



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, JANUARY 17, 2018
10:00 A.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 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

OPEN SESSION

Item 1. Call to Order

The meeting was convened at 10:02 a.m.

Item 2. Public Comment

Nada Micanovic and her husband Leo Gallagher addressed the Board regarding the proposed decision of Administrative Law Judge.

Candace Waters addressed the Board regarding proposed decision of Administrative Law Judge.

Item 3. The Board unanimously approved the Minutes of the December 20, 2017 (9-0).

CONSENT MATTERS- ITEMS 4-7:

The Board unanimously approved the Consent Matters Items 4-7 (9-0).

Item 4. Disability Retirement Applications

- A. BAUTISTA, Manuel; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- B. FARLEY, Jeffrey A.; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- C. HAHN, Ellie; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- D. MICANOVIC, Nada; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- E. MOORE, Steven A.; Granted a service-connected disability retirement as recommended by staff.
- F. GARCIA, Roy; Granted a service-connected disability retirement as recommended by staff.
- G. WATERS, Candace Y.; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- H. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 5. Affirmation of Existing SCERS Policies

Item 6. Monthly Report of New Investment Activity- December 2017

Item 7. Monthly Investment Manager Activity, Compliance and Watch List Report- December 2017

ADMINISTRATIVE MATTERS:

Item 8. Chief Executive Officer's Report

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

Litigation – Mr. Stern reported on a recent appellate case ruling that is an important decision that rules on vested rights of pension benefits and on what can be included in compensation earnable. Mr. Stern noted that the case arose out of changes made by the Public Employee Pension Reform Act of 2013 (PEPRA). Mr. Stern stated that the three 1937 Act retirement systems that were affected by the consolidated case included Alameda, Contra Costa and Merced County. The court considered four types of compensation: leave cash outs, terminal pay, on-call or standby pay, and payments made to enhance benefits. Mr. Stern reported that the court had a mixed ruling, but found that PEPRA may have potentially impacted the vested pension rights of legacy members in two ways, on-call and related payments and enhancement of benefits. Mr. Stern noted that the case is headed to the California

Supreme Court in the next year. SCERS' General Counsel, will prepare a presentation at the February board meeting.

Investment Year in Review - Each year, the Investment Staff presents SCERS' Investment Year in Review usually in February. This report summarizes the major events and developments in the investment program in the past year and highlights decisions that have been made and a reminder of what has been accomplished including investment performance. Separately, the Investment team is working on the annual reviews and annual investments plans for private market and asset classes, which are presented at different points throughout the year. Staff is working on consolidating the reports and will present this year's Investment Report in March instead of February. For future years, Staff and Consultants hope to bring it back in February.

Tax Withholding Issue - SCERS and the County Department of Finance will determine a plan on how to approach the IRS to solve the 2015 tax withholding issue. Mr. Stern noted that about 625 members have received notices and that the IRS has closed several cases already.

IT Modernization Project Update - SCERS staff and Morneau Shepell completed the first three days of the joint requirement review and reprioritization sessions. There are a total of 15 days planned to get through discussion of all 1300+ requirements. Morneau Shepell demonstrated the Ariel web portal designs for the Digital Deployment website design team to facilitate development of integrated, seamless standards across all areas of the new SCERS website.

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 on March 28-30, 2018, in Los Angeles at the UCLA Meyer and Renee Luskin Conference Center.
- SACRS Spring Conference will be held May 15-18, 2018 in Anaheim at the Anaheim Marriott.
- SACRS-UC Berkeley Investment Management Program will be held July 15-18 in Berkeley. Last year SCERS had five trustees attend this event. Mr. Stern noted the last day of the conference falls on the regularly scheduled Board Meeting for July. Mr. Stern suggested that if several Trustees are interested in attending the conference, then the July board meeting date may need to be rescheduled. A new date for the July board meeting will be proposed at the February board meeting.

Item 9. New Audit Committee

Chief Operations Officer, Kathryn Regalia, discussed a recommendation to establish an Audit Committee, approve the Audit Committee Charter, and appoint three to five members. The purpose of the Audit Committee is to serve as an advisory committee to the Retirement Board on matters of the integrity of SCERS' finances, financial reporting, operations, and internal controls. Ms. Regalia stated that establishing the Audit Committee is recommended as a best practice of the Government Finance Officers Association. Meetings will be held at least twice a year, once prior to the independent audit and a second time prior to the conclusion of the audit. A committee of three members was established during the meeting. Prior to the meeting, Mr. Matré had indicated that he will serve as a chair or a member of the committee. Ms. Hoover and Mr. Diepenbrock volunteered to serve on the Committee. Discussion followed including questions regarding if the meetings would be open to the public. Mr. Gaumer stated the Charter provides that the meeting will comply with the Brown Act.

The Board approved staff recommendation to establish an Audit Committee as a standing committee of the Board, approved the Audit Committee Charter and appointed Alan Matré, James Diepenbrock, and Martha Hoover as members. (9-0)

Item 10. Proposed Amendments to SCERS' Bylaws

General Counsel Robert Gaumer provided an update to the proposed amendments to Chapter 5 of the Bylaws that removes the lengthy Disability Rules and replaces them with an overview of the SCERS' disability retirement process and direction for SCERS' to prepare Disability Retirement Procedures. It is anticipated that the Disability Retirement Procedures approved by the Board in January 2016 will provide the support called for in the new Chapter 5 and provide clarity and detailed instructions for the administration of the disability retirement process. Mr. Gaumer stated that the amended Bylaws reflect the product of discussions with the County over the last year to retain an overview of the SCERS retirement application and determination process in the Bylaw document. Mr. Gaumer discussed the anticipated improvements in process duration with the implementation of a Medical Advisor, the elimination of the Disability Retirement Committee, and the ability to recommend an administrative withdrawal instead of taking every denial to an administrative hearing. Staff anticipates reduced expenses with the contracting of flat-rate medical records reviews.

Mr. Gaumer concluded by stating the County administrative staff reviewed the Bylaws and supported moving them forward to the Board of Supervisors for final approval.

The Board unanimously adopted the proposed amendments to SCERS' Bylaws. (9-0)

Item 11. Investment Accounting System Report

Chief Strategy Officer Stephen Hawley and Chris Spurrell, principal of Castle Peak Associates, provided an update on the Investment Accounting System project and presented the findings of a requirements analysis report. Mr. Spurrell discussed the objectives of the requirements analysis, which include: documenting current processes and tools, identifying requirements of an improved investment accounting system, identifying risks and constraints, developing solution alternatives, and determining a preferred solution architecture and target operating model.

Mr. Hawley discussed the next steps to move the project forward, which include a Request for Information that will be presented to the Board in February 2018.

The Board approved a motion to receive and file the Investment Accounting System Report. (9-0)

INVESTMENT MATTERS:

Item 12. Proposed Structure and Implementation Plan for Domestic and International Equity Asset Classes

Chief Investment Officer Steve Davis, Investment Officer Brian Miller, and consultants from Verus Advisory, John Nicolini and Margaret Jadallah, provided an overview of SCERS' equity structure and made recommendations to conform SCERS' Domestic and International Equity asset classes to the strategic asset allocation adopted by SCERS' Board in January 2017.

Verus presented an analysis of risk factors it considered in reviewing the equity structure. Verus believes that the ideal risk profile for an equity portfolio is a structure that minimizes the risk of the benchmark or allocation differing from the policy, and where overall policy risk is determined mostly by "Manager Risk." Manager Risk is ideally compensated risk in the form of Alpha generation by active managers, assuming that they outperform their benchmarks.

Mr. Davis noted that no manager recommendations were being made at this time. Once the structure is established, the Board can then focus on the optimal managers to carry out the individual assignments, which may result in changes to the current manager roster and require conducting a manager search.

The proposed implementation plan contemplates that Verus and Staff will identify and take the steps necessary to develop recommendations for specific action and bring those recommendations forward for Board action at a later date, beginning at the February Board meeting. It is further anticipated that this implementation process will continue for three to four months.

Staff and Verus recommend that the Board:

- 1) Approve the proposed structural changes to the Domestic Equity asset class, which include:
 - a. Eliminating the domestic equity allocation to REITs; and
 - b. Adjusting the target allocation to small cap equities to comprise 10% of the Domestic Equity portfolio; and
 - c. Consolidating the large cap active allocation and adjust the target to 36%.
- 2) Approve the proposed structural changes to the International Equity asset class, which include:
 - a. Eliminating the international equity allocation to REITs; and
 - b. Eliminating the allocation to Emerging Markets Small Cap.
- 3) Authorize Verus and Staff to develop an implementation plan for the new Domestic Equity and International Equity structures, and to begin executing that plan, with recommended action items to be presented to the Board at upcoming Board meetings.

The Board approved staff recommendations for the proposed structural changes to the Domestic Equity asset class, the proposed structural changes to the International Equity asset class, and the implementation plan for the new Domestic Equity and International Equity structures. (9-0)

Item 13. Proposed Modifications to the Portfolio Overlay Program

Mr. Davis and staff from State Street Global Advisors (SSGA), Mike Martel and Sonja Park, provided a review of the Strategic Overlay Program. The overlay program is designed to rebalance SCERS' asset allocation to policy targets and minimize the risk that SCERS falls short of achieving its targeted return due to the asset allocation straying from policy target ranges, and to invest excess cash balances.

SSGA and Staff discussed the structure of the overlay program, including proxies at the asset category level and the rebalancing methodology to correct misweights in each category.

Staff and Verus recommended that the Board:

- 1) Approve the proposed Overlay Program structure, including asset category proxies and bands around the targets.
- 2) Authorize the necessary amendments to the Investment Management Agreement with SSGA to administer the Overlay Program as modified.

- 3) Authorize Staff to determine the most efficient method of transitioning the assets within the Overlay Program to align with SCERS' strategic asset allocation.
- 4) Adopt SCERS Resolution 2018-01 to effect the Board's approval of the recommendations.

The Board adopted Resolution 2018-01 to effect the Board's approval of staff's recommendations for the proposed overlay program structure. (9-0)

CLOSED SESSION

The chair convened a closed session at 12:15 p.m. to discuss anticipated litigation pursuant to Subdivision (b) of Section 54956.9. The closed session adjourned at 1:00 p.m.; Mr. Fowler announced no action was taken during closed session.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:00 p.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Kathy O'Neil, Chris Pittman, John Conneally, Martha Hoover and Rick Fowler presiding

MEMBERS ABSENT: Alan Matré

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; 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; Debbie Musilli-Sidhu, Executive Assistant; John Nicolini, Margaret Jadallah, Verus Advisory, Inc; Joe Abdou, Verus Advisory, Inc.; Kelsey Johnson, County Counsel; John Kennedy, Nossaman, LLP; Andrew Grundman , Grundman Law, Sonya Park, State Street Global Advisors, Michael Martel, State Street Global Advisors; Chris Spurrell, Castle Peak Associates; Nada Micanoviz, Leo Gallagher, Candace Waters, Roy Garcia

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____