



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Scott Chan  
Chief Investment Officer

Robert L. Gaumer  
General Counsel

Kathryn T. Regalia  
Chief Operations Officer

John W. Gobel, Sr.  
Chief Benefits Officer

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

Michael DeBord  
Elected by the Retired Members

James A. Diepenbrock  
Appointed by the Board of Supervisors

Diana Gin  
Elected by the Miscellaneous Members

Kathy O'Neil  
Elected by the Miscellaneous Members

Chris A. Pittman  
Elected by the Safety Members

Julie Valverde  
Ex Officio, Director of Finance

John Conneally  
Elected by the Safety Members

Martha J. Hoover  
Elected by the Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, WEDNESDAY, NOVEMBER 5, 2014

A special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Wednesday, November 5, 2014, and commenced at 10:05 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Mr. Fowler read Resolution 2014-10 commending and honoring Ms. O'Neil upon her upcoming retirement and departure from the SCERS Board for her many years of outstanding service to Sacramento County, SCERS, and its members and stakeholders.

Motion by Ms. Gin to adopt Resolution 2014-10 honoring Kathy O'Neil; Seconded by Mr. DeBord. Motion carried (7-0).

##### MINUTES:

2. The Minutes of the October 15, 2014 regular meeting were approved on Motion by Mr. DeBord; Seconded by Mr. Pittman. Motion carried (7-0).

**CONSENT MATTERS:**

Items 3-10

The Consent Matters were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Ms. Gin. Motion carried (7-0).

3. CRETS, Melvin A.: Granted a service-connected disability retirement.
4. HOOKER, Leasha A.: Granted a service-connected disability retirement.
5. OLIVER, Danny P.: Granted survivor's service-connected/line of duty death benefits.
6. Approved engagement with Nossaman LLP to provide disability retirement-related legal services.
7. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended September 30, 2014.
8. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended September 30, 2014.
9. Received and filed the Trading Cost Report for the Quarter Ended September 30, 2014.
10. Received and filed the October 2014 Monthly Investment Manager Compliance Report and Watch List.

**ADMINISTRATIVE MATTERS:**

11. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud reminded the Board that due to the early date of the November Board Meeting, some investment data was not yet available. Mr. Stensrud stated that at the November meeting Staff would provide a discussion of the investment performance rather than an analysis of the data. Mr. Stensrud noted that the standard quarterly report would be presented at the December Board Meeting.

Mr. Stensrud stated that the State Association of County Retirement Systems (SACRS) Fall Conference would be taking place November 11 – 14.

Mr. Stensrud reported that SCERS would be hosting another retirement planning seminar for employees late in their career on November 14. Mr. Stensrud stated that the seminar, once again, was fully subscribed.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported that a court decision had recently been made regarding the impact of the City of Stockton's bankruptcy on the City's obligations to and participation in CalPERS. Mr. Stensrud stated that he believed the decision was pragmatic and sensible given the considerations of cost, time, and the ability to attract and retain a work force, while also endeavoring to provide a bankruptcy resolution plan that gives creditors an appropriate recovery. Mr. Stensrud noted that as part of the decision, Stockton will honor its obligations to and continue their relationship with CalPERS.

Mr. Stensrud reported that he had presented at the fall conference of the California Retired County Employees Association (CRCEA) October 20-22 in Sacramento. Mr. DeBord said that the presentation was very well received by the members of CRCEA.

12. Paul Angelo of Segal Consulting (Segal) presented the SCERS Actuarial Valuation as of June 30, 2014.

Mr. Angelo noted that no new economic assumptions had been approved by the Board for use in the actuarial valuation as of June 30, 2014, but that new demographic assumptions were adopted regarding: (1) Retirement rates (the probability of retirement at each age at which participants are eligible to retire); (2) Mortality rates (the probability of dying at each age); (3) Termination rates (the probability of leaving employment at each age and receiving either a refund of contributions or a deferred vested benefit); (4) Disability incidence rates (the probability of becoming disabled at each age); and (5) Merit and promotional salary increases.

Mr. Angelo stated that SCERS has now reached a point after the financial crisis of 2007-2009 where, due to strong investment performance, SCERS has shifted from a position of deferred investment losses to deferred investment gains in the multi-year asset smoothing process. Mr. Angelo noted that under the smoothing process \$497 million in deferred gains would be phased in over the next six years, providing a buffer against possible investment under-performance and the opportunity, with good investment performance, for future cost reductions. Mr. Angelo noted that this was already manifested in the valuation as of June 30, 2014, where unallocated earnings (net gains after smoothing and meeting the target growth rate) had been applied to reduce the unfunded liability (and the related employer cost) and \$45.5 million had been put into the Contingency Reserve to provide further insulation against future negative experience.

Mr. Angelo reported that the recommended aggregate employer contribution rate decreased from 27.40% of payroll to 24.37%. Mr. Angelo stated that the decrease in the recommended employer contribution rate is a result of the net effect of strong investment performance; lower than expected salary growth; the changes to the demographic actuarial assumptions; and with respect to County employer rate, more employees paying a greater share of the normal cost.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Angelo stated that, if all actuarial assumptions are met (including the investment return assumption of 7.50%), based on the current level of deferred gains, and County employees picking up an increasing amount of normal cost over the next three to four years, the employer contribution rate is projected to decline over the next six years by 2% to 4% of payroll (the amount of the decline will be impacted by potential deposits to the Contingency Reserve).

Mr. Angelo reported that the recommended aggregate member contribution rate calculated in this valuation increased from 6.39% of payroll to 7.79% of payroll. Mr. Angelo explained that the primary driver of the increase in the employee contribution rates was the change in normal cost sharing. Mr. Angelo noted, however, that the base normal cost rate (i.e., not adjusted for greater cost sharing) has declined for Miscellaneous members across all tiers, and declined for Safety members in Tier 4, but has increased for Safety members in Tiers 1, 2 and 3. Mr. Angelo stated that the decline in the base normal cost rate for those members whose cost has gone down is due to the change in the demographic actuarial assumptions.

Mr. Angelo noted that, notwithstanding the 2007-2009 financial crisis, SCERS' funded status has been strong and stable over time, and was now 85.2% (up from 82.8%). Mr. Angelo noted that based on the market value of assets, SCERS' funded status is 91%.

Discussion followed.

Motion by Mr. DeBord to receive and file the Actuarial Valuation as of June 30, 2014 and adopt the proposed employer and employee contribution rates for the 2014-15 Fiscal Year; Seconded by Mr. Kelly carried (7-0).

**INVESTMENT MATTERS:**

13. Chief Investment Officer Scott Chan introduced a discussion on the investment markets and investment performance in the quarter ended September 30, 2014.

Mr. Chan noted that since the November meeting was moved to a much earlier date than is typical (even considering historical date changes due to the SACRS conference), Staff and SIS would not be able to present the total fund performance for the September quarter end, which would normally be presented at the November meeting. Mr. Chan stated that Staff and consultants would provide an update on SCERS' performance during the quarter, including: (1) Estimated returns for the fund; (2) Commentary regarding global issues and the market environment for assets; and (3) Discussion regarding SCERS' managers and asset classes.

**INVESTMENT MATTERS (continued):**

Jennifer Young from The Townsend group reported that, based on numbers coming in from SCERS' open-end fund managers, SCERS' real estate portfolio was on track to outperform the NFI-ODCE benchmark for the quarter, even with the benchmark heading toward a return above 3% for the quarter. Ms. Young stated that the performance data from the non-core portfolio managers had not yet been received. Ms. Young noted that the strong performance in the sector was driven by appreciation, which is reflective of the capital demand for core real estate in the US.

Jamie Feidler of Cliffwater, LLC reported that almost all markets were down over the quarter. Mr. Feidler stated that the early estimates of SCERS hedge fund portfolio are showing a relatively flat return. Mr. Feidler noted that a flat return would not normally be noteworthy, but with the poor performance across most of the market, a flat return in the hedge fund portfolio is a reflection of the intended purpose of that portfolio.

Patrick Thomas of Strategic Investment Solutions stated that, in spite of the volatility and downturns by the middle of the quarter, the markets were starting to show a rebound by the end of October, particularly in the US equity market. Mr. Thomas noted that proper diversification of the portfolio, as has happened at SCERS over the past few years, is even more important in a volatile market as occurred this quarter.

Deputy Chief Investment Officer Steve Davis stated that the preliminary returns show that the policy benchmarks are off about 40 basis points. Mr. Davis noted that the return for SCERS is expected to come in slightly below that.

Mr. Chan summarized the discussion noting that SCERS' long-term plan has not changed and that over the past six years, markets have been strong, to the point that valuations appear appropriate or even over-valued in some instances. Mr. Chan stated that these valuation levels will lead to increased volatility. Mr. Chan noted that this volatility is actually normal, and that the low-volatility levels over the past few years have been abnormal. Mr. Chan stated that now is the time to shift away from any cyclical risks in the market.

Discussion followed.

14. Chief Investment Officer Scott Chan presented the proposed annual investment plan for the real assets asset class.

Deputy Chief Investment Officer Steve Davis provided an overview of the real assets program, noting that the investment objectives include: (1) Attractive real returns and an inflation hedge; (2) Diversification, particularly to the equity risk premium; (3) Moderate income generation; and (4) Greater consistency in return distribution and muted downside risk. Mr. Davis reviewed the target weights of the sub asset classes noting that the overall asset class was designed to allow shifting the weighting within the sub asset classes based on risk/reward considerations.

**INVESTMENT MATTERS (continued):**

Jennifer Young of The Townsend Group reviewed the real estate segment of the real assets portfolio. Ms. Young stated that SCERS has an active selling program out of the core real estate portfolio with the focus on new commitments to non-core real estate where SCERS can be much more targeted. Ms. Young noted that over the past 18 months, SCERS had been restructuring the core real estate open-ended commingled funds through sales and rebalancing.

Mr. Davis reviewed recent activity within private real assets. Mr. Davis stated that SCERS had \$224 million in recent commitments including a customized separate account in real assets secondaries as well as energy and infrastructure limited partnerships. Mr. Davis noted that between core real estate, non-core real estate, and private real assets, SCERS had \$513 million in recent commitment activity.

Mr. Chan reported that there is currently a gap between the target real assets allocation of 15% and the actual allocation of 8.7%. Mr. Chan explained that due to the nature of the asset class, including cash flow considerations inherent in illiquid structures, commitments within real assets will take time and that SCERS has a five-year plan to reach the target. Mr. Chan further stated that, in the interim, the gap is being filled through the overlay program. Mr. Chan then reviewed dynamic considerations involved with the real assets class.

Jamie Feidler of Cliffwater reviewed the projected real assets allocation plan. Mr. Feidler stated that the total allocation to less liquid real assets is expected to decline near-term, then increase in the coming years. Mr. Feidler noted that this reduction is being driven by expected sales of core real estate holdings and that going forward the increase in private real assets would be tied to a series of recommended annual commitment budgets. Mr. Feidler stated that the recommended commitment budget for 2015 includes a target of funds, for a total of approximately \$290 million. Mr. Feidler noted that the primary areas of focus will be energy related and infrastructure funds.

Motion by Ms. O'Neil to approve the proposed annual investment plan for the real assets asset class; Seconded by Mr. Kelly. Motion carried (7-0).

The meeting was adjourned at 12:36 p.m.

MEMBERS PRESENT: Richard B. Fowler II, John B. Kelly, Keith DeVore, Michael DeBord, Diana Gin, Kathy O'Neil, Chris Pittman, Julie Valverde, John Conneally and Martha J. Hoover (arrived at 10:08 a.m.).

MEMBERS ABSENT: James A. Diepenbrock and Julie Valverde

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OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Patrick Thomas, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Young, The Townsend Group; and Paul Angelo, Segal Consulting.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
Rick Fowler, President

DATE: \_\_\_\_\_

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.