



Executive Staff:

Richard Stensrud
Chief Executive Officer

Scott Chan
Chief Investment Officer

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

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

Nancy Wolford-Landers
Elected by the Retired Members

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, WEDNESDAY, AUGUST 21, 2013

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, August 21, 2013, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud noted that Item 19 on the agenda was being deferred to the September Board Meeting.

MINUTES:

2. The Minutes of the July 17, 2013 regular meeting were approved on Motion by Mr. DeBord; Seconded by Ms. O'Neil. Motion carried (9-0).

CONSENT MATTERS:

Items 3-16

The Consent matters were acted upon as one unit upon a Motion by Mr. Kelly; Seconded by Ms. O'Neil. Motion carried (9-0).

3. ARMSTRONG, Holly: Granted a reciprocal nonservice-connected disability retirement.

CONSENT MATTERS (continued):

4. ASANO, Tony H.: Denied a service-connected disability retirement.
5. HOLDEN, Sybil M.: Granted a service-connected disability retirement.
6. JOHNSON, Larry D.: Denied a service-connected disability retirement.
7. MARTEN, Carla M.: Denied a service-connected disability retirement.
8. SCHWERDTFEGER, Mark A.: Denied a service-connected disability retirement.
9. Approved the proposed amendment to the contract amount for the engagement with Nossaman LLP to provide disability retirement-related legal services.
10. Approved the final reconciliation of employer contributions for Sacramento County and for the Superior Court of California, County of Sacramento, for fiscal year 2012-2013.
11. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended June 30, 2013.
12. Received and filed the Semi-Annual Administrative Expense Report for the six months ended June 30, 2013.
13. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended June 30, 2013.
14. Received and filed the Trading Cost Report for the Quarter Ended June 30, 2013.
15. Approved the proposed resolution authorizing the Board President or the CEO to execute documents related to investments in SCERS' opportunities asset class.
16. Received and filed the July 2013 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

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

Mr. Stensrud noted that the California Association of Public Retirement Systems (CALAPRS) would be holding a trustee roundtable on Friday, September 13. Mr. Stensrud noted that those interested in attending should contact Staff for assistance.

Mr. Stensrud reminded the Board that the November Board Meeting was scheduled for Wednesday, November 6, so as to not interfere with the State Association of County Retirement Systems (SACRS) Fall Conference, which takes place November 12-15.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that on Monday, August 12, SCERS conducted a retirement planning seminar for those members who were late in their careers. Mr. Stensrud stated that the seminar was once again completely full. Mr. Stensrud noted that since 2009, 2,575 members have participated in these advanced retirement planning seminars.

Mr. Stensrud stated that the nomination period had closed for the upcoming election for positions on the SCERS Board. Mr. Stensrud noted that the election would be taking place from September 16 through September 27. Mr. Stensrud stated that there were three candidates for the Miscellaneous Member position, including incumbent Diana Gin. Mr. Stensrud noted that incumbent Nancy Wolford-Landers had chosen not to run again for the lead Retiree position and that current Alternate Retiree Board Member Michael DeBord would be running for the lead retiree position along with one other candidate. Mr. Stensrud reported that there were two candidates for the Alternate Retiree position.

Mr. Stensrud reported that SB13, the state legislation bill to clarify sections of the CalPEPRA bill, was still being negotiated. Mr. Stensrud stated that one of the issues being negotiated was determining what counts as retirement eligible compensation under the new CalPEPRA tiers. Mr. Stensrud reminded the Board that SCERS has taken the approach that only base pay should be considered.

Mr. Stensrud reported that, as required under CalPEPRA, Staff has been reviewing final compensation of members applying for retirement benefits to ensure that pension spiking was not occurring. Mr. Stensrud stated that so far, no retirement applications had been found to include pension spiking.

Mr. Stensrud reported that SCERS is working with the Sacramento County Retired Employees' Association (SCREA) on an insurance offering that SCREA wants to implement for their members, beginning with the enrollment season in late 2013. Mr. Stensrud noted that the offering would not be for health care, but for a small package of other insurance products. Mr. Stensrud stated that SCERS was working with SCREA to get the necessary programming in place and to develop a memorandum of understanding (MOU) for implementation that would allow SCREA members the option to purchase these insurance products through a deduction from their monthly retirement benefit.

At the request of Mr. DeVore, Mr. Stensrud provided an update on the issues regarding federal transit funding as a result of the adoption of CalPEPRA. Mr. Stensrud explained the issues and reported that negotiations have been ongoing for several months between the federal government and the state government regarding the appropriate interpretation and ultimate reconciliation of CalPEPRA with the federal labor laws. Mr. Stensrud stated that legislation has been introduced which would in essence exempt employees in transit agencies from the new CalPEPRA provisions, while the issue is being resolved in the courts.

ADMINISTRATIVE MATTERS (continued):

18. Chief Operations Officer Kathy Regalia presented the proposed final SCERS budget for the 2013-2014 fiscal year. Ms. Regalia indicated that there were no changes from the preliminary budget request that the Board approved at the June meeting.

Motion by Mr. DeVore to accept the proposed final SCERS budget for the 2013-2014 fiscal year; Seconded by Mr. Kelly. Motion carried (9-0).

19. The request by the Sacramento Metropolitan Fire District (SMFD) to permit deduction of the retiree portion of the health care premiums associated with the retiree's participation in the SMFD retiree health care plan from the monthly SCERS benefit payment to the retiree was deferred to the September Board Meeting.

20. Chief Benefits Officer John Gobel presented the annual report on the processing of applications for disability retirement benefits.

Mr. Gobel reported that for the fiscal year ended June 30, 2013, 41 applications for disability retirement had been concluded, consisting of 23 staff recommendations for approval; 0 proposed referee decisions for approval; 13 proposed referee decisions for denial; and 5 withdrawn applications. Mr. Gobel noted that these numbers represented a decrease in quantity from the fiscal year ended June 30, 2012, but that they are more in line with previous years, and with the historical mean.

Mr. Gobel explained that some applicants are referred to hearing not because of gaps in the record or legitimate disputes regarding disability retirement standards, but because the Board cannot deny the application without the formality of a proposed decision from a hearing officer. Mr. Gobel noted that, as illustrated by many of the proposed decisions submitted during the fiscal year, applicants regularly decline to supplement the record compiled on their behalf and often fail to present witnesses at hearing. Mr. Gobel stated that, even if an applicant recovers from the claimed condition and returns to work without restriction, Staff cannot dismiss or deny the application without the time and expense of a hearing, including the costs required for administrative law judges, court reporters, and disability retirement counsel for SCERS.

Mr. Gobel stated that as part of the ongoing effort to increase the efficiency of SCERS' disability process, improve the allocation of staff resources, and reduce the waiting period currently required for benefit determinations, Staff will be developing and recommending a process for generating a staff recommendation that a disability retirement application be denied by the Board without having to conduct a hearing. Mr. Gobel noted that an applicant would still have the right to request a hearing before a hearing officer, but would likely reduce the number of such hearings. Mr. Gobel further noted that this will result in lower costs and faster resolution of cases, and it will also allow resources to be focused on applications that have genuine merit.

ADMINISTRATIVE MATTERS (continued):

Mr. Gobel stated that he will confer with the Chief Executive Officer, the Interim General Counsel and, ultimately, the Disability Review Committee to establish a process that continues to rely on medical evidence submitted by and obtained from each applicant. Mr. Gobel noted that the key goals will include preserving evidentiary standards and ensuring that Staff, applicants, and Board Members maintain the option (but not the requirement) of referring disputed applications or claims to hearing before independent referees. Mr. Gobel stated that he expects to present the Board with options and recommendations in the fall of this year.

Discussion followed.

Motion by Mr. DeBord to receive and file the annual report on the processing of applications for disability retirement benefits; Seconded by Ms. Valverde. Motion carried (9-0).

INVESTMENT MATTERS:

21. Pete Keliuotis of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended June 30, 2013.

Mr. Keliuotis reported that the Total Fund (TF) return for the first quarter, including the impact of the overlay program, was 0.0% gross of fees. The TF return was 1.0% below the policy index benchmark return of 1.0% and 1.0% below the allocation index return of 1.0%. The overlay program had a positive impact of 0.3% during the quarter.

Mr. Keliuotis reported that on a comparative basis, the return for the quarter was 0.1% above the Public Funds \$1+ Billion Median return of -0.1%. Mr. Keliuotis noted that among the major asset classes, domestic equity, hedge fund, private equity, and opportunistic experienced positive returns for the quarter. International equity, fixed income, and real assets generated negative returns for the quarter.

Mr. Keliuotis reported that at the asset class level, quarter outperformance occurred, gross of fees, in the domestic equity, international equity, hedge fund, and opportunistic segments. Underperformance occurred in the fixed income, private equity, and real assets segments.

Mr. Keliuotis reported that, for the fiscal year ending June 30, 2013, the TF return gross of fees, including the impact of the overlay program was 13.2%, which was 2.3% above the return of the policy index of 10.9% and 0.3% below the allocation index return of 13.5%. The TF fiscal year return was 1.2% above the Public Funds \$1+ Billion Median return of 12.0%, and ranks in the 30th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

INVESTMENT MATTERS (continued):

Mr. Keliuotis reported that at the asset class level, fiscal year outperformance versus the policy benchmark occurred, gross of fees, in domestic equity, international equity, fixed income, hedge fund, and opportunistic segments of the portfolio. Fiscal year underperformance versus the policy benchmark occurred, gross of fees, in the private equity and real assets segments of the portfolio.

Mr. Keliuotis reported that the annualized TF return gross of fees for three years of 11.9% is even with the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 4.3% is 0.3% below the policy index benchmark for the period. The TF gross of fees return of 8.4% since the inception of SIS' data in June of 1986 is 0.3% below the Total Benchmark return of 8.7% for the period.

Motion by Ms. O'Neil to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Mr. DeBord. Motion carried (9-0)

22. Chief Investment Officer Scott Chan introduced the educational presentation by Strategic Investment Solutions (SIS) and SCERS Investment Staff on considerations in establishing an opportunistic credit mandate within SCERS' fixed income asset class.

Mr. Chan provided a background on SCERS' fixed income portfolio, noting that the primary roles of the portfolio are capital preservation, income generation, and diversification. Mr. Chan stated that SCERS' fixed income portfolio has historically achieved its goals, but that this would become increasingly difficult with expected changes to the market environment. Mr. Chan noted that the Board had previously approved an allocation to a strategic credit segment within the fixed income portfolio and the presentation would go into more detail on how that allocation would be structured.

Deputy Chief Investment Officer Steve Davis reviewed the evolution of traditional fixed income, from core to core plus to tactical credit to strategic credit. Mr. Davis then presented the rationale for a strategic credit allocation, including increasing expected returns of the fixed income portfolio, accessing the full breadth of the credit markets, and providing greater credit expertise and investment flexibility.

Mr. Davis reviewed the criteria Staff and SIS used for evaluating approaches for this mandate, including credit expertise, risk, returns, and finally structure and terms. Mr. Davis also reviewed three of the investment approaches for a strategic credit mandate: Traditional core/core plus; tactical credit; and a credit long/short hedge fund. Mr. Davis discussed the pros and cons for each approach. Mr. Chan discussed the fourth approach for a strategic credit mandate, and why it is the approach preferred by Staff and SIS.

Steve Masarik of SIS discussed the considerations in successfully navigating the credit cycle through portfolio construction. Mr. Masarik also reviewed hedge/short capabilities and how they can add value. Mr. Masarik noted that there is a broad range of instruments

INVESTMENT MATTERS (continued):

that may be utilized depending on the overall market conditions. Mr. Masarik also reviewed the bond sector performance during the first half of 2013, noting that Staff and SIS believe that a strategic credit mandate would have been the best approach in that environment. Finally, Mr. Masarik reviewed a sample composition of a strategic credit portfolio.

Pete Keliuotis of SIS reviewed potential challenges with the opportunistic credit mandate, including the complexity of the mandate which will require greater time and attention from SCERS' staff and consultants; the potential for the mandate to be more volatile than existing bond accounts; the fact that credit risk tends to be more correlated with equity risk than other bond market risk factors; and that manager selection will be critical. Mr. Keliuotis also reviewed the types of potential investment structures, including an existing comingled fund; a separate account; and a "fund of one," which is somewhat of a hybrid between the other two structures. Mr. Keliuotis stated that the preferred structure among Staff and SIS is a "fund of one" since it allows SCERS to customize guidelines and retain a high degree of control; it has less logistical issues than with a separate account, but is slightly more costly; and it allows an investment manager to co-invest along with SCERS.

Discussion followed.

Motion by Mr. Fowler to receive and file the educational presentation on considerations in establishing an opportunistic credit mandate within SCERS' fixed income asset class; Seconded by Ms. O'Neil. Motion carried (9-0).

23. Chief Investment Officer Scott Chan introduced Nina Labatt and Fred Wang of Trinity Ventures who provided an educational presentation on the private equity strategy utilized by Trinity Ventures in managing the Trinity Ventures XI, LP fund.

Mr. Wang reviewed the history of Trinity Ventures and detailed some of the companies in which they were early investors. Mr. Wang discussed the strategy that Trinity Ventures uses. Mr. Wang stated that Trinity Ventures makes a concerted effort to establish meaningful relationships with select entrepreneurs six months before the first institutional funding. Mr. Wang discussed the IT market trends that Trinity Ventures is focusing on, including e-commerce, digital media, software-as-a-service (SaaS), and infrastructure.

Mr. Wang reviewed venture market trends, including: (1) There has been an explosion of angel and seed financing; (2) Entrepreneurs are now younger and less experienced; (3) Many successful early-stage venture capital firms have gone into an expansion model, leaving a gap for traditional early-stage investing; and (4) Initial public offering and mergers and acquisitions markets are supporting strong venture returns again.

Mr. Wang concluded by stating that Trinity Ventures sticks to its early stage, small fund roots. Mr. Wang stated that Trinity Ventures is looking to aggressively exploit trends, but that it continues to follow its proven formula.

INVESTMENT MATTERS (continued):

Discussion followed.

The meeting was adjourned at 1:05 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, Keith DeVore, Richard B. Fowler II, Kathy O'Neil, Chris A. Pittman, Julie Valverde, John Conneally, and Michael DeBord.

MEMBERS ABSENT: Diana Gin and Nancy Wolford-Landers

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; 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, Accounting Manager; John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Pete Keliuotis and Steve Masarik, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Nina Labatt and Fred Wang, Trinity Ventures; 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.