



Executive Staff:

Eric Stern
Chief Executive Officer

Margo Allen
Chief Operations Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Mario Sierras
Chief Benefits Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, June 15, 2022

10:00 A.M.

Teleconference Location: SCERS Lobby Offices
980 9th Street, 19th Floor
Sacramento, CA 95814

Location: SCERS Board Room
980 9th Street, 19th Floor
Sacramento, California 95814

Live-stream at www.scers.org

OPEN SESSION

Item 1. Swearing In Ceremony

Florence Evans, Clerk of the Board of Supervisors, conducted the oath of office for newly appointed trustee Ronald Suter.

Item 2. Call to Order/Roll Call

Mr. Fowler called the meeting to order at 10:04 a.m. Mr. Stern took roll and noted that Mr. Lamera was absent and Ms. Hoover would be arriving late.

Item 3. Public Comment

None.

Members of the Board of Retirement:

Rick Fowler, President
Appointed by the Board of Supervisors

Keith DeVore, Vice President
Appointed by the Board of Supervisors

Ronald Suter
Appointed by the Board of Supervisors

Vacant
Appointed by the Board of Supervisors

Ben Lamera
Ex Officio, Director of Finance

Alina Mangru
Elected by the Miscellaneous Members

Vacant
Elected by the Miscellaneous Members

Jack Noble
Elected by the Safety Members

Chris Giboney
Elected by the Safety Members

Martha Hoover
Elected by the Retired Members

Kathy O'Neil, Alternate
Elected by the Retired Members

CONSENT MATTERS – Items 4–8:

Consent matters are acted upon as one unit. If the Chair removes an item from the Consent Calendar for discussion, it will be heard as the last item(s) of the Administrative Matters, Benefit Matters, Investment Matters or Closed Session, as appropriate. If a Consent item containing one or more recommendations to the Board is approved on Consent the recommendation(s) therein are approved.

Approved Consent items. (7-0)

Item 4. Disability Retirement Applications

- A. LICKISS, Steven; Granted a service-connected disability retirement as recommended by staff.
- B. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

Item 5. Minutes of the May 18, 2022 Regular Meeting – Approved the Minutes of the May 18, 2022 Regular Meeting.

Item 6. Ratification of Service Retirement Application Approvals – May 2022 – Ratified the Service Retirement Applications that were finalized in May 2022.

Item 7. State Association of County Retirement Systems Legislative Update – June 2022 - Received and filed the State Association of County Retirement Systems Legislative Update for June 2022.

Item 8. Monthly Report of New Investment Activity – May 2022 - Received and filed the report summarizing SCERS' New Investment Activity for May 2022.

EXECUTIVE REPORTS:

Item 9. Chief Executive Officer's Report

Chief Executive Officer, Eric Stern, provided the following updates on upcoming events:

- No Board meeting in July; next Board meeting August 17
- Audit Committee meeting July 6
- SACRS-UC Berkeley Public Pension Investment Management Program July 17-20
- CALAPRS Principles for Trustees August 29-September 1 in Tiburon
- SACRS Fall Conference in Long Beach November 8-11

Mr. Stern provided the following updates on pending legislation affecting retirement systems:

- SB 1328 (McGuire) – Divestment. This bill would prohibit public retirement boards from investing public employee retirement funds in a company with business operations in Russia or Belarus; SACRS submitted a letter of concern on this bill.

The bill was amended as it passed out of the Senate Appropriations Committee. The amendments narrow the bill substantially, including narrowing restrictions on pension investments to companies domiciled in Russia and Belarus, supplying military equipment to Russia and Belarus or companies complicit with the invasion and eliminating reporting requirements that pension funds survey all portfolio companies for compliance with the divestment requirements. The bill is now in the Assembly.

Mr. Stern asked Mr. Davis to provide information on Russia-based holdings that remain in the SCERS portfolio. Mr. Davis provided the following information:

- Prior to the start of the invasion, SCERS had approximately 33 bps (33/100th of a percent) exposure to Russia, relative to the total portfolio, or about \$40 million.
- Almost all of SCERS' exposure to Russia was within commingled funds, through discretionary mandates.
- SCERS had its largest exposure (25 bps) within its emerging markets equity commingled funds, within the Global Equity portfolio
 - This exposure was in line with the MSCI EM Index
 - Russian stocks were de-listed from the MSCI Index shortly after the invasion, and marked to zero, where they still are marked today
- SCERS' Fixed Income portfolio had 7 bps exposure
 - SCERS had a small sovereign bond position with its global fixed income mandate, which was written off, and a larger Russian ruble position, which the manager sold out of
 - SCERS has since redeemed from the global fixed income mandate, as part of the broader fixed income restructure
 - One of SCERS' core plus fixed income managers also had a small ruble position, which was also sold
- SCERS also has a small 1 bps Private Equity position in Russia through one of its legacy Fund of Funds, which still sits on the GP's books
- SCERS' Absolute Return portfolio had minimal net exposure of 1 bps – across 6 hedge funds
- The Liquid Real Return portfolio had 1 bps exposure as well, within the natural resource component of the strategy
- Staff continues to monitor the exposures

- AB 2493 (Chen) – Disallowed Compensation. This bill is aimed at members impacted by the Alameda ruling and raises many important legal and administrative questions, and has a potentially large financial impact on counties. It requires the employer to pay a retiree for reduced pension allowances that were triggered by the correction process now or in the future.

Several large counties have taken note of the bill and are concerned with the costs that it would impose. The bill is now in the Senate.

The California State Association of Counties (CSAC) has submitted an opposition letter, and Sacramento County Board of Supervisors have also sent a letter of concern. Several retirement systems also submitted letters of opposition or concern.

- AB 1944 (Lee) – Public Meetings. This bill would allow legislative body members to use teleconferencing without identifying each teleconference location in the notice/agenda and without making each teleconference location accessible to the public. AB 1944 was recently amended to require that at least a quorum of the legislative body participates from a single physical location that is noticed on the agenda and open to the public within the agency’s jurisdiction. SACRS is supporting this bill. It recently passed off the Assembly Floor 44-12 and is now in the Senate.

Item 10. Chief Investment Officer’s Report

Chief Investment Officer, Steve Davis, presented the following updates:

- Provided the Board an update on the recent core plus fixed income transition. At the March meeting, the Board approved hiring two new core plus managers, partially reducing the allocation to two existing core plus managers, and fully redeeming from SCERS’ global fixed income mandate that was eliminated from the strategic asset allocation. The transition of assets occurred in May, with each manager purchasing or selling within their respective accounts which is more common and effective than using a transition manager. In total the following activity occurred:
 - The new managers, Brandywine U.S. Fixed Income and Reams Core Plus Fixed Income each invested \$358 million.
 - Current core plus managers TCW and PGIM raised \$105 million and \$92 million, respectively.
 - SCERS fully redeemed \$249 million from the Brandywine global commingled fund.
 - The Overlay program offset its underlying fixed income exposures, which are implemented via futures contracts, as the fixed income managers executed their transitions.
- Noted that at the August meeting, general investment consultant Verus will be presenting SCERS’ annual liquidity study report as a requirement of the SCERS’ cash management policy. Verus’ study evaluates SCERS’ liquidity by comparing our liquid assets and cash inflows to our cash outflows, measured over a 5-year period.

- Announced that SCERS was selected as medium sized real estate investor of the year at the IPE Real Estate Global Conference and Awards ceremony. IPE is a leading information resource for the institutional real assets investment industry. Mr. Davis recognized Senior Investment Officer at SCERS, JR Pearce, who leads SCERS' Real Estate asset class, and Townsend, SCERS' real estate consultant.

Item 11. Chief Benefit Officer's Report

Chief Benefits Officer, Mario Sierras, provided the following updates:

- 113 retirement applications were processed in May 2022; an increase over the 69 applications processed in April 2022;
- Median turnaround time for retirees receiving their first retirement payments was 62 days in May 2022, which is an increase from 56 days in April 2022;
- 25% of retirees received their first retirement payments within 60 days in May 2022; a decrease from 55% in April 2022;
- Overall, the performance metrics are not where staff wants them to be and staff is working to get ahead of production now and in the coming months as retirement application normalizes into off-peak season volumes;
- Most of the peak season application volume was cleared out through the end of May 2022 but a few stragglers remained, most of which were community property and reciprocal retirement files—these retirement files are in progress and expected to be completed by the end of June 2022; performance metrics can be impacted by these types of retirement files and over the next six months staff will examine opportunities to improve performance reporting by measuring cases that are within staff's span of control while isolating those that are outside of staff's control.
- Retirement production numbers continue to improve. In comparing year-over-year numbers, from January through May 2021, Benefits team processed 230 applications. In comparison for the same time period in 2022, staff processed 350 applications, which is a 50% increase. Notably, this was accomplished with twice the number of vacancies in 2022 as compared to 2021 vacancies. The same time last year the Benefits team had 5 vacancies and currently there are 10 vacancies. The team has been doing more with less, which has been one of the biggest challenges the team has faced this year.
- Staff is consistently processing large numbers of retirement applications—unfortunately the turnaround time to get retirees their first payment is taking bit longer. Staff will continue to make improvements while staying on top of filling vacancies.

Mr. Fowler stated his appreciation for the hard work and efforts staff has put forth and noted that another challenge, in addition to vacancies, has been the ongoing staff resource needs and constraints created by the new Pension Administration System project.

ADMINISTRATIVE MATTERS:

Item 12. Sacramento County 2022-23 Contribution Prepayment

Chief Operations Officer, Margo Allen, presented the item.

The Board approved a motion to accept Sacramento County's intent to prepay the employer contribution for the 2022-23 fiscal year. (7-0)

Item 13. Legal Contract Renewal

General Council, Stephan Lau, presented the item.

The Board approved a motion to authorize the Chief Executive Officer to renew a consolidated legal services contract with Nossaman LLP for a three-year term through June 30, 2025. (7-0)

INVESTMENT MATTERS:

Item 14. Revised Investment Policy Statements

Mr. Davis presented the item and recommended the Board take the following actions:

- Revise the Master Investment Policy Statement, and the Growth, Diversifying, and Real Return asset category Investment Policy Statements to incorporate recent revisions to SCERS' strategic asset allocation and asset class structural changes, as well as other updates.
- Rescind the Prime Broker and Counterparty Risk Policy and incorporate key and relevant components of the policy into the Absolute Return 'Monitoring' section of the Diversifying Absolute Return asset category Investment Policy Statement.
- Eliminate the Opportunities Investment Policy Statement due to this segment of the portfolio being eliminated from the recently revised strategic asset allocation.

The Board approved a motion to adopt staff recommendation. (7-0)

Item 15. Portfolio Analytic Services

Mr. Davis and Senior Retirement Investment Officer, JR Pearce, presented the item.

Ms. Mangru asked about overlap between existing service providers and the Burgiss platform. Mr. Davis responded that the onboarding process will take 6-12 months.

Mr. DeVore requested staff to return to the Board after the new analytic services are fully operational to share experiences and observations about the portfolio construction.

Mr. Fowler asked how Burgiss is notified about manager changes. Mr. Davis responded that Burgiss is contacted directly by the manager, and directly receives all financial statements, capital calls, and other information.

The Board approved a motion to award a contract to Burgiss to provide its Caissa portfolio analytics software services for a three-year period, and authorized the Chief Executive Officer to execute any documents necessary to effect the recommendation. (7-0)

Item 16. Global Equity Manager Search – Emerging Markets

Mr. Davis and Senior Retirement Investment Officer, Brian Miller, presented the item.

Mr. Fowler asked if the overlay program would cover the current underweight to the emerging market allocation. Mr. Davis confirmed that it does, using a broader international proxy.

Ms. Hoover joined the meeting during this item.

The Board approved a motion to authorize a manager search for the Emerging Markets segment of the International Equity sub-asset class within the Global Equity asset class. (7-0)

Item 17. Quarterly Investment Performance Report – Alternative Assets

Jaime Feidler, representing Cliffwater, presented the Quarterly Investment Performance Report for Alternative Assets.

The Board approved a motion to receive and file the Cliffwater Quarterly Investment Performance Report presentation for period ending March 31, 2022 for the Absolute Return portfolio, and period ending December 31, 2021 for the Private Equity, Private Credit, and Real Assets portfolios. (7-0)

Item 18. Quarterly Investments Performance Report – Real Estate

Chris Cunningham and Felix Fels, representing Townsend, presented the Quarterly Investments Performance Report for Real Estate.

Mr. DeVore asked how raising interest rates will affect the real estate market. Mr. Cunningham responded that the real estate market can remain strong to the extent increased costs can be passed on through increased rents.

The Board approved a motion to receive and file the Quarterly Investment Performance Report – Real Estate. (7-0)

ADJOURNMENT

There being no further business to discuss, Mr. Fowler adjourned the meeting at 12:09 p.m.

MEMBERS PRESENT: Keith DeVore, Alina Mangru, Jack Noble, Martha Hoover, Chris Giboney, Kathy O'Neil, Ron Suter, and Rick Fowler presiding.

MEMBERS ABSENT: Ben Lamera

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Margo Allen, Chief Operations Officer; Mario Sierras, Chief Benefits Officer; Stephen Lau, General Counsel; Brian Miller, Senior Retirement Investment Officer; Casey Als, Supervising IT Analyst; Jamie Feidler, Cliffwater; Chris Cunningham and Felix Fels, Townsend; Brian Kwan, Verus.



Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
August 17, 2022

AGENDA ITEM:

Minutes of the June 15, 2022 Regular Meeting

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to receive and file the Minutes of the June 15, 2022 Regular Meeting.

I HEREBY CERTIFY that the above order was passed and adopted on August 17, 2022 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

Board President

Eric Stern
Chief Executive Officer and
Board Secretary