



Executive Staff:

Eric Stern  
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

# REGULAR MEETING OF THE BOARD OF RETIREMENT SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, DECEMBER 20, 2017  
10:00 A.M.

Location: SCERS Board Room  
980 9<sup>th</sup> Street, 19th Floor  
Sacramento, California 95814

## OPEN SESSION

- Item 1. Call to Order** - The meeting was convened at 10:03 a.m.
- Item 2. Public Comment** - None
- Item 3. The Board unanimously approved the Minutes of the November 7, 2017 and November 30, 2017 Special Meetings (6-0).**

## CONSENT MATTERS- ITEMS 4-8:

The Board unanimously approved the Consent Matters Items 4-9 (6-0).

### **Item 4. Disability Retirement Applications**

- A. MEHTANI, Anita; Granted a service-connected disability retirement as recommended by staff.

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

- B. MIRANDA, Kim R.; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- C. RANDALL, Richard M.; Granted a non-service connected disability retirement as recommended by staff.
- D. SOLOMON, William A.; Granted a service-connected disability retirement as recommended by staff.
- E. WRIGHT, Marquette A.; Granted a non-service connected disability retirement as recommended by staff.
- F. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

**Item 5. Interest Crediting Rate on Member Contribution Accounts for December 31, 2017**

The Board adopted the tentative estimated crediting rate of one-half of the 5-year Treasury Note rate in effect on December 31, 2017 (approximately 1.055%) or equal to one-half of the interest rate applied to the other valuation reserves (approximately 1.874%), whichever is lower.

**Item 6. Retirement Board Meeting Calendar for 2018**

The Board adopted the Retirement Board Meeting Calendar for 2018, with meetings held the third Wednesday of each month with the exception of the May 23 and November 5 meetings.

**Item 7. Private Credit Delegation of Authority – Resolution 2017-11**

**Item 8. Monthly Report of New Investment Activity – November 2017**

**Item 9. Monthly Investment Manager Activity, Compliance and Watch List Report – October and November 2017**

**ADMINISTRATIVE MATTERS:**

**Item 10. Chief Executive Officer’s Report**

Mr. Stern provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities.

IRS Tax Withholding Issue – After sending out letters to SCERS’ retirees, SCERS has received responses from almost six hundred retirees who have received notice of delinquent tax withholdings. Mr. Stern noted that SCERS will be preparing further mailings for retirees regarding the issue and that SCERS continues to work with the County and outside counsel on potential solutions to this issue.

Federal Tax Reform Bill – The provision to the Federal Tax Reform Bill proposing to apply unrelated business income tax to governmental plans has been removed.

IT Modernization Project Update – After successful contracts with Morneau Shepell Limited and Linea Solutions, work on the Pension Administration System began on November 28, 2017. Mr. Stern also noted work on the new SCERS website was underway and that stakeholder surveys will be coming out in early January 2018.

Investment Accounting System – The Requirements Analysis project for the new investment accounting system is nearly complete and the results and recommendations of the project are planned to be presented at the January Board Meeting.

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.

#### **Item 11. Annual Audit**

Andy Paulden and Ashley Casey of Brown Armstrong presented the results of the June 30, 2017 independent audit results.

Mr. Paulden began with an overview of the audit process as well as the significant audit areas that Brown Armstrong focused on.

Ms. Casey stated that the Independent Auditor's Report on Financial Statements resulted in an unmodified "clean" opinion, meaning that Brown Armstrong found no material misstatements presented in SCERS' financial statements and found the statements to be in compliance with required standards. Ms. Casey noted this was the highest opinion that can be given.

Ms. Casey stated that in regards to the Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards (SAS 114), there were no concerns to report.

Ms. Casey stated that the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance found SCERS to be in compliance with governmental auditing standards.

Mr. Paulden concluded by commending SCERS' staff for their preparation and efforts on the audit.

Mr. Matré expressed concern that the letter regarding internal controls and compliance was not included in the CAFR and conveyed a desire to have the letter included in the CAFR going forward. SCERS staff stated that it would be taken under consideration for future years.

Discussion followed.

Mr. Matré recommended the Board establish an Audit Committee to allow for a Board contact during future audits. Mr. Stern stated it would be added to the agenda for the January Board Meeting.

**The Board approved a motion to receive and file the Annual Audit. (6-0)**

**Item 12. Comprehensive Annual Financial Report (CAFR)**

Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2017 and 2016.

Ms. Regalia stated that SCERS had a great year for growth, with investments generating over a billion dollars in gains.

Ms. Regalia thanked staff for their hard work on the CAFR as well as Brown Armstrong for their guidance.

**The Board approved a motion to receive and file the Comprehensive Annual Financial Report (CAFR). (6-0)**

**Item 13. Affirmation of Existing SCERS Policies**

As a part of staff's effort to review, update and standardize all of SCERS' existing policies, General Counsel Robert Gaumer presented seven existing SCERS policies to the Board for affirmation.

Mr. Gaumer provided a brief review of each of the policies being presented for affirmation including: the Board Education Policy, Facilitation Communication by Third Parties to Retirees and Beneficiaries Policy, Subrogation Claims Policy, Post-Retirement Employment Policy, Board and Staff Trading Policy, Representation on Advisory Committees, and the Placement Agent Policy.

Mr. Stern noted that there were roughly forty policies that staff would be working to get reviewed, updated and affirmed over the next year.

Discussion followed.

**The Board unanimously affirmed the Board Education Policy, Facilitation Communication by Third Parties to Retirees and Beneficiaries Policy, Subrogation Claims Policy, Post-Retirement Employment Policy, Board and Staff Trading Policy, Representation on Advisory Committees Policy, and the Placement Agent Policy. (6-0)**

\*Mr. Lamera joined the meeting.

**INVESTMENT MATTERS:**

**Item 14. Quarterly Total Fund Investment Performance Report – Third Quarter 2017**

Barry Dennis, John Nicolini and Margaret Jadallah, of Verus Advisory presented SCERS’ Total Fund Investment Performance for the periods ending September 30, 2017, 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 September 30, 2017**

SCERS ASSET CLASS	Quarter	Year-to-Date	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS TOTAL FUND Return w/Overlay</b>	<b>3.8%</b>	<b>12.3%</b>	<b>13.6%</b>	<b>7.0%</b>	<b>8.5%</b>	<b>8.4%</b>	Jun-86
Policy Index	3.3%	10.5%	11.6%	6.6%	8.4%	8.6%	
InvestorForce Public DB > \$1B	3.6%	11.8%	12.9%	7.2%	8.9%	8.4%	
<b>SCERS TOTAL FUND Return w/o Overlay</b>	<b>3.7%</b>	<b>12.2%</b>	<b>13.6%</b>	<b>7.0%</b>	<b>8.5%</b>	<b>8.3%</b>	Jun-86
Policy Index	3.3%	10.5%	11.6%	6.6%	8.4%	8.6%	
<b>GROWTH ASSET CATEGORY</b>	<b>4.8%</b>					<b>9.6%</b>	Mar-17
Custom Benchmark	4.5%					8.5%	
<b>DIVERSIFYING ASSET CATEGORY</b>	<b>1.3%</b>					<b>2.8%</b>	Mar-17
Custom Benchmark	1.1%					2.4%	
<b>REAL RETURN ASSET CATEGORY</b>	<b>2.9%</b>					<b>5.4%</b>	Mar-17
Custom Benchmark	2.0%					3.1%	
<b>OPPORTUNITIES PORTFOLIO</b>	<b>0.5%</b>					<b>4.1%</b>	Mar-17
Custom Benchmark	3.3%					6.1%	

Verus staff reported on SCERS; Growth Asset Category performance through September 30, 2017 as follows:

SCERS GROWTH Performance Summary for the periods ending 9/30/17	Quarter	Year-to-Date	1-Year	Since Inception	Since Inception Date
<b>SCERS GROWTH ASSET CATEGORY</b>	<b>4.8%</b>			<b>9.6%</b>	Mar-17
Custom Benchmark	4.5%			8.5%	
<b>Public Equity</b>	<b>5.3%</b>	<b>18.6%</b>	<b>20.3%</b>	<b>9.4%</b>	Jun-11
MSCI ACWI	5.2%	17.3%	18.6%	8.1%	
<b>Private Equity (lagged 1 quarter)</b>	<b>3.9%</b>	<b>11.3%</b>	<b>16.5%</b>	<b>0.0%</b>	Feb-08
Cambridge All PE	3.1%	11.4%	16.8%	9.7%	
<b>Public Credit</b>	<b>1.2%</b>	<b>6.5%</b>	<b>9.1%</b>	<b>4.8%</b>	Nov-13
Custom Benchmark	1.5%	5.0%	7.2%	4.8%	
<b>Private Credit (lagged 1 quarter)</b>	<b>1.5%</b>			<b>5.0%</b>	Mar-17
Credit Suisse Leveraged Loan + 2%	1.6%			2.7%	
<b>Growth Absolute Return</b>	<b>2.7%</b>	<b>NA</b>	<b>NA</b>	<b>4.9%</b>	Mar-17
HFRI FoF Composite +1%	2.6%	5.5%	6.9%	4.0%	

Verus staff reported on SCERS' Diversifying Asset Category performance through September 30, 2017 as follows:

SCERS DIVERSIFYING Performance Summary for the periods ending 9/30/17	Quarter	Year-to-Date	1-Year	Since Inception	Since Inception Date
<b>SCERS DIVERSIFYING ASSET CATEGORY</b>	<b>1.3%</b>			<b>2.8%</b>	Mar-17
Custom Benchmark	1.1%			2.4%	
<b>Core/Core Plus Fixed Income</b>	<b>1.0%</b>	<b>4.2%</b>	<b>1.4%</b>	<b>3.3%</b>	Jun-11
Barclays US Aggregate TR	0.8%	3.1%	0.1%	3.1%	
<b>Global Fixed Income</b>	<b>3.3%</b>	<b>13.5%</b>	<b>6.7%</b>	<b>3.3%</b>	May-13
Custom Benchmark	2.2%	7.9%	-0.7%	0.7%	
<b>Diversifying Absolute Return</b>	<b>0.9%</b>	<b>NA</b>	<b>NA</b>	<b>-0.4%</b>	Mar-17
HFRI FoF Conservative Index	1.3%	4.2%	5.6%	2.8%	

Verus staff reported on SCERS' Real Return Asset Category performance through September 30, 2017 as follows:

SCERS REAL RETURN Performance Summary	Quarter	Year-to-Date	1-Year	Since Inception	Since Inception Date
<b>SCERS REAL RETURN ASSET CATEGORY</b>					
SCERS Real Return w/ SSgA Proxy	2.9%			5.4%	Mar-17
SCERS Real Return w/o SSgA Proxy	2.8%			6.2%	Mar-17
Custom Benchmark	2.0%			3.1%	
<b>SCERS Real Estate</b>	<b>3.0%</b>	<b>8.8%</b>	<b>13.4%</b>	<b>12.3%</b>	Jun-11
Custom Benchmark	2.0%	5.3%	7.2%	10.6%	
<b>Core Real Estate (as of 9/30/17)</b>					
Separate Account	2.9%	9.8%	13.4%	5.8%	Sep-08
Commingled Funds	2.0%	6.1%	9.4%	4.1%	Sep-08
NFI-ODCE	1.9%	5.4%	7.7%	5.2%	
<b>Non-Core Real Estate (as of 6/30/17)</b>					
Opportunistic	4.7%	14.3%	21.1%	33.0%	Feb-14
Value Add	5.3%	10.9%	21.8%	-3.2%	Sep-08
NFI-ODCE net +1%	2.1%	6.2%	7.9%	8.0%	Sep-08
<b>SCERS Real Assets (as of 6/30/17)</b>	<b>2.6%</b>	<b>15.2%</b>	<b>20.8%</b>	<b>2.7%</b>	Jan-13
Custom Benchmark	1.9%	5.1%	7.2%	6.2%	
<b>SCERS Commodities (as of 9/30/17)</b>	<b>2.5%</b>	<b>-4.3%</b>	<b>-0.4%</b>	<b>-6.7%</b>	May-08
Bloomberg Commodity Index	2.5%	-2.9%	-0.3%	-9.3%	
<b>SSgA Real Assets Proxy (as of 9/30/17)</b>	<b>3.2%</b>	<b>4.3%</b>	<b>4.7%</b>	<b>1.2%</b>	Jan-08
SSgA Real Assets	3.1%	4.0%	4.4%	NA	

Verus staff reported on SCERS Opportunities portfolio performance through September 30, 2017 as follows:

SCERS OPPORTUNITIES Performance Summary for the periods ending 9/30/17	Quarter	Year-to-Date	1-Year	Since Inception	Since Inception Date
<b>SCERS Opportunities</b>	<b>0.5%</b>			<b>4.1%</b>	Mar-17
Policy Index	3.3%			6.1%	

**The Board approved a motion to receive and file the Quarterly Total Fund Investment Performance Report – Third Quarter 2017. (7-0)**

**Item 15. Quarterly Investment Performance Report – Alternative Assets**

Jamie Feidler of Cliffwater LLC presented SCERS' Alternative Assets Performance Report for the period ending September 30, 2017 for the Absolute Return portfolio, and for the period ending June 30, 2017 for the Private Equity, Private Credit, Real Assets and Opportunities portfolios as follows:

**SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY**  
**Quarter Reporting Periods Ending September 30, 2017**

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception*	Since Inception Date*
<b>SCERS Absolute Return</b>	<b>1.9%</b>	<b>7.5%</b>	<b>2.5%</b>	<b>5.2%</b>	<b>4.3%</b>	Sep-04
91 Day T-Bill + 5%	0.8%	2.7%	2.3%	2.2%	2.2%	
<b>SCERS Private Equity</b>	<b>4.4%</b>	<b>17.2%</b>	<b>12.2%</b>	<b>13.4%</b>	<b>11.5%</b>	Feb-08
Cambridge All Private Equity	4.7%	17.0%	11.2%	14.4%	12.1%	
<b>SCERS Private Credit</b>	<b>1.4%</b>	<b>12.2%</b>	<b>9.0%</b>	<b>9.4%</b>	<b>9.5%</b>	Oct-11
Credit Suisse Leveraged Loan + 2%	1.3%	9.5%	5.5%	6.8%	7.5%	
<b>SCERS Real Assets</b>	<b>2.7%</b>	<b>21.2%</b>	<b>16.8%</b>	<b>NA</b>	<b>17.8%</b>	Jan-13
CPI + 5%	2.3%	7.3%	6.3%	NA	6.4%	
<b>SCERS Opportunities</b>	<b>0.4%</b>	<b>8.4%</b>	<b>9.7%</b>	<b>27.7%</b>	<b>18.6%</b>	Jan-08
Actuarial Rate of Return	1.9%	7.5%	7.5%	7.5%	7.5%	

*\*Note: Periods ending 6/30/17 for Private Equity, Private Credit, Real Assets, and Opportunities  
Periods ending 9/30/17 for Absolute Return  
All returns are net IRR, except Absolute Return which is time-weighted*

Mr. Feidler reported on SCERS' Absolute Return portfolio performance through September 30, 2017 as follows:

SCERS ABSOLUTE RETURN Performance Summary for the periods ending 9/30/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS ABSOLUTE RETURN PORTFOLIO</b>	1.9%	7.5%	2.5%	5.2%	4.3%	Sep-04
91 Day T-Bill + 5%	0.8%	2.7%	2.3%	2.2%	2.2%	
<b>Growth-Oriented Funds</b>	2.7%	12.3%	4.1%	6.9%	5.1%	Sep-04
HFRI FoF Composite + 1%	2.5%	7.5%	3.2%	4.9%	4.2%	
<b>Diversifying-Oriented Funds</b>	1.1%	3.1%	1.1%	2.7%	2.4%	Dec-11
HFRI FoF Conservative Index	1.3%	4.6%	1.8%	3.5%	3.4%	

Mr. Feidler reported on SCERS' Private Equity portfolio performance through June 30, 2017 as follows:

SCERS PRIVATE EQUITY Performance Summary for the periods ending 6/30/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS Private Equity</b>	4.4%	17.2%	12.2%	13.4%	11.5%	Feb-08
Cambridge All Private Equity	4.7%	17.0%	11.2%	14.4%	12.1%	

Mr. Feidler reported on SCERS' Private Credit portfolio performance through June 30, 2017 as follows:

SCERS PRIVATE CREDIT Performance Summary for the periods ending 6/30/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS Private Credit</b>	1.4%	12.2%	9.0%	9.4%	9.5%	Oct-11
Credit Suisse Leveraged Loan + 2%	1.3%	9.5%	5.5%	6.8%	7.5%	

Mr. Feidler reported on SCERS' Real Assets portfolio performance through June 30, 2017 as follows:

SCERS REAL ASSETS Performance Summary for the periods ending 6/30/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS Real Assets</b>	2.7%	21.2%	16.8%	NA	17.8%	Jan-13
CPI + 5%	2.3%	7.3%	6.3%	NA	6.4%	



Mr. Feidler reported on SCERS' Opportunities portfolio performance through June 30, 2017 as follows:

SCERS OPPORTUNITIES Performance Summary for the periods ending 6/30/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Opportunities	0.4%	8.4%	9.7%	27.7%	18.6%	Jan-08
Actuarial Rate of Return	1.9%	7.5%	7.5%	7.5%	7.5%	

**The Board approved a motion to receive and file the Quarterly Investment Performance Report – Alternative Assets. (7-0)**

**Item 16. Quarterly Investment Performance Report – Real Estate**

Robert Miranda of the Townsend Group presented SCERS' Real Estate Portfolio Performance Report for the periods ending September 30, 2017 as follows:

**SCERS REAL ESTATE PERFORMANCE SUMMARY  
As of September 30, 2017**

SUB-ASSET CLASS	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Real Estate Portfolio	3.4%	9.7%	10.1%	10.8%	8.5%	Nov-86
(65%) NFI-ODCE + (35%) NFI-ODCE + 1%	1.7%	7.0%	10.2%	10.9%	6.6%	
<b>Core Portfolio</b>	<b>3.2%</b>	<b>11.0%</b>	<b>10.0%</b>	<b>10.2%</b>	<b>6.5%</b>	Nov-86
Separate Account	2.8%	10.4%	8.9%	9.5%	8.9%	Nov-86
Commingled Funds	3.5%	11.4%	11.7%	11.1%	7.0%	Sep-13
NFI-ODCE Index	1.6%	6.7%	9.8%	10.6%	6.3%	Jul-95
<b>Non-Core Portfolio</b>	<b>3.7%</b>	<b>14.3%</b>	<b>13.0%</b>	<b>13.9%</b>	<b>5.2%</b>	Jun-06
Value Add Portfolio	4.9%	16.5%	14.5%	13.6%	4.5%	Jun-06
Opportunistic	2.4%	12.4%	10.1%	19.8%	7.7%	May-13
NFI-ODCE + 1% Index	1.9%	7.7%	10.8%	11.6%	7.3%	Jun-06

**The Board approved a motion to receive and file the Quarterly Investment Performance Report – Quarterly Investment Performance Report – Real Estate.**

**Item 17. Education on Markets in Financial Instrument Directive II (MiFID II) and Presentation of Manager Research Budgets and Soft Dollars Audit**

Steven Glass of Zeno Consulting and Investment Officer Brian Miller provided education to the Board on Markets in Financial Instruments Directive II ("MiFID II") and presented the results of an audit of soft dollar practices of SCERS' investment managers performed by Zeno Consulting Group. The presentation provided an overview of MiFID II as well as the impact of this European regulation on SCERS.

The Board thanked Mr. Glass for his presentation.

\*Mr Diepenbrock departed the meeting at 12:27 p.m.

**CLOSED SESSION**

No closed session was convened.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 12:48 p.m.

**MEMBERS PRESENT:** Keith DeVore, James A. Diepenbrock (departed 12:27 p.m.), Ben Lamera (arrived at 10:58 a.m.), Alan Matré, Kathy O'Neil, John Conneally, Martha Hoover and Rick Fowler presiding

**MEMBERS ABSENT:** John B. Kelly, Steven L. Baird, Chris A. Pittman

**OTHERS PRESENT:** Eric Stern, Chief Executive Officer; Annette St. Urbain, Assistant Retirement Administrator; 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; Margaret Dugger, Retirement Service Manager; Mario Sierras, Retirement Service Manager; Thuyet Dang, Senior Accounting Manager; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Shannon Browning, Administrative Services Officer; Andy Paulden and Ashley Casey, Brown Armstrong; John Nicolini, Margaret Jadallah and Barry Dennis, Verus Advisory, Inc; Robert Miranda, Townsend Group; Michelle Riffelmacher, Macquarie; Diana Ruiz, County Counsel; Jamie Feidler, Cliffwater; Steven Glass and Vinod Pakianathan, Zeno Consulting Group, LLC

Respectfully submitted,

Eric Stern  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
Richard B. Fowler II, President

DATE: \_\_\_\_\_