



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

WEDNESDAY, OCTOBER 17, 2018
10:00 A.M.

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

OPEN SESSION

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 Board of Supervisors

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

Item 1. Call to Order — The meeting was convened at 10:00 a.m.

Item 2. Public Comment — Sharon Barrino addressed the Board regarding the proposed decision of the Administrative Law Judge.

Item 3. Minutes

**The Board approved the Minutes of the September 19, 2018 meeting.
(8-0)**

CONSENT MATTERS – ITEMS 4 –9:

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

Item 4. Disability Retirement Applications

A. BARRINO, Sharon; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.

B. CABRAL, Daniel; Granted a service-connected death benefit for surviving spouse as recommended by staff.

- C. CODOG, Marcello; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- D. GAGE, Rebecca; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- E. KEILLOR, Tracie; Granted a nonservice-connected disability retirement as recommended by staff.
- F. REESE, Christopher; Granted a reciprocal service-connected disability retirement as recommended by staff.
- G. RINELLI, Robert; Granted a service-connected disability retirement as recommended by staff.
- H. RODRIGUES, Valentina; Granted a service-connected disability retirement per proposed decision of the Administrative Law Judge.
- I. VALDEZ, Anita; Denied a service-connected disability retirement, and a nonservice-connected disability retirement per proposed decision of the Administrative Law Judge.
- J. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 5. Service-Connected Death Benefit Applications

STASYUK, Mark; Granted a service-connected death benefit for surviving spouse as recommended by staff.

Item 6. Core Real Estate Separate Account Transition Summary Report— Received a memo summarizing the transition of SCERS' core real estate separate account to open-end real estate funds.

Item 7. Placement Agent Disclosure Report—Third Quarter 2018—Received a report regarding placement agents associated with alternative assets from the previous quarter.

Item 8. Monthly Investment Manager Activity, Compliance and Watch List Report—September 2018—Received a report on manager compliance issues from the previous month.

Item 9. Monthly Report of New Investment Activity—September 2018—Received a report on new investment activity from the previous month.

EXECUTIVE REPORTS:

Item 10. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following updates:

- Mr. Stern announced the election results of the SCERS Board elections, and noted the official results should be posted this week on the Voter Registration and Elections website. He noted that it was a very close vote for Miscellaneous Representative, and former board member Diana Gin would be returning to the SCERS Board to replace Steve Baird. Mr. Stern stated that SCERS appreciates Mr. Baird for being a strong advocate for improving customer service, and acknowledged his helpful work behind-the-scenes at DTech on SCERS' short- and long-term technology efforts. Mr. Stern announced that Matt Petersen, a Captain in the Sheriff's Department, would be replacing Chris Pittman. Mr. Stern announced that John Conneally was re-elected as Alternate Safety Representative. Mr. Stern noted that the overall turnout was 10.2%, slightly up from the 2015 election when the turnout was 9.3%.
- Mr. Stern reported that on Monday, October 15th, Audit Committee Chair Alan Matr e and Staff met with auditors from Brown Armstrong for an overview of the annual financial audit process, and stated that the Board's full Audit Committee will meet upon the conclusion of the audit engagement.
- Mr. Stern reminded the Board that the November Board meeting will be held on Monday, November 5th at 10:00 a.m. to approve the annual actuarial valuation, and to accommodate the timing of the SACRS Fall Conference, November 13th-16th in Indian Wells. The December meeting is back on the regular schedule, for Wednesday, December 19th.
- Mr. Stern provided an update of the vested rights litigation regarding the five cases before the California Supreme Court dealing with PEPRA. Mr. Stern announced that oral arguments could be scheduled by the end of the year, with arguments possibly in early 2019. The five cases before the Supreme Court include a CalFire case challenging the elimination of airtime; a Marin County case that challenged the Retirement Board's authority to eliminate on-call/standby pay, in-kind conversions, and administrative-response pay; an Alameda County case that is similar to Marin, with issues also relating to terminal pay; the McGlynn case about whether judges should be subject to PEPRA who were appointed before January 1, 2013 but didn't take the bench until after January 1, 2013; and, the Hipsher case from Los Angeles County dealing with felony forfeiture, impaired vested rights, ex post facto, and violation of due process.

Mr. Stern stated the appellate courts are largely upholding the constitutionality of PEPRA, and a retirement board's authority to determine final compensation, but are also raising issues of needing to balance fairness to members who may have counted on certain pension elements that are now under scrutiny. Mr. Stern discussed the language that the courts have used that is relevant to

the policies that will be discussed by the SCERS' Board over the coming months.

Mr. Stern noted that the Hipsher ruling found that the changes must be "reasonable and necessary to serve an important public purpose." The court found there is a duty of "ensuring the integrity of public pension systems." Mr. Stern noted the word "integrity" came up in the Hipsher ruling in a discussion about the purpose of PEPRA, and the emphasis the Legislature put on curbing perceived abuses like pension spiking. Mr. Stern emphasized that the Board has a fiduciary obligation to protect the financial integrity of the system for our members, and also a duty to protect the integrity of the fund in a broader sense; the courts essentially said that the Retirement Board should make a qualitative assessment about integrity that is equally important as a quantitative one.

Mr. Stern stated that SCERS is using the guidance from the courts to emphasize the goal of ensuring the integrity of SCERS as the Board considers policies such as the exclusion of overtime wages included in pay differentials. Mr. Stern stated that the Staff is planning to bring to the Board a policy that clarifies the annual limit on service-credit for members who work more than a traditional 80-hour schedule. Mr. Stern also noted that Staff will be presenting other PERPA-related policies in future Board meetings, such as clarifications to the post-employment/return-to-work policy to conform better to state law, and a Felony Forfeiture policy to ensure that SCERS' will provide due process to members who may fall under that penalty.

Mr. Stern discussed the potential end of the current economic cycle, and noted that another major recession will impact government budgets again, draw attention to pensions again, and the rally cry for public employee pension reform as a budget solution. Mr. Stern stated that in the wake of the last recession, PEPRA addressed many of the pension excesses and abuses, and said the best defense of Defined Benefit systems is what SCERS' is doing now. He said SCERS' is focused on the financial integrity of the fund, with a smart asset allocation over the investment program, and conservative funding policies and assumptions. Mr. Stern said SCERS also needs to reinforce a foundation of credibility and integrity in the public eye. Mr. Stern stated that pension fund sustainability is not just financial, it is also a subjective matter of public perspective, and it is therefore imperative that we continue to demonstrate the highest standards of administering this plan under the law to provide benefits for our members for years to come.

Item 11. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis provided an update regarding revisions to the Asset Category Investment Policy Statements (IPS). Mr. Davis noted that in 2017, SCERS revised most of the individual asset class IPS's in-line with the asset class structure of each asset class. Mr. Davis noted that SCERS' Board asked Staff

to consolidate the asset class IPS to avoid having a separate IPS for each asset class. Mr. Davis stated that the Staff has been working toward revising the asset class IPS's into three-asset category IPS's, one for each of the growth, diversifying, and real return asset categories. Mr. Davis stated that the objective of the asset category IPS is to retain the unique characteristics specific for the individual asset classes, but eliminate several redundancies across asset class IPS's, that can be covered within one asset category IPS. Mr. Davis anticipates that the asset category IPS's will be brought to the Board for consideration at the November Board meeting.

- Mr. Davis provided an update on investment staff travel. Mr. Davis and Investment Officer Brian Miller traveled to New York in late September to perform due diligence on current managers, and prospective managers targeting two investments in diversifying absolute return strategies. Mr. Davis stated that they also visited with managers related to a 130/30 equity extension manager search. Mr. Davis stated that he anticipates bringing a recommendation to the Board at an upcoming Board meeting.

ADMINISTRATIVE MATTERS:

Item 12. Ad Hoc Committee on SCERS' Office Space

Chief Operations Officer Kathryn Regalia stated that at the September Board Meeting, the Board authorized the Chief Executive Officer to enter into an agreement with Cushman & Wakefield to provide tenant advisory services. During the September Board Meeting, Board members also recommended the formation of an ad hoc committee to assist staff with exploring potential options for administrative offices throughout the Sacramento area.

The Board approved a motion to establish an ad hoc committee, and appointed Keith DeVore, James Diepenbrock, and Martha Hoover to the committee (8-0)

Item 13. Final Compensation Review Policy

Chief Benefits Officer John Gobel discussed the Final Compensation Review Policy, and stated that the policy contains no significant changes to existing practices. Mr. Gobel stated that the policy largely reflects a reformatted version of a February 20, 2013 board memo that was issued after PEPR was implemented. Mr. Conneally asked for clarification on how the airport firefighter compensation is treated because they get paid for a 56-hour workweek, or 12 hours of overtime per pay period. Mr. Gobel said the FLSA overtime component is included in Final Compensation and no changes are being made regarding it.

The Board approved a motion to approve the Final Compensation Review Policy (8-0)

Item 14. Overtime and Expired CTO Policy- Discussion Draft

General Counsel Robert Gaumer presented the discussion draft of the proposed policy. The policy establishes that any portion of an allowance or other pay differential that includes overtime or expired compensatory time off hours must be excluded from final compensation activity after the pay period ending December 22, 2018.

Mr. Pittman said he appreciated the consideration of the language that was used when drafting the policy. Mr. Gaumer said staff will be reaching out to employers for feedback, and Mr. Stern confirmed that employee groups will also be contacted about the policy.

Mr. Conneally asked to clarify a section of the policy concerning FLSA overtime hours, which appeared to have a typo regarding the airport firefighter work schedule. Mr. Gaumer stated that the language would be corrected. Mr. Stern confirmed that the intent was not to make changes regarding the allowable compensation for that work schedule. Mr. Lamera asked when the final policy will be presented. Mr. Gaumer said the final policy will be presented to the Board at the regular December meeting.

The Board approved a motion to approve the discussion draft of the Overtime and Expired CTO Discussion Draft Policy. (8-0)

Item 15. IT Modernization Program Quarterly Review

Chief Strategy Officer Steve Hawley provided the Board with a status update of the IT Modernization Program, which he said 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 Pension Administration System (PAS) project with 95% of the requirements reviewed. Mr. Hawley announced that the new SCERS' website went live this week, and staff is working with the vendor on plans for future enhancements. Mr. Hawley stated that the Investment Accounting System project has been on hold, and will resume as soon as the Accounting Staff has availability following year-end audit and actuarial valuation activities. Mr. Hawley stated the next phase of the PAS project is the construction phase of the system, which is on target for July 2019. Mr. Fowler thanked Mr. Hawley and Staff for all the hard work on the critical project. Mr. Hawley acknowledged and is pleased with the Staff's participation. Mr. Stern asked when the member web portal for the PAS will "go live." Mr. Hawley stated that the underlying system has to be completed before the member web portal can be deployed. Mr. Hawley stated that it will be part of the third phase of the implementation, which will be July 2021. Mr. Stern stated that the member web portal will be an enhancement to the website that will enable members to perform many different functions within their account.

The Board approved a motion to receive and file the IT Modernization Quarterly Review. (8-0)

Item 16. Strategic Management Plan—Quarterly Performance Report

Mr. Stern provided an overview of the Strategic Management Plan, which he described as an annual business plan that identifies specific activities that are aligned to the organization's six broader strategic goals. Mr. Stern said the plan is different than a traditional 3- or 4-year strategic plan that sits on a shelf, because this plan is actually a large tracking spreadsheet of almost 100 activities that are laid out over the year, and is used as a daily management and accountability tool. Mr. Hawley then presented the Strategic Management Program Quarterly Performance Report, and discussed the implementation of the plan. SCERS established the Strategic Management Program to measure, and guide progress in achieving continuous enterprise performance improvement. The objectives to be managed within each of the six main strategic goals are to identify and complete specific initiatives, develop, and track a set of quantitative measures indicative of performance, and to identify, and manage risks that could potentially affect SCERS' ability to maintain, and improve its performance.

Mr. Hawley presented progress on each of the strategic goals, and noted that SCERS is on pace to accomplish the year's activities. Mr. DeVore asked if the specific initiatives were weighted by complexity; Mr. Stern said they were not, but it would be taken under consideration as the plan and Board reporting on the plan continues to evolve.

The Board approved a motion to receive and file the Strategic Management Plan—Quarterly Performance Report. (8-0)

CLOSED SESSION

Upon conclusion of Item 16, Mr. Fowler called for a closed session at 11:11 a.m. to discuss potential litigation (Item 17) and the Chief Executive Officer performance evaluation (Item 18).

OPEN SESSION

Mr. Fowler reconvened the meeting in open session at 12:54 p.m., and announced that no action was taken during the closed session regarding potential litigation (Item 17). Mr. Fowler announced that the Board discussed the performance evaluation of the Chief Executive Officer, and approved 8-0 a 5% step increase effective December 4, 2018 (Item 18) .

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:55 p.m.

MEMBERS PRESENT: Keith DeVore, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matré, Kathy O'Neil, Chris Pittman, John Conneally, Martha J. Hoover, and Rick Fowler presiding

MEMBERS ABSENT: John B. Kelly

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; Brian Miller, Investment Officer; John Lindley, IT Administrator; Mario Sierras, Retirement Services Manager; John Kennedy, Nossaman LLP; John Nicolini, Verus Advisory, Inc.; Scott Griffith, J.P. Morgan; Sharon Barrino, and Debbie Musilli-Sidhu, Executive Secretary.

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____