



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

Dave Comerchero  
Elected by the Miscellaneous Members

Diana Gin  
Elected by Miscellaneous Members

Ben Lamera  
Ex Officio, Director of Finance

Martha J. Hoover  
Elected by the Retired Members

Matt Petersen  
Elected by the Safety Members

Kathy O'Neil  
Elected by the Retired Members

Jack Philp  
Elected by the Safety Members

**MINUTES**

**REGULAR MEETING  
OF THE  
BOARD OF RETIREMENT**

**SACRAMENTO COUNTY  
EMPLOYEES' RETIREMENT SYSTEM**

**Wednesday March 17, 2021**

**10:00 A.M.**

**Location: ZOOM TELECONFERENCE**

**OPEN SESSION**

**Executive Staff:**

Eric Stern  
Chief Executive Officer

Steve Davis  
Chief Investment Officer

Stephen Lau  
General Counsel

Mario Sierras  
Chief Benefits Officer

**Item 1. Call to Order—The meeting was convened at 10:02 a.m.**

Mr. Fowler stated that the meeting was occurring via teleconference under Executive Order N-25-20 which relaxed provisions of the Brown Act to make it easier for local government boards to conduct board meeting without convening in the same physical location.

Mr. Stern noted the following Board members were present:

1. Rick Fowler
2. John Kelly
3. Keith DeVore
4. Dave Comerchero
5. Diana Gin
6. Ben Lamera
7. Martha Hoover
8. James Diepenbrock
9. Kathy O'Neil
10. Matt Petersen
11. Jack Philp

**Item 2. Swearing-In Ceremony—Florence Evans, Clerk of the Board of Supervisors, administered the Oath of Office for Board Member Jack Philp.**

**Item 3. Public Comment**

None.

## OPEN SESSION

### CONSENT MATTERS – ITEMS 4-10:

The Board approved the Consent Matters Items 4-10 (9-0).

- Item 4. Minutes of the February 17, 2021 regular meeting**—Approved the Minutes of the February 17, 2021 meeting.
- Item 5. Disability Retirement Applications**
- A. HERNANDEZ, Victor; Granted the application for service-connected disability retirement per the proposed decision of the Administrative Law Judge.
  - B. WALL, Scott; Granted a service-connected disability retirement as recommended by staff.
  - C. WATSON, James; Granted a nonservice-connected disability retirement as recommended by staff.
  - D. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.
- Item 6. Ratification of Service Retirement Application Approvals—February 2021**—Ratified the Service Retirement Applications that were finalized in the previous month.
- Item 7. Report on Resolution of Subrogation Claim**—Approved the Report on Resolution of Subrogation Claim.
- Item 8. State Association of County Retirement Systems Legislative Update—March 2021**—Received and filed the SACRS Legislative Update for March.
- Item 9. Monthly Investment Manager Activity, Compliance, and Watch List Reports—February 2021**—Received and filed the Monthly Investment Manager Activity, Compliance, and Watch List Report—February 2021.
- Item 10. Monthly Report of New Investment Activity – February 2021**—Received and filed the report summarizing SCERS' investment activity from the previous month.

### EXECUTIVE REPORTS:

**Item 11. Chief Executive Officer's Report**

Chief Executive Officer Eric Stern provided an update that Staff will be returning to the office, on a part-time basis, the week of April 5<sup>th</sup>. Public access will be delayed until later this summer. Mr. Stern stated that Board meetings will continue to be conducted over videoconference but welcomed Board members back in the Board room if they would like to attend in person.

Mr. Stern noted that pending legislation would make permanent the Governor's executive order that relaxed the open-meeting rules to make it easier for local agency boards to have remote meetings. Mr. Stern also noted that as part of our tenant improvements, SCERS is proceeding with a tech upgrade in the Board room that will

allow us to continue to have videoconference meetings, webinars, and stream our meetings to the public.

Mr. Stern stated that SCERS has communicated to members that our retirement process is taking longer than usual to receive the first payment, and have alerted them to prepare for about 75 days. SCERS posted a message on the website, and have been in closer contact with members who have submitted retirement applications. Mr. Stern stated that the reasons for the delay was caused by SCERS implementing a new pension administration system in late 2020, and that transition is ongoing. Staff is navigating new business processes and spending additional time double-checking final wage data to make sure it's accurate. Additionally, the California Supreme Court issued a major ruling in July 2020 that is requiring staff to spend additional time reviewing Final Compensation data to determine if any pay items need to be excluded under the court order. There is also a heavy volume of new retirement applications creating a backlog. Historically, almost 50% of retirements occur in the first three months of the year – January, February, March. Mr. Stern apologized for the delays, and reassured the Board that the Staff is working extremely hard and has added more resources and staff to work through the backlog. SCERS is continuing to look at paying all members on estimates and are evaluating the pros and cons. Mr. Stern will continue to keep the Board updated on the status.

Mr. Stern stated that SCERS is making progress on implementing the corrections made necessary to comply with the Supreme Court's *Alameda* ruling last July. The extent of the corrections is much larger and complicated than anticipated, but SCERS has taken several important steps forward in recent weeks to narrow the population of affected members. He noted that the County has deployed its COMPASS payroll system update for active members' effective March 14 pay period, to stop taking retirement contributions on newly excluded pay items including standby pay and animal allowance. The fix will be made retroactive to August 30, which is the date the *Alameda* ruling became final. The County is processing this as payroll correction which will reverse contributions for about 500 of those members back to August 30. Those adjustments will be reflected in the April 2 paycheck.

Mr. Stern stated that separate from that action, SCERS will process contribution refunds for about 1,600 active and deferred members going back to January 1, 2013, and make adjustments for approximately 800 retirees. To assist in the effort, SCERS is engaging our software developer, Morneau Shepell, to help calculate and process refunds, and calculate and process the pension adjustments. Due to the scope of the effort, staff does not have the capacity to do this work. The cost for this project will range from \$300,000-\$500,000. Mr. Stern stated that to get the work started, he signed an agreement under his delegated authority not to exceed \$50,000. At the April meeting, he will present an extension to authorize Morneau to complete this work, ideally by June 30. Mr. Stern stated that the last time this happened—a Supreme Court decision that impacted pension calculations for SCERS members, was the *Ventura* settlement in the early 2000s. SCERS brought on about 5 full-time staff. He noted that the current effort is a short-duration project that truly is better handled with temporary resources.

Mr. Stern also noted that as part of the *Alameda* ruling, SCERS will need to recoup overpaid benefits since August 2020. He stated that the significance of repaying 9

months or more of overpaid benefits may be burdensome to some retirees, and he will propose an agenda item for April or May to consider repayment periods over a longer time period than what we typically would allow to correct errors.

Mr. Stern announced that an initial audit committee meeting will be scheduled in June.

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

Chief Investment Officer Steve Davis informed the Board that Staff has been conducting a physical rebalance across the public equity and fixed income asset classes last week. The equity replacement, implemented by transition manager, State Street Global Markets (SSGM), occurred over three days, and the total cost including commissions and market impact costs, came in 11.8 bps, which was in line with SSGM's pre-trade estimate of 11.1 bps.

Mr. Davis stated the fixed income component of the rebalance is occurring this week, with capital being allocated directly to one of SCERS' core plus fixed income managers for implementation. Investment Officer, Brian Miller led the equity rebalance, which required a lot of coordination between the transition manager, underlying investment managers, the custodian, and SCERS' overlay program.

Mr. Davis informed the Board at the April meeting, Staff will provide Board education on trading costs related to the public equity and fixed income asset classes, as well as education on SCERS' commission recapture program. SCERS utilizes the services of third-party subsidiaries of State Street to analyze the trading costs of SCERS' external investment managers on a quarterly basis, and to manage SCERS' commission recapture program. These reports are analyzed by Staff and provided to the Board as quarterly consent items. April's session will also go over the current reporting to the Board, and any potential changes as it relates to content and frequency.

## **ADMINISTRATIVE MATTERS:**

### **Item 13. Actuarial Funding Risk Assessment Report**

Paul Angelo, Andy Yeung, and Todd Tauzer from Segal, presented the Actuarial Funding Risk Assessment Report. Overall, Segal found the Board's funding policy is very effective in achieving the general policy goal of achieving the long-term full funding of the costs of the benefits paid by SCERS.

The Board approved a motion to receive and file the Actuarial Funding Risk Assessment Report. **(9-0)**

### **Item 14. Actuarial Funding Policy**

Chief Executive Officer Eric Stern presented the Actuarial Funding Policy that included a minor amendment to the policy to remove a reference to a special 10-year amortization period included in the June 30, 2010 valuation to amortize the liability for employees who participated in the 2010 Early Retirement Incentive Program for LEMA. The amortization period has now concluded.

The Board approved a motion to reaffirm the Actuarial Funding Policy. **(9-0)**

## **Item 15. Interest Crediting and Unallocated Earnings Policy**

Chief Executive Officer Eric Stern presented the Interest Crediting and Unallocated Earnings Policy and discussed the history of the policy, how SCERS has treated “excess earnings” in the past, and proposed amendments regarding the COLA contribution rate-offset.

The amendments:

- Recognize the historic practice of providing offsets to COLA contribution-rates for legacy members, which was put in place before the Board’s 2006 policy on limiting unallocated earnings for non-vested benefits.
- Affirm the continuation of that practice for remaining legacy members using the existing actuarial methodology, with the following changes:
  - Limit the maximum amount of offset for COLA contribution rates that a member can receive based on the June 30, 2020 levels. (Because the Board has already adopted contribution rates for 2021-22, this provision would take effect for the 2022-23 contribution rates.)
  - Revert any remaining balance to the employer reserve when all the members in the retirement tier have terminated their active SCERS membership; as described in the Interest Crediting and Unallocated Earnings Policy, funds in the employer reserve are transferred to the retiree reserve when members retire and are then used to pay for vested retirement benefits of all members and beneficiaries.

The Board approved a motion to adopt the amendments to the Interest Crediting and Unallocated Earnings Policy. **(8-0)**

Mr. Lamera left the meeting during this item.

## **INVESTMENT MATTERS:**

### **Item 16. Enterprise Risk Tolerance Survey**

John Nicolini and Stuart Odell from Verus presented the results of the Enterprise Risk Tolerance Survey.

The Board approved a motion to receive and file the Enterprise Risk Tolerance Survey. **(8-0)**

### **Item 17. Fiduciary Standard of Care Policy**

General Counsel Stephen Lau recommended the Board approve a revised policy regarding fiduciary duties and considerations when entering into alternative asset investment contracts.

The Board approved the motion to adopt the proposed Alternative Asset Investment Standard of Care Policy, adopt conforming changes to the Master Investment Policy Statement, and replace the current Fiduciary Standard Policy. **(8-0)**

### **Item 18. Quarterly Investment Performance Report—Alternative Assets**

Investment Consultant Jaimie Feidler from Cliffwater, LLC presented the Quarterly Investment Performance Report for the period ended December 31, 2020, for the

Absolute Return Portfolio, and the period ended September 30, 2020 for the Private Equity, Private Credit, Real Assets, and Opportunities portfolios.

**SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY**  
**Quarter Reporting Periods Ending December 31, 2020**

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception *	Since Inception Date *
<b>SCERS Absolute Return</b>	<b>7.1%</b>	<b>6.6%</b>	<b>3.0%</b>	<b>3.7%</b>	<b>4.1%</b>	Sep-04
HFRI FoF Conservative	5.1%	5.7%	3.7%	3.4%	3.5%	
HFRI FoF Composite + 1%	7.9%	11.4%	5.7%	5.5%	4.6%	
<b>SCERS Private Equity</b>	<b>12.3%</b>	<b>20.2%</b>	<b>21.8%</b>	<b>18.8%</b>	<b>15.9%</b>	Feb-08
Cambridge Private Equity/Venture Capital	9.9%	16.9%	14.5%	14.3%	13.0%	
<b>SCERS Private Credit</b>	<b>5.3%</b>	<b>6.9%</b>	<b>7.0%</b>	<b>7.8%</b>	<b>7.7%</b>	Oct-11
Credit Suisse Leveraged Loan + 2%	4.6%	2.8%	5.2%	6.0%	6.6%	
<b>SCERS Real Assets</b>	<b>1.4%</b>	<b>-7.8%</b>	<b>3.6%</b>	<b>6.2%</b>	<b>6.4%</b>	Jan-13
(45%) Cambridge Private Infrastructure; (35%) Cambridge Private Energy; (20%) NCREIF Agriculture/Timber	2.4%	-4.1%	1.8%	5.0%	5.2%	
<b>SCERS Opportunities</b>	<b>3.4%</b>	<b>-0.2%</b>	<b>4.1%</b>	<b>6.0%</b>	<b>18.3%</b>	Jan-08
SCERS Portfolio Actuarial Rate of Return	1.8%	7.0%	7.0%	7.0%	7.0%	
<b>*Note:</b> Periods ending 9/30/20 for Private Equity, Private Credit, Real Assets, and Opportunities Periods ending 12/31/20 for Absolute Return All returns are net IRR, except Absolute Return which is time-weighted						

The Board approved the motion to receive and file the Quarterly Investment Performance Report—Alternative Assets. **(8-0)**

**Item 19. Quarterly Investment Performance Report—Real Estate**

Richard Brown and Felix Fels from Townsend presented SCERS' Real Estate Portfolio Performance Report for the period ended December 31, 2020.

**SCERS REAL ESTATE PERFORMANCE SUMMARY**  
**Quarter Reporting Period Ended December 31, 2020**

SUB-ASSET CLASS	Quarter 12/31/20	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
<b>SCERS Real Estate Portfolio</b>	<b>3.7%</b>	<b>3.8%</b>	<b>6.6%</b>	<b>8.2%</b>	<b>8.4%</b>	Nov-86
(65%) NFI-ODCE + (35%) NFI-ODCE + 1%	1.2%	0.7%	4.4%	5.7%	6.5%	Nov-86
<b>Core Portfolio</b>	<b>2.9%</b>	<b>3.9%</b>	<b>6.5%</b>	<b>8.1%</b>	<b>6.5%</b>	Nov-86
Commingled Funds	2.9%	3.9%	7.3%	8.7%	7.1%	Sep-13
NFI-ODCE Index	1.1%	0.3%	4.0%	5.3%	6.1%	
<b>Non-Core Portfolio</b>	<b>5.8%</b>	<b>3.3%</b>	<b>6.9%</b>	<b>9.2%</b>	<b>5.8%</b>	Jun-06
Value Add Portfolio	10.3%	13.6%	10.4%	12.0%	5.1%	Jun-06
Opportunistic	0.0%	-8.0%	2.3%	5.6%	7.4%	May-13
NFI-ODCE + 1% Index	1.3%	1.3%	5.0%	6.3%	7.1%	

The Board approved the 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 12:16 p.m.

**MEMBERS PRESENT**

**via teleconference:** Keith DeVore, John B. Kelly, Diana Gin, Dave Comerchero, Martha J. Hoover, Ben Lamera, James Diepenbrock, Kathy O’Neil, Matt Petersen, Jack Philp, and Rick Fowler presiding.

**MEMBERS ABSENT:** None

**OTHERS PRESENT**

**via teleconference:** Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Stephen Lau, General Counsel; Mario Sierras, Chief Benefits Officer; Debbie Chan, Senior Accounting Manager; John Lindley, Senior IT Analyst; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Senior Investment Officer; Brian Miller, Retirement Investment Officer; Michael Vang, Retirement Investment Analyst; Joan Kudin, Public Information Officer; Chao Thor, Disability Retirement Analyst; Jamie Feidler, Cliffwater, LLC; John Nicolini and Stuart Odell, Verus Advisory, Inc.; Chris Cunningham, Richard Brown, and Felix Fels, The Townsend Group; Andy Yeung, Paul Angelo, and Todd Tauzer, Segal; Gar Chung; Florence Evans, 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: \_\_\_\_\_