



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, APRIL 19, 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, April 19, 2017, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Steven Welty of Mastagni Holstedt and Jessica Enes addressed the Board regarding Ms. Enes' application for disability retirement.

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2. The Minutes of the March 15, 2017 regular meeting were approved on Motion by Mr. Diepenbrock; Second by Mr. Matré. Motion carried (8-0).

CONSENT MATTERS:

Items 3-12

Item 4 was removed for discussion in closed session at the request of Mr. Pittman. The remaining Consent Matters (Items 3 and 5-12) were acted upon as one unit upon a Motion by Mr. Diepenbrock; Second by Mr. Pittman. Motion carried (8-0).

3. COLLIER, Natasha: Denied a service-connected disability retirement.
5. HOWARD, Raquel: Denied a service-connected disability retirement.
6. LUGO, Paula A.: Denied a service-connected disability retirement.
7. ABDO, Adnan: Granted a service-connected disability retirement.
8. EUBANKS, Shannon: Granted a service-connected disability retirement.
9. STARR, William G.: Granted a service-connected disability retirement.
10. Approved the proposed items to be voted on by the membership at the State Association of County Retirement Systems (SACRS) Spring Conference.
11. Received and filed the March 2017 Monthly Investment Portfolio Activity Report.
12. Received and filed the March 2017 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

4. ENES, Jessica: Denied a service-connected disability retirement.

Motion by Mr. Diepenbrock to deny a service connected disability retirement; Second by Mr. Pittman. Motion carried (8-0).
13. Conference with Legal Counsel – Existing Litigation [Government Code Section 54956.9(a)]

Robert Williams vs. Amador Stage Lines; Case No. 34-2014-00157499

No action was taken.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud introduced Steve Hawley who is working for SCERS as an independent consultant with the SCERS' Executive Team on various projects and initiatives, including but not limited to aspects of SCERS' IT modernization program. Mr. Stensrud noted that

Mr. Hawley's extensive experience on similar projects and initiatives with major international consulting firms would be a valuable resource for SCERS.

Mr. Stensrud reported on a number of upcoming conferences. Mr. Stensrud stated that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 16 – 19 in Napa, CA; the California Association of Public Retirement Systems (CALAPRS) Trustee Roundtable is scheduled for June 2 in Burbank, CA; the SACRS Public Pension Investment Management Program is scheduled for July 24 – 26 at UC Berkeley; and the CALAPRS Principles of Pension Management Program is scheduled for August 28 – 31 at Pepperdine University. 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 stated that any Board Members who were interested in any of these events could contact Staff for assistance.

Mr. Stensrud reported that SCERS received four responses to the Request for Proposals (RFP) for professional auditing services. The proposals will be reviewed by the audit proposal review committee during the week of April 24. Staff expects to provide a recommendation to the Board at the May Board Meeting on which auditing firm to select.

Mr. Stensrud reported that the responses to the RFP for actuarial auditing services are due Friday, April 21. Depending on the number of responses received, Staff is hoping to provide a recommendation to the Board at the May Board Meeting on which actuarial auditing firm to select.

Mr. Stensrud stated that while the item on SCERS' Staff structure on this month's agenda does not involve the Investment Staff structure, efforts were underway to address needs in that area, noting that Staff would soon be conducting interviews for the vacant Investment Officer position.

Mr. Stensrud reported that Assembly Bill 526 (AB 526), which would formalize a change in the operating authority arrangement and structure for SCERS, will be heard in the Assembly PER&SS Committee on May 3rd. Mr. Stensrud noted that AB 526 has a similar approach and parameters to the bill that was introduced last year for all SACRS systems. Mr. Stensrud stated that the Board would continue to be updated on the progress of AB 526.

Mr. Stensrud reported on the capital market assumptions, which SCERS' investment consultants utilize with SCERS to assess markets as they stand today and markets as they are projected to perform in the future. This is an exercise that is performed on a regular basis. Staff and consultants used the capital market assumptions when they performed the recent asset liability modeling study. Mr. Stensrud stated that the capital market assumptions would also be taken into account when SCERS considers whether the investment return assumption would need to be changed. Chief Investment Officer Steve Davis and Margaret Jadallah of Verus Advisory then provided further details on the most recent capital market assumptions. Discussion followed.

15. Chief Executive Officer Richard Stensrud introduced Doug Johnson from Ralph Andersen & Associates to provide information from the revised compensation study report that would be used to set the compensation range for the recruitment for the Chief Executive Officer position. Mr. Stensrud noted that Mr. Johnson revised the report to reflect the interests of the Board expressed during the discussion on this topic that occurred during the Board Meeting on April 6.

Mr. Johnson noted the changes that were made to the report, including changing the compensation from monthly to annual dollar amounts and expanding the benefits analysis. Mr. Johnson reviewed a number of salary range recommendations that reflected various subsets of agencies that were examined in the study. Mr. Johnson stated that the subsets were created to more closely match SCERS in terms of size and included a 13 agency subset and a 7 agency subset. Mr. Johnson noted that for each subset, ranges were established that would put the salary in the 75th, 70th, and 65th percentile as compared to the other agencies in the subsets.

Discussion followed.

Motion by Mr. Matré to set the compensation range to be used in the recruitment for the Chief Executive Officer position at the 7 agency size optimized market 70th percentile as defined in the compensation study report, with a CPI-W escalator; Second by Ms. O'Neil. Motion carried (8-0).

16. Chief Executive Officer Richard Stensrud introduced the presentation regarding proposed modifications and additions to SCERS' staff structure. Mr. Stensrud stated that this presentation is intended to be a preview of what Staff intends to formally present to the Board for their consideration at the May Board Meeting. Mr. Stensrud further stated that the decision at the May Board Meeting will be integrated into the preliminary budget, which will be presented to the Board at the June Board Meeting. Mr. Stensrud noted that this presentation will cover Executive Staff, Operations Staff, and Benefits Staff.

Assistant Retirement Administrator Annette St. Urbain discussed the proposed addition to the Executive Staff of a Director of Enterprise Initiatives and Risk Management. Ms. St. Urbain stated that this position would (1) provide structure and oversight for identifying, prioritizing, tracking, and mitigating enterprise risks; (2) provide support for SCERS' Strategic Plan; (3) provide enterprise level, cross-program services using specific skills, expertise, and an understanding of industry/project management methodologies and tools; and (4) provide program oversight and vendor/consultant relationship and services management as needed for projects related to SCERS' IT Modernization Program. Ms. St. Urbain noted that this position will be in an Assistant Retirement Administrator job class, as recommended by the Sacramento County HR department, and would report directly to the Chief Executive Officer. Discussion followed.

Chief Operations Officer Kathy Regalia presented the proposed changes to the Operations Staff structure. Ms. Regalia noted that the two positions being proposed had previously been discussed with the Board. Ms. Regalia stated that in 2015, the Board approved the addition of a Senior IT Analyst position, but that the County Department of Personnel Services would not recommend the approval of the addition due to the level of supervision. Ms. Regalia also stated that around the same time, the County was conducting a classification study for IT positions. Ms. Regalia noted that this study was originally expected to conclude in early Summer 2016, but that the study is still in progress without an anticipated end date. Ms. Regalia reported that County departments continue to recruit for the Senior IT Analyst position and that County officials confirmed that there would be no objection to SCERS proceeding to fill the Senior IT Analyst position. Ms. Regalia stated that with the advancement of the IT Modernization Program and multiple vendors soon to be working onsite, the need to develop SCERS' IT Staff is urgent. Discussion followed.

Ms. Regalia stated that the Board had previously approved the reclassification of a vacant Senior Account Clerk position to an Accountant position. Ms. Regalia further stated that with the growing complexity of SCERS' investment accounting and related clerical tasks, Staff realized that the Senior Account Clerk position was still needed in addition to the Accountant position.

Chief Benefits Officer John Gobel presented the proposed changes to the Benefits Staff structure. Mr. Gobel stated that as demographic trends raise individual workloads, particularly during peak periods, adding another service team requires the addition of a third Retirement Services Analyst. Mr. Gobel further stated that with increasing direct reports, ongoing technical demands, and the need to develop a more sustainable operating environment, the need for a second Retirement Services Manager has become apparent. Discussion followed.

Motion by Mr. Diepenbrock to receive and file the presentation regarding proposed modifications and additions to SCERS' staff structure; Second by Mr. DeVore. Motion carried (8-0).

INVESTMENT MATTERS:

17. Chief Investment Officer Steve Davis introduced the presentation of the proposed structure of the revised Master Investment Policy Statement (Master IPS).

Mr. Davis reviewed an outline of SCERS' Master IPS and the IPSs for the individual asset classes. Mr. Davis discussed the purpose of the Master IPS, noting that it is formal documentation of the Board's views on key investment policies and procedures. Mr. Davis also stated that the Master IPS is intended to be more principles based while the asset class IPSs are more rules based. Mr. Davis noted that the Master IPS includes details on SCERS' established authority and governance. Mr. Davis then provided examples of the investment philosophies that could be included in the Master IPS.

Margaret Jadallah of Verus Advisory then reviewed the investment objectives that would be outlined in the Master IPS, noting that the objectives align closely with the philosophies. Ms. Jadallah also discussed how investment strategy and risk management would be incorporated into the Master IPS. Finally, Ms. Jadallah reviewed the inclusion of portfolio monitoring in the Master IPS.

Mr. Davis concluded the presentation by noting the next steps including returning with a recommended Master IPS at a future Board Meeting.

Motion by Mr. DeVore to receive and file the presentation of the proposed structure of the revised Master IPS; Second by Ms. O'Neil. Motion carried (7-0).

18. Deputy Chief Investment Officer Steve Davis introduced the annual report on the private equity asset class.

Mr. Davis reviewed the strategic changes to the private equity asset class that were driven by the recent asset allocation study. Mr. Davis stated that SCERS would be creating a new asset class for private credit, which would result in a small number of current investments moving from private equity to private credit. Mr. Davis noted that the private equity target allocation was reduced from 10% to 9%.

Mr. Davis then discussed that changes to the private equity IPS that are being recommended including changes to the benchmarks, increasing the maximum range for "U.S. Other" strategy from 5% to 15%, and clarifying some language in the IPS.

Jamie Feidler of Cliffwater, LLC provided an overview of the structure of the private equity portfolio, describing the investment objective, the target allocation, and the strategy diversification guidelines of the private equity portfolio.

Mr. Feidler noted that SCERS' existing portfolio is diversified by strategy and geography. Mr. Feidler stated that the current private equity allocation (6.8% of SCERS' total portfolio) is still ramping up to its 9% target allocation, which is expected to be reached by 2019. Mr. Feidler noted that new commitments are intended to complement the existing investments and maintain long-term diversification.

Mr. Feidler reported that SCERS' private equity commitment activity since March 2016 has included new commitments to existing relationships, including Atalaya SOF VI, Thoma Bravo Fund XII, Marlin Heritage Europe, Dyal III, Marlin Heritage II, and Marlin Equity V. Mr. Feidler reported that commitments to new relationships included Athyrium Opportunities II and TSG 7. Mr. Feidler noted that SCERS continues to target hard to access, top-tier general partners to complement its existing private equity investments, noting that many of these new funds were significantly oversubscribed and/or only offered to select investors.

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Mr. Feidler reviewed the recommended 2017 private equity annual investment plan, which targets a \$220 million commitment level over 6 funds. Mr. Feidler noted that this target is generated from a proposed commitment range of \$170-\$270 million between 5-9 funds.

Motion by Mr. Matré to receive and file the presentation of the annual report on the private equity asset class, to approve the proposed private equity annual investment plan for 2017, and to approve the proposed modifications to the private equity IPS; Second by Mr. Baird. Motion carried (7-0).

The meeting was adjourned at 1:45 p.m.

MEMBERS PRESENT: Rick Fowler, Keith DeVore, Steven L. Baird, James A. Diepenbrock (departed at 12:40 p.m.), Ben Lamera, Alan Matré, Kathy O'Neil, Chris Pittman, and John Conneally, and Martha J. Hoover

MEMBERS ABSENT: John B. Kelly

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; Doug Johnson, Ralph Andersen & Associates; John Reed, Deputy County Counsel; Steven Welty, Mastagni Holstedt; Jessica Enes; Raquel Howard; and Kevin Isawa

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, 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.