MINUTES

REGULAR MEETING
OF THE
BOARD OF RETIREMENT

SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT
SYSTEM

WEDNESDAY, FEBRUARY 21, 2018
10:00 A.M.

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

OPEN SESSION

Item 1. Call to Order

The meeting was convened at 10:01 a.m.

Item 2. Public Comment

Jason Conway addressed the Board regarding the proposed decision of the Administrative Law Judge.

Item 3. The Board unanimously approved the Minutes of the January 17, 2018 (9-0).

CONSENT MATTERS- ITEMS 4-13:

The Board unanimously approved the Consent Matters Items 4-13 (9-0).
Item 4. Disability Retirement Applications

A. CONWAY, Jason; Denied a service–connected disability retirement per proposed decision of Administrative Law Judge.

B. CRUZ, Favia; Denied a service–connected disability retirement per proposed decision of Administrative Law Judge.

C. FREEMAN, Christine; Denied a service–connected disability retirement per proposed decision of Administrative Law Judge.

D. MACLEANE, Joe; Denied a service–connected disability retirement per proposed decision of Administrative Law Judge.

E. WALSH, John; Granted a service–connected disability retirement as recommended by staff.

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

Item 5. Retirement Board Meeting Calendar Update

Item 6. Cost-of-living adjustment (COLA) effective April 1, 2018, for SCERS’ monthly benefit payments

- Miscellaneous Tier 1 and Safety Tier 1 members who retired before April 1, 1978: 4.0%
- Miscellaneous Tier 1 and Safety Tier 1 members who retired April 1, 1978 or later: 3.0%
- Miscellaneous Tiers 3, 4, and 5 and Safety Tiers 2, 3 and 4: 2.0%
- Miscellaneous Tier 2: No COLA

Item 7. Affirmation of Existing SCERS Policies

- Actuarial Funding Policy
- Interest Crediting and Unallocated Earnings Policy
- Privacy and Confidentiality Policy
- Conflict of Interest Code


Item 10. Proposed Revision to the International Equity Policy Index Benchmark


Item 12. Quarterly Trading Activity Report – Fourth Quarter 2017

ADMINISTRATIVE MATTERS:

Item 14. Chief Executive Officer’s Report

Chief Executive Officer Eric Stern provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Stakeholders – Mr. Stern provided an update on the continued efforts to have introductory meetings with employers and employee groups, and his goal to develop relationships, and improve communications and information sharing.

Mr. Stern reported that SCERS Operations staff has been working with the actuaries to help our employers better plan for contribution rate changes that are known, and have distributed a multi-year projection that takes into account the phase-in schedule of the change in actuarial assumptions and the 7-year smoothing policy. Mr. Stern reported that information on SCERS website was reformatted to make it easier to read and for employees to understand the before-and-after normal cost contributions that are changing on July 1.

Strategic Planning – Mr. Stern and SCERS staff will have an update at the March meeting. The path forward will focus heavily on how SCERS can better track and measure our performance toward meeting our strategic goals and how we can use that information to better inform our management and enhance decision making to improve our services.

Board Terms – Mr. Stern reported that SCERS is working with Voter Registration and Elections to plan the upcoming Retirement Board election. He notes that members with elected terms expiring December 31, 2018 include Steven Baird, Chris Pittman, and John Conneally. He also noted that appointees should speak with appointing authorities about their interest in serving. The appointed members, James Diepenbrock and Keith DeVore’s terms will expire June 30, 2018, and John Kelly’s term will expire on December 31, 2018.

Form 700 – Mr. Stern reminded the Board that the deadline to file the annual Form 700 Statement of Economic Interests is April 1. Mr. Stern noted that General Counsel Robert Gaumer was available to answer any questions regarding the Form.

Upcoming Events

- CALAPRS General Assembly will be held March 4-6, 2018 in Indian Wells.
- SACRS Spring Conference will be held May 15-18, 2018 in Anaheim.
- SACRS Public Pension Investment Management Program will be held July 15-18 at UC Berkeley.
Item 15. Education Presentation on Pension Reform Litigation

General Counsel Robert Gaumer presented an update on recent developments in California Appellate and Supreme Court cases related to the Public Employees’ Pension Reform Act.

The Board approved a motion to receive and file the presentation. (9-0)

Item 16. Securities Litigation Update

Mr. Gaumer presented an update on SCERS’ recovery of proceeds in securities class action litigation cases.

The Board approved a motion to receive and file the report. (9-0)

Item 17. Investment Accounting System RFI

Chief Strategy Officer Stephen Hawley discussed progress to date and next steps regarding the acquisition of an investment accounting system, including the upcoming issuance of a Request for Information (RFI) to potential software vendors. Staff recommended the Board authorize the Chief Executive Officer to enter into a contract with Castle Peak Associates for consulting services of $65,000, subject to successful negotiation of contract terms and conditions. The next phase is to identify two to four vendors with the following objectives:

- Obtain software vendor input on the stated requirements to assist in the development of a future Request for Proposals (RFP).
- Better understand the likely implementation effort, schedule, and costs.
- Develop a business case that presents the costs and benefits of acquiring an investment accounting software solution.
- Develop a list of vendors interested in receiving the RFP.
- Prepare a RFP and make a recommendation to the Board regarding whether or not to proceed.

The Board approved a motion to approve staff recommendation to contract with Castle Peak Associates to conduct the RFI. (9-0)

INVESTMENT MATTERS:

Item 18. Quarterly Total Fund Investment Performance Report- Fourth Quarter 2017

Barry Dennis of Verus Advisory provided an overview of SCERS’ Total Fund Investment Performance Review report.

Mr. Dennis reported that the Total Fund (TF) return for the fourth quarter, including the impact of the overlay program, was 4.0% gross of fees. The TF return was 0.6% above the policy index of 3.4%. The TF return without the impact of the overlay
program was 4.1%.

Mr. Dennis reported that on a comparative basis, the return for the quarter was slightly above the Public Funds $1+ Billion Median return of 3.8%. The TF return ranks in the 25th percentile in the Investor Force Universe, which is the ranking universe used by Verus. All of the major asset classes experienced positive returns for the quarter, except for commodities.

Mr. Dennis reported that at the asset class level, quarter outperformance occurred, gross of fees, in all asset class segments except for credit and commodities.

Mr. Dennis reported for calendar year-to-date, the TF return gross of fees, including the impact of the overlay program was 16.9%, which was 2.7% above the policy index benchmark return of 14.2%. The return of the TF for the calendar year-to-date without the impact of the overlay was 16.9%. The TF calendar year-to-date return was 0.7 above the Public Funds $1+Billion median return of 16.2%, and ranks in the 32nd percentile in the InvestorForce universe.

Mr. Dennis reported that the annualized TF return gross of fees for three years of 7.8% is 0.3% above the policy index return of 7.5% for the same period. The annualized TF return gross of fees for five years of 9.0% is above the policy index benchmark for the period. The TF gross of fees return of 8.5% since the inception of Verus’ data in June of 1986, is 0.2% below the Total Benchmark return of 8.7% for the period, but above SCERS’ actuarial investment return assumption which has ranged from 8.25% to 7.00% (currently) during the period.

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

Item 19. Alternative Active Management Equity Strategies

Chief Investment Officer Steve Davis, Investment Officer Brian Miller, and Verus staff, John Nicolini and Margaret Jadallah, provided education to the Board regarding potential alternative active management strategies within the domestic equity asset class, including factor-based strategies.

Mr. Nicolini discussed the environment for active management fund. Mr. Nicolini reported that the majority of U.S. large cap managers have underperformed despite taking higher risk. He stated that the probability of picking an active manager that can outperform the index over long periods is challenging. He reported that maintaining a blend dominated by passive and semi-passive approaches is appropriate.

Margaret Jadallah provided an overview on factor investing in the market place and the evolution of factor investing. Ms. Jadallah stated that the style and size factor were drivers of returns. Ms. Jadallah stated that other factors, such as investing in small companies or low price companies have historically generated excess returns.
Ms. Jadallah stated that not all factors will do well all the time, but combining factors, can do well in aggregate.

Investment Officer Brian Miller provided an overview of a multi-factor approach. Mr. Miller discussed that using factors in isolation isn't as successful as employing a multi-factor approach. Mr. Miller stated that a multi-factor approach is more likely to produce an "all-weather" portfolio that can perform well across different market environments. Mr. Miller stated that factor-based approaches offer “affordable alpha”. Mr. Miller noted that multi-factor strategies are similar to active quantitative strategies which seek to provide efficient equity exposure with lower overall fees. Mr. Miller discussed concerns with a multi-factor approach, including unintended factor exposure, tracking error, and that strategies may become crowded trades.

Mr. Davis communicated Staff’s and Verus’ recommendation to initiate a systematic factor-based investment manager search and discussed the next steps for the search and interview process. Staff and Verus will identify candidates to be included in the search and narrow the list for those under consideration. Manager interviews will be conducted to select a final candidate or candidates. The selected manager(s) will present to the Board, and detailed reports that explain the reasoning for recommending a manager will be provided to the Board. The Board will have an opportunity to question the manager and analyze the selection prior to considering the recommendation for approval. Mr. Davis noted that the search will take approximately three to four months.

The Board adopted Resolution 2018-01 to effect the Board’s approval of staff’s recommendations to initiate a manager search for an alternative active manager within the domestic equity asset class. (9-0)

CLOSED SESSION

The Chair convened a Closed Session at 11:30 a.m. to discuss Items 20-22. Upon adjournment of Closed Session at 12:46 p.m., Mr. Fowler announced the following actions in Open Session:

- The Board discussed the sale of a specific fund investment and unanimously adopted staff’s recommendation on the sale and associated transition plan by a unanimous vote. Upon completion of the transition activities, the Board will publicly disclose the transaction terms.

- The Board met with its legal counsel and received the details of a settlement offer made in the In re Tribune Company Fraudulent Transfer Litigation. The Board directed staff to reject the settlement offer and propose a counteroffer. (6-3; Matre, O'Neil, and Pittman dissented)

- The Board met with the Chief Executive Officer for the purpose of conducting a quarterly performance evaluation. In accordance with the CEO Performance Evaluation Procedure adopted by the Board in November 2017, the Board and the CEO discussed goals and performance targets. No action was taken.
ADJOURNMENT

There being no further business, the meeting was adjourned at 12:46 p.m.

MEMBERS PRESENT:  John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matre, Kathy O'Neil (arrived at 10:05 a.m.), Chris Pittman, John Conneally, Martha Hoover, and Rick Fowler presiding

MEMBERS ABSENT:  None

OTHERS PRESENT:  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; Annette St. Urbain, Assistant Retirement Administrator; Suzanne Likarich, Retirement Services Manager; Margaret Dugger, Retirement Service Manager; Mario Sierras, Retirement Service Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Debbie Musilli-Sidhu, Executive Assistant; John Nicolini, Verus Advisory, Inc., Margaret Jadallah, Verus Advisory, Inc.; Barry Dennis, Verus Advisory, Inc.; Kelsey Johnson, Deputy County Counsel; John Kennedy, Nossaman, LLP; Jason Conway, Dave Conway

Respectfully submitted,

/S/  APPROVED:  _____________________________
Eric Stern  Richard B. Fowler II, President
Chief Executive Officer and  DATE:  _____________________________
Secretary of the Retirement Board