



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, SEPTEMBER 19, 2018  
10:00 A.M.

Location: SCERS Board Room  
980 9<sup>th</sup> 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

Steven L. Baird  
Elected by the Board of Supervisors

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

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

**Item 2. Public Comment** — None.

**Item 3. Minutes**

**The Board approved the Minutes of the August 15, 2018 meeting.  
(8-0)**

### CONSENT MATTERS – ITEMS 4 –10:

**The Board approved the Consent Matters Items 4-10 (8-0).**

**Item 4. Disability Retirement Applications**

- A. ABELAYE, Maria; Granted a nonservice–connected disability retirement as recommended by staff.
- B. KAWAMOTO, Lori; Granted a service–connected disability retirement as recommended by staff.
- C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

- Item 5. Relocation Expenses for Long-Distance Staff Hire** — Authorized the Chief Executive Officer to reimburse or pay up to \$15,000 for relocation expenses related to the recruitment of a Deputy Chief Investment Officer.
- Item 6. Investment Management Agreement for Fixed Income Manager TCW Group** — Approved Resolution No. 2018-07, which authorizes the amendment of the Investment Management Agreement with Metropolitan West Asset Management, LLC. Following successful negotiations, SCERS' and Manager will sign a third amended agreement.
- Item 7. Investment Management Agreement for Public Equity Manager Dalton, Greiner, Hartman, Maher & Co.** — Approved Resolution No. 2018-08, which authorizes the amendment of the Investment Management Agreement with Dalton, Greiner, Hartman, Meher & Co. Following successful negotiations, SCERS' and Manager will sign an amended agreement.
- Item 8. Investment Management Agreement for Public Equity Manager Weatherbie Capital** — Approved Resolution No. 2018-09, which authorizes the amendment of the Investment Management Agreement with Weatherbie Capital. Following successful negotiations, SCERS' and Manager will sign a second amended agreement.
- Item 9. Monthly Investment Manager Activity, Compliance, and Watch List Report — August 2018** — Received a report on manager compliance issues from the previous month.
- Item 10. Monthly Report of New Investment Activity — August 2018** — Received a report on new investment activity from the previous month.

#### **EXECUTIVE REPORTS:**

**Item 11. Chief Executive Officer's Report**

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern acknowledged the passing of Deputy Mark Stasyuk, who was killed in the line of duty on Monday, September 17<sup>th</sup>. SCERS offered condolences to the family of Mr. Stasyuk, Chris Pittman, the Sheriff's Department and the Rancho Cordova police department. Mr. Stern stated that SCERS tries to honor Mr. Stasyuk's service by taking an all hands on deck approach to move with urgency and sensitivity to prepare his benefits for his wife and family.
- Mr. Stern welcomed Debbie Chan to SCERS as the Senior Accounting Manager. Mr. Stern noted that Ms. Chan has extensive experience previously overseeing SCERS' independent financial audit, and stated that her knowledge and wide range of accounting and auditing experience will be an asset to SCERS' team.

- Mr. Stern discussed that at the January 2018 meeting, SCERS established an Audit Committee. The Audit Committee members are Alan Matré, Chairman, Martha Hoover, and Jim Diepenbrock. Mr. Matré will be setting up the first meeting in October 2018.

Mr. Fowler asked how audit committee would report back to the Board. Mr. Matré responded that at the end of the audit engagement, the audit committee would meet at the exit conference with the auditors, then the committee would present a summary of the audit to the Board at the December meeting and recommend the acceptance or discuss any issues.

- Mr. Stern announced that SCERS' Board election ballots will be mailed on September 20<sup>th</sup>. Ballots need to be postmarked by October 5 and received by October 9<sup>th</sup>, and can be submitted via County inter-office mail, by U.S. mail, or in person to the Voter Registration and Elections Office. Results are expected to be available around October 12<sup>th</sup>.
- Mr. Stern reminded the Board that the October meeting will be Wednesday, October 17<sup>th</sup>, but the November meeting will be held on Monday, November 5<sup>th</sup> at 10:00 a.m. to approve the actuarial valuation and to accommodate the timing of the SACRS Fall Conference, November 13<sup>th</sup>-16<sup>th</sup> in Indian Wells. The December meeting is back on the regular schedule, for Wednesday, December 19<sup>th</sup>.

## **Item 12. Chief Investment Officer's Report**

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis provided an update on the real estate separate account transition. Mr. Davis reported that SCERS sold six core separate account properties to Clarion Lion Properties Fund for approximately \$152 million of shares in the Clarion Lion Property Fund and \$100 million in cash that will be invested in a core plus fund managed by Brookfield. Mr. Davis reported that the sale of the Portland office redevelopment project, Leland James Center, will most likely occur by the end of the year.
- Mr. Davis reported that due to increased valuations during the second quarter, SCERS' total real estate exposure as of June 30, 2018 stands at 9.5%, which is above the top of the range of 9%. Mr. Davis reported that staff and Townsend have been comfortable maintaining SCERS' allocation between 8% and 9%, which is above the 7% target, while the real assets allocation is being built out. Mr. Davis reported that staff and Townsend are working on a rebalancing plan to bring the allocation back to the 8-9% range.

Mr. Davis suggested an alternative of increasing the maximum range on the real estate allocation. Mr. Diepenbrock stated that the parameters for the asset allocation were appropriate and suggested keeping the risk in line with the asset liability policy. Mr. DeVore also provided comment regarding his comfort level for keeping the current target at 7%.

Mr. Fowler asked if SCERS views the Real Estate Asset as an inflation hedge. Mr. Davis responded that you can generally view everything in the real return asset class as an inflation hedge, among other objectives.

- Mr. Davis provided an update on investment staff travel. Mr. Davis and Brian Miller will be traveling to New York the last week of September to perform due diligence on current managers and prospective managers. The meeting will include potential managers to add to the Diversifying Absolute Return portfolio, in addition to meetings related to an equity extension 130/30 manager search.

### **ADMINISTRATIVE MATTERS:**

#### **Item 13. SCERS' Office Space Lease**

Chief Operations Officer Kathryn Regalia discussed SCERS' current office space lease at 980 9<sup>th</sup> Street in downtown Sacramento. Ms. Regalia stated that SCERS is outgrowing the current space, and reminded the Board that the current 10-year lease has less than three years remaining with two five-year extensions.

Staff recommended formalizing a non-binding agreement with Cushman & Wakefield to assist SCERS with office needs and lease options.

Mr. DeVore asked if the request was within the delegated authority of the CEO. Mr. Stern said the staff recommendation would authorize the CEO to negotiate terms with Cushman & Wakefield, but the firm would be compensated after a new lease is signed, which would be brought before the Board for approval.

Mr. Diepenbrock noted that during the prior lease renewal, the SCERS' Board established an office space subcommittee, which would be helpful to narrow the search for office space. Mr. Stern agreed to agendaize the creation of committee at the next month's board meeting.

Mr. Matré, Mr. DeVore, and Mr. Diepenbrock also commented that SCERS should review lease options across the Sacramento area.

**The Board approved a motion to authorize the CEO to formalize an agreement with Cushman & Wakefield (8-0)**

#### **Item 14. Website Hosting and Enhancement**

At the advice of SCERS' General Counsel, Robert Gaumer. Mr. Baird recused himself and left the room after reading the following statement:

I, Steve Baird acknowledge and disclose that I am a current employee of the County of Sacramento in the Department of Technology. As such, I receive a salary from the County of Sacramento based on my work with a department that may have a financial interest in the Board's action on securing a web hosting service. I have determined, in consultation with SCERS' legal counsel, that I have what is classified as a "remote interest" in the SCERS' Board's selection of a web hosting service. Such a classification permits the SCERS' Board to enter a contract that may affect my employer financially provided I disclose the interest and recuse myself from all discussions, negotiations or voting activities.

Chief Strategy Officer Steve Hawley provided a demonstration of the new SCERS website and provided an update on the website budget. Mr. Hawley stated the overall IT Modernization budget included \$250,000 for the website, and approximately \$72,000 has been expended to date developing the new website, which primarily included a new design and moving the existing content onto the new platform. Mr. Hawley recommended the Board authorize up to \$100,000 for additional web functions, including a staff intranet portal.

**The Board approved a motion to contract with Digital Deployment Technologies for the hosting of the new SCERS public website and authorized the CEO to expend up to \$100,000 on new web features (7-0)**

#### **Item 15. Pension Administration System (PAS) Contract Amendments for Phases**

Chief Strategy Officer Steve Hawley provided an overview of the benefits and costs of implementing the PAS project in phases.

Mr. DeVore commented that his concern was the increase of approximately \$1 million to have the system go live earlier. Mr. Hawley answered that the amount is actually closer to the \$700,000 due to offsetting savings and negotiations that are still underway. Mr. Hawley also noted that a significant portion of the cost is related to shifting costs for earlier use of licenses.

**The Board approved a motion to authorize the Chief Executive Officer to amend the PAS Implementation contract with Morneau Shepell. (7-0)**

#### **Item 16. Annual Report on Disability Retirement Application Processing**

Chief Benefits Officer John Gobel presented the report for the last fiscal year. Mr. Gobel stated that he expects the turnaround time to continue to improve due to the use of an outside Medical Advisor, new Disability Retirement Procedures, Bylaw changes, and additional staff.

The Board approved a motion to receive and file the Disability Retirement Application Processing Annual Report (7-0) Mr. Diepenbrock departed the meeting during the presentation at 11:06 a.m.

**INVESTMENT MATTERS:**

**Item 17. Private Equity Small/Lower-Middle Market Buyout Investing**

Chief Investment Officer Steve Davis and Jamie Feidler of Cliffwater, LLC provided an educational overview of using a Fund-of-Funds approach for investing in the small/lower-middle market buyout segment of private equity. The small and lower-middle market buyout refers to funds raising less than \$1 billion in capital, typically between \$250 million and \$1 billion, and averaging around \$500 million. The majority of institutional private equity capital is allocated to funds targeting over \$1 billion in capital; however, a much larger universe of companies are targeted by sub-\$1 billion funds that are more difficult for investors like SCERS to access in scale.

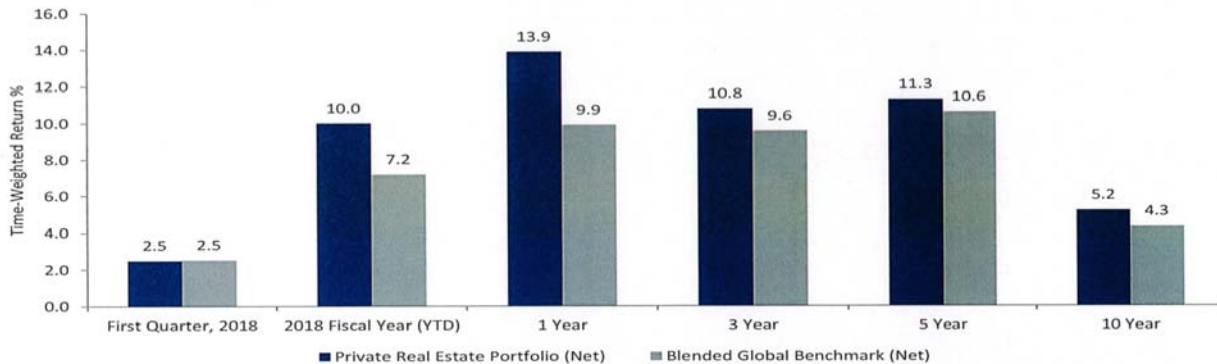
Mr. Davis and Mr. Feidler discussed the advantages, challenges, and return scenarios that would be needed to justify additional fees. Mr. Davis and Mr. Feidler concluded that any potential recommendation of a small/lower-middle market buyout Fund-of-Funds mandate would take place according to the implementation protocol identified within the investment policy statement for the Private Equity asset class.

**The Board approved a motion to receive and file the Private Equity Small/Lower-Middle Buyout presentation (7-0)**

**Item 18. Quarterly Investment Performance Report— Real Estate**

Robert Miranda and Felix Fels of the Townsend presented SCERS' Real Estate Portfolio Performance Report for the periods ended June 30, 2018 as follows:

**SCERS REAL ESTATE PERFORMANCE SUMMARY  
As of June 30, 2018**



**The Board approved a motion to receive and file the Quarterly Investment Performance Report— Real Estate (7-0)**

**Item 19. Quarterly Investment Performance Report—Alternative Assets**

Jamie Feidler of Cliffwater, LLC., presented SCERS’ Alternative Assets Performance Report for the periods ending June 30, 2018, including information regarding the Absolute Return, Private Equity, Private Credit, Real Assets and Opportunities portfolios as follows:

**SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY**  
**Quarter Reporting Periods Ending June 30, 2018**

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception*	Since Inception Date*
<b>SCERS Absolute Return</b>	<b>0.7%</b>	<b>3.9%</b>	<b>2.4%</b>	<b>3.8%</b>	<b>4.2%</b>	Sep-04
HFRI FoF Conservative	1.1%	4.2%	1.9%	3.0%	3.4%	
HFRI FoF Composite + 1%	0.6%	6.1%	2.9%	4.5%	4.2%	
<b>SCERS Private Equity</b>	<b>4.7%</b>	<b>22.0%</b>	<b>15.6%</b>	<b>15.7%</b>	<b>13.2%</b>	Feb-08
Cambridge Private Equity/Venture Capi	3.0%	18.0%	12.1%	13.5%	12.7%	
<b>SCERS Private Credit</b>	<b>1.6%</b>	<b>7.2%</b>	<b>8.9%</b>	<b>9.0%</b>	<b>9.1%</b>	Oct-11
Credit Suisse Leveraged Loan + 2%	2.1%	6.6%	6.3%	6.2%	7.5%	
<b>SCERS Real Assets</b>	<b>2.5%</b>	<b>13.2%</b>	<b>16.5%</b>	<b>16.2%</b>	<b>16.1%</b>	Jan-13
(45%) Cambridge Private Infrastructure; (35%) Cambridge Private Energy; (20%) NCREIF Agriculture/Timber	1.6%	10.3%	8.0%	7.1%	7.0%	
<b>SCERS Opportunities</b>	<b>-0.9%</b>	<b>0.1%</b>	<b>7.7%</b>	<b>7.4%</b>	<b>18.5%</b>	Jan-08
SCERS Portfolio Actuarial Rate of Return	1.8%	7.0%	7.0%	7.0%	7.0%	

*\*Note: Periods ending 3/31/18 for Private Equity, Private Credit, Real Assets, and Opportunities  
 Periods ending 6/30/18 for Absolute Return  
 All returns are net IRR, except Absolute Return which is time-weighted*

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

**CLOSED SESSION**

Upon conclusion of Item 19, Mr. Fowler called for a closed session at 12:25 p.m. to discuss potential litigation.

**OPEN SESSION**

Mr. Fowler reconvened the meeting in open session at 12:43 p.m. and announced that no action was taken during the closed session. The meeting was adjourned at 12:43 p.m.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 12:43 p.m.

**MEMBERS PRESENT:** Keith DeVore, Steven L. Baird, James A. Diepenbrock (Departed at 11:06 a.m.), Ben Lamera, Alan Matré, John Conneally, Martha J. Hoover, and Rick Fowler presiding

**MEMBERS ABSENT:** John B. Kelly, Kathy O’Neil, Chris Pittman

**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; JR Pearce, Investment Officer; Brian Miller, Investment Officer; John Lindley, IT Administrator; Margaret Dugger, Retirement Services Manager; Mario Sierras, Retirement Services Manager; Debbie Chan, Senior Accounting Manager; Joycy Escobar, Accounting Manager; Margaret Jadallah, Verus Advisory, Inc.; Felix Fels and Robert Miranda, The Townsend Group; Jamie Feidler, Cliffwater, LLC; Katherine Kruse, Morneau Shepell, 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: \_\_\_\_\_