



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

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**

**MONDAY, NOVEMBER 5, 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 10:00 a.m.**
- Item 2. Public Comment — None.**
- Item 3. Minutes**

The Board approved the Minutes of the October 17, 2018 meeting (8-0).

CONSENT MATTERS – ITEMS 4 –7:

The Board approved the Consent Matters Items 4-7 (8-0).

- Item 4. Portfolio Rebalancing Report—Third Quarter 2018—Received and filed the quarterly asset allocation and rebalancing report.**
- Item 5. Monthly Report of New Investment Activity—October 2018—Received a report on manager compliance issues from the previous month.**
- Item 6. Trading Activity and Commission Recapture Report—Received and filed the trading activity and commission recapture report for the quarter ended September 30, 2018.**
- Item 7. Contract Delegated Authority Report—Received and filed the contract delegated authority report for the quarter ended September 30, 2018.**

EXECUTIVE REPORTS:

Item 8. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern announced the Fall 2018 newsletter is at the printer and will be mailed out to all retirees and active employees soon. Mr. Stern noted that he hopes to publish the newsletter on a quarterly basis, but at least semi-annually.
- Mr. Stern stated that the first annual Employer Forum would be conducted on November 30th.
- Mr. Stern reminded the Board that the discussion draft of the Overtime and Expired CTO policy was approved at the October 17th Board meeting. Mr. Stern stated that Staff has been engaged with county officials to map out the technical changes that will be needed to update the payroll system, should the Board give final approval to the Policy at the December meeting. Mr. Stern said SCERS anticipates and understands that the system modifications will take several months to complete after the effective date of the proposed policy on December 23, 2018. SCERS' Staff will continue to work closely with the County on developing a path to correct any excess contributions that might be collected during that transition period, and collaborate on communicating that information to members.
- Mr. Stern noted a small process change with posting the Board materials. SCERS has begun posting the Board agenda materials a few days before the Board meetings to allow stakeholders time to review materials and staff recommendations in advance. Mr. Stern noted SCERS' Staff recommendations are thoroughly researched, well written, and defensible.
- Mr. Stern congratulated General Counsel Bob Gaumer on accepting a new position with the University of California and thanked him for his service at SCERS.

Item 9. Chief Investment Officer's Report

- Mr. Davis stated the preliminary performance estimate for the total plan return for the third quarter of 2018 fiscal year is 2.0%. Mr. Davis stated this could change based on private market and active manager performance. Mr. Davis noted that the fourth quarter has experienced meaningful volatility. Mr. Davis reported that the fiscal year to date performance is down approximately 1-2%. Mr. Davis stated that during the third quarter domestic equities led performance while international equities trailed mostly due to negative currency effects from a strong U.S. dollar. Mr. Davis stated that fixed income was slightly negative due to rising interest rates, and absolute return was slightly positive.

- Mr. Davis provided an update on the third quarter Portfolio Rebalancing Report (Item 4) and noted that each of SCERS' traditional fixed income mandates is slightly underweight to their target weights. Mr. Davis stated that this includes the two core plus mandates, the U.S. Treasury mandate, and the global fixed income mandate. Mr. Davis reported that SCERS' overlay program proxy, which contains government bonds, is currently offsetting the underweight. Mr. Davis reported that SCERS has ample cash from recent public equity rebalances, and Staff intends to physically rebalance these mandates toward their target allocations during the fourth quarter.

ADMINISTRATIVE MATTERS:

Item 10. Deputy Chief Investment Officer Recruitment

Chief Executive Officer Eric Stern provided an update on the search for Deputy Chief Investment Officer (DCIO). SCERS has identified a finalist, and an offer was recently extended to a candidate who resides on the East Coast. Staff is recommending that the Board authorize the Chief Executive Officer to reimburse the candidate for health insurance costs to cover the candidate's spouse and dependent children for a limited period until the DCIO and family have reunited their residences in California.

Staff also recommended authorizing the Chief Executive Officer to approve up to \$20,000 for relocation expenses, which is \$5,000 higher than the \$15,000 amount the Board approved in September 2018.

Mr. DeVore ask for clarification if the Board was authorizing a new policy. Mr. Stern explained that it is a one-time approval for this candidate. He explained that the Chief Executive Officer has delegated authority, up to \$50,000 for contracts or professional services, but the Department of Finance was seeking Board approval for personnel-related costs. Mr. Stern said plans to ask the Board at a future date to amend the Delegated Authority policy to include parameters for recruitment expenses.

Mr. Fowler commented that the recommendation is reasonable.

The Board approved a motion to authorize the Chief Executive Officer to approve a health care reimbursement and to approve relocation expenses up to \$20,000. (8-0)

Item 11. Interim General Counsel

Chief Operations Officer Kathryn Regalia presented a recommendation to authorize the Chief Executive Officer to enter into an agreement with Andrew L. (Lance) Kjeldgaard of Public Pension Consultants to provide Interim General Counsel legal services to SCERS from December 1, 2018, until SCERS hires a permanent General Counsel. Ms. Regalia noted that Mr. Kjeldgaard had provided legal services to SCERS prior to hiring Mr. Gaumer as General Counsel.

Mr. Diepenbrock said SCERS had worked well with Mr. Kjeldgaard in the past and should support the recommendation.

The Board approved a motion to authorize the Chief Executive Officer to enter into an agreement with Andrew L. (Lance) Kjeldgaard of Public Pension Consultants. (8-0)

Item 12. Actuarial Valuation and Review and GASB 67 Report as of June 30, 2018

Paul Angelo and Andy Yeung of Segal Consulting (Segal) presented the SCERS Actuarial Valuation and Review as of June 30, 2018.

Mr. Angelo began with a brief overview of SCERS' funding policy and the layered amortization method and periods for the unfunded actuarial accrued liability (UAAL). Mr. Angelo also noted that SCERS UAAL balance as of June 30, 2012, is amortized separately from any future changes in UAAL over a declining 23-year period. Mr. Angelo noted that layered amortization applies to any new UAAL, with an amortization period of 20 years for actuarial gains or losses or changes in actuarial assumptions, 15 years for plan amendments, and up to 5 years for retirement incentive programs.

Mr. Angelo discussed the funded status as presented in the table below:

Funded Status					
Dollar Amounts in Thousands					
Year Ending June 30	(1) Actuarial Accrued Liability	(2) Market Value of Assets	(3) Market Value of Assets as a % of Actuarial Accrued Liability (2)/(1)	(4) Actuarial Value of Assets	(5) Actuarial Value of Assets as a % of Actuarial Accrued Liability (4)/(1)
2018	\$11,213,263	\$9,251,937	82.5%	\$9,123,004	81.4%
2017	\$10,680,998	\$8,584,225	80.4%	\$8,665,226	81.1%

Mr. Angelo reported that the member and employer contribution rates increased primarily due to changes in actuarial assumptions adopted by the Retirement Board in May 2017 as recommended by the actuary following completion of the triennial experience study for the three years ended June 30, 2016.

Mr. Angelo reported that the aggregate employer contribution rate has increased from 24.46% to 26.85% after the 3-year phase-in of the cost impact of the assumption change on the UAAL contribution rate that was approved by the Board in May 2017. Mr. Angelo reported that the aggregate employer contribution rate was 26.85%, after the 3-year phase-in.

Mr. Angelo reported that the annual aggregate member contribution rate across all member categories and benefit tiers would increase from 11.75% of payroll to 11.77% of payroll.

Mr. Angelo reported that SCERS went from having net deferred losses of \$81.0 million as of June 30, 2017 to having net deferred gains of \$128.9 million as of June 30, 2018. The \$128.9 million net deferred gains recognized over the next six years will put moderate downward pressure on the employer contribution rate. SCERS also has \$77.5 million in the Contingency Reserve available to help mitigate future losses.

Mr. Angelo reported that Segal added new charts to the June 30, 2018 valuation that project future balances and payments of the UAAL, based on SCERS' funding plan. The charts project that the UAAL will be eliminated by 2036, holding all assumptions constant. Employer contributions should gradually increase through 2034 before dropping significantly as amortization tiers are paid off.

Mr. Angelo commented on the GASB 67 report, noting that the GASB reporting is the same as the funding reporting with the exception that assets are on a market value basis instead of the seven-year smoothing basis.

Mr. Fowler asked Mr. Angelo for his perspective on lowering the discount rate further to reduce risk. Mr. Angelo said lowering the discount rate is like buying insurance: it reduces the risk but increases the cost through higher contributions. Mr. Angelo suggested an opportune time to consider lowering the investment assumption as a risk-reduction tool is when SCERS returns to fully funded status and has a surplus. He said SCERS could use the investment gains to buy down a lower rate, without needing to pass higher contribution costs to employers or employees.

The Board approved a motion to approve the Actuarial Valuation and Review and GASB 67 Report as of June 30, 2018 (8-0)

Item 13. Service Credit Policy—Discussion Draft

General Counsel Robert Gaumer presented the discussion draft of the proposed policy. The policy establishes that beginning with the pay period commencing on December 23, 2018, service credit will be limited to one (1) year in a 365-day period.

Mr. DeVore asked about the limited time to implement the new policy from the time of the December 19th Board meeting and the implementation date of December 23rd. Mr. Stern responded that SCERS has been proactively working with County staff to determine what actions need to be taken regarding reprogramming the payroll system. Mr. Stern explained that SCERS has recognized that there might be a gap of a few months to successfully launch the policy while the payroll system is adjusted. Mr. Stern said SCERS will continue to work closely with the County to determine how the policy changes may or may not impact the members. SCERS recognizes that there will be a correction phase following the implementation.

Mr. Fowler asked if the Board would just receive and file the Discussion Draft policy. Mr. Stern explained the draft policy needs to be distributed to the Stakeholders for comment, and the final policy will be presented to the Board at a later meeting.

Mr. Lamera ask about the implementation process and how the change will be worked out with the employers. Mr. Stern explained that SCERS will continue working with the Department of Finance and Department of Personnel Services about any potential correction processes. Mr. Lamera thanked Mr. Stern for the ongoing communications with the Department of Finance. Mr. Lamera asked if there were any foreseeable issues with the Special Districts. Mr. Stern stated that SCERS believes that the policy will only affect Sacramento County.

The Board approved a motion to approve the Service Credit Policy Discussion Draft Policy. (8-0)

Item 14. Asset Category Investment Policy Statements

Chief Investment Officer Steve Davis presented the asset category investment policy statements (IPS). The asset category investment policy statements will replace all existing SCERS asset class IPSs. The Opportunities portfolio will remain as a stand-alone IPS with a few minor modifications. Mr. Davis reminded the Board that all of SCERS' asset class structures were revised in line with the Strategic Asset Allocation (SAA) in early 2017. The revised SAA moved to a functional framework, where segments of SCERS' asset allocation were re-grouped and re-classified in order to better identify risk factors that particular segments are exposed to, and the roles that various segments play within SCERS' overall portfolio. This led to the creation of three asset categories: (1) Growth; (2) Diversifying; and (3) Real Return, with asset classes underlying these asset categories.

Mr. Davis stated the Board requested that Staff consolidate the asset class IPSs to reduce redundancies. Mr. Davis discussed that the asset category IPSs take a similar approach, by simplifying investment policies at a high level, while still covering the complexities of underlying asset classes, all within fund documents. Mr. Davis stated that consolidating the asset class IPSs into asset category IPSs reduces redundancies that are common across all asset class IPSs. Mr. Davis noted that several of the asset class IPSs were updated in 2017, subsequent to the approval of the revised SAA and the restructuring of those asset classes, including Private Equity, Private Credit, Real Estate, and Real Assets. These updates have been carried over into the asset category IPSs.

The Board approved a motion to approve the Asset Category Investment Policy Statements. (8-0)

CLOSED SESSION

No closed session was convened.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:13 a.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matré, Kathy O'Neil (arrived at 10:01 a.m.), John Conneally, Martha J. Hoover, and Rick Fowler presiding.

MEMBERS ABSENT: 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; Mario Sierras, Retirement Services Manager; Jett Lewis, Retirement Service Analyst; Debbie Chan, Senior Accounting Manager; Barry Dennis, John Nicolini, and Margaret Jadallah, Verus Advisory, Inc.; Paul Angelo and Andy Yeung, Segal Consulting; Lara Clarke, J.P. Morgan; 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: _____