



Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

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 19, 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.

CLOSED SESSION

Item 2. The Chair convened a closed session at 10:02 a.m. to discuss anticipated litigation pursuant to Subdivision (b) of Section 54956.9.

OPEN SESSION

The closed session adjourned at 10:32 a.m. Mr. Fowler reported that as Chairman of the Board of Retirement, Items 14 and 15 are being removed from the agenda. Mr. Fowler directed the Chief Executive Officer to place the Items on the Agenda of the April 17, 2019 meeting.

Item 3. Public Comment — None

Item 4. Minutes

The Board approved the Minutes of the November 5, 2018 meeting. (8-0)

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

CONSENT MATTERS – ITEMS 5-10:

The Board approved the Consent Matters Items 5-10 (8-0).

Item 5. Disability Retirement Applications

- A. LOGGINS, Bonnie; Granted a service-connected disability retirement as recommended by staff.
- B. WRIGHT, Billy; Granted a nonservice-connected disability retirement as recommended by staff.
- C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 6. Retirement Board Meeting Calendar for 2019 — Received and adopted the 2019 Board Meeting Calendar.

Item 7. Interest Crediting Rate on Member Contribution Accounts for December 31, 2018 — Received and authorized the interest crediting to member contribution accounts for the six-month period ending December 31, 2018.

Item 8. Fees and Cost for Outside Legal Services — Received a report on Selected Fees and Costs for the Quarter Ended September 30, 2018.

Item 9. Monthly Investment Manager Activity, Compliance and Watch List Report — October and November 2018 — Received a report on manager compliance issues for October and November 2018.

Item 10. Monthly Report of New Investment Activity — November 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 thanked the outgoing trustees Steve Baird and Chris Pittman for their service and dedication to SCERS over the last few years. Mr. Stern said that Mr. Baird and Mr. Pittman have been strong advocates to make SCERS more responsive to our members, and SCERS is better because of it.
- Mr. Stern introduced and welcomed Andrew L. Kjeldgaard, SCERS Interim General Counsel, and Amy Larson, Senior Personnel Analyst.

- Mr. Stern announced an outreach effort to increase the use of direct deposit—an issue highlighted by the recent fires. SCERS staff identified 96% percent of our members have pensions directly deposited into their bank accounts, and 4% of our 10,000 retirees are receiving paper checks. Mr. Stern stated that approximately 15 of SCERS' retirees live in the Paradise area, and many lost their homes. Staff identified that all but one have direct deposit, so they have been able to receive their pension checks without interruption. SCERS was able to contact the other member and redirect their payments to a new address. SCERS is working on finalizing a letter by the end of December that will be mailed to the 400 members still receiving paper checks to encourage them to sign up for direct deposit to ensure they can receive their payments in the event of a natural disaster.
- Mr. Stern provided an update of the recent appellate court ruling issued in December, *Wilmot v. Contra Costa Employees' Retirement Association (CCERA)*. Mr. Wilmot was attempting to retire in December 2012, right before PEPPRA was enacted, and was later convicted of a felony. The Retirement Board later revoked a portion of his pension, and Wilmot sued, arguing the law did not apply because he retired before it took effect. The judge said he was not officially retired until the Board approved the application in April 2013. While the case is likely to head to the California Supreme Court, Mr. Stern said the ruling has prompted SCERS to look at some of our internal processes regarding the Board's role in approving retirement applications. Mr. Stern reminded the Board that they receive informational updates monthly about retirement application activity. However, it is considered a best practice to have the Board approve or ratify the applications that the staff has processed. SCERS is looking at bringing a policy to the Board in January 2019, and a standing consent item starting in January to add more formality to our existing practices.
- Mr. Stern noted that on December 18th, the SACRS Board approved his nomination as co-chair of the SACRS legislative committee along with Dave Nelson, the CEO of Alameda County Employees' Retirement Association. Mr. Stern stated that he is looking forward to working with the other retirement systems and serving as an information source about the '37 Act and defined benefit plans, to the Legislature and executive branch.
- Mr. Stern noted that SCERS and the Board had a productive year, and a great foundation has been laid for the upcoming 2019 year.

Item 12. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis provided an update on SCERS' fixed income managers that are underweight to their target allocations, and Staff rebalanced these mandates closer to their respective targets earlier in December. Mr. Davis stated that the fixed income rebalancing included adding \$20 million to core plus manager TCW, adding \$20 million to global fixed income manager Brandywine, and

adding \$10 million to U.S. Treasury manager Neuberger Berman. Mr. Davis stated that SCERS' overlay manager SSGA unwound an equal amount of government bond overlay exposure to offset the rebalances.

- Mr. Davis stated that Staff and Verus will bring a manager recommendation for the 130/30 active equity extension search for the Board's consideration at the January meeting. Staff and Verus will provide a comprehensive analysis over the next few weeks.
- Mr. Davis stated that two absolute return investments are being targeted for January. The materials have been provided for the Board to review, and the due diligence process followed the revised implementation protocol.
- Mr. Davis announced that SCERS' new Deputy Chief Investment Officer, Jim Donohue would be starting at the beginning of January. Prior to joining SCERS, Mr. Donohue was the Director of Private Equity at the American Red Cross. Mr. Davis said SCERS is looking forward to him joining the investment team.

ADMINISTRATIVE MATTERS:

Item 13. Annual Independent Financial Statement Audit

Audit Chair Alan Matré stated that the Audit Committee and Staff met with the Auditors on December 18, 2018 and reviewed the Auditor's Report on the Comprehensive Annual Financial Report; Required Communications in Accordance with Professional Standards (SAS114); Independent Auditor's Report on Internal Control over Financial Reporting, and Compliance; and the Management Letter. Mr. Matré said it was a clean audit, and there were no findings this year. Mr. Matré indicated that SCERS had two minor findings last year, and the findings were corrected by Staff.

The Board approved a motion to receive and file the Annual Independent Financial Statement Audit. (8-0)

Item 14. Compensation Earnable Policy on Overtime, CTO-Expired, and CTO-Over-Max

Item 14 was removed by the Board President and deferred to April 2019.

Item 15. Service Credit Policy

Item 15 was removed by the Board President and deferred to April 2019.

Item 16. Transition of Commodities Exposure

Chief Investment Officer Steve Davis discussed the transition of SCERS' investment in the Gresham Strategic Commodities Fund, Ltd. (SCF) into Gresham's The TAP Fund, Ltd. Mr. Davis stated that the investment manager for SCF has decided to wind down the fund effective December 31, 2018. Mr. Davis stated that Gresham Investment Management, LLC has offered to transition investors' investments in

another commingled fund they manage called The TAP Fund, Ltd., which has the same underlying investment strategy as SCF, with identical material terms, but at lower fund administrative expenses.

The Board approved a motion to approve the transition of SCERS' investment in the Gresham Strategic Commodities Fund, Ltd. into Gresham's The TAP Fund, Ltd., and authorize SCERS' Chief Executive Officer to execute documents to complete the transition into The TAP Fund. (8-0)

Item 17. Liquidity Analysis

Chief Investment Officer Steve Davis and Verus Advisory presented a liquidity analysis study of SCERS' plan, which was performed by Verus. Mr. Davis said the analysis is particularly useful given SCERS' increasing private markets exposure, which is more illiquid. The study determined that while SCERS had negative cash flows, similar to most mature public pension plans, its overall liquidity profile remained in solid shape.

Mr. Diepenbrock asked how liquidity would be affected by not selling assets that tend to be down in value in a stressed market, like equities. Margaret Jadallah of Verus noted the analysis also includes a "modified" liquidity ratio, which assumes risk assets, such as equities, are not included in the calculation of assets that could be sold for cash needs.

Mr. DeVore asked how regular portfolio rebalancing could be impacted in an environment where SCERS may need to sell assets to raise liquidity. Mr. Davis responded that while there would most likely be several moving parts in a stressed market environment, establishing a Board policy to prioritize which assets to target for raising liquidity would also factor in portfolio rebalancing considerations.

The Board approved a motion to receive and file the liquidity analysis. (8-0)

Item 18. Quarterly Investment Performance Report — Third Quarter 2018

Barry Dennis, John Nicolini, and Margaret Jadallah of Verus Advisory presented SCERS' Total Fund Investment Performance for the periods ended September 30, 2018, 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, 2018

SCERS ASSET CLASS	Quarter	Year-to-Date	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS TOTAL FUND Return w/Overlay	2.5%	4.5%	8.8%	10.4%	7.7%	8.4%	Jun-86
Policy Index	2.5%	4.0%	7.4%	9.4%	7.5%	8.6%	
InvestorForce Public DB > \$1B	2.3%	3.4%	7.3%	9.9%	7.6%	8.3%	
SCERS TOTAL FUND Return w/o Overlay	2.6%	4.7%	9.0%	10.5%	7.8%	8.3%	Jun-86
Policy Index	2.5%	4.0%	7.4%	9.4%	7.5%	8.6%	
GROWTH ASSET CATEGORY	4.3%	6.5%	12.3%			15.0%	Mar-17
Custom Benchmark	3.9%	5.4%	10.4%			12.8%	
DIVERSIFYING ASSET CATEGORY	-0.1%	-1.2%	-0.5%			1.6%	Mar-17
Custom Benchmark	-0.1%	-0.7%	-0.1%			1.7%	
REAL RETURN ASSET CATEGORY	0.4%	6.2%	9.8%			10.5%	Mar-17
Custom Benchmark	1.5%	6.1%	8.6%			7.8%	
OPPORTUNITIES PORTFOLIO	1.9%	-1.0%	-1.3%	5.4%	5.7%	15.8%	Oct-07
Custom Benchmark	2.5%	4.0%	7.4%	9.4%	7.5%	8.0%	

The Board approved a motion to receive and file the Total Fund Quarterly Investment Performance Report. (8-0)

Item 19. Quarterly Investment Performance Report — Alternative Assets

Jamie Feidler of Cliffwater, LLC., presented SCERS' Alternative Assets Performance Report for the periods ending September 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 September 30, 2018

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception*	Since Inception Date*
SCERS Absolute Return	0.3%	2.3%	3.5%	3.3%	4.2%	Sep-04
HFRI FoF Conservative	1.0%	3.8%	2.9%	3.0%	3.5%	
HFRI FoF Composite + 1%	0.7%	4.3%	4.4%	4.2%	4.2%	
SCERS Private Equity	6.1%	24.3%	16.2%	16.5%	13.9%	Feb-08
Cambridge Private Equity/Venture Capi	4.6%	18.6%	12.7%	14.8%	12.9%	
SCERS Private Credit	1.4%	7.1%	8.8%	8.7%	8.8%	Oct-11
Credit Suisse Leveraged Loan + 2%	1.3%	6.7%	6.3%	6.2%	7.4%	
SCERS Real Assets	2.7%	13.0%	15.1%	15.6%	15.5%	Jan-13
(45%) Cambridge Private Infrastructure; (35%) Cambridge Private Energy; (20%) NCREIF Agriculture/Timber	1.9%	10.4%	7.9%	7.2%	7.1%	
SCERS Opportunities	1.9%	1.3%	7.0%	7.4%	18.5%	Jan-08
SCERS Portfolio Actuarial Rate of Return	1.8%	7.0%	7.0%	7.0%	7.0%	

**Note: Periods ending 6/30/18 for Private Equity, Private Credit, Real Assets, and Opportunities
Periods ending 9/30/18 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. (8-0)

Item 20. Quarterly Investment Performance Report — Real Estate — Third Quarter 2018

Jennifer Stevens and Felix Fels of Townsend presented SCERS' Real Estate Portfolio Performance Report for the periods ending September 30, 2018 as follows:

**SCERS REAL ESTATE PERFORMANCE SUMMARY
9/30/2018**

SUB-ASSET CLASS	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Real Estate Portfolio	-0.1%	9.6%	9.8%	10.8%	8.3%	Nov-86
(65%) NFI-ODCE + (35%) NFI-ODCE	2.0%	8.1%	8.2%	10.1%	6.7%	Nov-86
Core Portfolio	-0.4%	9.5%	9.2%	10.2%	6.6%	Nov-86
Separate Account	-5.7%	5.0%	6.9%	8.6%	8.7%	Nov-86
Commingled Funds	2.2%	11.3%	10.8%	11.7%	7.1%	Sep-13
NFI-ODCE Index	1.9%	7.7%	7.8%	9.7%		
Non-Core Portfolio	0.9%	10.0%	12.1%	13.0%	5.5%	Jun-06
Value Add Portfolio	1.7%	9.5%	12.9%	13.1%	4.6%	Jun-06
Opportunistic	0.1%	10.5%	10.7%	19.1%	7.8%	May-13
NFI-ODCE + 1% Index	2.1%	8.7%	8.8%	10.7%		

The Board approved a motion to receive and file the Quarterly Investment Performance Report — Real Estate. (8-0)

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:55 a.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock (arrived at 10:05 a.m.), Ben Lamera, Alan Matré, Kathy O'Neil, 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; Andrew L. Kjeldgaard, Interim 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; Todd Thiessen, Law Enforcement Managers Association; Kevin Mickleson, Sacramento County Deputy Sheriff's Association; Matt Petersen, Sacramento County Sheriff's Department; David Villanueva, Office of the County Executive; David Devine, Michele Rovito, and Catherine Mitchell, Department of Personnel Services; Isaac Stevens, Mastagni Holstedt; John Nicolini,

Margaret Jadallah, and Barry Dennis, Verus Advisory; Jamie Feidler, Cliffwater LLC; Jennifer Stevens, Felix Fels, and Storm Klyve-Underkofler, Townsend; Andrew Paulden, Brown Armstrong; 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: _____