



MINUTES

Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

Stephen Hawley
Chief Strategy Officer

Mario Sierras
Chief Benefits Officer

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

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 Gln
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

WEDNESDAY, APRIL 17, 2019
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 March 20, 2019 meeting.
(9-0)**

CONSENT MATTERS – ITEMS 4 –11:

The Board approved the Consent Matters Items 4-11 (9-0).

Item 4. Disability Retirement Applications

A. WRIGHT, Marquette; Granted a service-connected disability retirement per proposed decision of the Administrative Law Judge.

B. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 5. Ratification of Service Retirement Application Approvals—March 2019—Ratified the Service Retirement Applications that were finalized in March 2019.

- Item 6. Placement Agent Disclosure Report**—Received and filed a report regarding placement agents associated with alternative assets from the quarter ended March 31, 2019.
- Item 7. CEO Delegated Authority for Expenses Quarterly Report**—Received and filed a report regarding expenses authorized by the CEO from the previous quarter.
- Item 8. SCERS IT Modernization Program Quarterly Report**—Received and filed a report regarding the state of SCERS' IT projects from the previous quarter.
- Item 9. Proposed SACRS Board Nominees**—Approved the items to be voted on by the membership for the State Association of County Retirement Systems (SACRS) Spring Conference.
- Item 10. Monthly Investment Manager Activity, Compliance and Watch List Report—March 2019**—Received and filed a report on manager compliance issues from the previous month.
- Item 11. Monthly Report of New Investment Activity—March 2019**—Received and filed a report on new investment activity from the previous month.

BENEFIT MATTERS:

Mr. Stern introduced Items 13 and 14, and stated that one of the core values at SCERS is to have a fair and open process. Mr. Stern stated the since last summer, SCERS has handled the policy issues with the transparency for employers and employees to understand why SCERS is pursuing this path, and to correct longstanding practices and decisions, that when examined today, demand a more evolved interpretation that better reflects the law.

Mr. Stern reminded the Board that draft policies were circulated last fall to stakeholders, SCERS posted the policies and FAQs on the SCERS website, and the Board delayed final action at the December 2018 meeting to take more time to review SCERS' approach. Mr. Stern noted that SCERS also has worked cooperatively with the County on the implementation timeline and had multiple conversations with employee groups.

Mr. Stern explained that the overtime policy directs the County to unwind a programming decision made years ago regarding the County payroll system when capturing retirement contributions on additional pay items. Mr. Stern stated that the service credit policy clarifies that service credit is limited to 1 year in a 12-month period, providing a more consistent approach on how SCERS treats different work schedules for full-time employees.

Mr. Stern referred to the pending California Supreme Court cases related to vested rights and PEPPRA, but noted that the facts and circumstances behind the overtime and service credit policies fall outside of the issues addressed in the court cases.

Mr. Stern stated that overtime on additional pay items and service credit calculations were not part of PEPRA, and were never included in the Ventura case. Mr. Stern said the policies strike a fair and reasonable balance to members because the limits on pay items influenced by overtime, and the service credit limits, will apply prospectively to future pay periods. Mr. Stern said he hopes that any unresolved issues can be addressed at the bargaining table between labor and management. Mr. Stern concluded that SCERS can accomplish two things at the same time: SCERS can administer a benefit structure that provides lifetime retirement security to our members, and SCERS can administer a benefit structure that does not allow members to receive any more or any less than what they are entitled to under the law.

Item 12. Public Comment

Isaac Stevens, attorney at Mastagni Holstedt, APC, spoke on behalf of the Deputy Sheriffs' Association (DSA) and the Law Enforcement Managers Association (LEMA). Mr. Stevens stated that the policies would affect current DSA and LEMA members, and asked that SCERS reject the policies.

Mr. Stevens stated that the overtime policy will reduce members' pensions and deprive them of the benefit of the bargain that they entered into when working for the County. He said that over the years, SCERS has advised members that the incentives would be included in their pensionable income and stated the actuarial valuations account for the values of those incentives being included in their benefits. He said the members have worked for, paid retirement contributions for, and have relied upon the incentive pay for their own retirement benefits.

Regarding the service credit policy, Mr. Stevens stated that prior practice should be honored for legacy members that were told that the additional hours worked would allow them to accrue additional service credit. Mr. Stevens stated that as early as 1999, the Board noted this issue and allowed employees to accrue service credit faster. Mr. Stevens asked that the Board reject the Service Credit Policy.

Mr. Stevens said the proper venue for resolving future issues with pension benefits is at the bargaining table, but with respect to enforcing promises that were previously made by SCERS to the employees, he said the court might be the only place to find resolution. Mr. Stevens stated that his clients would be compelled to go to court to litigate the validity of the promises that were made to the employees. Mr. Stevens asked the Board to wait for the resolution of the "Alameda" and "Marin" Supreme Court cases. Mr. Stevens said the underlying issue before the Court is whether a 1937 Act system has the authority to include pay items or items of compensation, above and beyond what the statute requires, into compensation earnable. Mr. Stevens stated that he may have to litigate an issue that is likely to be decided by the Supreme Court within a year. Mr. Stevens stated that he hopes the Board rejects the policies or at least delay the decision until the Alameda case is decided.

Item 13. Compensation Earnable Policy on Overtime, CTO-Expired, and CTO-Over-Max

Mr. Stern provided an overview of the proposed policy, which establishes that any portion of an allowance or other pay differential that includes overtime pay or compensatory time off paid in excess of a member's regularly scheduled work hours (including CTO-expired and CTO-over-max) must be excluded from Final Compensation for compensation earnable periods occurring after the pay period ending April 27, 2019.

Mr. Lamera ask Mr. Stern to address the effective date. Mr. Stern replied that the April 28th date coincides with the beginning of the next County's payroll period.

Mr. Petersen said that SCERS should consider waiting for resolutions of the Supreme Court cases to avoid the cost of potential litigation.

Mr. Fowler replied that the Board's highest duty is to protect the long-range value of a plan that is currently underfunded. He said the Board has spent several months determining how to address a problem in a way that is least harmful to the beneficiaries and provides a reasonable transition to the new approach.

The Board approved a motion to adopt the policy. (9-0)

Item 14. Service Credit Policy

Mr. Stern provided an overview of the proposed policy, which establishes that, beginning with the pay period commencing on April 28, 2019, SCERS will limit service credit to one (1) year in a 12-month period.

Mr. Petersen stated that the Staff's recommendation and interpretation of law was insufficient for the Board to undo an agreement that was made with the County and employees. He said the IRS rules do not address this issue and stated that he is not convinced that there is a need to change the policy.

The Board approved a motion to adopt the policy. (7-2, with Mr. Petersen and Mr. Conneally opposing.)

EXECUTIVE REPORTS:

Item 15. Chief Executive Officer's Report

Mr. Eric Stern provided the following updates:

Mr. Stern stated that SCERS has received 9 bids in response to the RFP for private market accounting and reporting services, and the goal is to bring a contract recommendation to the Board at the June Board Meeting.

Mr. Stern reminded the Board of upcoming educational conferences:

- SACRS Spring Conference will be held May 7-10, 2019 in Squaw Valley.
- SACRS Public Pension Investment Management Program will be held July 22-24 at UC Berkeley.

Mr. Fowler announced he attended the Pension Bridge International in San Francisco during the week of April 8th.

Item 16. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis provided an update regarding the preliminary performance during the first quarter of 2019. Mr. Davis stated that there was a dramatic turnaround from the fourth quarter of 2018, with global equity markets up 11% in quarter one, compared to being down over 12% from the prior quarter. Mr. Davis estimated that SCERS' plan was up between 6% and 7% in the first quarter, led by growth assets and the liquid real return proxy. Mr. Davis stated that the fiscal year to date is up approximately 3.5% heading into the final quarter of the fiscal year. Mr. Davis noted that SCERS is still trailing the actuarial rate of return.
- Mr. Davis reported that the overlay program had large adjustments at the end of the fourth quarter of 2018 due to the volatility in the markets. Mr. Davis also noted that the overlay program re-balances at the end of each quarter unless a band is breached intra-quarter. Mr. Davis stated that the growth asset category sold \$79 million in global equity exposure at the end of the first quarter of 2019 compared to \$200 million in purchases at the end of fourth quarter of 2018. He said the diversifying asset category purchased \$49 million in bond exposure, compared to \$100 in sales at the end of fourth quarter of 2018, and the real return asset category purchased \$30 million in liquid real return exposure, compared to \$100 million in sales at the end of the fourth quarter of 2018.

ADMINISTRATIVE MATTERS:

Item 17. SCERS 2019-20 Proposed Budget

Mr. Stern presented the SCERS budget for the 2019-20 fiscal year. Mr. Stern indicated that the final budget is approximately \$20.1 million, to be paid out of the retirement trust fund, for personnel and operating costs of administering SCERS. Mr. Stern stated that Staff developed a new approach to prepare and finalize the budget before the next fiscal year begins, established new baseline spending for each line item, and identified opportunities to increase the transparency of SCERS operations.

The Board approved a motion to adopt the 2019-20 Annual Budget. (9-0)

Item 18. Strategic Management Plan—Quarterly Performance Report

Mr. Stern and Mr. Hawley presented progress on the SCERS Strategic Management Plan.

The Board approved a motion to receive and file the Strategic Management Plan Quarterly Performance Report. (9-0)

INVESTMENT MATTERS:

Item 19. Education on Private Equity Investments

Deputy Chief Investment Officer Jim Donohue and Jamie Feidler of Cliffwater, LLC provided an educational overview of secondary and co-investments for future consideration in SCERS' Private Equity portfolio.

The Board approved a motion to receive and file the Private Equity Implementation Considerations Presentation. (9-0)

CLOSED SESSION

No closed session was convened.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:05 p.m.

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

MEMBERS ABSENT: Alan Matré

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Andrew L. Kjeldgaard, Interim General Counsel; Stephen Hawley, Chief Strategy Officer; Mario Sierras, Chief Benefits Officer; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Investment Officer; Debbie Chan, Senior Accounting Manager; Jett Lewis, Retirement Service Analyst; Jenna Taylor, Retirement Service Analyst; Amy Larson, Sr. Personnel Analyst; John Lindley, IT Administrator; Brad Akin, IT Analyst; John Nicolini, Verus Advisory, Inc.; Jamie Feidler, Cliffwater; Todd Thiessen, Law Enforcement Managers Association; Tyler Neff, Deputy Sheriffs' Association; Isaac Stevens, Mastagni Holstedt, APC; Coye E. Carter, Department of Finance; 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: _____