



Executive Staff:

Eric Stern
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**

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 Matr , 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

**WEDNESDAY, MARCH 21, 2018
10:00 A.M.**

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

OPEN SESSION

Item 1. Call to Order

The meeting was convened at 10:02 a.m.

Item 2. Public Comment

No Public Comment

Item 3. The Board unanimously approved the Minutes of the February 21, 2018 meeting. (8-0)

CONSENT MATTERS- ITEMS 4-9:

The Board unanimously approved the Consent Matters Items 4-9. (8-0)

Item 4. Disability Retirement Applications

- A. COOPER, Tracy; Granted a nonservice-connected disability retirement as recommended by staff.
- B. KOBZA, Kevin; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 5. Quarterly Legal Fees

Item 6. Semi-Annual Administrative Expense Report

Item 7. Investment manager changes within SCERS' Domestic Equity and International Equity asset classes – February 2018 Board Action

Item 8. Investment Portfolio Activity Report – February 2018

Item 9. Monthly Investment Manager Activity, Compliance and Watch List Report– February 2018

ADMINISTRATIVE MATTERS:

Item 10. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Bylaws – Mr. Stern reported that the Board of Supervisors approved the Bylaw changes on February 27th that removed an outdated and prescriptive set of rules about the disability application and appeal process, and gave the retirement board the flexibility to adopt and implement administrative rules that will hopefully improve the turnaround time and save staff time and money. Mr. Stern reported that staff is diligently working with outside counsel and county counsel on updating the disability procedures, which will be presented at a future Board meeting.

Negotiations –Mr. Stern provided an update on the bargaining session meetings he attended with SETA and county labor groups.

Suzanne Likarich – Mr. Stern thanked Suzanne Likarich for her 36 years with SCERS.

Upcoming Events

- SACRS Spring Conference will be held May 15-18, 2018 in Anaheim.
- SACRS Public Pension Investment Management Program will be held July 15-18 at UC Berkeley.

Item 11. Affirmation of Existing SCERS Policies

General Counsel Robert Gaumer presented the policy for member appeals of SCERS' administrative decisions. Mr. Devore asked if the 60-day deadline to appeal decisions would be clear in member communications, and Mr. Gaumer confirmed the timeframe would be disclosed prominently.

The Board approved the policy. (8-0)

Item 12. Strategic Planning Update

Chief Executive Officer Eric Stern provided a brief overview of SCERS' strategic planning process.

Chief Strategy Officer Steve Hawley presented an update on the SCERS' strategic Management Program for 2014-2018. Mr. Hawley stated the objective is to establish a baseline for customer service performance, measures to enhance customer service, and quantitative and qualitative standards for ongoing evaluation of customer service. Mr. Hawley provided a timeline for the program as follows:

- April to June, 2018 - reorganize strategic plan 2014-2018 into strategic management program structure
- July to December, 2018 - establish survey capability on SCERS' website, solicit customer expectations via surveys and interviews, analyze historical customer service performance and set performance level targets
- January, 2019 - begin ongoing measurement and reporting of customer service performance levels
- 2019-2021- leverage IT modernization projects to refine and enhance strategic management program and integrate program into executive performance evaluation process

The Board approved a motion to receive and file the report. (8-0)

Item 13. IT Modernization Quarterly Review

Chief Strategy Officer Stephen Hawley discussed progress to date and next steps regarding the acquisition of an investment accounting system, including the

upcoming issuance of a Request for Information (RFI) to potential software vendors. Staff recommended the Board authorize the Chief Executive Officer to enter into a contract with Castle Peak Associates for consulting services of \$65,000, subject to successful negotiation of contract terms and conditions. The next phase is to identify two to four vendors with the following objectives:

- Obtain software vendor input on the stated requirements to assist in the development of a future Request for Proposals (RFP).
- Better understand the likely implementation effort, schedule, and costs.
- Develop a business case that presents the costs and benefits of acquiring an investment accounting software solution.
- Develop a list of vendors interested in receiving the RFP.
- Prepare a RFP and make a recommendation to the Board regarding whether or not to proceed.

The Board approved a motion to approve staff recommendation to contract with Castle Peak Associates to conduct the RFI. (8-0)

INVESTMENT MATTERS:

Item 14. 2017 Investment Year in Review and 2018 Annual Investment Plan

SCERS' Staff and investment consultants recommended that the board receive and file the calendar year 2017 Investment Year in Review and 2018 Annual Investment Plan Report, and approve the annual asset class investment plans.

Chief Investment Officer Steve Davis provided an overview of this year's report. Mr. Davis stated that the report includes the annual investment plans for each of SCERS' underlying asset classes. Mr. Davis reminded the Board of the Implementation Protocol section of SCERS' asset class investment policy that directs the SCERS Board to approve a 12-month investment plan for each of SCERS' underlying asset classes.

Staff reported that for the calendar year ended December 31, 2017, the Sacramento County Employees' Retirement System achieved a 16.9% gross return, and plan assets ended the year at \$9.3 billion. Staff reported the Policy Index return of 14.2%. Staff further reported that over the three-year and five-year periods, SCERS has returned 7.8% and 9.0% respectively, compared to the Policy Index return of 7.5% and 8.6%.

Mr. Davis stated that the 2018 goals include the following: (a) Convert SCERS' individual asset class IPS's into three asset category IPS's (Growth; Diversifying; Real Return) (b) Research liquidity and cash management needs (c) Implement SCERS' newly approved Overlay Program structure (d) Fill SCERS' vacant Deputy Chief Investment Officer position (e) Assist in the development of a new investment accounting system.

During the presentation, Mr. Fowler asked if SCERS has a liquidity plan in place to ensure that SCERS does not have to sell assets at an inopportune time. Mr. Davis responded that SCERS has liquidity buffers in place to facilitate cash management needs.

Staff presented the following 2018 annual plan at the asset class level:

Domestic Equity- 2018 Annual Plan

- Implement the new Domestic Equity asset class structure
 - Evaluate SCERS' existing managers and their role in the new structure
 - Physically rebalance investment mandates to their new allocation targets
 - Conduct a manager search for a systematic factor-based strategy, and any other manager searches as needed
- Oversee, monitor, and meet with SCERS' existing Domestic Equity managers

International Equity- 2018 Annual Plan

- Implement the new International Equity asset class structure
 - Evaluate SCERS' existing managers and their role in the new structure
 - Physically rebalance investment mandates to their new allocation targets
 - Conduct manager searches as needed
- Oversee, monitor, and meet with SCERS' existing International Equity managers

Fixed Income- 2018 Annual Plan

- Implementation of the U.S. treasury mandate occurred in February 2018
- Perform a physical rebalance of SCERS' fixed income managers, which are underweight to their target allocations
- Oversee, monitor, and meet with SCERS' Fixed Income managers

Absolute Return- 2018 Annual Plan

- Implement the new Absolute Return structure for Growth Oriented and Diversifying strategies according to the annual plan below, as recommended by Cliffwater
 - Reduce Growth Oriented portfolio to target allocation of 3% of total assets

- Increase Diversifying portfolio to target allocation of 7% of total assets
 - Target two direct investments within the Diversifying Absolute Return segment, with a range of 1 to 3 funds
 - Target an average investment size of \$45 million, and a range between \$35 million and \$75 million
- Revise and upsize the current SCARF-B interim solution mandate with strategic partner Grosvenor Capital Management (GCM) to bring SCERS' Diversifying Absolute Return portfolio closer to the target allocation of 7%, while the direct portfolio is being implemented
 - Continue to oversee and monitor SCERS' Absolute Return portfolio and managers

Private Equity- 2018 Annual Plan

- Cliffwater and Staff recommend a \$250 million commitment budget for 2018, with a range of \$150 million to \$300 million
 - Expect to make 6 fund commitments with an average commitment size of \$45 million, and a range between \$10 million and \$100 million
- Private Equity capital pacing
 - Continue increasing allocation toward the 9% target over the next few years
- Areas of focus
 - Investment opportunities across buyout, venture capital, and distressed debt
 - Focus on select new manager relationships, and follow-on investments with existing funds that will be in the market fundraising
 - Remain cognizant of risks later in the cycle, including increasing valuations and fund sizes, while maintaining vintage year diversification
 - Place particular focus on sector-specific funds where a fund manager has differentiated expertise, experience managing multiple cycles, and access to proprietary deal flow
- Continue to oversee, monitor, and assess the existing manager lineup
- Evaluate potential strategic partners and fund-of-funds to complement SCERS'

direct portfolio, and to manage the number of investment managers and funds in SCERS' overall Private Equity portfolio

- Areas of focus include co-investments/secondaries; small market buyout; venture capital; non-U.S. (Emerging Markets) investment strategies

Private Credit – 2018 Annual Plan

- Cliffwater and Staff recommend a \$220 million commitment budget for 2018, with a range of \$150 million to \$290 million
 - Expect to make 4 fund commitments with an average commitment size of \$600 million, and a range between \$25 million and \$100 million
- Private Credit capital pacing
 - Continue increasing allocation toward the 4% target over the next few years
- Areas of focus
 - Direct lending opportunities in the U.S. and non-U.S. (Europe and Asia)
 - Review opportunistic and special situation credit investment opportunities
- Continue to oversee, monitor, and assess the existing manager lineup

Real Assets- 2018 Annual Plan

- Cliffwater and Staff recommend a \$220 million commitment budget for 2018, with a range of \$150 million and \$290 million
 - Expect to make 6 fund commitments with an average commitment size of \$40 million, and a range between \$20 million and \$100 million
- Real Assets capital pacing
 - Continue increasing allocation toward the 7% target over the next few years
- Areas of focus
 - Identify investment opportunities along the agriculture value chain both in the U.S. and the top global agriculture countries
 - Identify timber investment opportunities

- Review opportunities in capital equipment leasing
- Continue to oversee, monitor, and assess the existing manager lineup

Real Estate- 2018 Annual Plan

- Townsend and Staff recommend a target annual allocation of \$70 million, with a range of \$35 million to \$105 million
 - Expect to make 2 fund commitments with an average commitment size of \$35 million and a range between \$20 million and \$50 million
- Real Estate capital pacing
 - Expect allocation to stay in 8% to 9% range over the next few years
 - Allocation to non-core will increase marginally, but well within the 35% limit
- Areas and themes of focus:
 - European student housing
 - Cold storage
 - Manufactured housing
 - Japan value-add
- Finalize the exchange of SCERS' core separate account portfolio for shares in an OECF

Opportunities- 2018 Annual Plan

- Continue to identify and evaluate tactical opportunities in unique/differentiated investment strategies offering an attractive risk-return prospect
- Evaluate potential distressed investment opportunities in the real estate and corporate

The Board approved a motion to receive and file the 2017 Investment Year in Review and approve the annual investment plans. (8-0)

Item 15. Quarterly Investment Performance Report – Alternative Assets

Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for the period ending December 31, 2017, for the Absolute Return portfolio and for periods ending September 30, 2017, for the private equity,

private credit, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' absolute return portfolio was up 1.6% in the fourth quarter of 2017, which was above the absolute policy benchmark of 1.5%.

Mr. Feidler reported that, through September 30, 2017, the net investment rate of return (IRR) of SCERS' private equity portfolio was 12.20% since inception, compared to the Cambridge Associates Private Equity Index up 12.29%. Mr. Feidler stated that the private equity portfolio generated strong gains during the quarter and that many of the buyout and venture capital funds generated quarterly returns greater than 10%. Mr. Feidler reported that the direct fund investments continued to have strong performance.

Mr. Feidler reported that, through September 30, 2017, the net investment rate of return (IRR) of SCERS' private credit portfolio was 9.24% since inception, compared to the benchmark return of 7.43%. Mr. Feidler reported that the private credit portfolio includes four lending-oriented funds; previously there were three included within the private equity portfolio. Mr. Feidler reported that the private credit funds continued to generate steady performance during the third-quarter.

Mr. Feidler reported that, through September 2017, the net investment rate of return (IRR) of SCERS' real assets portfolio was 15.6% since inception, compared to SCERS' real assets portfolio benchmark of 6.6%. Mr. Feidler stated that the portfolio includes private infrastructure, energy, agriculture, and timber. Mr. Feidler reported that the net IRR for energy was 18.0% and the net IRR for infrastructure as at 14.4%.

The Board approved a motion to receive and file the report. (8-0)

Item 16. Quarterly Investment Performance Report – Real Estate

Jennifer Young-Stevens and Robert Miranda of the Townsend Group presented the quarterly performance report on real estate investments for the quarter ended December 31, 2017.

Ms. Young-Stevens reported that SCERS' core real estate portfolio returned 3.6% during the fourth quarter, outperforming the benchmark of 1.8%. Ms. Young-Stevens stated that for the 12-month period ending December 31, 2017, SCERS' core real estate portfolio return was 12.3% and that in the same period, the benchmark returned 6.7%. Ms. Young-Stevens further stated that the core separate accounts and the core commingled fund returned 4.0% and 3.4%, respectively, for the quarter.

Ms. Young-Stevens reported that SCERS' non-core real estate portfolio returned 4.4% for the quarter, which outperformed Townsend's benchmark of the NFI-ODCE

plus 100bps benchmark of 2.1%. Ms. Young-Stevens stated that SCERS' non-core real estate portfolio returned 17.8% for the 12-month period ending December 31, 2017, outperforming the benchmark return of 7.7%

The Board approved a motion to receive and file the report. (8-0)

CLOSED SESSION

The Chair convened a Closed Session at 12:17 p.m. to discuss Item 17. Upon adjournment of Closed Session at 1:39 p.m., Mr. Fowler announced that the Board met with the Chief Executive Officer for the purpose of an employee performance evaluation, and no action was taken.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:40 p.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, Steven L. Baird, Ben Lamera (departed at 12:02 p.m.), Alan Matré, Kathy O'Neil, John Conneally, Martha Hoover, and Rick Fowler presiding

MEMBERS ABSENT: James A. Diepenbrock, Chris A. Pittman

OTHERS PRESENT: Eric Stern, 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; Annette St. Urbain, Assistant Retirement Administrator; Suzanne Likarich, Retirement Services Manager; Margaret Dugger, Retirement Service Manager; Mario Sierras, Retirement Service Manager; JR Pearce, Investment Officer; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Debbie Musilli-Sidhu, Executive Assistant; John Nicolini, Verus Advisory, Inc.; Margaret Jadallah, Verus Advisory, Inc; Jennifer Young-Stevens, The Townsend Group; Robert Miranda; The Townsend Group, Jamie Feidler, Cliffwater; Kelsey Johnson, Deputy County Counsel

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____