22	\$ -	\$ 12.90
Hillside Village	Apartment	Berkeley, CA	94	92%	\$ 41.93	\$ 13.50	\$ 58.10
Sub Total-Manager 1/Core					\$ 147.51	\$ 24.50	\$ 179.30
Crescent Park-Manger 2	Apartment	Los Angeles, CA	214	95%	\$ 68.45	\$ 39.00	\$ 107.50
Sub Total-Manager 1+2/Core					\$ 215.96	\$ 63.50	\$ 286.80
Non-Core Assets							
Leland James/Block 295	Office (90/10 JV)	Portland, OR	119,625	6.5%	\$ 20.44	\$ 25.40	\$ 45.84

Mr. Pearce reviewed the two options for implementing the sale of SCERS' separate account assets, which included: (1) Selling the assets in the open market; or (2) Exchanging the portfolio of assets for shares in an OECF. Staff and Townsend determined exchanging the separate account assets for shares in OECFs to be the most prudent implementation approach.

Ms. Stevens stated that Townsend solicited indications of interest from seventeen OECF managers and received interest from thirteen. Of those, Townsend has narrowed the pool of candidates to five to seven. Ms. Stevens stated that the next steps would be to commission an appraisal of SCERS' Separate Account assets, interview OECF managers and evaluate written purchase/exchange proposals from select OECF manager candidates.

Chief Investment Officer Steve Davis offered the Board the option to have the recommended OECF manager present to the SCERS Board prior to a potential approval, or select the OECF manager under the Board approved implementation protocol for Real Estate, which does not require that the manager present to the SCERS Board. The SCERS Board directed staff to follow the approved implementation protocol for Real Estate in selecting an OECF manager.

Item 16. Education on SCERS' Real Assets Investments in Agriculture

Rob Hurlbut of Agriculture Capital Management provided education to the Board on SCERS' Real Assets investment in Agriculture Capital Management Fund II ("ACM Fund II"), a fund that invests in permanent agriculture crops and midstream assets. The presentation provided an overview of the firm, including the firm's investment strategy, core values, operations and process. The presentation also provided an update on ACM Fund II.

CLOSED SESSION

No closed session was convened.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:14 p.m.

MEMBERS PRESENT: John B. Kelly, Steven L. Baird, Ben Lamera, Alan Matré, Kathy O’Neil, Chris Pittman, John Conneally, Martha Hoover and Rick Fowler presiding

MEMBERS ABSENT: Keith DeVore, James Diepenbrock

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; Stephen Hawley, Chief Strategy Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Shannon Browning, Administrative Services Officer; John Kennedy, Nossaman LLP; John Nicolini, Joe Abdor, Margaret Jadallah and Barry Dennis, Verus Advisory, Inc; Andy Yeung and Paul Angelo, Segal Consulting; Jennifer Stevens, Townsend; Amanda Thomas, Metro Fire; Diana Ruiz, County Counsel; Mike Keough, Deutsche Bank; Rob Hurlbut, Agriculture Capital Management; Eric Stern

Respectfully submitted,

/S/

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

APPROVED: _____
Richard B. Fowler II, President

DATE: _____