



Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

Kathryn T. Regalia
Chief Operations Officer

Stephen Hawley
Chief Strategy Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, JANUARY 16, 2019
10:00 A.M.

Location: SCERS Board Room
980 9th 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

James A. Diepenbrock
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Alan Matré, CPA
Elected by the Miscellaneous Members

Kathy O'Neil
Elected by the Retired Members

Matt Petersen
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

Item 1. Swearing-In Ceremony—Florence Evans, Clerk of the Board of Supervisors, administered the Oath of Office for Board Members Rick Fowler, John B. Kelly, Keith DeVore, James A. Diepenbrock, Diana Gin, Ben Lamera, Alan Matré, Kathy O'Neil, Matt Petersen, Martha J. Hoover, and the Oath of Office for Chief Executive Officer, Eric Stern.

Item 2. Call to Order—The meeting was convened at 10:06 a.m.

Item 3. Public Comment—None.

Item 4. Minutes

**The Board approved the Minutes of the December 19, 2018 meeting.
(6-0, Gin and Petersen abstained)**

CONSENT MATTERS – ITEMS 5–9:

The Board approved the Consent Matters Items 5-9 (8-0).

Item 5. Disability Retirement Applications

- A. MIERZWAK, Marjorie; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge and granted a nonservice-connected disability.
- B. ORNELAS, Ramona; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 6. CEO Delegated Authority Expense Report—Received and filed the CEO Delegated Authority Expense Report for the quarter ended December 31, 2018.

Item 7. Placement Agent Disclosure Report—Fourth Quarter 2018—Received and filed a report regarding placement agents associated with alternative assets from the previous quarter.

Item 8. Monthly Investment Manager Activity, Compliance, and Watch List Report—December 2018—Received and filed a report on manager compliance issues from the previous month.

Item 9. Monthly Report of New Investment Activity — December 2018—Received and filed a report on new investment activity from the previous month.

EXECUTIVE REPORTS:

Item 10. Chief Executive Officer’s Report

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern introduced Jim Donohue as Deputy Chief Investment Officer. Jim previously worked at the American Red Cross endowment, where he managed the private equity book.
- Mr. Stern introduced Mario Sierras who is now serving as Acting Chief Benefits Officer. Mario started with SCERS in November 2017 as Retirement Services Manager, and he previously worked at ScholarShare, the state’s 529 college savings program in the State Treasurer’s Office, and was a manager at CalSTRS.
- Mr. Stern acknowledged the retirement of Retirement Services Manager Margaret Dugger, and thanked her for 18 years with SCERS. Mr. Stern stated

that Margaret was part of the fabric of the organization on the benefits team, and served as a subject matter expert on benefits, payroll, Microsoft Excel macros, and was all around go-to person for the Staff.

- Mr. Stern provided an update of the advisory committee on Office Space Planning. Mr. Stern stated that the advisory committee met with SCERS' commercial real estate broker on January 15, 2019, to discuss the SCERS building lease, which is a 10-year agreement that expires in 2021. Mr. Stern said the committee discussed SCERS workforce space needs over the next 10 years and the Sacramento real estate market. Mr. Stern stated that the advisory committee would be visiting other office buildings in the next month or two to review options.
- Mr. Stern provided information on upcoming educational conferences:
 - CALAPRS General Assembly will be held March 3-5, 2019 in Monterey.
 - CALAPRS Advanced Principles of Pension Management for Trustees will be held March 27-29, 2019 at UCLA.
 - SACRS Spring Conference will be held May 7-10, 2019 in Squaw Valley.

Item 11. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis stated that the preliminary performance for the fourth quarter 2018 would be presented by Verus Advisory at the February Board meeting. Mr. Davis said he estimated that SCERS was down between 5%-6% for the fourth quarter, driven by public equities. Mr. Davis stated that the equity markets were down 12-15%, and further stated that the markets were volatile in the fourth quarter. Mr. Davis stated that high yield credit and commodities were down, and the diversification across the portfolio mitigated some of the downside. Mr. Davis noted that the fiscal year to date is down about 3% and the calendar year 2018 performance was down around 1%. Mr. Davis further noted that 93% of global financial markets experienced negative returns in calendar year 2018. Mr. Davis stated that first quarter 2019 is off to a better start, and that the equity markets are up around 4%.
- Mr. Davis provided an update on recent overlay rebalance activity. Mr. Davis stated that the overlay program is structured to rebalance at the end of each quarter. Mr. Davis noted that the big sell-off in equities in the fourth quarter 2018 brought SCERS underweight to its targets, so overlay manager State Street Global Advisors (SSGA) purchased approximately \$200 million in global equities futures contracts to rebalance. Mr. Davis stated that the Diversifying and Real return segments were down less than growth assets during the

quarter, and core bonds were up in value. Mr. Davis stated that SSGA sold approximately \$100 million in bond exposure, and \$100 million in real return exposure. Mr. Davis further stated that equities have increased in value to start the first quarter of 2019.

- Mr. Davis stated that the 2018 Investment Year in Review and 2019 Annual Investment Plan would be presented at the Board meeting in February 2019. Mr. Davis stated the format would be similar to last year's presentation. Mr. Davis stated the presentation would cover the investment activity for the calendar year 2018, and recommendations for the 2019 annual investment plans for each of the major asset classes for the Board to consider, which will set the implementation direction for the portfolio for 2019.
- Mr. Davis provided an update on the general consultant contract with Verus Advisory. Mr. Davis stated that the Verus contract expires on June 30, 2019, and that SCERS has been happy with the Verus relationship and consulting team. Mr. Davis stated that SCERS has not issued an RFP for a general consultant since 2010, and while evaluating the consultant market is a good fiduciary practice, issuing an RFP is not a priority for SCERS during the first half of 2019. Mr. Davis noted that a prudent approach is to extend the Verus contract for another year, and then consider issuing an RFP in late 2019 or early 2020. He said the staff will present the issue to the Board at a later date in 2019.

ADMINISTRATIVE MATTERS:

Item 12. Investment Accounting Request for Proposal

Chief Strategy Officer Steve Hawley presented a recommendation to issue a Request for Proposal (RFP) related to private market accounting and reporting services. Mr. Hawley stated that in 2017, SCERS conducted a project to identify current Investment Accounting System processes and new system requirements. Mr. Hawley indicated that the key findings of the project are that SCERS has developed a collection of partially automated tools and procedures for generating and reconciling investment accounting data.

He stated that SCERS accounting activities require a manual, labor-intensive task of developing accounting entries for private market assets by reviewing hard copy reports from the asset managers and manually inputting the asset managers' activities. Mr. Hawley noted that SCERS' private market investment portfolio has grown to more than 100 underlying funds and will likely continue to expand in diversity, complexity, and numbers.

Mr. Hawley stated that Staff initially was pursuing a full system replacement that was included in the IT Modernization Program. However, based on the vendor responses to a Request for Information (RFI) in 2018, SCERS staff concluded that the cost, timeframe, and disruption of implementing a full solution does not currently provide sufficient benefits to SCERS.

He said SCERS Staff did identify a lower cost, partial solution for reporting services that will address a significant problem area. Mr. Hawley stated that service providers are now offering shared services to perform work that will allow sharing of the manual labor across multiple users, significantly reducing the net cost to each individual user. He estimated that the implementation cost/effort for the private market data reporting service and the ongoing services cost would be around \$300,000-\$350,000 per year.

Mr. DeVore asked for clarification on the cost-benefit of procuring reporting services. Mr. Stern responded that SCERS was preparing to spend potentially \$1 million a year on a new investing accounting system; he said a partial solution could be implemented quickly, would save approximately \$600,000 a year, and solve the most significant issues for the Accounting Staff related to reporting and reconciling private market manager financial data.

The Board approved a motion for the Investment Accounting Request for Proposal related to private market accounting and reporting services. (8-0)

Item 13. IT Modernization Program Quarterly Review

Chief Strategy Officer Steve Hawley provided the Board with a status update of the IT Modernization Program, which he stated is progressing on time. Mr. Hawley stated that the Fit-Gap phase of the Pension Administration System (PAS) project is complete, and the contract negotiations and project planning for the phased PAS implementation are complete. Mr. Hawley stated that the team is now working toward the next phase, which is projected to go live in July 2019. He said the phase will bring automated workflow tracking with integration to electronic member documents, initiate a “paperless” benefits administration environment at SCERS, and significantly improve disaster recovery continuity.

Mr. Fowler asked if the budget forecast for the Investment Accounting System project reflects a reduction due to the change in project scope. Mr. Hawley responded that the savings is reflected in the agenda materials.

The Board approved a motion to receive and file the IT Modernization Program Quarterly Review. (8-0)

Item 14. Strategic Management Plan—Quarterly Performance Report

Chief Executive Officer Eric Stern provided an overview of the 2018-19 Strategic Management Plan. Mr. Stern stated that SCERS is focused on getting members paid their first retirement checks in a timely manner, and continues to identify and manage risks that could potentially influence SCERS’ ability to maintain and improve its performance. Mr. Stern discussed the Customer Service Dashboard, with a focus on application processing duration. Mr. Stern stated that 90% of member applications are now processed within 60 days. Mr. Stern stated that the management team plans to expand the set of metrics presented in each quarterly report based on needs, experience, and system capabilities.

The Board approved a motion to approve the Strategic Management Plan—Quarterly Performance Report. (8-0)

BENEFIT MATTERS:

Item 15. Ratification of Retirement Application Policy

Interim General Counsel Andrew L. Kjeldgaard presented the Ratification of Retirement Application Policy, which delegates authority to the Chief Executive Officer, or designate, to process service retirement applications, to pay members their retirement benefits, and directs the Chief Executive Officer to provide a monthly written report of retiring members to the Board for ratification. Mr. Kjeldgaard noted the report for December 2018 service retirements is included in the agenda item. He said the Policy is consistent with the County Employees Retirement Law of 1937, and the Public Employees' Pension Reform Act of 2013.

Mr. Fowler asked if there would ever be a case that the retiree would receive a check before the ratification occurred. Mr. Kjeldgaard responded that in order not to delay member retirements and to pay members consistent with the County Retirement Law of 1937, the Staff will process payments and the Board will subsequently ratify the service-retirement applications at their monthly Board meetings.

The Board approved the Ratification of Retirement Application Policy, and ratified the finalized service-retirement applications for December 2018. (8-0)

INVESTMENT MATTERS:

Item 16. Investment Manager Recommendation — Domestic Equity

Chief Investment Officer Steve Davis and Investment Officer Brian Miller presented a recommendation to fill the additional allocation to the 130/30 Equity Extension by retaining D.E. Shaw Investment Management. Mr. Davis stated that D.E. Shaw will complement the existing 130/30 Equity Extension mandate with J.P. Morgan Asset Management. Letitia Yang and Jordan Drachman of D.E. Shaw presented an overview of the firm's investment strategy.

The Board approved Staff recommendation to invest approximately \$110 million with D.E. Shaw Investment Management in its Broad Market Core Alpha Extension 130/30 strategy, and authorized Staff to determine the most effective method for transitioning the assets and execute any necessary documents or agreements to effectuate the transition. (8-0)

CLOSED SESSION

Item 17. Conference with Legal Counsel — Anticipated Litigation

The Board met in Closed Session at 11:38 a.m.

OPEN SESSION

Mr. Fowler reconvened the meeting in Open Session at 12:09 p.m., and announced that no action was taken during the Closed Session.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:09 p.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, James A. Diepenbrock, Diana Gin, Ben Lamera, Alan Matré, Kathy O’Neil, Matt Petersen, Martha J. Hoover, and Rick Fowler presiding

MEMBERS ABSENT: John Conneally

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Andrew L. Kjeldgaard, Interim General Counsel; Kathryn T. Regalia, Chief Operations Officer; Mario Sierras, Acting Chief Benefits Officer; Stephen Hawley, Chief Strategy Officer; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Investment Officer; Brian Miller, Investment Officer; Margaret Dugger, Retirement Services Manager; Jett Lewis, Retirement Service Analyst; Debbie Chan, Senior Accounting Manager; John Lindley, IT Administrator; John Kennedy, Nossaman LLP; John Nicolini and Barry Dennis, Verus Advisory, Inc.; Letitia Yang and Jordan Drachman, D.E. Shaw; Florence Evans, Clerk of the Board of Supervisors; Alma Munoz, Assistant Clerk of the Board of Supervisors, 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: _____