



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, FEBRUARY 20, 2019  
10:00 A.M.

Location: SCERS Board Room  
980 9<sup>th</sup> Street, 19<sup>th</sup> 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. Call to Order** — Mr. DeVore convened the meeting at 10:05 a.m.

**Item 2. Public Comment** — Debra Cattuzzo addressed the Board regarding the proposed decision of the Administrative Law Judge.

**Item 3. Minutes**

**The Board approved the Minutes of the January 16, 2019 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. BEM, Christine; Granted a nonservice-connected disability retirement as recommended by staff.

B. CATTUZZO, Debra; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.

- C. ESPARZA, Adela; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- D. GUTIERREZ, Carla; Granted a nonservice-connected disability retirement as recommended by staff.
- E. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

**Item 5. Ratification of Service Retirement Applications—January 2019**—Ratified the Service Retirement Applications that were finalized in January 2019.

**Item 6. Cost-of-living adjustment (COLA) effective April 1, 2019, for SCERS' monthly benefit payments**—Approved the cost-of-living adjustments effective April 1, 2019.

- Miscellaneous Tier 1 and Safety Tier 1: 4.0%
- Miscellaneous Tiers 3, 4, and 5 and Safety Tiers 2, 3, and 4: 2%
- Miscellaneous Tier 2: No COLA

**Item 7. Portfolio Rebalancing Report—Fourth Quarter 2018**—Received and filed the Portfolio Rebalancing Report from the previous quarter.

**Item 8. Trading Activity and Commission Recapture Report—Fourth Quarter 2018**—Received and filed the Quarterly Trading Activity Report from the previous quarter.

**Item 9. Monthly Investment Manager Activity, Compliance and Watch List Report—January 2019**—Received and filed a report on manager compliance issues from the previous month.

**Item 10. Monthly Report of New Investment Activity—January 2019**—Received and filed 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 provided an updated on a recent appellate ruling in the case of *Mijares v Orange County Employees' Retirement System*. Mr. Stern reported that the court affirmed that retirement boards have constitutional and statutory authority to enforce payment of contributions for unfunded liabilities from employers who no longer have active members but only have retirees.

Mr. Stern noted that SCERS is faced with these challenges on occasion and, in the Florin Fire situation, SCERS collaboratively worked out a funding plan with the Sacramento Metropolitan Fire Protection District. Mr. Stern noted that Staff is evaluating a policy regarding the collection of outstanding liabilities from

withdrawn employers or employers with declining payroll. Mr. Stern noted that as co-chair of the SACRS legislative committee, an ad hoc work group of officials from other '37 Act systems was formed to review the statutory tools available to protect the financial integrity of the fund.

- Mr. Stern provided information on upcoming education conferences:
  - CALAPRS General Assembly, March 3-5, 2019 in Monterey.
  - SACRS Spring Conference, May 7-10, 2019 in Squaw Valley.

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

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis stated that Staff and Townsend are close to finalizing a rebalance plan that will bring SCERS' real estate allocation back within the target range of 7-9%. Mr. Davis stated that he will report to the Board once the rebalance plan is finalized.
- Mr. Davis provided an update on investment staff travel. Mr. Davis attended the Institutional Investors Risk and Liquidity Forum in San Francisco in January. Mr. Davis stated that it was an informative conference that covered the asset allocation and portfolio construction trends among institutional investors, the evolving approaches to risk management, and how investors are reacting to an increasingly volatile investment landscape.

**INVESTMENT MATTERS:**

**Item 13. Amendment to Investment Management Agreement with J.P Morgan – Domestic Equity 130/30 Equity Extension**

The Board approved the Staff recommendation to amend the Investment Management Agreement fee structure with J.P. Morgan Investment Management and authorize Staff to execute any necessary documents or agreements to complete the amendment.

**The Board approved adopted the staff recommendation. (8-0)**

**Item 14. Quarterly Investment Performance Report – Fourth Quarter 2018**

Barry Dennis of Verus Advisory presented SCERS' Total Fund Investment Performance for the periods ended December 31, 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 December 31, 2018**

SCERS ASSET CLASS	Quarter	Fiscal Year-to-Date	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS TOTAL FUND Return w/Overlay</b>	<b>-5.3%</b>	<b>-3.1%</b>	<b>-1.3%</b>	<b>7.7%</b>	<b>5.5%</b>	<b>8.2%</b>	Jun-86
Policy Index	-5.2%	-2.8%	-1.4%	6.9%	5.4%	8.3%	
InvestorForce Public DB > \$1B	-6.9%	-4.7%	-3.6%	6.4%	4.9%	8.0%	
<b>SCERS TOTAL FUND Return w/o Overlay</b>	<b>-5.0%</b>	<b>-2.8%</b>	<b>-0.8%</b>	<b>7.6%</b>	<b>5.7%</b>	<b>8.1%</b>	Jun-86
Policy Index	-5.2%	-2.8%	-1.4%	6.9%	5.4%	8.3%	
<b>GROWTH ASSET CATEGORY</b>	<b>-9.3%</b>	<b>-5.4%</b>	<b>-3.5%</b>			<b>6.6%</b>	Mar-17
Custom Benchmark	-9.0%	-5.4%	-4.1%			5.1%	
<b>DIVERSIFYING ASSET CATEGORY</b>	<b>0.2%</b>	<b>0.1%</b>	<b>-1.0%</b>			<b>1.5%</b>	Mar-17
Custom Benchmark	0.5%	0.4%	-0.3%			1.7%	
<b>REAL RETURN ASSET CATEGORY</b>	<b>1.0%</b>	<b>0.1%</b>	<b>5.9%</b>			<b>8.7%</b>	Mar-17
Custom Benchmark	0.1%	1.7%	6.2%			6.7%	
<b>OPPORTUNITIES PORTFOLIO</b>	<b>2.0%</b>	<b>4.0%</b>	<b>1.0%</b>	<b>5.3%</b>	<b>6.3%</b>	<b>15.6%</b>	Oct-07
Custom Benchmark	-5.2%	-2.8%	-1.4%	6.9%	5.4%	7.3%	

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

**Item 15. Investment Year in Review and 2019 Annual Investment Plan Investment**

Mr. Davis stated from a performance perspective, while the 1.3% calendar year 2018 loss that the portfolio delivered was disappointing, the performance of the portfolio relative to other peer plans was encouraging, as the median public pension plan with assets greater than \$1 billion was down 3.6% during the year. Mr. Davis reported that the objectives of the current strategic asset allocation are to reduce volatility and protect against significant market drawdowns, increase diversification to less correlated investment strategies, and improve the cash flow generation of the plan. The SCERS Investment Staff then presented the annual investment plan for the individual asset classes.

**The Board approved a motion to receive and file the calendar year 2018 Investment Year in Review and 2019 Annual Investment Plan Report, and approve the annual asset class investment plans. (8-0)**

**CLOSED SESSION**

Upon conclusion of Item 15, Mr. DeVore called for a closed session at 11:00 a.m. to discuss existing litigation Re Tribune Company Fraudulent Transfer Litigation (Item 16) and anticipated litigation (Item 17).

**OPEN SESSION**

Mr. DeVore reconvened the meeting in open session at 11:13 a.m., and announced that in Closed Session the Board voted unanimously 8-0 to ratify and to affirm the Chief Executive Officer's decision to participate in mediation in the Tribune Company case (Item 16). Mr. DeVore announced there was no action to report regarding anticipated litigation (Item 17).

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 11:14 a.m.

**MEMBERS PRESENT:** John B. Kelly, James A. Diepenbrock, Diana Gin, Ben Lamera, Alan Matré, Kathy O'Neil, Matt Petersen, John Conneally, and Keith DeVore presiding

**MEMBERS ABSENT:** Rick Fowler, Martha J. Hoover

**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; Debbie Chan, Senior Accounting Manager; Jett Lewis, Retirement Service Analyst; John Lindley, IT Administrator; John Kennedy, Nossaman LLP; Margaret Jadallah, John Nicolini and Barry Dennis, Verus Advisory, Inc.; Jennifer Stevens, The Townsend Group; Scott Griffith, J.P. Morgan; Elise Dallain, Morneau Shepell; Jamie Feidler, Cliffwater; Debra Cattuzzo; 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: \_\_\_\_\_