



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 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

THURSDAY, JULY 19, 2018  
10:00 A.M.

Location: SCERS Board Room  
980 9<sup>th</sup> Street, 19th Floor  
Sacramento, California 95814

## OPEN SESSION

- Item 1. Call to Order** — The meeting was convened at 10:00 a.m.
- Item 2. Election of Board Officers** — President Rick Fowler turned the meeting over to Mr. Stern to oversee Board nominations for president. A nomination was made and seconded for Mr. Fowler to serve as President for 2018–19. No other nominations were received, and the Board approved the nomination for Mr. Fowler unanimously. Mr. Stern turned the meeting back to Mr. Fowler, who accepted nominations for the two Vice Presidents for 2018–19. A recommendation was made and seconded to maintain the current Vice Presidents, John B. Kelly and Keith DeVore, for another term. Kathy O'Neil also received a nomination for Vice President; a second nomination was not received. The Board approved the nomination of Mr. Kelly and Mr. DeVore unanimously.
- Item 3. Public Comment** — None
- Item 4. Minutes**  
**The Board approved the Minutes of the June 20, 2018 meeting (7–0).**

## **CONSENT MATTERS — ITEMS 5–13:**

The Board approved the Consent Matters Items 5–13, with the exception of Mr. Baird who abstained on Item 5B. (6–0)

### **Item 5. Disability Retirement Applications**

- A. ANDREWS, Melanie; Granted a nonservice–connected disability retirement as recommended by staff.
- B. BRIER, Thomas; Granted a nonservice–connected disability retirement as recommended by staff.
- C. WELLMAN, Timothy; Granted a service–connected disability retirement as recommended by staff.
- D. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

**Item 6. Annual Oath of Office and Affirmation of Duties and Responsibilities by SCERS Board Members** — Approved the recommendation of staff for each Board Member to sign the Oath of Office and Affirmation of Duties and Responsibilities.

**Item 7. Sacramento County Employer Contribution Prepayment for FY 2018–2019 and Final Reconciliation for FY 2017–2018** — Authorized Sacramento County to prepay the 2018–19 employer contribution.

**Item 8. Sacramento Superior Court Employer Contribution Prepayment for FY 2018–2019** — Authorized Sacramento Superior Court to prepay the 2018–19 employer contribution.

**Item 9. Contract Activity Quarterly Report** — Received a report on contracts that SCERS entered into during the previous quarter under the CEO’s and Board President’s delegated authority.

**Item 10. Investment Manager Changes within SCERS’ Domestic Equity Asset Class — June 2018 Board Action** — Disclosed action from June 20, 2018 closed session, when the Board approved a new investment manager structure and implementation plan for SCERS’ Domestic Equity asset class.

**Item 11. Placement Agent Disclosure Report — Second Quarter 2018** — Received a report regarding placement agents associated with alternative assets from the previous quarter.

**Item 12. Monthly Investment Manager Activity, Compliance and Watch List Report – June 2018** — Received a report on manager compliance issues from the previous month.

**Item 13. Monthly Report of New Investment Activity – June 2018** — Received a report on new investment activity that occurred during the previous month.

#### **EXECUTIVE REPORTS:**

**Item 14. Chief Executive Officer’s Report**

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern reported that he attended the SACRS Investment Management Program at U.C. Berkeley for four days, and thanked the Board for moving the meeting to accommodate his participation in the program. Mr. Stern reported that the program focused on modern portfolio theory and invited all board members to attend the advanced course next year.
- Mr. Stern reported that on July 17, the Board of Supervisors formally approved the reappointment of Mr. Diepenbrock and Mr. DeVore to the SCERS Board of Retirement for another three-year term.
- Mr. Stern reported the upcoming timeline for Board Member Elections for a Miscellaneous Representative, Safety Representative, and Alternate Safety Representative. The nomination period for these positions is August 6 – 17, 2018, and voting will take place September 24 – October 5, 2018. The last day to cast a ballot is October 5, 2018, and the official results will be released on October 12, 2018. The term of office will begin on January 1, 2019.

**Item 15. Chief Investment Officer’s Report**

Chief investment Officer Steve Davis provided the following updates:

- Mr. Davis provided a preliminary estimate of the 2017–18 fiscal year investment performance of approximately 9.5%, with a range between 9% and 10% depending on final performance data. Mr. Davis said SCERS will have a firm number and know how the return fared against the policy index benchmark when the Verus quarterly report is presented at the August Board meeting.
- Mr. Davis provided an update on a Domestic Equity asset class

transition of the recently approved investment manager structure. The transition concluded on July 18, 2018, and SCERS' is estimating the total transition cost came in at approximately 11 bps, which was in line with expectations. Staff and Verus hired a transition manager to execute the transition, and the total market value of the transition was approximately \$750 million, which included \$430 million in sales, \$180 million in purchases, and \$140 million in cross trades.

- Mr. Davis stated that at an upcoming Board meeting, Staff and consultants will report on the public disclosures related to Government Code 7514.7, which was enacted in 2016 and requires California public pension plans to report fee and expense data for its alternative assets investments on an annual basis. Staff and consultants provided an overview of the requirement at the October 2017 Board meeting. Staff and consultants are aggregating data from SCERS' investment managers for calendar year 2017, and anticipate reporting to the Board in August or September.
- Mr. Davis provided an update on the Investment staff's travel. He stated that Brian Miller traveled to Chicago last month and attend the Institutional Limited Partners Association (ILPA) conference. The ILPA conference allows members to participate in interactive workshops, share best practices, discuss regulatory changes, and network with peer institutional investors. During Mr. Miller's visit in Chicago, he met with SCERS equity managers William Blair, LSV Asset Management, and absolute return manager, Grosvenor Capital Management.

### **ADMINISTRATIVE MATTERS:**

#### **Item 16. Sacramento Metropolitan Fire District Payment Agreement**

Chief Operations Officer Kathryn Regalia presented an agreement for Sacramento Metropolitan Fire District (SMFD) to make annual payments to SCERS for 20 years to fully fund the ongoing benefits owed to the former Florin Fire Protection District employees, retirees, and beneficiaries. The agreement also provides a three-year amortization period for calculating and paying any future losses or gains, which will be added or deducted from the total liability owed. Ms. Regalia noted that Mr. Stern presented the agreement to the SMFD Board on June 28, 2018, which was unanimously approved.

**The Board approved the Sacramento Metropolitan Fire District Payment Agreement (7-0)**

**Item 17. Strategic Management Program**

Chief Strategy Officer Steve Hawley presented the Strategic Management Program for 2018–19 and discussed implementation of the plan. The Strategic Management Program builds off the 2014–18 Strategic Plan by aligning the high–level goals of the old plan with improved processes for designated staff ownership of goals, objectives, implementation actions, performance tracking, and integrated risk management. Ms. Regalia and Chief Benefits Officer John Gobel also provided an overview of strategic actions that have been identified in the Operations and Benefits areas.

Discussion followed with several Board Members exchanging ideas with the Staff about actions proposed for the retirement application process to improve customer service. Mr. Matré suggested submitting an article on the Sacramento County’s employee intranet site to encourage employees to attend pre–retirement orientation sessions. Mr. Baird informed the Board and Staff that the county is expanding electronic document signing capabilities, which may be able to help SCERS facilitate retirement form processing.

**The Board approved a motion to receive and file the Strategic Management Plan, and approve its implementation (7–0)**

**Item 18. IT Modernization Quarterly Review**

Chief Strategy Officer Steve Hawley provided the Board with the status on the IT Modernization efforts. The IT Modernization Program is progressing on time and on budget. Mr. Hawley discussed the portfolio of projects within the IT Modernization Program, which includes the Fit–Gap phase of the Ariel (Pension Administration System) project with 62% of requirements reviewed. The project to scan SCERS microfiche records and convert to electronic images has been completed. The extraction of pensioner payment data from the COMPASS payroll system is nearly completed, and the Investment Accounting System RFI resulted in SCERS receiving five vendor responses. The recommendation for the Investment Accounting System RFI will be presented to the Board at either the August or September meeting.

**The Board approved a motion to receive and file the IT Modernization Quarterly Review (7–0)**

**Item 19. Member Contribution Underpayment Collections Policy**

General Counsel Robert Gaumer presented the new Member Contribution Underpayment Collections Policy. Mr. Gaumer stated that the purpose of

the policy is to expedite retirement application processing by not pursuing recovery of member contribution underpayments where the cumulative total amount underpaid by the member is less than \$100.

**The Board approved the Member Contribution Underpayment Collections Policy (7-0)**

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 11:50 a.m.

**MEMBERS PRESENT:** John B. Kelly, Keith DeVore, Steven L. Baird, Alan Matré, Kathy O’Neil, Chris Pittman, John Conneally, Martha J. Hoover, and Rick Fowler presiding

**MEMBERS ABSENT:** James A. Diepenbrock and Ben Lamera

**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; JR Pearce, Investment Officer; John Lindley, IT Administrator; Margaret Dugger, Retirement Service Manager; Mario Sierras, Retirement Service Manager; and Debbie Musilli-Sidhu, Executive Assistant

Respectfully submitted,

/S/

Eric Stern  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
Richard B. Fowler II, President

DATE: \_\_\_\_\_