



Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Stephen Hawley
Chief Strategy Officer

Mario Sierras
Chief Benefits Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, AUGUST 21, 2019
10:00 A.M.

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

OPEN SESSION

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

Diana Gin
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

Matt Petersen
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

Item 1. Call to Order—The meeting was convened at 10:00 a.m.

Item 2. Election of Board Officers—President Rick Fowler turned the meeting over to Mr. Stern to oversee Board nominations for President. A nomination was made and seconded for Mr. Fowler to serve as President for 2019-20. No other nominations were received. The Board approved the nomination of Mr. Fowler by a unanimous voice vote. A recommendation was made and seconded to maintain the current two Vice Presidents, John B. Kelly and Keith DeVore, for 2019-20. No other nominations were received. The Board approved the nomination of Mr. Kelly and Mr. DeVore by a unanimous voice vote.

Item 3. Public Comment—None

CONSENT MATTERS—ITEMS 4-11:

Mr. Fowler removed the Minutes (Item 4) from the Consent agenda. **The Board approved the Consent Matters Items 5-11 (9-0).**

Item 5. Disability Retirement Applications

A. JONES, H; Granted a service-connected disability retirement.

B. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

- Item 6. Ratification of Service Retirement Application Approvals—July 2019**
Ratified the Service Retirement Applications that were finalized in July 2019.
- Item 7. Portfolio Allocation and Rebalancing Report—Second Quarter 2019**
Received and filed the Portfolio Allocation and Rebalancing Report from the previous quarter.
- Item 8. Trading Cost Analysis and Commission Recapture Report—Second Quarter 2019**—Received and filed the Quarterly Trading Activity Report from the previous quarter.
- Item 9. 2018 Annual Alternative Fee and Expense Report**—Received and filed the 2018 Alternative Fee and Expense Report.
- Item 10. Monthly Investment Manager Activity, Compliance, and Watch List Report—July 2019**—Received and filed a report on manager compliance issues from the previous month.
- Item 11. Monthly Report of New Investment Activity—July 2019**
Received and filed a report on new investment activity from the previous month.

SEPARATE MATTER:

Item 4. Minutes

Mr. Stern noted the Minutes of the July 17, 2019 meeting included in the agenda packet should be amended to reflect the following: the correct Board meeting dates, Mr. Lamera's abstention on Item 5C, Ms. Gin's abstention on Item 5E, and Mr. Conneally's absence. **The Board approved the Minutes of the July 17, 2019 meeting as amended (9-0).**

EXECUTIVE REPORTS:

Item 12. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern announced that nominations for the SCERS Board elections ended on Friday, August 16, 2019. Alan Matré has decided not to run for re-election for Miscellaneous Representative. The two candidates for Miscellaneous Representative are Neil Davidson, Senior Administrative Analyst with the Department of General Services, and Dave Comerchero, Employee Benefits Manager with the Department of Personnel Services. Ballots will be mailed to the home addresses of Miscellaneous members by September 21, 2019, and the voting period is September 23-October 4, 2019. For the retiree seats, Mr. Stern announced that Martha Hoover, had been nominated for Retiree Representative, and Kathy O'Neil was nominated for Alternate Retiree Representative. Mr. Stern noted that the retiree election will be canceled because the nominees are running unopposed.

- Mr. Stern reported that on Friday, August 23, 2019 the Court will hear oral arguments on the demurrer in the case of *SCDSA v. SCERS*. Mr. Stern will provide an update at the September Board meeting.
- Mr. Stern stated that upcoming Board meetings will include several investment-related items, the actuarial valuation in November, and the Comprehensive Annual Financial Report in December.

Item 13. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis provided an update regarding the Liquid Real Return manager search. Mr. Davis stated that at the June 2019 Board meeting, the Board approved converting the dedicated 2% commodities allocation into a liquid real return allocation. Mr. Davis stated Staff has since redeemed from commodity manager Gresham, placed the proceeds within the State Street liquid real return overlay proxy, and initiated a manager search for an active liquid real return strategy. Mr. Davis said that he expects to make a recommendation at the September 2019 Board meeting related to the structure of the asset class and investment managers.
- Mr. Davis stated that at the July 2019 meeting, he estimated that SCERS' Fiscal Year return would come in between 6% and 7%. Mr. Davis stated the return came in at 7.2% compared to the policy index return of 6.3% and the assumed rate of return of 7%. Mr. Davis stated that the return also compared favorably to the median public pension plan peer universe return of 5.4%, and ranked in the top 14th percentile. Mr. Davis announced that the results were good, especially considering the volatility that the markets faced earlier in the fiscal year.
- Mr. Davis noted that the dedicated Treasury allocation that was put in place in early 2018 was one of SCERS' better performers, returning over 7% for the year, as 10-year Treasury yields fell from around 3% at the start of the year to 2% by year end. Mr. Davis stated that the private equity asset class returned 24% vs. the benchmark return of 12.7%, and real assets returned 12.8% vs. the benchmark return of 4.7%.

ADMINISTRATIVE MATTERS:

Item 14. Staff Background Check Policy

General Counsel Stephen Lau presented updates to the Background Check Policy that incorporates newly enacted law for accessing and reviewing the criminal history of prospective employees.

The Board approved a motion to approve the Staff Background Check Policy. (9-0)

INVESTMENT MATTERS:

Item 15. Cash Management Policy

Mr. Davis presented the Cash Management Policy that will assist SCERS in ensuring that sufficient liquidity is maintained across economic and market cycles and provide a process for the oversight and management of cash and liquidity risk.

Mr. Fowler asked about the relation between the speed to liquidate an asset for cash and its value. Mr. Davis stated that SCERS can sell any asset, depending on the discount that SCERS is willing to take. Because of that dynamic, Mr. Davis said, the policy establishes guiding principles over how SCERS prioritizes which asset classes to liquidate to pay benefits.

The Board approved a motion to receive and file the Cash Management Policy (9-0)

Item 16. Total Fund Investment Performance Report—Second Quarter 2018

John Nicolini of Verus Advisory presented SCERS' Total Fund Investment Performance for the periods ending June 30, 2019, including information regarding the Growth Asset Category, Diversifying Asset Category, Real Return Asset Category, and Opportunities portfolio as follows:

SCERS TOTAL FUND PERFORMANCE SUMMARY
Quarter Reporting Periods Ending June 30, 2019

SCERS ASSET CLASS	Quarter	Year-to-Date	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS TOTAL FUND Return w/Overlay	3.3%	10.6%	7.2%	10.4%	6.5%	8.4%	Jun-86
Policy Index	3.1%	9.4%	6.3%	8.7%	6.1%	8.5%	
InvestorForce Public DB > \$1B	3.0%	10.4%	5.4%	8.9%	5.8%	8.2%	
SCERS TOTAL FUND Return w/o Overlay	3.3%	10.1%	7.0%	10.2%	6.6%	8.3%	Jun-86
Policy Index	3.1%	9.4%	6.3%	8.7%	6.1%	8.5%	
GROWTH ASSET CATEGORY	3.9%	14.2%	8.1%			11.5%	Mar-17
Custom Benchmark	3.6%	12.9%	6.8%			9.7%	
DIVERSIFYING ASSET CATEGORY	2.9%	5.5%	5.6%			3.5%	Mar-17
Custom Benchmark	2.7%	5.5%	5.9%			3.8%	
REAL RETURN ASSET CATEGORY	1.9%	4.8%	5.2%			9.1%	Mar-17
Custom Benchmark	1.3%	2.5%	4.2%			6.4%	
OPPORTUNITIES PORTFOLIO	-0.7%	1.3%	5.3%	4.7%	6.8%	15.0%	Oct-07
Custom Benchmark	3.1%	9.4%	6.3%	8.7%	6.1%	7.8%	

Mr. Fowler noted that there are no signs of inflation, despite prolonged economic growth. Mr. Nicolini commented that the U.S. economy is still digging out of the hole of the Great Financial Crisis, and wages have not increased dramatically. Mr. Diepenbrock asked about gold investments. Mr. Nicolini responded that gold tends to be more of a market-timing investment rather than a strategic allocation position. Mr. Conneally asked about the potential of 50-year or 100-year government bonds, given the interest rate environment. Mr. Nicolini said he was not aware of serious discussion of creating those investment vehicles.

The Board approved a motion to receive and file the Total Fund Quarterly Investment Performance Report. (9-0)

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:45 a.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, James A. Diepenbrock, Diana Gin, Ben Lamera, Alan Matré, Kathy O’Neil, Matt Petersen, John Conneally, Martha J. Hoover, and Rick Fowler presiding.

MEMBERS ABSENT: none

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Stephen Lau, General Counsel; Stephen Hawley, Chief Strategy Officer; Mario Sierras, Chief Benefits Officer; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Investment Officer; Brian Miller, Investment Officer; Debbie Chan, Senior Accounting Manager; John Lindley, Senior IT Analyst; Staci Morrison, Communications, Media Officer; Amy Larson, Senior Personnel Analyst; John Nicolini, Verus Advisory, Inc; and, Debbie Musilli-Sidhu, Executive Secretary.

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____