



Executive Staff:

Eric Stern
Chief Executive Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Stephen Hawley
Chief Strategy Officer

Mario Sierras
Chief Benefits Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, OCTOBER 16, 2019
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 10:00 a.m.

Item 2. Public Comment—None.

CONSENT MATTERS – ITEMS 3–9:

The Board approved the Consent Matters Items 4-9. (8-0, Mr. Matré abstained from Item 4).

Item 3. Disability Retirement Applications

- A. DELPH, Linda; Granted a nonservice-connected disability retirement as recommended by staff.
- B. LAVELLA, Kristin; Granted a nonservice-connected disability retirement as recommended by staff.
- C. LOPEZ, Alida; Granted a service-connected disability retirement as recommended by staff.
- D. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

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

James A. Diepenbrock
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Alan Matré, CPA
Elected by the Miscellaneous Members

Kathy O'Neil
Elected by the Retired Members

Matt Petersen
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

- Item 4. Minutes**—Approved the Minutes of the September 18, 2019 meeting.
- Item 5. Ratification of Service Retirement Application Approvals—September 2019**—Ratified the Service Retirement Applications that were finalized in previous month.
- Item 6. CEO Delegated Authority Expense Report**—Received and filed the CEO delegated authority expense report for the previous quarter.
- Item 7. Placement Agent Disclosure Report**—Received and filed 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 2019**—Received and filed a report on manager compliance issues from the previous month.
- Item 9. Monthly Report of Investment Activity—September 2019**—Received and filed a report on 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 results of the SCERS Board elections for the Miscellaneous Representative. Mr. Stern congratulated Dave Comerchero who won the SCERS election for Miscellaneous Representative seat, and congratulated Martha Hoover and Kathy O’Neil, who ran unopposed for the retiree seats.
- Mr. Stern reported that SCERS will bring a formal record retention policy covering a variety of communications that are handled at SCERS to the Board at the November meeting. One of the areas that SCERS is re-examining is our approach to audio recordings of Board meetings. SCERS has a current policy in which audio recordings of the Board meeting are used to produce the minutes, then the recording is erased in accordance with the Government Code that allows that approach. Mr. Stern said it’s a best practice today to keep the recordings in the interest of transparency, especially when we have member appeals, public comment on controversial issues, and discussion of policies that affect benefits. Mr. Stern stated that there is no cost with keeping a digital copy, and the statutory authority to destroy recordings was likely related to the hassle of storing audio tapes and cassettes.
- Mr. Stern noted that on October 15th, SCERS met with the Brown Armstrong audit team to review the timeframes for the annual financial audit. Alan Matré, SCERS Audit Committee chair, attended the meeting. Mr. Matré noted that the Audit Committee will convene in early December to review the draft financial report.

- Mr. Stern reminded the board that the deadline to confirm reservations for the SACRS Fall Conference 2019 is quickly approaching. The SACRS Fall Conference is in Monterey November 12th-15th.
- Mr. Stern asked Board president Rick Fowler to provide comments about the CALAPRS Principles for Trustees at Pepperdine that he attended in August. Mr. Fowler said he recommends attending the seminar and suggested that anyone interested in attending might benefit from taking the Principles of Pension Governance for Trustees as an introductory course before taking other trustee education forums.

Item 11. Chief Investment Officer's Report

Chief Investment Officer Steve Davis provided the following updates:

- Mr. Davis stated the preliminary performance estimate for the total plan return for the third quarter of 2019 fiscal year should be around 1.0%. Mr. Davis stated the returns across broad markets were fairly muted. Mr. Davis stated the bond markets led performance, returning over 2% while international equities trailed, mostly due to negative currency effects from a strong U.S. dollar. Mr. Davis stated that hedge funds were up over 1%, and private markets are yet to be determined. Mr. Davis stated that there are several potential alternative asset investments under due diligence including one absolute return fund, one private equity fund, and two private credit funds.
- Mr. Davis provided an update on investment staff travel. Steve Davis, Jim Donohue, and JR Pearce traveled to Los Angeles to meet with existing and potential investment managers. Staff met with TCW, Marlin Equity, and a potential new private markets manager. The Investment staff also met with alternative assets consultant Cliffwater. The term on SCERS' current contract with Cliffwater ends in June of 2020, and staff will come back to the Board to discuss Cliffwater's contract and any consideration for issuing an RFP for alternative assets consulting.

ADMINISTRATIVE MATTERS:

Item 12. SCERS Office Space

Mr. Fowler announced that pursuant to Government Code section 54956.8, the Board will meet in closed session with Christian Strain and Kevin Goldthwaite of Cushman & Wakefield to discuss the negotiation of lease terms with Hines for the property located at 980 9th Street in Sacramento.

CLOSED SESSION

Mr. Fowler called for a closed session at 10:12 a.m. to discuss SCERS Office Space.

OPEN SESSION

Mr. Fowler reconvened the meeting in open session at 10:25 a.m., and announced that the Board met in closed session with Cushman and Wakefield representatives to discuss SCERS lease negotiations for office space at 980 9th Street. He stated the Board voted 8-0 to authorize the CEO to enter into a Memorandum Of Understanding (MOU) with Hines based on the negotiated lease terms, and authorized the CEO to complete negotiations and execute the lease for SCERS' office space at 980 9th Street under the terms of the MOU, subject to legal review.

Item 13. Legislative Update

Mr. Stern recommended the Board approve SACRS sponsorship of two bills scheduled for discussion at the SACRS Fall Conference:

- SB 783, a County Employees Retirement Law Omnibus/Cleanup bill, that was drafted by the SACRS Legislative Committee.
- A proposal from the Los Angeles County Employees' Retirement Association related to nonservice-connected disability retirement and the imtemperate use of alcoholic liquor or drugs.

The Board approved a motion to support the legislative proposals. (8-0)

Item 14. SCERS IT Modernization Program Quarterly Update

Chief Strategy Officer Steve Hawley presented the state of SCERS' IT projects from the previous quarter. The IT Modernization Program is progressing on time and on budget, though the timing of the phased implementation of the Pension Administration System is under review.

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

Item 15. Strategic Management Plan—Quarterly Performance Report

Mr. Stern presented progress on the SCERS Strategic Management Plan for 2019-20 and discussed implementation of the plan.

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

INVESTMENT MATTERS:

Item 16. Education: Proxy Voting

Investment Officer Brian Miller presented an overview of proxy voting and the use of

third-party providers to vote proxies on behalf of SCERS and other institutional investors. Mr. Miller noted that SCERS has used Institutional Shareholder Services' (ISS) Benchmark Policy as the guideline to vote proxies, which promotes total shareholder value and risk mitigation. Jack Ferdon and Brian Walker of ISS also provided a presentation to the Board.

Mr. DeVore asked if there is a threshold of holdings necessary for SCERS to participate in proxy votes. The ISS representatives responded that SCERS receives a ballot even if only one share of stock is held.

Mr. Conneally asked how ISS is compensated. Mr. Davis responded that SCERS has an agreement with ISS to provide proxy voting services that costs about \$55,000 annually. Mr. Conneally also asked how ISS handles voting for different clients that may have opposing interests. ISS said they vote each investor's ballot based on the guidelines the investor has selected.

Mr. Stern asked the ISS representatives to comment on recent SEC regulatory activity surrounding proxy voting services. The ISS representatives provided an overview and expressed concerns about pending SEC rules that would place additional requirements on proxy advisors.

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

Item 17. Proxy Voting Policy

Chief Investment Officer Steve Davis and Investment Officer Brian Miller presented an updated policy that establishes procedures to meet SCERS' requirements relating to the voting of proxies for public equity securities.

The Board approved a motion to adopt the Proxy Voting Policy. (8-0)

Item 18. Private Equity Co-Investment Strategy

Deputy Chief Investment Officer Jim Donohue presented an investment structure for making co-investments within the private equity asset class. Mr. Donohue stated that co-investments are identified and included within SCERS' asset category investment policy statements including the Growth Category IPS. Staff envisions a co-investment structure within the Private Equity asset class of up to \$100 million, implemented over a multi-year period, with a flexible approach to pacing depending on deal flow. Mr. Donohue stated SCERS would be seeking a co-investment partner, and that any manager recommendation would be presented separately according to the implementation protocol section of the asset category IPS.

Mr. Diepenbrock asked if staff has the expertise and capacity to take on the potential workload of evaluating underlying companies. Mr. Davis and Mr. Donohue said the co-investment partner would provide the underlying due diligence in a fiduciary role, similar to SCERS' relationship with existing fund managers.

Ms. Gin left the meeting at 11:44 a.m. before the item was completed.

The Board approved a motion to receive and file the presentation. (7-0)

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:00 p.m.

MEMBERS PRESENT: Keith DeVore, James A. Diepenbrock, Diana Gin, Ben Lamera, Alan Matré, Kathy O’Neil, John Conneally, Martha J. Hoover, and Rick Fowler presiding

MEMBERS ABSENT: John B. Kelly and Matt Petersen

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Stephen Lau, General Counsel; Stephen Hawley, Chief Strategy Officer; Mario Sierras, Chief Benefits Officer; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Investment Officer; Brian Miller, Investment Officer; Debbie Chan, Senior Accounting Manager; John Lindley, Senior IT Analyst; Gina Cameron, Retirement Service Manager; Steven Franco, Retirement Service Analyst; Jenna Taylor, Retirement Service Analyst; Jett Lewis, Retirement Service Analyst; Chao Thor, Disability Retirement Analyst; Barry Dennis and John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater, LLC; Dave Comerchero, Personnel Services; Jack Ferdon and Brian Walker, ISS; 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: _____