



Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Stephen Hawley
Chief Strategy Officer

Mario Sierras
Chief Benefits Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

**WEDNESDAY, JULY 17, 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 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 — The meeting was convened at 10:00 a.m.

Item 2. Member Appeal — Mr. Stern introduced Ms. Tam-Toy. Mr. Stern stated that SCERS is trying to bring finality and resolution to an issue that has been outstanding for some time. He said that the goal today is to create a pathway for Ms. Tam-Toy to make informed choices about her retirement. Mr. Stern provided a brief summary of Ms. Tam-Toy's situation, in which she had overlapping service between the County and the State that made her ineligible for reciprocal benefits. Over the years, SCERS had incorrectly informed her that she remained eligible for reciprocal benefits. Mr. Stern noted that Ms. Tam-Toy had been provided options to resolve her issue by choosing an earlier retirement date from SCERS that would provide an ongoing benefit and allow her to recover prior benefit payments she would have received.

Ms. Tam-Toy addressed the Board regarding her appeal and asked the Board to grant a restitution equal to her estimated loss of pension benefits for the amount she would have had with reciprocity, or to direct administrators to find an option to grant her the right to earn a final pension by securing employment with the County that would result in an equivalent pension to what she would have received with reciprocal benefits.

Mr. DeVore asked if Ms. Tam-Toy can get clarification from SCERS in terms of how her benefit would be treated if she comes back to work for the County. Mr. Stern stated that if Ms. Tam-Toy secures a position with the County, without attempting to establish

reciprocity, her prior years of service would be combined with her new years of service, and her final average salary would be applied to the total service. Mr. Stern also stated that, if Ms. Tam-Toy returns to the County and establishes reciprocity, the law is unclear as to how her prior years of County service would be treated. Mr. Stern noted a risk that this path would not enable Ms. Tam-Toy to repair the previously broken reciprocity. Mr. Stern stated that it is dangerous to try to address this issue on a hypothetical basis as the answer depends on a fully developed set of facts. Mr. Stern also stated that leaving the State for the County is a complex question because it implicates the possible loss of State benefits for Ms. Tam-Toy; thus, SCERS should refrain from counseling Ms. Tam-Toy on her decisions in this regard.

Ms. Gin asked for further clarification if Ms. Tam-Toy came back to the County. Ms. Gin asked if her two pensions would equal what she would have received if she had reciprocity. Mr. Stern said it would depend on many factors, but it can be assumed that her SCERS pension would be higher because her new rate of pay would likely be higher than what it was when she left the County in 1992.

Mr. Matré ask if Mr. Stern has discussed the matter with the County. Mr. Stern stated that he discussed the matter with the County, and he feels that SCERS should bring the matter to conclusion.

Mr. Matré asked if a judge could overrule state law if Ms. Tam-Toy appealed her matter to the courts. Mr. Lau said judges are required to follow state law, but it is difficult to predict what a judge will do. Mr. Stern stated that the matter before the Board should not be looked at as a negotiation, because SCERS is providing Ms. Tam with options that are within the Board's authority.

Mr. Fowler stated that SCERS has made errors over the years and has acknowledged the errors, and as a result has come up with options that are not intended to provide Ms. Tam-Toy with a lesser benefit but an attempt to have SCERS address the problem within limits of the law. He stated that SCERS' authority is limited to the options that were previously presented to Ms. Tam-Toy. Mr. Fowler stated that Ms. Tam-Toy could choose one of the options that Mr. Stern presented, or she can appeal her matter with the Courts.

The Board approved a motion to adopt staff's recommendation to:

- (1) Find that Tam-Toy has overlapping service credit between SCERS and CalPERS;**
- (2) Find that Tam-Toy is disqualified from receiving reciprocity pursuant to Government Code Section 31831;**
- (3) Deny Tam-Toy's request to establish reciprocity between SCERS and CalPERS; and**
- (4) Find that Tam-Toy is not entitled to offsetting consideration/compensation from SCERS other than the five options described in the Chief Executive Officer's (CEO) denial letter dated March 28, 2019. (7-1, with Mr. Matré opposing)**

Item 3. Public Comment— Elaine Trevino from Almond Alliance of California addressed the Board regarding agriculture investments in almonds.

CONSENT MATTERS – ITEMS 4 –12:

The Board approved the Consent Matters Items 4-12 (6-0, Mr. Lamera abstained from Item 5C and Ms. Gin abstained from Item 5E).

Item 4. Minutes
Approved the minutes of the June 19, 2019 meeting.

Item 5. Disability Retirement Applications

- A. CLARK, O; Denied a service-connected disability retirement as recommended by staff.
- B. HRABAK, B; Granted a service-connected death benefit for surviving spouse as recommended by staff.
- C. JOSOL, M; Granted a nonservice-connected disability retirement.
- D. SMITH, C; Granted a service-connected disability retirement.
- E. TURNER, D; Granted a nonservice-connected disability retirement.
- F. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 6. Ratification of Service Retirement Application Approvals—June 2019
Ratified the Service Retirement Applications that were finalized in June 2019.

Item 7. Placement Agent Disclosure Report—Second Quarter 2019—Received and filed a report regarding placement agents associated with alternative assets from the previous quarter.

Item 8. Sacramento County 2019-20 Contribution Prepayment—Authorized Sacramento County to prepay the 2019-20 employer contribution.

Item 9. CEO Delegated Authority for Expenses Quarterly Report—Received and filed the CEO Delegated Authority Expense Report for the quarter ended June 30, 2019.

Item 10. SCERS IT Modernization Program Quarterly Report—Received and filed a report regarding the state of SCERS' IT projects from the previous quarter.

Item 11. Monthly Investment Manager Activity, Compliance and Watch List Report—June 2019—Received and filed a report on manager compliance issues from the previous month.

Item 12. Monthly Report of New Investment Activity—June 2019—Received and filed a report on new investment activity from the previous month.

EXECUTIVE REPORTS:

Item 13. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern reported that the first phase of the Pension Administration System launched on July 1, and SCERS is now working in a near-paperless environment, which provides better security of personal information and improved disaster recovery capability. Mr. Stern said the new workflow queue allows staff to see which applications are in progress that will help facilitate better management, oversight, and accountability. Mr. Stern noted that the underlying software is functioning well though there are some connectivity issues that have caused some short time delays in processing data. SCERS is working with the developers to have those issues resolved in the coming days.
- Mr. Stern congratulated Rick Fowler on his reappointment to the Board of Retirement. The Board of Supervisors formally re-appointed Mr. Fowler on June 18.
- Mr. Stern reminded the Board that the SACRS Fall Conference 2019 is being held November 12-15 in Monterey.
- Mr. Stern reported the upcoming timeline for Board Member Elections for a Miscellaneous Representative, Retiree Representative, and Retiree Alternative Representative. The nomination period for these positions is August 5-16, 2019, and voting will take place September 23-October 4, 2019. The last day to cast a ballot is October 4, 2019, and the official results will be released on October 11, 2019. The term of office will begin on January 1, 2020.

Item 14. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis reported that staff implemented several of the asset allocation adjustments that were approved at the June Board Meeting. Mr. Davis stated that SCERS reduced domestic equity exposure by 1%, and put the 1% dedicated cash allocation in place at quarter end. Mr. Davis stated that SCERS redeemed its investment from commodity manager Gresham, and placed the proceeds within the State Street liquid real return overlay proxy. Mr. Davis further noted that SCERS also initiated a manager search/evaluation of the liquid real return manager universe to identify any potential complements to the State Street solution.

- Mr. Davis stated that the preliminary performance for the second quarter 2019 was between 2%-3%, so SCERS' fiscal year performance ending June 30, 2019 is estimated to come in between 6%-7%. Mr. Davis stated that the markets have rebounded from December lows. Mr. Davis noted that the outlook for economic growth in the U.S. remains good, the U.S. labor market is healthy, and consumer spending trends are steady, though manufacturing data has been weak. Mr. Davis also noted that the global economic outlook is weakening, there is uncertainty around trade policy, and inflation has softened, running below the Federal Reserve baseline target of 2%, which has led to the Fed transitioning toward a more dovish monetary stance.
- Mr. Davis stated that the Alternative Asset Fee and Expense Report for 2018 would be presented at the Board meeting in August or September. Mr. Davis reminded the Board that on an annual basis public pension plans are required to disclose fees and expenses paid to alternative investment managers in order to comply with CA Government Code 7514.7, which went into effect in 2018.
- Mr. Davis noted that SCERS will bring to the Board a cash management policy in August or September. Mr. Davis said that staff is also examining tightening parameters related to intra quarter rebalancing related to SCERS' overlay program, and investment policy statement revisions.

ADMINISTRATIVE MATTERS:

Item 15. Audit Committee Charter

Senior Accounting Manager Debbie Chan presented revisions to the Audit Committee Charter, and stated that the original Charter from 2018 required two meetings in a year, and the revised charter will require the committee to meet at least once a year.

Mr. Matré noted the process worked well last year for the chair to meet separately with the outside auditors at the beginning of the audit process and for the full committee to convene at the end of the audit process.

Mr. Stern asked if there were any additions or changes to the current committee membership of Mr. Matré (chair), Mr. Diepenbrock, and Ms. Hoover, and there were none.

The Board approved a motion to approve revisions to the Audit Committee Charter and committee membership for 2019-20. (8-0)

Item 16. Office of Administrative Hearings Contract

General Counsel Stephen Lau presented a recommendation to the Board to enter into a three-year contract with the Office of Administrative Hearings to review disability appeals.



Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
August 21, 2019

MOTION:

Minutes

THE BOARD OF RETIREMENT hereby approves the Minutes of the July 17, 2019, regular meeting.


I HEREBY CERTIFY that the above order was passed and adopted on August 21, 2019, by the following vote of the Board of Retirement, to wit:

AYES: Fowler, Kelly, DeVore, Diepenbrock, Gin, Lamera, Matré, O'Neil, Petersen

NOES: None

ABSENT: None

ABSTAIN: None



Richard B. Fowler II
Board President



Eric Stern
Chief Executive Officer and
Board Secretary