



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Steve Davis  
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

Steven L. Baird  
Elected by the Miscellaneous Members

James A. Diepenbrock  
Appointed by the Board of Supervisors

Ben Lamera  
Ex Officio, Director of Finance

Alan Matré, CPA  
Elected by the Miscellaneous Members

Kathy O'Neil  
Elected by the Retired Members

Chris A. Pittman  
Elected by the Safety Members

John Conneally  
Elected by the Safety Members

Martha J. Hoover  
Elected by the Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, WEDNESDAY, FEBRUARY 15, 2017

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, February 15, 2017, and commenced at 10:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the January 18, 2017 regular meeting were approved on Motion by Mr. Kelly; Seconded by Mr. Pittman. Motion carried (8-0).

##### CONSENT MATTERS:

Items 3-11

The Consent Matters were acted upon as one unit upon a Motion by Mr. Baird; Seconded by Mr. Pittman. Motion carried (8-0).

3. ROBINSON, Sheila Y.: Granted a service-connected disability retirement.

**CONSENT MATTERS (continued):**

4. BOYLE, Terry: Granted a service-connected disability retirement.
5. Approved the proposed cost-of-living adjustment (COLA) effective April 1, 2017 for SCERS' monthly benefit payments.
6. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended December 31, 2016.
7. Received and filed the Semi-Annual Administrative Expense Report for the Six Months Ended December 31, 2016.
8. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended December 31, 2016.
9. Received and filed the Trading Cost Report for the Quarter Ended December 31, 2016.
10. Received and filed the January 2017 Monthly Investment Portfolio Activity Report.
11. Received and filed the January 2017 Monthly Investment Manager Compliance Report and Watch List.

**CLOSED SESSION:**

Subsequent to the posting of the agenda, an internal personnel matter had arisen that could not be deferred until the next meeting. Motion by Mr. Kelly to take up the matter in Closed Session; Seconded by Mr. Baird. Motion carried (8-0).

Mr. Fowler stated that during the closed session, the Board discussed a confidential internal personnel matter and the Board took no action.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

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

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported that the California Association of Public Retirement Systems (CALAPRS) General Assembly would be taking place in Monterrey, CA from March 4 – March 7. Mr. Stensrud also reported that the CALAPRS Advanced Principles of Pension Management for Trustees would be taking place at UCLA from March 29 – March 31. Mr. Stensrud stated that any Board Members who are interested in attending could let Staff know.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 16 – 19 in Napa, CA. Mr. Stensrud noted that the date of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled to Thursday, May 11 at 10 a.m.

Mr. Stensrud reported that the SACRS Fall Conference, which is scheduled for November 14 – 17 in Burlingame, CA, will also cause the November Board Meeting date to change from its regular date and time. Mr. Stensrud stated that the November Board Meeting will now be on Tuesday, November 7 at 1 p.m.

Mr. Stensrud noted that the SACRS Public Pension Investment Management Program would be held July 24 – July 26 at UC Berkeley. Mr. Stensrud stated that Board Members who wish to attend should contact Staff for assistance.

Mr. Stensrud stated that in March, Staff is expecting to present to the Board a Request for Proposals (RFP) for actuarial audit services. Mr. Stensrud noted that this was part of the process of renewing the contract with Segal Consulting to perform consulting actuary services. Mr. Stensrud stated that the purpose of this audit is to confirm the accuracy of the work that Segal Consulting has performed over the past few years for SCERS.

Mr. Stensrud reported that the RFP for a Pension Administration System (PAS) is scheduled to be released later in February. Mr. Stensrud noted that a selection date is currently being targeted for August. Mr. Stensrud stated that Staff would be continuing to keep the Board updated on the progress of the RFP.

Mr. Stensrud reported that one of SCERS' investment managers, Weatherbie Capital, had recently been acquired by Alger Associates. Mr. Stensrud stated that Weatherbie is expected to continue to operate as a standalone investment manager. Mr. Stensrud noted that the Investment Management Agreement (IMA) with Weatherbie will need to be updated to reflect Alger as the parent company, but that no change in the management of the assets will be made.

Mr. Stensrud welcomed new Board Member Alan Matré to his first Board Meeting.

**ADMINISTRATIVE MATTERS (continued):**

13. Chief Operations Officer Kathy Regalia presented the proposed Request for Proposals (RFP) for independent audit services.

Ms. Regalia noted that if the Board so desired, Staff would welcome a Board Member on the RFP evaluation committee. Mr. Matré volunteered to be on the committee.

Motion by Mr. DeVore to approve the proposed RFP for independent audit services; Seconded by Mr. Matré. Motion carried (9-0).

14. Chief Operations Officer Kathy Regalia presented the proposed extension of the agreement with Segal Consulting to provide actuarial services.

Ms. Regalia noted that per the comments made earlier by CEO Richard Stensrud, in March Staff will also be presenting to the Board a Request for Proposals (RFP) for actuarial audit services.

Motion by Mr. Diepenbrock to approve the proposed extension of the agreement with Segal Consulting to provide actuarial services; Seconded by Mr. Baird. Motion carried (9-0).

**INVESTMENT MATTERS:**

15. Barry Dennis of Verus Advisory, Inc. presented the Preliminary Investment Performance Report for the Quarter Ended December 31, 2016.

Mr. Dennis reported that the Total Fund (TF) return for the fourth quarter, including the impact of the overlay program, was 1.1% gross of fees. The TF return was 0.1% above both the policy index of 1.0%, and the allocation index return of 1.0%. The TF return without the impact of the overlay program was 1.2%.

Mr. Dennis reported that on a comparative basis, the return for the quarter was slightly above the Public Funds \$1+ Billion Median return of 0.9%. The TF return ranks in the 35th percentile in the InvestorForce Universe, which is the ranking universe used by Verus. Most of the major asset classes experienced positive returns for the quarter, except for the international equity and fixed income asset classes.

Mr. Dennis reported that at the asset class level, quarter outperformance occurred, gross of fees, in the domestic equity, absolute return, real assets and opportunistic segments. Underperformance occurred in the international equity and private equity segments.

**INVESTMENT MATTERS (continued):**

Mr. Dennis reported that for calendar year-to-date, the TF return gross of fees, including the impact of the overlay program was 8.0%, which was 0.4% below the return of the policy index benchmark return of 8.4%, and equal to the allocation index return of 8.0%. The return of the TF for the calendar year-to-date without the impact of the overlay was 7.5%. The TF calendar year-to-date return was 0.1% above the Public Funds \$1+ Billion Median return of 7.9%, and ranks in the 40th percentile in the InvestorForce Universe.

Mr. Dennis reported that the annualized TF return gross of fees for three years of 4.1% is 0.9% below the policy index return of 5.0% for the same period. The annualized TF return gross of fees for five years of 8.4% is equal to the policy index benchmark for the period. The TF gross of fees return of 8.2% since the inception of SIS's data in June of 1986 is 0.3% below the Total Benchmark return of 8.5% for the period, but above SCERS' actuarial investment return assumption which has ranged from 8.25% to 7.50% (currently) during the period.

Motion by Mr. Kelly to receive and file the quarterly report; Seconded by Mr. Diepenbrock. Motion carried (9-0).

16. Chief Executive Officer Richard Stensrud introduced the presentation of the 2016 Investment Year in Review.

Mr. Stensrud stated that the purpose of the Investment Year in Review report is to: (a) Summarize the major events and developments of the past year, including investment performance; (b) Remind the Board of what has been accomplished over the year; (c) Highlight the decisions that were made, the rationale for those decisions, and the direction(s) established going forward; and (d) Preview the investment program projects, issues, and objectives for the year to come.

Mr. Stensrud stated that in 2016, SCERS leveraged the expertise of its internal investment staff, investment consultants, and key investment partners to continue to implement the asset allocation structure adopted in 2011, which was designed to reduce risk, increase diversification, and improve investment performance across economic environments. Mr. Stensrud noted that during 2016, Staff began a new asset allocation study that included an Enterprise Risk Tolerance (ERT) study with the Board to help identify and prioritize objectives, principles, and risks that the Board wanted to have addressed in the investment portfolio. Mr. Stensrud stated that these considerations had been both factored into and had driven the asset allocation model that was recommended and approved by the Board in January, 2017. Mr. Stensrud noted that SCERS would begin implementing the new asset allocation throughout 2017.

**INVESTMENT MATTERS (continued):**

Chief Investment Officer Steve Davis provided a brief overview of the market and SCERS' portfolio during 2016. Mr. Davis also discussed the new asset allocation that was developed during 2016. Mr. Davis then reviewed the performance of the portfolio for 2016. Mr. Davis stated that SCERS' portfolio returned 8.0% in 2016, which underperformed the policy index by 0.4%. Mr. Davis noted that the performance of SCERS' portfolio over longer periods has been pulled down by lower returns in 2014 and 2015, with a 3-year absolute return of 4.1% and a 5-year absolute return of 8.4%.

Mr. Davis then provided in-depth reviews of the domestic equity, absolute return, and private equity asset classes, while Investment Officer JR Pearce did the same for the international equity, fixed income, real assets, and opportunities asset class. Mr. Davis and Mr. Pearce discussed the developments within each asset class over the year, the asset class performance, and the goals for the asset class for 2017.

Mr. Davis reported on other investment accomplishments in 2016 and the goals for investment activities in 2017. Mr. Davis stated that those goals include (a) revising and updating SCERS' broad Investment Policy Statement (IPS) to reflect changes and incorporate individual asset class IPS's; (b) increase capabilities within operational due diligence for alternative investments; (c) research risk management and software management systems for SCERS' total portfolio and asset classes; and (d) assess the strategic approach of and the proxies used within the Overlay Program.

Barry Dennis from Verus Advisory, Inc.; Jamie Feidler from Cliffwater LLC; and Jennifer Young-Stevens and Robert Miranda from The Townsend Group each provided a brief summary of SCERS' performance in 2016 and outlook for 2017 from their point of view. Each commended Staff on their work in 2016 and noted that SCERS was well positioned for 2017 and beyond.

Motion by Mr. Kelly to receive and file SCERS' 2016 Investment Year in Review report; Seconded by Ms. O'Neil. Motion carried (7-0).

The meeting was adjourned at 12:17 p.m.

MEMBERS PRESENT: Rick Fowler (departed at 11:45 a.m.), John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock (arrived at 10:01 a.m., departed at 11:30 a.m.), Ben Lamera, Alan Matré, Kathy O'Neil, Chris Pittman, John Conneally, and Martha J. Hoover

MEMBERS ABSENT: none

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OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Steve Davis, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Annette St. Urbain, Assistant Retirement Administrator; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Barry Dennis and Margaret Jadallah, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Young-Stevens and Robert Miranda, The Townsend Group; and Kevin Isawa

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.