



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

James A. Diepenbrock, President
Appointed by the Board of Supervisors

John B. Kelly, Vice President
Appointed by the Board of Supervisors

Michael DeBord
Elected by the Retired Members

Keith DeVore
Appointed by the Board of Supervisors

Richard B. Fowler II
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, MARCH 19, 2014

A regular 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, March 19, 2014, and commenced at 10:03 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the February 19, 2014 regular meeting and the March 3, 2014 and March 4, 2014 special meetings were approved on Motion by Mr. DeVore; Seconded by Mr. Fowler. Motion carried (8-0).

CONSENT MATTERS:

Items 3-8

The Consent Matters were acted upon as one unit upon a Motion by Ms. Gin; Seconded by Ms. Valverde. Motion carried (8-0).

3. BRAMAN, Robert A.: Granted a service-connected disability retirement.

CONSENT MATTERS (continued):

4. BROWN, Kathryn M.: Granted a nonservice-connected disability retirement.
5. ROSAS, Rodolfo “Rudy”: Granted a reciprocal non-service connected disability retirement.
6. STEELE, Diane: Denied a service-connected disability retirement.
7. WERBLUN, Jeffrey N.: Denied a service-connected disability retirement.
8. Received and filed the February 2014 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 13–16 in Sacramento. Mr. Stensrud noted that the date of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled to May 7.

Mr. Stensrud noted that the SACRS Public Pension Investment Management Program would be held July 20 – July 23 at UC Berkeley. Mr. Stensrud stated that Board Members who wish to attend should contact Staff for assistance.

Mr. Stensrud also noted that the California Association of Public Retirement Systems (CALAPRS) would be holding their annual Principles of Pension Management for Trustees at Stanford August 5 – August 8. Mr. Stensrud again stated that Board Members who wish to attend should contact Staff for assistance.

Mr. Stensrud reported that on Thursday, March 20, SCERS would be conducting a retirement planning seminar for those members who were late in their careers. Mr. Stensrud stated that registration was already full.

Mr. Stensrud asked Chief Benefits Officer John Gobel to comment on the status of retirement applications. Mr. Gobel stated that Staff has received over 100 applications as of March 1, with the number expected to grow as March goes along.

Mr. Stensrud noted that the Board had been given a report of the education credits that they had earned to date. Mr. Stensrud stated that if there were any questions or concerns, to contact Staff for assistance.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reminded the Board that the deadline to file the annual Form 700 Statement of Economic Interests Form is March 31, 2014. Mr. Stensrud noted that General Counsel Robert Gaumer was available to answer any questions regarding the Form.

10. Chief Executive Officer Richard Stensrud introduced the topic of potential changes to the disability retirement determination process. Mr. Stensrud stated that Staff has been revising the disability retirement determination process, with the goal to be more efficient and cost effective. Mr. Stensrud noted that SCERS wants to ensure that members are receiving good customer service, timely information, and that overall, members have the sense that the disability retirement determination process works fairly.

General Counsel Robert Gaumer reviewed the areas in which Staff was considering making revisions.

First, Mr. Gaumer discussed amending the bylaws. Mr. Gaumer noted that currently, any changes to the bylaws must be approved by the Sacramento County Board of Supervisors, which makes adapting to change and addressing the needs of SCERS' members very cumbersome. Mr. Gaumer noted that Staff was considering recommending removing the detailed disability procedural rules from the bylaws, and replacing them with a general directive that SCERS will promulgate procedures for the disability process which will be periodically reviewed and approved by the SCERS Board. Mr. Gaumer explained that the detailed procedural rules, in turn, would be established as procedures established by the SCERS Board. Mr. Gaumer stated that Staff believes that such a change would provide more flexibility in addressing procedural matters, while still allowing participants to see and understand the rules for how the disability determination process will operate.

Chief Benefits Officer John Gobel reviewed changes being considered to member communication. Mr. Gobel noted because most members have little knowledge or experience with the disability retirement process, members often encounter delays, misunderstanding, unrealistic expectations, and frustration. Mr. Gobel further noted that this can also add to the time, resources, and ultimately the cost that SCERS must expend to make the disability determination. Mr. Gobel stated that Staff anticipated recommending the preparation of an enhanced set of disability-specific member communications that seek to explain the disability process in simple terms. Mr. Gobel explained that the communication materials will describe each of the steps of the disability process and the relevant considerations and possible actions that may be taken at each step. Mr. Gobel noted that the goal will be to help to reduce the perceived mystery of the disability process for the member.

Mr. Gaumer then discussed the current inability to deny a disability application at the Staff level. Mr. Gaumer explained that under the current disability determination procedures, denying a disability application requires a substantial expenditure of time and resources by

ADMINISTRATIVE MATTERS (continued):

SCERS because when a disability claim is not sufficiently supported by the evidence gathered by SCERS, which typically includes a five-year medical record and an independent medical examination by an appropriate specialist, the procedures require that the matter be referred to an independent referee for hearing and the rendering of a proposed decision. Mr. Gaumer noted that it is clear that some applicants are referred to hearing not because of gaps in the record or legitimate disputes regarding disability retirement standards, but because the application cannot be denied without the formality of a proposed decision from a hearing officer. Mr. Gaumer noted that this not only extends the determination period in such cases, but also slows the process for other disability applications. Mr. Gaumer stated that Staff anticipates recommending that the Board modify the disability determination process to allow for a Staff recommendation to deny an application in appropriate cases. Mr. Gaumer explained that in such cases, the applicant will still have the right to request that the decision be reviewed by a hearing officer, who will present recommendations to the Board much like in the current process. Mr. Gaumer noted that while a Staff denial of an application will not completely stop the need to have hearings in cases that appear to have no merit, it will result in a number of applicants recognizing that the application is very likely to be unsuccessful and hence decline to pursue the claim further. Mr. Gaumer stated that this will result in lower costs and faster resolution of cases, and will also allow resources to be focused on applications that have genuine merit.

Next, Mr. Gaumer discussed utilizing a medical advisor (MA) to assist in the evaluation and interpretation of the medical records and reports submitted by the applicant and/or the independent medical advisor (IMA) engaged by SCERS to conduct an independent medical examination of the applicant. Mr. Gaumer noted that SCERS used a MA in the past, but that person, who was a County employee, retired and the County chose not to re-fill the position. Mr. Gaumer stated that should the Board decide to authorize Staff denial of a disability application, the value and merit of having more regular involvement by a MA may be warranted.

Mr. Gaumer then discussed the current inability for Staff to administratively withdraw a case. Mr. Gaumer explained that currently, there is no procedural avenue by which SCERS can administratively terminate cases that linger in the system due to the applicant's inability or refusal to prosecute his/her case. Mr. Gaumer noted that providing for an administrative withdrawal of an application where an applicant refuses or fails to prosecute his or her case or fails to comply with hearing officer directives, would permit conclusion of such cases and allow resources to be applied to other applications.

Next, Mr. Gaumer discussed the situation where an applicant seeks to withdraw an application late in the process, often because the applicant determines that the likely outcome will be denial of the application. Mr. Gaumer explained that Staff wants to explore the feasibility of requiring that an application proceed to a final determination if the process

ADMINISTRATIVE MATTERS (continued):

has reached a given stage and/or whether an application withdrawn after that stage be deemed withdrawn 'with prejudice' (meaning that the claims in the application cannot be re-asserted in a subsequent application – new claims, of course, would be permitted).

Mr. Gaumer then discussed Staff's plans to investigate ways to reduce in-person expert testimony at disability hearings. Mr. Gaumer explained that scheduling around the calendars of two attorneys, a hearing officer and doctors has significantly delayed and lengthened hearing conclusion. Mr. Gaumer stated that in many cases medical reports provide satisfactory hearing evidence. Mr. Gaumer also noted that Staff will investigate limiting cross examination of expert personnel to deposition hearings and testimony.

Finally, Mr. Gaumer discussed the actual application process. Mr. Gaumer explained that Staff would like to investigate ways to amend the application requirements that help to better set the facts and injuries that comprise the basis for the medical and legal review.

Motion by Ms. O'Neil to receive and file the discussion of potential changes to the disability retirement determination process; Seconded by Ms. Gin. Motion carried (9-0).

11. General Counsel Robert Gaumer provided an educational presentation on fiduciary responsibility.

Mr. Gaumer reviewed the concept of a fiduciary and what responsibilities are included. Mr. Gaumer stated that there are two main concepts associated with being a fiduciary – prudence and loyalty. Mr. Gaumer noted that the duty of loyalty to participants in the plan takes precedence over any other loyalty.

Mr. Gaumer then reviewed issues of conflict of interest as it applies to public officers or employees. Mr. Gaumer discussed "financial interests" and their relation to contracts. Mr. Gaumer also reviewed "remote interests" and "non-interests."

Finally, Mr. Gaumer covered the definition of and limitation on gifts.

Motion by Ms. Gin to receive and file the educational presentation on fiduciary responsibility; Seconded by Mr. DeBord. Motion carried (9-0).

INVESTMENT MATTERS:

12. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending September 30, 2013 and December 31, 2013, including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

INVESTMENT MATTERS (continued):

Mr. Feidler reported that SCERS' hedge fund portfolio was up 5.2% in the fourth quarter of 2013, outperforming the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.3%. Mr. Feidler noted that SCERS' hedge funds outperformed the HFRI Equity Hedge Index in the fourth quarter of 2013, which was up 3.5%.

Mr. Feidler stated that SCERS' hedge fund portfolio was up 13.9% for calendar year 2013 and outperformed SCERS benchmarks, the HFRI Fund of Funds Composite Index and the 90-day T Bills +5%, which were up 8.7% and 5.1% respectively.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was up 7.4% in the quarter, and outperformed the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%, which were up 3.5% and 1.3% respectively.

Mr. Feidler stated that for the quarter, SCARF B returned 3.9%, which underperformed SCARF, but outperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%. Mr. Feidler noted that SCARF B was up 11.3% for calendar year 2013 (but was incepted in February) and outperformed SCERS' benchmarks in the time period since inception.

Mr. Feidler reported that SCERS' direct hedge fund program was up 3.8% during the fourth quarter, which outperformed the 90-day T-Bills + 5% and the HFRI Fund of Funds Composite Index benchmarks.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 6.7% since inception compared to the Venture Economics Private Equity Index up 8.4% and the multiple of total value to paid in capital ("TVPI") is 1.14x since inception. Mr. Feidler noted that SCERS' private equity portfolio shows lower relative returns due to the early phase/cycle of investments (j-curve affect) compared to the index.

Mr. Feidler reported that, through September 30, 2013, SCERS' real assets portfolio IRR was 6.7% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.4% and SCERS' TVPI was 1.2x.

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 8.1% as of September 30, 2013 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%. In addition, SCERS' opportunistic portfolio has outperformed SCERS' intermediate benchmark with a return of 23.0% over the past three years compared to 9.5% for SCERS' policy benchmark.

Motion by Mr. Kelly to receive and file the quarterly performance report; Seconded by Ms. O'Neil. Motion carried (9-0).

INVESTMENT MATTERS (continued):

13. Jamie Feidler of Cliffwater, LLC presented the annual report on the private equity asset class and the proposed private equity annual investment plan for 2014.

Mr. Feidler stated that the investment objective of SCERS' private equity program was to enhance the total fund performance with an expectation to outperform public equities (Russell 1000 Index) by 3% annually over the long-term. Mr. Feidler noted that the private equity target allocation was 10%, but that this represents a long-term target as the private equity program will take many years to prudently implement, with the 10% target allocation expected to be reached in 2019.

Mr. Feidler stated that SCERS' existing portfolio is reasonably well-diversified, but that the amount of money invested is relatively small (3.0% of SCERS' total portfolio). Mr. Feidler noted that new commitments are intended to complement the existing investments and maintain long-term diversification.

Mr. Feidler reviewed SCERS' current fund of funds, including HarbourVest Partners VIII; Abbott Capital Private Equity Fund VI; Goldman Sachs Private Equity Partners X; and HarbourVest International Private Equity Partners VI.

Mr. Feidler reported that SCERS' private equity commitment activity since April 2013 has been both tactical and strategic, with commitments to Marlin Equity Partners IV; RRJ Capital Master Fund II; Summit Partners Credit Fund II; H.I.G. Europe Cap Partners II; TPG Opportunities Partners III; and Dyal Capital Partners II. Mr. Feidler noted that SCERS continues to target hard to access, top-tier GPs to complement its existing private equity investments, noting that many of these new funds were significantly oversubscribed and/or only offered to select investors.

Mr. Feidler reviewed the recommended 2014 private equity annual investment plan, which targets a \$265 million commitment level over 9 funds. Mr. Feidler noted that this target is generated from a proposed commitment range of \$215-\$315 million between 7-11 funds. Mr. Feidler stated that the recommended area of focus for the remainder of 2014 would include sector-focused buyout funds and possibly venture capital, which are intended to complement the existing portfolio and take advantage of the best opportunities in the market. Mr. Feidler also reviewed SCERS' private equity selection process.

Motion by Mr. DeVore to approve the proposed private equity annual investment plan for 2014; Seconded by Mr. Kelly. Motion carried (9-0).

Motion by Mr. Kelly to receive and file the annual report on the private equity asset class; Seconded by Ms. O'Neil. Motion carried (9-0).

INVESTMENT MATTERS (continued):

14. Jennifer Young of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended December 31, 2013.

Ms. Young reported that SCERS' total real estate portfolio returned 1.8% during the fourth quarter of 2013, underperforming the benchmark (NFI-ODCE) by 2.9%. Ms. Young stated that for the 12-month period ending December 31, 2013, SCERS' real estate portfolio return was 10.7% and that in the same period, the benchmark returned 12.9%.

Ms. Young reported that SCERS' core real estate portfolio returned 2.4% during the fourth quarter, also underperforming the benchmark of 2.9%. Ms. Young stated that for the 12-month period ending December 31, 2013, SCERS' core real estate portfolio return was 9.5% and that in the same period, the benchmark returned 12.9%. Ms. Young further stated that the core separate accounts returned 2.3% for the quarter and 9.5% for the 12-month period, compared to 2.4% and 9.3%, respectively for the commingled funds.

Ms. Young reported that SCERS' domestic public REIT portfolio returned -0.3%, compared to a fourth quarter return of -0.2% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that SCERS' international REIT portfolio returned -0.2% compared to a fourth quarter return of 0.1% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Ms. Young reported that for the 12-month period ending December 31, 2013, SCERS' domestic public REIT portfolio earned a 3.4% return beating the benchmark index of 2.9%, while SCERS' international REIT portfolio earned 14.8% return handily outperforming the benchmark index of 7.7%.

Ms. Young reported that SCERS' non-core real estate portfolio returned 2.6% for the quarter, trailing Townsend's benchmark of the NCREIF / Townsend Value Added Funds, which returned 3.0%. Ms. Young stated however that SCERS' non-core real estate portfolio returned 13.5% for the 12-month period, exceeding the benchmark return of 10.2%.

Motion by Mr. Fowler to receive and file the quarterly performance report; Seconded by Mr. DeVore. Motion carried (9-0).

The meeting was adjourned at 12:43 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly (arrived at 10:13 a.m.), Michael DeBord, Keith DeVore, Richard B. Fowler II, Diana Gin (departed at 11:29 a.m.), Kathy O'Neil (arrived at 10:04 a.m.), Chris A. Pittman, Julie Valverde, John Conneally, and Martha J. Hoover.

MEMBERS ABSENT: none.

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; JR Pearce, Investment Officer; John Lindley, IT

Administrator; Jamie Feidler, Cliffwater LLC; Jennifer Young, The Townsend Group; John Kennedy, Nossaman LLP; and Diana Ruiz, Deputy County Counsel.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
James A. Diepenbrock, 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.