



Executive Staff:

Annette St. Urbain
Interim 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

Stephen Hawley
Chief Strategy Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, SEPTEMBER 20, 2017
10:00 A.M.

Location: SCERS Board Room
980 9th Street, 19th Floor
Sacramento, California 95814

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

OPEN SESSION

- Item 1.** Call to Order - The meeting was convened at 10:50 a.m.
- Item 2.** Public Comment - None
- Item 3.** The Board unanimously approved the Minutes of the August 16, 2017 Regular Meeting, August 29 & 30, 2017 Special Meeting, September 5, 2017 Special Meeting and the September 6, 2017 Special Meeting (8-0).

CONSENT MATTERS- ITEMS 4-8:

Item 4E was removed for discussion in a closed session.

The Board unanimously approved the Consent Matters Items 4A, 4B, 4C, 4D and 5-8 (8-0).

Item 4. Disability Retirement Applications

- A. MILLER, Kara V.: Accepted the proposed decision of the Administrative Law Judge and denied a service-connected disability retirement.
- B. MORENO-MADRID, Marcie D.: Granted a nonservice-connected disability retirement as recommended by staff.
- C. REED, Lyle A.: Granted a nonservice-connected disability retirement as recommended by staff.
- D. THOMAS, Kathryn A.: Granted a nonservice-connected disability retirement as recommended by staff.
- F. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

Item 5. Placement Agent Disclosure Report – Second Quarter 2017

Item 6. Travel Reimbursement for Participation at Global Absolute Return Congress (October 23-25, 2017 in Boston, Massachusetts)

Item 7. Monthly Report of New Investment Activity- August 2017

Item 8. Monthly Investment Manager Activity, Compliance and Watch List Report- August 2017

CLOSED SESSION

The Chair convened a closed session at 10:52 a.m.to discuss Item 4E. Upon adjournment of closed session at 11:04 a.m., action on this item was taken in open session.

OPEN SESSION

Item 4. Disability Retirement Applications

- E. VAN BRUNT, David M.; **The Board granted a service-connected disability retirement as recommended by staff and the Independent Medical Examiner (7-1, Baird opposed).**

INVESTMENT MATTERS:

Item 9. Proposed Revisions to Absolute Return Portfolio

Chief Investment Officer, Steve Davis, and Jamie Feidler of Cliffwater LLC provided a brief review of the changes that occurred as the result of the recently revised strategic asset allocation and gave an overview of the proposed changes to the Absolute Return Portfolio. The proposed revisions revolve around separating the

Absolute Return Portfolio into two sub-categories: Growth Oriented Strategies and Diversifying Strategies.

The new Absolute Return Sub-Category Parameters were presented as follows:

	New Absolute Return Portfolio Category		Current Absolute Return Portfolio
	Growth Oriented Strategies	Diversifying Strategies	
Portfolio Objective	Equity and credit like returns over long-term with lower volatility than equities and credit markets	Positive absolute return profile over time with limited sensitivity to broad market performance	Achieve near the total fund return objective while also reducing total fund risk
Benchmark	<u>Policy:</u> HFRI FoF Composite Index + 1% <u>Long term objective:</u> T-bills + 5%	<u>Policy:</u> HFRI FoF Conservative Index <u>Long term objective:</u> T-bills + 2%	<u>Policy:</u> T-bills + 5% <u>Short term objective:</u> HFRI FoF Composite Index
Risk Target	Standard Deviation < 50% of global equities	Standard Deviation < 25% of global equities	Standard Deviation < 50% of global equities
Market Sensitivity	Target an equity beta < 0.5 Target equity correlation < 0.8	Target an equity beta < 0.1 Target equity correlation < 0.1	Target equity correlation < 0.5 Equity beta not explicitly defined
Market Exposure	Total notional gross exposure < 250% ¹	Total notional gross exposure < 750% ¹	Total portfolio leverage < 275% ²

¹ Total notional gross exposure equals the sum of gross long notional exposure plus gross short notional exposure, expressed as a percentage of total invested capital.

² Leverage is defined as the total long notional exposure plus the total short notional exposure, excluding leverage associated with risk-reducing tail risk protection strategies and the short exposure relating to relative value strategies, divided by the total portfolio capital.

Mr. Feidler presented the additional guidelines for the new portfolio categories as follows:

	New Absolute Return Portfolio Category		Current Absolute Return Portfolio
	Growth Oriented Strategies	Diversifying Strategies	
Target Allocation	3% of Total Assets	7% of Total Assets	10% of Total Assets
Allocation Range	1% to 5% of Total Assets	5% to 9% of Total Assets	N/A
Primary Strategies ¹	Credit/Distressed Event Driven Equity Long/Short	Market Neutral Global Macro Multi-Strategy	Market Neutral Credit/Distressed Event Driven Equity Long/Short Global Macro Multi-Strategy
Number of Funds	Target 5 funds with a range of 2 to 8	Target 10 funds with a range of 6 to 13	Target 22 funds with a range of 18 to 30
Non-U.S. Exposure	Expect 20% to 40% non-U.S. exposure	Expect 20% to 50% non-U.S. exposure	Expect 25% to 35% non-U.S. exposure

¹ The Primary Strategies shown reflect the types of strategies expected to be most prevalent within each of the portfolio categories. However, SCERS will categorize individual funds based upon each fund's expected characteristics, not by a fund's stated strategy. Each category could include any number of fund strategies.

Mr. Feidler and Mr. Davis concluded with a review of the next steps for the implementation of the proposed revisions as well as a review of two potential approaches for creating IPSs for the Absolute Return portfolio.

The Board unanimously approved staff's recommendations on proposed revisions to the structure of the Absolute Return portfolio. (8-0)

Item 10. Quarterly Investment Performance Report- Alternative Assets

Jamie Feidler of Cliffwater LLC presented SCERS' Alternative Assets Performance Report for the periods ending June 30, 2017, including information regarding the Absolute Return, Private Equity, Private Credit, Real Assets and Opportunities portfolios as follows:

SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY
Quarter Reporting Periods Ending June 30, 2017

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception*	Since Inception Date*
SCERS Absolute Return	0.6%	8.1%	1.9%	5.4%	4.3%	Sep-04
91 Day T-Bill + 5%	1.4%	5.5%	5.2%	5.2%	6.3%	
SCERS Private Equity	4.3%	15.1%	12.4%	12.7%	11.1%	Feb-08
Cambridge All Private Equity	4.1%	14.9%	11.5%	13.4%	11.9%	
SCERS Private Credit	3.4%	14.8%	9.5%	9.9%	9.9%	Oct-11
Credit Suisse Leveraged Loan + 2%	1.7%	11.7%	5.7%	6.9%	7.5%	
SCERS Real Assets	3.9%	25.4%	19.7%	NA	19.2%	Jan-13
CPI + 5%	2.2%	7.4%	6.1%	NA	6.1%	
SCERS Opportunities	3.5%	8.6%	9.3%	20.8%	18.7%	Jan-08
Actuarial Rate of Return	1.9%	7.5%	7.5%	7.5%	7.5%	

**Note: Periods ending 3/31/17 for Private Equity, Private Credit, Real Assets, and Opportunities
 Periods ending 6/30/17 for Absolute Return*

Mr. Feidler reported on SCERS' Absolute Return portfolio performance through June 30, 2017 as follows:

SCERS ABSOLUTE RETURN Performance Summary for the periods ending 6/30/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Absolute Return	0.6%	8.1%	1.9%	5.4%	4.3%	Sep-04
Direct Portfolio	0.5%	8.5%	3.3%	5.9%	5.9%	Jan-12
Fund-of-Funds	0.8%	8.0%	0.8%	4.9%	4.1%	Sep-04
90-Day T-Bills + 5%	1.4%	5.5%	5.2%	5.2%	6.3%	Sep-04
HFRI Fund-of-Funds Index	0.2%	5.9%	1.4%	3.8%	3.0%	Sep-04

Mr. Feidler reported on SCERS' Private Equity portfolio performance through June 30, 2017 as follows:

SCERS PRIVATE EQUITY Performance Summary for the periods ending 3/31/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Private Equity	4.3%	15.1%	12.4%	12.7%	11.1%	Feb-08
Cambridge All Private Equity	4.1%	14.9%	11.5%	13.4%	11.9%	

Mr. Feidler reported on SCERS' Private Credit portfolio performance through June 30, 2017 as follows:

SCERS PRIVATE CREDIT Performance Summary for the periods ending 3/31/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Private Credit	3.4%	14.8%	9.5%	9.9%	9.9%	Oct-11
Credit Suisse Leveraged Loan + 2%	1.7%	11.7%	5.7%	6.9%	7.5%	

Mr. Feidler reported on SCERS' Real Assets portfolio performance through June 30, 2017 as follows:

SCERS REAL ASSETS Performance Summary for the periods ending 3/31/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Real Assets	3.9%	25.4%	19.7%	NA	19.2%	Jan-13
CPI + 5%	2.2%	7.4%	6.1%	NA	6.1%	

Mr. Feidler reported on SCERS' Opportunities portfolio performance through June 30, 2017 as follows:

SCERS OPPORTUNITIES Performance Summary for the periods ending 3/31/17	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Opportunities	3.5%	8.6%	9.3%	20.8%	18.7%	Jan-08
Actuarial Rate of Return	1.9%	7.5%	7.5%	7.5%	7.5%	

Item 11. Quarterly Investment Performance Report Estate- Second Quarter 2017

Jennifer Stevens and Robert Miranda of the Townsend began by advising the Board of an organizational change. Townsend will be merging with Aon Consulting, Inc. Townsend presented SCERS’ Real Estate Portfolio Performance Report for the periods ending June 30, 2017 as follows:

**SCERS REAL ESTATE PERFORMANCE SUMMARY
As of June 30, 2017**

Sub-Asset Class	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Real Estate Portfolio	3.7%	10.6%	10.9%	11.0%	8.2%	Nov-86
(65%) NFI-ODCE + (35%) NFI-ODCE + 1%	1.6%	7.2%	10.7%	11.1%	4.6%	
Core Portfolio	2.8%	9.8%	10.2%	10.2%	6.4%	Nov-86
Separate Account	2.8%	9.5%	9.2%	9.6%	8.9%	Nov-86
Commingled Funds	2.9%	10.2%	11.7%	11.0%	6.9%	Sep-13
NFI-ODCE Index	1.5%	6.9%	10.3%	10.8%	6.3%	Jul-95
Non-Core Portfolio	6.3%	12.8%	13.2%	15.5%	5.0%	Jun-06
Value Add Portfolio	8.0%	13.3%	14.2%	13.3%	4.3%	Jun-06
Opportunistic	4.3%	12.8%	10.9%	23.8%	7.7%	May-13
NFI-ODCE + 1% Index	1.7%	7.9%	11.3%	11.8%	7.3%	Jun-06

ADMINISTRATIVE MATTERS:

Item 12. Interim Chief Executive Officer’s Report

(This item was taken up after all other Administrative Matters.)

Ms. Annette St. Urbain provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities.

PAS Vendor Selection Update—SCERS has received the best and final offers and is conducting reference checks. A recommendation is expected to be made at the October Board Meeting.

SACRS Fall Conference – Will be held November 14-17, 2017 in Burlingame at the Hyatt Regency San Francisco Airport. The agenda for the event has been posted on the SACRS website and members of the Board will be receiving an email from staff regarding their plans to attend.

Reminder that the November Board Meeting will be held on Tuesday, November 7 at 1:00 p.m. to accommodate staff and trustee attendance at the SACRS Fall Conference the following week.

Preview of Upcoming Meetings – The October Board meeting will include the results of Cheiron’s actuarial audit and most recent experience study; an update on the Private Fund Fee and Expense Disclosure requirements under new state law (AB 2833); and giving direction to SCERS’ Voting Delegate for the SACRS Business meeting on any action items. The November Board meeting will include the results of Segal’s actuarial valuation as of June 30, 2017, as well as Board education on SCERS’ agriculture investments.

Item 13. Investment Consultant Contract Amendments to Extend and Specify Contract Duration

Chief Investment Officer Steve Davis and General Counsel Robert Gaumer, presented the staff recommendation to extend the terms of contracts with SCERS’ investment consultants: Verus Advisory, Inc., Cliffwater, LLC and Townsend Holdings, LLC. Additionally, staff made the recommendation to create more specifically defined terms for SCERS’ investment consultant contracts and to establish periodic reviews of investment consultant contracts going forward.

It was noted that during staff’s project of aggregating and reviewing SCERS’ contracts, that the contracts currently in effect were previously interpreted as in place “until terminated”. Mr. Davis and Mr. Gaumer noted that best practice is to have a specified duration for consulting services, periodically review and evaluate the scope and quality of services, and consider whether to extend the existing contracts or procure future services through a competitive solicitation.

Discussion followed.

Board Member Diepenbrock left the meeting before Board action on this item, and did not return prior to adjournment.

The Board unanimously approved the amendments to SCERS’ consultant contracts. (7-0)

Item 14. Consent to Rio Linda Elverta Recreation and Park District’s Inclusion in SCERS as a Participating Employer

Interim Chief Executive Officer Annette St. Urbain and General Counsel Robert Gaumer presented the proposed resolution to add Rio Linda Elverta Recreation and Park District as a Participating Employer in the Sacramento County Employees’ Retirement System (SCERS).

The Board unanimously approved Resolution 2017-07 to include Rio Linda Elverta Recreation and Park District as a Participating Employer in SCERS. (7-0)

Item 15. Use of Contingency Reserve in June 30, 2017 Actuarial Valuation

Interim Chief Executive Officer Annette St. Urbain presented the staff recommendation that the Board affirm the use of the \$36.3 million from the Contingency Reserve to fully credit interest at the overall assumed annual earnings rate of 7.5% for fiscal year 2016-17, consistent with the Board's Interest Crediting and Unallocated Earnings Policy which states:

“Interest will be credited in a manner designed to, and with the goal of, keeping the total actuarial valuation assets on track with the actuarial earnings assumption.....Available earnings will be comprised of (a) the actual earnings of the retirement fund based on the smoothed actuarial value of assets; and (b) funds previously set aside in the contingency reserves.”

Since at least 2014, the Board has annually considered alternatives and determined how to apply unallocated earnings and use of contingency reserves in the annual actuarial valuations for the plan. Past recommendations and actions have recognized the policy goal to:

“Maintain a sound funded status of the retirement system through the reasonable and prudent application of available earnings, including establishing a level of contingency reserves sufficient to make a meaningful contribution toward mitigating future earnings shortfalls and unexpected expenses.”

Ms. St. Urbain noted that the Board's current policy specifies a number of goals, priorities and principles. In recent years, staff has submitted recommendations for Retirement Board consideration and action for the use of unallocated earnings or contingency reserves to determine contribution and reserve account balances for the annual actuarial valuation.

As part of the overall SCERS policy review project currently underway, staff anticipates recommending revisions to the Interest Crediting and Unallocated Earnings Policy that would provide sufficient guidance to staff in the normal course of business based on actual annual investment results, yet allow for alternative actions by the Board if and as warranted.

The Board unanimously approved the use of \$36.3 million from the Contingency Reserve to credit interest overall at the assumed annual earnings rate for fiscal year 2016-17. (7-0)

Item 16. Annual Report on Disability Retirement Application Processing

Chief Benefits Officer John Gobel presented the annual summary and analysis of SCERS' Disability Retirement Application processing for the fiscal year ended June 30, 2017. Mr. Gobel noted that the number of applications resolved by staff recommendations has increased overall, while the number of Administrative Hearing

decisions has decreased. The average processing time was noted to have improved slightly from the previous year.

Mr. Gobel and General Counsel Robert Gaumer noted that the SCERS Bylaw revisions that were presented to and approved by the Board at its meeting held January 20, 2016, have been submitted to the County at least twice in the months since for ratification by the County Board of Supervisors. However, the revised SCERS Bylaws have not yet been included in the Supervisor's agenda for action. County Administration expressed a strong preference to keep SCERS disability retirement process codified within the SCERS Bylaws, rather than the Disability Retirement Procedures (DRPs) that were also adopted by the Board in January 2016. Because SCERS will realize additional efficiencies in its disability retirement application processing by following the Board-approved DRPs, General Counsel is preparing another set of Bylaw amendments to incorporate the DRPs into the SCERS Bylaws for adoption by the Board of Retirement and ratification by the Board of Supervisors.

Board Member Kelly left the meeting before discussion of this item concluded, and did not return prior to adjournment.

The Board accepted and filed the report.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:19 p.m.

MEMBERS PRESENT: John B. Kelly (left at ~12:03 p.m.), James A. Diepenbrock (left at ~11:40 a.m.), Alan Matré, Kathy O’Neil, Steven L. Baird, Ben Lamera, Martha J. Hoover, Chris Pittman, John Conneally and Rick Fowler presiding

MEMBERS ABSENT: Keith DeVore

OTHERS PRESENT: Annette St. Urbain, Interim 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; Stephen Hawley, Chief Strategy Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Shannon Browning, Administrative Services Officer; Barry Dennis, Margaret Jadhalla and John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Stevens and Robert Miranda, Townsend Group; John Kennedy, Nossaman LLP; Mike Heller, Rio Linda Elverta Recreation and Parks; Gary Hudepohl, Principal and Managing Director of Hudepohl & Associates; David Van Brunt and Gwen Van Brunt

Respectfully submitted,

Annette St. Urbain
Interim Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____