

STRATEGIC MANAGEMENT PLAN

FISCAL YEAR 2018-2019



SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Introduction

Since its creation in 1941 as a defined benefit retirement system under the County Employees Retirement Law of 1937 (1937 Act), the Sacramento County Employees' Retirement System (SCERS) has been committed to the highest level of professionalism in meeting its duties and responsibilities to SCERS' members, retirees and beneficiaries, participating employers, and other stakeholders. As those duties have increased in breadth and complexity over time, SCERS has continued to evolve to assure that we are properly positioned to and continually focused on meeting our fiduciary responsibilities with respect to the management of the retirement system.

The administration of the pension plan is overseen by the nine-member SCERS Board of Retirement (Board).

As detailed in the materials that follow, SCERS' Strategic Management Plan for the 2018-2019 fiscal year is the next iteration in SCERS' evolution, intended to sustain and build upon the success SCERS has achieved by strengthening our foundation for the future.

The SCERS executive team and key managers used the following sources to develop the Strategic Management Plan for Fiscal Year 2018-2019:

- The SCERS Strategic Plan 2014-2018, which provides the foundational mission, core values, goals, and objectives from which the annual plan is derived.
- Discussions between Board members and the new Chief Executive Officer as part of the hiring process.
- The Annual Investment Plan approved by the Board in January 2018.
- The SCERS Administrative Budget for FY 2018-2019, which contains a list of planned accomplishments to be funded for the year.

Additionally, each SCERS executive officer is charged with developing specific measurable actions to be undertaken during the year to accomplish the plan objectives. (See Appendix A for assignment of executives to objectives.)

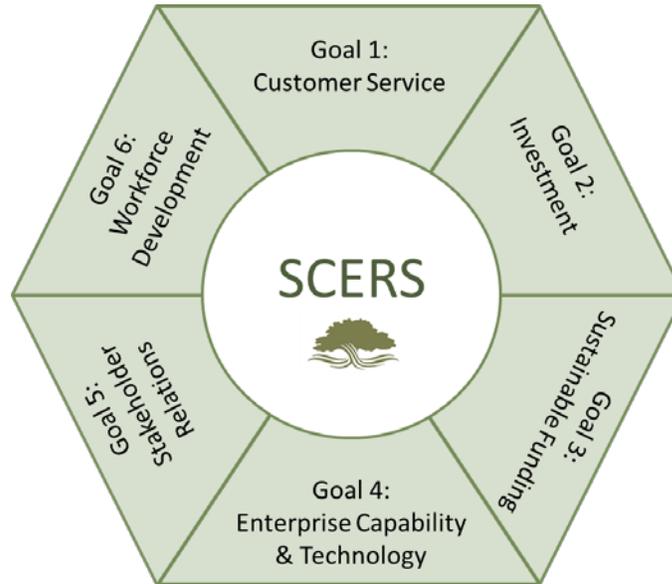
The overarching principles and the focus for this Strategic Management Plan build on our Mission Statement and Core Values, so that we can apply them to the work we undertake every day to make SCERS successful.

Mission Statement

"We are dedicated to providing the highest level of retirement services and managing system resources in an effective and prudent manner."

Fundamental Premises

Consistent with our Mission Statement and Core Values, the SCERS executive team offers this Strategic Management Plan to help guide us toward an even stronger future. Initiatives and Activities articulated in our Strategic Management Plan are organized around six fundamental areas of SCERS' operation as illustrated below:



The remaining sections of this plan provide more details on the Objectives and Actions within each Goal. For each action, the fiscal quarter in which it is scheduled for completion is in parenthesis at the end of the item description.

Goal One: Customer Service

Enhance the services provided to all SCERS' customers to improve efficiency, effectiveness, and accountability.

Objectives & Actions

1.1 Deploy additional resources to retirement administration and processing.

- 1.1.1 Resume and require weekly workflow meetings for all retirement servicing teams. (Q1)
- 1.1.2 Expand and refine benefits team training. (Q1)
- 1.1.3 Recruit 4 retirement benefits staff members to fill vacancies. (Q2)
- 1.1.4 Improve delivery of information to members who call-in or walk-in and reduce reliance on staff engaged in retirement calculations and processing. (Q2)

1.2 Compare performance to peers via CEM benchmarking service.

- 1.2.1 Improve accuracy of CEM input data to establish solid baseline for future trend analysis. (Q2)

1.3 Expand customer surveys to cover core processes.

- 1.3.1 Develop surveying approach. (Q1)
- 1.3.2 Implement surveying upon acceptance of Application for Service Retirement. (Q2)

1.4 Plan and implement incoming document scanning.

- 1.4.1 Review and revise processes and staff roles for archival of essential retirement documents. (Q2)
- 1.4.2 Design processes and implement indexing changes by 2018 calendar year end. (Q2)
- 1.4.3 Assign and train intake staff by FY end. (Q4)

1.5 Measure and report customer service performance.

- 1.5.1 Begin quarterly customer service performance reporting with October 2018 Board meeting. (Q2)
- 1.5.2 Improve performance results each quarter. (Q2) (Q3) (Q4)

1.6 Streamline retirement activity and introduce service checkpoints to decrease average processing times.

- 1.6.1 Establish objective criteria to identify unusually difficult or labor-intensive calculations upon receipt of application and conduct pre-assignment/re-assignment meetings with staff. (Q2)
- 1.6.2 Develop "pre-calculation" expectations for applications filed well ahead of requested effective date and create checklist of 15-day and 30-day deliverables to assist supervisory staff. (Q2)

- 1.6.3 Review/revise practices for contribution audits and thresholds for recovering and/or distributing member contributions ahead of initial pension payment. (Q1)
- 1.6.4 Improve checking queue and reduce overlap by clarifying separate expectations for initial review by lead worker and final review by supervisor. (Q2)
- 1.6.5 Establish clear and consistent timeframes for payment of estimated retirement. (Q1)

Goal Two: Investment

Maintain an investment program that targets performance that exceeds SCERS' portfolio benchmark over time and which mitigates and carefully manages investment risks, including market volatility.

Note: The SCERS 2018 Annual Investment Plan (at www.scers.org) contains the detailed investment strategy for the 2018 calendar year. (The Investment Plan is developed on a calendar-year basis while other areas of the Strategic Management Plan are on a fiscal-year basis.)

The following table shows the 2018 target asset allocations vs. actual, end-of-2017 allocations:

Asset Category/Asset Class	Actual Allocation	Target Allocation	Variance
Growth	63.2%	59.0%	4.2%
Domestic Equity	24.5	21.0	3.5
International Equity	24.9	20.0	4.9
Private Equity	7.1	9.0	(1.9)
Public Credit	1.9	2.0	(0.1)
Private Credit	0.6	4.0	(3.4)
Growth Absolute Return	4.2	3.0	1.2
Diversifying	19.5	25.0	(5.5)
Core/Core Plus Fixed Income	12.6	10.0	2.6
US Treasury	0.0	5.0	(5.0)
Global Fixed Income	2.5	3.0	(0.5)
Diversifying Absolute Return	4.4	7.0	(2.6)
Real Return	12.7	16.0	(3.3)
Real Estate	8.6	7.0	1.6
Real Assets	3.8	7.0	(3.2)
Commodities	0.3	2.0	(1.7)
Opportunities	0.1	0.0	0.1
Overlay Program	3.4	0.0	3.4
Cash	1.1	0.0	1.1
	100.0%	100.0%	

Objectives & Actions

2.1 Continue transition to new asset allocation model.

2.1.1 Complete implementation of new asset class structure. (Q2)

2.2 Manage the Domestic Equity investment portfolio.

2.2.1 Implement the new Domestic Equity asset class structure. (Q1)

2.2.2 Finalize a manager search for a systematic factor-based strategy and other manager searches, as needed. (Q1)

2.3 Manage the International Equity investment portfolio.

2.3.1 Conduct manager searches, as needed. (Q2)

2.4 Manage the Fixed Income investment portfolio.

2.4.1 Rebalance SCERS' Fixed Income managers that are underweight to their physical allocations. (Q2)

2.5 Manage the Absolute Return investment portfolio.

- 2.5.1 Reduce Growth Oriented portfolio to target allocation of 3% of total assets. (Q2)
- 2.5.2 Increase Diversifying portfolio to target allocation of 7% of total assets
- 2.5.3 Target two direct investments within the Diversifying Strategies segment (with a range of 1 to 3 funds); target an average investment size of \$45 million (with a range between \$35 million and \$75 million). (Q2)

2.6 Manage the Private Equity investment portfolio.

- 2.6.1 Commit \$250 million for 2018 with a range of \$150 million to \$300 million. (Q2)
- 2.6.2 Expect to make 6 fund commitments with an average size of \$45 million each and a range of \$10 million to \$100 million. (Q2)

2.7 Manage the Private Credit investment portfolio.

- 2.7.1 Commit \$220 million for 2018 with a range of \$150 million to \$290 million. (Q2)
- 2.7.2 Expect to make 4 fund commitments with an average size of \$60 million each and a range of \$25 million to \$100 million. (Q2)

2.8 Manage the Real Assets investment portfolio.

- 2.8.1 Commit \$220 million for 2018 with a range of \$150 million to \$290 million. (Q2)
- 2.8.2 Expect to make 6 fund commitments with an average size of \$40 million each and a range of \$20 million to \$100 million. (Q2)

2.9 Manage the Real Estate investment portfolio.

- 2.9.1 Commit \$70 million for 2018 with a range of \$35 million to \$105 million. (Q2)
- 2.9.2 Expect to make 2 fund commitments with an average size of \$35 million each and a range of \$20 million to \$50 million. (Q2)

2.10 Manage the Opportunities investment portfolio.

- 2.10.1 Continue to identify and evaluate tactical opportunities in unique/differentiated investment strategies offering an attractive risk-return prospect. (Q2)

Goal Three: Sustainable Funding

Maintain prudent and effective funding policies and practices that assist in producing low contribution rate volatility and plan sustainability.

Objectives & Actions

3.1 Research and assess SCERS' liquidity and cash management needs.

3.1.1 Produce a cash management policy. (Q3)

3.2 "Stress Test" contribution rate and cash flow impacts of investment returns.

3.2.1 Work with Segal actuaries to produce a funding "risk assessment" report. (Q3)

3.3 Protect fund assets.

3.3.1 Develop policy and procedure to adjudicate felony forfeiture cases. (Q2)

3.3.2 Obtain fully executed agreement with Sac Metro Fire re: Florin Fire liabilities. (Q1)

Goal Four: Enterprise Capability and Technology

Maintain and enhance enterprise cross-functional capabilities. Continuously refresh SCERS technology platforms to improve performance, productivity, and efficiency.

Objectives & Actions

4.1 Manage PAS implementation on time and on budget.

- 4.1.1 Complete Ariel Fit-Gap. (Q2)
- 4.1.2 Finalize phased implementation plans and contract re-alignment. (Q3)
- 4.1.3 Complete data extraction from DTech/Courts. (Q1)
- 4.1.4 Finalize FileNet conversion approach. (Q2)

4.2 Select, implement, and integrate an investment accounting system.

- 4.2.1 Develop and issue RFP. (Q2)
- 4.2.2 Complete vendor selection, contracting and start work. (Q4)

4.3 Deploy/enhance the new mobile-capable website.

- 4.3.1 Beta test and deploy replacement website. (Q1)
- 4.3.2 Add secure staff portal to website. (Q2)
- 4.3.3 Enhance secure Board portal. (Q3)

4.4 Continue transition to process ownership

- 4.4.1 Finalize key process inventory and assign owners. (Q1)
- 4.4.2 Define process owner responsibilities and train owners. (Q2)
- 4.4.3 Oversee process ownership adoption and provide additional training as needed during the year. (Q4)

4.5 Strengthen SCERS' Disaster Recovery/Business Continuity Capabilities

- 4.5.1 Review and update existing DR/BC plan. (Q1)
- 4.5.2 Evaluate feasibility of communicating DR/BC plan on new website. (Q2)
- 4.5.3 Train SCERS managers and staff on DR/BC plan. (Q4)

Goal Five: Stakeholder Relations

Maintain transparent communications among stakeholders and promote understanding of roles and responsibilities.

Objectives & Actions

5.1 Demonstrate fiscal responsibility and stewardship.

- 5.1.1 Begin development of budget for Fiscal Year 2019-2020 in January 2019. (Q3)
- 5.1.2 Re-baseline budget items to align budget to actual spending. (Q4)
- 5.1.3 Complete contract management review. (Q1)
- 5.1.4 Expand existing expenditure reports to Board of Retirement. (Q1)

5.2 Improve employer engagement.

- 5.2.1 Host employer seminar. (Q2)
- 5.2.2 Assist employers with implementation of membership eligibility policy. (Q2)

5.3 Improve member engagement.

- 5.3.1 Begin semi-annual newsletter. (Q2) (Q4)

Goal Six: Workforce Development

Maintain a high-performance organization structure and workforce.

Objectives & Actions

6.1 Establish a human resources team.

- 6.1.1 Allocate a senior HR position. (Q1)
- 6.1.2 Hire a Sr. Personnel Analyst. (Q2)

6.2 Enhance the investment organization.

- 6.2.1 Create a Sr. Investment Officer job classification. (Q2)
- 6.2.2 Hire a Deputy Chief Investment Officer. (Q2)

6.3 Enhance the accounting organization.

- 6.3.1 Add an additional Senior Accountant position. (Q1)
- 6.3.2 Hire a new Sr. Accounting Manager. (Q2)

Appendix A: Responsibility Matrix

Goal	Objective	Description	Responsibility					
			CEO	CIO	COO	CBO	GC	CSO
1	Customer Service							
	1.1	Deploy additional resources to retirement administration and processing.		S	S	P		
	1.2	Compare performance to peers via CEM benchmarking service.			S	P		S
	1.3	Expand customer surveys to cover core processes.				P		
	1.4	Plan and implement incoming document scanning.			S	P		S
	1.5	Measure and report customer service performance.			S	P		S
	1.6	Streamline retirement activity and introduce service checkpoints to decrease	S			P		S
2	Investments							
	2.1	Align investment portfolio to strategic asset allocation.		P				
	2.2	Manage Domestic Equity Investments.		P				
	2.3	Manage International Equity Investments.		P				
	2.4	Manage Fixed Income Investments.		P				
	2.5	Manage Absolute Return Investments.		P				
	2.6	Manage Private Equity Investments.		P				
	2.7	Manage Private Credit Investments.		P				
	2.8	Manage Real Assets Investments.		P				
	2.9	Manage Real Estate Investments.		P				
	2.10	Manage Opportunities Investments.		P				
3	Sustainable Funding							
	3.1	Research and assess SCERS' liquidity and cash management needs.		P	S			
	3.2	"Stress Test" contribution rate and cash flow impacts of investment returns.	S		P			
	3.3	Protect fund assets.	P				S	
4	Enterprise Capability and Technology							
	4.1	Manage PAS implementation on time and on budget.			S	S		P
	4.2	Select, implement, and integrate an investment accounting system.		S	P			S
	4.3	Deploy/enhance the new mobile-capable website.			P			S
	4.4	Continue transition to process ownership			S	S		P
	4.5	Strengthen SCERS' Disaster Recovery/Business Continuity Capabilities		S	S	S	S	P
5	Stakeholder Relations							
	5.1	Demonstrate fiscal responsibility and stewardship.	P		S			
	5.2	Improve employer engagement.	P		S	S		
	5.3	Improve member engagement.	P		S	S		
6	Workforce Development							
	6.1	Establish a human resources team.			P			
	6.2	Enhance the investment organization.		P	S			
	6.3	Enhance the accounting organization.			P			

The following table designates the Primary (P) and Secondary (S) executive ownership for the strategic objective

