



Executive Staff:

Richard Stensrud
Chief Executive Officer

Vacant
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

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, JUNE 17, 2015

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, June 17, 2015, and commenced at 10:03 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the May 6, 2015 regular meeting were approved on a Motion by Mr. Diepenbrock; Seconded by Mr. Pittman. Motion carried (7-0).

CONSENT MATTERS:

Items 3-11

Item 9 was taken off the Consent Calendar for discussion at the request of Mr. DeBord. The remaining Consent matters (Items 3 – 8, 10, and 11) were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Mr. Kelly. Motion carried (7-0).

3. LOPEZ, Jeffrey: Granted a service-connected disability retirement.
4. MEDINA, Roque: Granted a nonservice-connected disability retirement.

CONSENT MATTERS (continued):

5. MONIZ, Robynn: Denied a nonservice-connected disability retirement.
6. BALUNDA, Robert P.: Granted a nonservice-connected disability retirement.
7. Approved SCERS' policy on post-retirement employment, as revised per SCERS Board comments.
8. Approved the renewal of SCERS' fiduciary liability insurance coverage.
10. Received and filed the May 2015 Monthly Investment Portfolio Activity Report.
11. Received and filed the April 2015 and May 2015 Monthly Investment Manager Compliance Reports and Watch Lists.
9. The Item was moved from Consent Matters at the request of Mr. DeBord.

Mr. DeBord asked for clarification on the method used to credit interest on member contribution accounts. Discussion followed.

Motion by Mr. Diepenbrock to approve the interest crediting rate for member contribution accounts for the six month period ending June 30, 2015; Seconded by Mr. Pittman. Motion carried (7-0).

ADMINISTRATIVE MATTERS:

12. 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 Sacramento County Board of Supervisors had re-appointed Mr. DeVore and Mr. Diepenbrock to another term on the SCERS Board.

Mr. Stensrud reported the State Association of County Retirement Systems (SACRS) Spring Conference had recently taken place and invited Board Members who attended to offer observations. Ms. Gin and Mr. DeBord stated that there were many excellent presentations. Mr. Stensrud commented on the vote for the SACRS Board of Directors, stating that it was disappointing that more systems had not obtained more information regarding the differences between the two slates up for election prior to the vote.

Mr. Stensrud revisited the interest crediting item, noting that the value of the multi-year smoothing used to recognize the investment experience is displayed in this item. Mr. Stensrud stated that SCERS had moved to a point of net positive gains through smoothing. Mr. Stensrud further noted that smoothing was key this year as it will offset the expected shortfall in the fiscal year investment return.

Mr. Stensrud reported on a recent newspaper article regarding a potential ballot initiative for 2016 which was initially brought forward by a former mayor of San Jose, as well as other city mayors. Mr. Stensrud stated that this initiative would call for all new public

ADMINISTRATIVE MATTERS (continued):

employees to be part of a defined contribution plan as opposed to the current defined benefit plan. Mr. Stensrud noted that this potential ballot initiative will continue to be monitored closely.

Mr. Stensrud reported that, with retirement levels continuing at all-time highs, Staff is working on a plan to address SCERS' benefits administration capability through personnel additions and changes. Mr. Stensrud stated that more details of the plan, including the budget impact, would be provided at a future meeting.

13. General Counsel Robert Gaumer introduced the appeal of a benefit determination matter submitted by SCERS member Michael Seipert. Mr. Gaumer reviewed the appeal process and explained to the Board their discretion on the appeal. Mr. Gaumer explained the issues in the matter, which involves a disability retirement granted by a reciprocal retirement system. Mr. Gaumer noted the statutory provisions involved and explained how a reciprocal disability retirement is treated differently in the statutes than a reciprocal service retirement. Mr. Gaumer noted that Mr. Seipert was advised of this difference but chose to go forward with a reciprocal disability retirement. Mr. Gaumer noted that increasing the reciprocal disability retirement benefit awarded to Mr. Seipert would be tantamount to disregarding the County Employees' Retirement Law (CERL).

Mr. Seipert addressed the Board, presenting his appeal. Mr. Seipert claimed that it was unfair that he receives a lesser amount by being granted a service-connected disability retirement than he would have received were he granted a standard service retirement. Mr. Seipert argued that he was not receiving the full value for his service credit in SCERS. Mr. Seipert contended that the Americans with Disability Act (ADA) applies to his case and supersedes the CERL, therefore providing the Board the discretion to approve his appeal.

Discussion followed, including discussion regarding the principles underlying reciprocity; the statutory provisions regarding reciprocal service and disability retirement and reasons for the differences; and the applicability of the ADA to the case at hand. Mr. Stensrud stated that he does not believe the ADA is applicable, but he would have the matter reviewed by outside counsel if the Board so desired.

Motion by Mr. Diepenbrock to defer action on the appeal until Staff had obtained an additional legal opinion to determine whether there is any relationship between the CERL and the ADA in this matter; Seconded by Mr. Kelly. Motion carried (8-0).

14. Chief Operations Officer Kathy Regalia presented the proposed SCERS administrative budget for the 2015-2016 fiscal year. Ms. Regalia stated that this budget was consistent with the prior year's budget. Ms. Regalia noted that an additional cost for this fiscal year that was not present during the last fiscal year was the cost for a Board election that will take place at the end of 2015. Discussion followed.

Motion by Mr. Kelly to approve the proposed SCERS administrative budget for the 2015-2016 fiscal year; Seconded by Mr. Diepenbrock. Motion carried (8-0).

INVESTMENT MATTERS:

15. Barry Dennis of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended March 31, 2015.

Mr. Dennis reported that the Total Fund (TF) return for the first quarter, including the impact of the overlay program, was 2.0% gross of fees. The TF return was 0.3% below the policy index of 2.3%, and 0.1% above the allocation index of 1.9%. The return of the TF without the impact of the overlay program was also 2.0%.

Mr. Dennis reported that on a comparative basis, the return for the quarter was 0.3% below the Public Funds \$1+ Billion Median return of 2.3%. The TF return ranks in the 71st percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Dennis reported that at the asset class level, quarter outperformance occurred, gross of fees, in the international equity, fixed income, hedge fund, and opportunistic segments. Underperformance occurred in the private equity and real assets segments. The domestic equity segment performed in-line with its benchmark.

Mr. Dennis reported that, for the one year period, the TF return gross of fees, including the impact of the overlay program was 5.7%, which was 0.5% below the return of the policy index of 6.2% and 0.2% above the allocation index return of 5.5%. The TF one year return was 0.8% below the Public Funds \$1+ Billion Median return of 6.5%, and ranks in the 66th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Dennis reported that the annualized TF return gross of fees for three years of 9.7% is 0.2% above the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 9.5% is 0.1% above the policy index benchmark for the period. The TF gross of fees return of 8.6% since the inception of SIS' data in June of 1986 is 0.2% below the Total Benchmark return of 8.8% for the period.

Motion by Mr. Diepenbrock to receive and file the quarterly performance report; Seconded by Mr. Kelly. Motion carried (8-0).

16. Deputy Chief Investment Officer Steve Davis introduced the proposed engagement of UBS Global Asset Management to manage a U.S. Equity Small Cap Growth mandate for SCERS. Mr. Davis noted that in late 2014, SCERS terminated a U.S. Equity Small Cap Growth manager and has been holding the exposure in a total return swap as an interim solution while Staff conducted a manager search. Mr. Davis stated that Staff and investment consultant SIS are recommending an engagement with UBS Global Asset Management to manage this mandate.

David Wabnik, Samuel Kim, and Mike Lammers of UBS Global Asset Management presented to the Board. Mr. Lammers introduced the firm and discussed their qualifications. Mr. Wabnik provided an overview of the UBS team that would be working for SCERS and the UBS investment philosophy. Mr. Kim demonstrated the UBS' process by reviewing a case study.

INVESTMENT MATTERS (continued):

Motion by Mr. Kelly to approve the engagement of UBS Global Asset Management to manage a U.S. Equity Small Cap Growth mandate for SCERS and to receive and file the presentation materials; Seconded by Mr. DeVore. Motion carried (8-0).

17. Pete Keliuotis of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending December 31, 2014 and March 31, 2015 including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

Mr. Keliuotis reported that SCERS' aggregate hedge fund portfolio was up 1.89% in the first quarter of 2015, outperforming the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.23%. Mr. Keliuotis noted that SCERS' hedge funds underperformed the HFRI Fund of Funds Composite Index, which was up 2.52%.

Mr. Keliuotis stated that the SC Absolute Return Fund, LLC ("SCARF") was up 1.57% in the quarter, and underperformed the HFRI Fund of Funds Composite Index, but outperformed the 90-day T-Bills + 5%. Mr. Keliuotis stated that for the quarter, SCARF B returned 2.61%, which outperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%.

Mr. Keliuotis reported that SCERS' direct hedge fund program was up 1.85% during the first quarter, which outperformed the 90-day T-Bills + 5%, but underperformed the HFRI Fund of Funds Composite Index benchmarks.

Mr. Keliuotis reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was 10.22% since inception compared to the Cambridge Associates Private Equity Index return of 10.15% and the multiple of total value to paid in capital ("TVPI") is 1.22x since inception. Mr. Keliuotis 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. Keliuotis reported that, through December 31, 2014, SCERS' real assets portfolio IRR was 6.6% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.2% and SCERS' TVPI was 1.18x.

Mr. Keliuotis reported that SCERS' opportunistic portfolio generated a net IRR of 8.6% as of December 31, 2014 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%.

Motion by Mr. DeVore to receive and file the quarterly performance report; Seconded by Mr. Diepenbrock. Motion carried (8-0).

18. Deputy Chief Investment Officer Steve Davis introduced Ben Spero and Ronan Cunningham from Spectrum Equity Investors who made an educational presentation on their private equity growth equity fund in which SCERS participates.

INVESTMENT MATTERS (continued):

Mr. Spero provided an overview of the firm and their view of growth equity. Mr. Spero reviewed Spectrum's business model criteria and their approach to building value. Mr. Spero then reviewed Spectrum's portfolio and the performance of their funds. Finally, Mr. Spero and Mr. Cunningham provided an overview of some of the companies in Spectrum's Fund VII, in which SCERS participates.

19. Jennifer Young and Nick Rittenhouse of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended March 31, 2015.

Ms. Young reported that SCERS' total real estate portfolio returned 3.1% during the first quarter of 2015, in-line with the benchmark (NFI-ODCE) by 3.2%. Ms. Young stated that for the 12-month period ending March 31, 2015, SCERS' real estate portfolio return was 14.4% and that in the same period, the benchmark returned 12.4%.

Ms. Young reported that SCERS' core real estate portfolio returned 2.8% during the first quarter, slightly underperforming the benchmark of 3.2%. Ms. Young stated that for the 12-month period ending March 31, 2015, SCERS' core real estate portfolio return was 13.6% and that in the same period, the benchmark returned 12.4%. Ms. Young further stated that the core separate accounts returned 2.8% for the quarter and 14.1% for the 12-month period, compared to 2.9% and 12.5%, respectively for the commingled funds.

Ms. Young reported that SCERS' non-core real estate portfolio returned 0.8% for the quarter, trailing Townsend's benchmark of the NCREIF / Townsend Value Added Funds, which returned 3.4%. Ms. Young stated that SCERS' non-core real estate portfolio returned 11.4% for the 12-month period, also trailing the benchmark return of 13.4%.

Ms. Young reported that SCERS' domestic public REIT portfolio returned 5.0%, compared to a first quarter return of 4.0% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that SCERS' international REIT portfolio returned 4.8% compared to a first quarter return of 3.6% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Ms. Young reported that for the 12-month period ending March 31, 2015, SCERS' domestic public REIT portfolio earned a 25.8% return beating the benchmark index of 22.7%, while SCERS' international REIT portfolio earned 9.7% return outperforming the benchmark index of 8.2%.

Motion by Mr. DeVore to receive and file the quarterly performance report; Seconded by Mr. DeBord. Motion carried (7-0).

The meeting was adjourned at 1:12 p.m.

MEMBERS PRESENT: Richard B. Fowler II, John B. Kelly, Keith DeVore (arrived at 10:05 a.m.), Michael DeBord, James A. Diepenbrock (departed at 12:50 p.m.), Diana Gin, Chris Pittman, John Conneally, and Martha J. Hoover

MEMBERS ABSENT: Julie Valverde

OTHERS PRESENT: Richard Stensrud, Chief Executive 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, Senior Accounting Manager; Tae-Young Weiler, Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Barry Dennis and John Nicolini, Strategic Investment Solutions, Inc; Pete Keliuotis, Cilffwater LLC; Jennifer Young, Nick Rittenhouse, and Leslie Montag, The Townsend Group; Samuel Kim, Michael Lammers, David Wabnik, UBS; Ben Spero and Ronan Cunningham, Spectrum Equity; Pat Bianco and Steven Page, Sacramento County Risk Management; and Michael Seipert.

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.