



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

Dave Comerchero
Elected by the Miscellaneous Members

Diana Gin
Elected by Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Martha J. Hoover
Elected by the Retired Members

Matt Petersen
Elected by the Safety Members

Kathy O'Neil
Elected by the Retired Members

MINUTES

**REGULAR MEETING
OF THE
BOARD OF RETIREMENT**

**SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

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

WEDNESDAY, AUGUST 19, 2020

10:00 A.M.

Location: BLUEJEANS TELECONFERENCE

OPEN SESSION

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

Mr. Fowler stated that the meeting was occurring via teleconference under Executive Order N-25-20 which relaxed provisions of the Brown Act to make it easier for local government boards to conduct board meeting without convening in the same physical location. Mr. Fowler took a roll call of other members present:

1. John Kelly
2. Keith DeVore
3. Dave Comerchero
4. Diana Gin
5. Martha Hoover
6. Matt Petersen
7. Kathy O'Neil

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 2020-21. No other nominations were received. The Board approved the nomination of Mr. Fowler by a unanimous voice vote. A recommendation was made and seconded to maintain the current two Vice Presidents, John B. Kelly and Keith DeVore, for 2020-21. No other nominations were

received. The Board approved the nomination of Mr. Kelly and Mr. DeVore by a unanimous voice vote.

Item 3. Public Comment

Jim Baker, of Private Equity Stakeholder Project, and Connor McCleskey, of Worth Rises, addressed the Board regarding HIG investments.

Following Item 3, Mr. Fowler announced the Board will convene in Closed Session for Items 4 and 5.

CLOSED SESSION

Item 4. Conference with Legal Counsel—Existing Litigation

Following the closed session, Mr. Fowler announced that the Board discussed existing litigation in the case of *Codog v. SCERS* and voted unanimously not to appeal the case.

Item 5. Purchase of Sale of Pension Fund Investments

Following the closed session, Mr. Fowler announced that the Board discussed and made a decision on a pension fund investment transaction. Per Government Code section 54957.1(a)(7), more information about that decision will be disclosed at the first open meeting after the close of the transaction or transfer of assets.

OPEN SESSION

CONSENT MATTERS – ITEMS 6-18:

The Board approved the Consent Matters Items 6-18 (7-0).

Item 6. Minutes—Approved the Minutes of the August 19, 2020 meeting.

Item 7. Disability Retirement Applications

- A. BRAZELL, Ronald; Granted a service-connected disability retirement as recommended by staff.
- B. CODOG, Marcello; Granted a service-connected disability retirement as recommended by staff.
- C. DOWELL, Michelle; Granted a nonservice-connected disability retirement as recommended by staff.
- D. MEDINA, Isabel; Denied a service-connected disability retirement per proposed decision of the Administrative Law Judge.

- E. SCHILLIZZI, Darren; Granted a service-connected disability retirement as recommended by staff.
- F. WILBOURN, Katheleen; Denied a service-connected disability retirement as per proposed decision of the Administrative Law Judge.
- G. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

- Item 8. Ratification of Service Retirement Application Approvals—June and July 2020**—Ratified the Service Retirement Applications that were finalized in the previous months.
- Item 9. State Association of County Retirement Systems Legislative Update – July and August 2020**— Received and filed the SACRS Legislative Update for July and August 2020.
- Item 10. CEO Delegated Authority Expense Report**—Received and filed the report of CEO-approved expenses for the previous quarter.
- Item 11. IT Modernization Project Quarterly Report**—Received and filed a report regarding the state of SCERS' IT projects from the previous quarter.
- Item 12. Proxy Voting Activity Report**—Received and filed the report summarizing SCERS' proxy voting results from the quarter and year ending June 30, 2020.
- Item 13. Placement Agent Disclosure Report—Second Quarter 2020**—Received and filed a report regarding placement agents with alternative assets from the previous quarter.
- Item 14. Portfolio Allocation and Rebalancing Report—Second Quarter 2020**—Received and filed the quarterly asset allocation and rebalancing report.
- Item 15. Trading Cost Analysis and Commission Recapture—Second Quarter 2020**—Received and filed the Quarterly Trading Cost Analysis Reports for the quarter ending June 30, 2020.
- Item 16. 2019 Alternative Asset Fee and Expense Report**—Received and filed the 2019 Alternative Asset Fee and Expense Report.
- Item 17. Monthly Investment Manager Activity, Compliance, and Watch List Report—June and July 2020**—Received and filed the Monthly Investment Manager Activity, Compliance, and Watch List report for the previous months.
- Item 18. Monthly Report of Investment Activity—June and July 2020**
Received and filed the reports summarizing SCERS' investment activity from the previous months.

EXECUTIVE REPORTS:

Item 19. Chief Executive Officer's Report

No report was provided.

Item 20. Chief Investment Officer's Report

Mr. Davis provided an update on SCERS' quarterly performance. Mr. Davis stated that SCERS' Portfolio returned 7.6% during the second quarter, which puts SCERS' fiscal year performance at a positive 2.9%. During the first quarter report, Mr. Davis noted the resiliency of the SCERS portfolio during the market dislocation, due to some of the defensive characteristics of the SAA. However, SCERS' returns were a bit skewed to the upside, due to private market assets being lagged a quarter. Private markets caught up in the second quarter, where all private market asset classes generated negative returns that resulted in the portfolio trailing the peer universe, even though it outperformed the policy index. Mr. Davis stated that with the second quarter results, the SCERS portfolio performed well on an absolute and relative basis for the full fiscal year, and the 3- and 5- year numbers are also very strong on an absolute and relative basis.

Mr. Davis noted that following the strong performance of growth assets during the second quarter, the overlay program sold \$190 million in the growth proxy (mostly equities). The overlay program purchased \$190 million in the diversifying proxy (government bonds). Mr. Davis stated the Real Return asset category, the overlay program rebalanced using a 60/40 split between the Growth and Diversifying proxies, in line with what was employed on an interim basis in March. The overlay program did return to using the Real Return proxy when deploying the annual county employer contribution pre-payment in July. Mr. Davis stated that SCERS does expect to perform some physical rebalancing in the third quarter. The Domestic Equity allocation has a 22.6% allocation, and is overweight its 20% target allocation. The plan is to reduce the passive large cap mandate by approximately \$150 million, to bring the allocation closer to target. The overlay program will adjust for any physical rebalancing.

Mr. Davis stated that the pandemic has changed how SCERS conducts manager due diligence. Mr. Davis stated that face-to-face meetings are not feasible, and Staff has adjusted by conducting video calls to supplement in-person meetings. When underwriting investment managers and strategies, on-site due diligence is the preferred approach. During the pandemic, virtual on-sites have taken the place of actual on-site visits. A virtual on-site can include video meetings with key manager personnel and virtual tours of operating facilities.

Mr. Davis reminded the Board at the April meeting, he spoke about extending the timeline of SCERS Alternative Assets Consultant search, due to the pandemic. SCERS originally targeted bringing a recommendation to the Board at the June Board meeting, but the process was pushed back to the second half of 2020 or first part of 2021. In the interim, SCERS extended the contract with Cliffwater for a year, to account for the delay. Mr. Davis stated that over the past couple of months, Staff has picked back up the review process, and is prioritizing this project during the remainder

of 2020. Mr. Davis noted, given the challenges in meeting with candidates face to face during the pandemic, it is anticipated that staff will be conducting virtual meetings to evaluate candidates. Staff will update the Board as the process continues.

Mr. Davis also noted that staff is in the process of evaluating more than 70 applications for the Investment Analyst position that was approved in the current year budget. This position is important and will assist existing Staff across the portfolio, including reporting, monitoring, and analysis.

ADMINISTRATIVE MATTERS:

Item 21. Audit Committee Members

The Board appointed Ben Lamera, James Diepenbrock, and Martha Hoover to serve on the Audit Committee for 2020-21 and designated Mr. Lamera to serve as committee chair. **(7-0)**

Item 22. Strategic Management Plan Quarterly Update

Mr. Stern presented the Strategic Management Plan quarterly report. The Board approved a motion to receive and file the report. **(7-0)**

INVESTMENT MATTERS:

Item 23. Securities Litigation Claim-Filing Services

General Counsel Stephen Lau presented an overview of security litigation claim-filing services. The Board approved a motion to authorize the CEO to extend the contract with Financial Recovery Technologies (FRT) through December 31, 2023 for securities litigation claim-filing services. **(7-0)**

Item 24. Withholding Tax Recovery Services

Chief Investment Officer Steve Davis and Investment Officer Brian Miller presented an overview of withholding tax recovering services. The Board approved a motion to retain WTax to perform withholding tax recovery services and authorize the CEO to execute any documents related to the recommendation. **(7-0)**

Item 25. Quarterly Investment Performance Report—Second Quarter 2020

John Nicolini of Verus Advisory provided an update of SCERS’ investment performance for the previous quarter.

SCERS TOTAL FUND PERFORMANCE SUMMARY
Quarter Reporting Periods Ending June 30, 2020

SCERS ASSET CLASS	Quarter	Year-to-Date	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS TOTAL FUND Return w/Overlay	7.6%	-2.9%	2.9%	6.9%	6.6%	8.2%	Jun-86
Policy Index	6.7%	-3.2%	1.5%	5.3%	5.8%	8.3%	
InvestorForce Public DB > \$1B	10.4%	-3.9%	1.3%	4.9%	5.4%	7.9%	
SCERS TOTAL FUND Return w/o Overlay	7.1%	-3.6%	2.1%	6.6%	6.5%	8.1%	Jun-86
Policy Index	6.7%	-3.2%	1.5%	5.3%	5.8%	8.3%	
GROWTH ASSET CATEGORY	12.4%	-6.0%	2.0%	7.6%	-	8.5%	Mar-17
Custom Benchmark	11.3%	-6.0%	0.7%	6.1%	-	6.9%	
DIVERSIFYING ASSET CATEGORY	4.5%	3.0%	5.3%	3.9%	-	4.1%	Mar-17
Custom Benchmark	3.1%	3.7%	5.7%	4.2%	-	4.4%	
REAL RETURN ASSET CATEGORY	-4.8%	-5.6%	-2.5%	5.5%	-	5.8%	Mar-17
Custom Benchmark	-3.6%	-4.7%	-3.6%	3.1%	-	3.2%	
OPPORTUNITIES PORTFOLIO	-3.9%	-2.0%	5.1%	2.5%	5.5%	14.2%	Oct-07
Custom Benchmark	-8.6%	-4.6%	-0.6%	8.6%	9.1%	4.9%	
DEDICATED CASH	0.4%	0.7%	1.3%	-	-	1.3%	Jun-19
Overnight LIBOR	0.0%	0.3%	1.3%	-	-	1.3%	

The Board approved a motion to receive and file the SCERS’ Total Fund Investment performance Report for the quarter ending June 30, 2020. **(7-0)**

Following Item 25, Mr. Fowler paused the meeting for a lunch break. The meeting resumed at 1:00 p.m.

BENEFIT MATTERS:

Item 26. Sick Leave Conversion Policy—Second Discussion Draft

Mr. Stern presented a second discussion draft of the Sick Leave Conversion Policy to clarify the process for how SCERS will calculate the conversion of unused sick leave to service credit pursuant to Government Code section 31641.01 The Board approved a motion to approve a discussion draft for dissemination to stakeholders. **(7-0)**

Item 27. Update on New California Supreme Court Decision Upholding PEPRA

Ashley Dunning of Nossaman LLP provided an update of the potential impact on SCERS policies and practices from the California Supreme Court opinion in *Alameda County Deputy Sheriffs’ Association v. Alameda County Employees’ Retirement Association and Board of Retirement of ACERA*. The Board approved a motion to receive and file the presentation. **(7-0)**

Following Item 27, Mr. Fowler announced the Board will convene in Closed Session for Items 28 and 29.

CLOSED SESSION

Item 28. Conference with Legal Counsel—Existing Litigation

Following the closed session, Mr. Fowler announced that the Board discussed existing litigation in the case of *DSA v. SCERS*. No actions were taken.

Item 29. Conference with Legal Counsel—Anticipated Litigation

Following the closed session, Mr. Fowler announced that the Board discussed exposure to litigation to which SCERS may be a party. No actions were taken.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:17 p.m.

MEMBERS PRESENT

via teleconference: Keith DeVore, John B. Kelly, Diana Gin, Dave Comerchero, Martha J. Hoover, Matt Petersen, Kathy O’Neil, and Rick Fowler presiding.

MEMBERS ABSENT: Ben Lamera, James Diepenbrock; Alternate Safety Representative is vacant

OTHERS PRESENT

via teleconference: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Stephen Lau, General Counsel; Stephen Hawley, Chief Strategy Officer; Mario Sierras, Chief Benefits Officer; Debbie Chan, Senior Accounting Manager; John Lindley, Senior IT Analyst; Jim Donohue, Deputy Chief Investment Officer; JR Pearce, Retirement Investment Officer; Brian Miller, Retirement Investment Officer; Joan Kudin, Public Information Officer; John Nicolini, Verus Advisory, Inc.; Chetner Walter; Jenna Taylor, Retirement Services Manager; Stephanie Schmidt, Sr. Retirement Benefit Specialist; Chao Thor, Disability Retirement Analyst; Gar Chung, Michael Bowman; Chet Madison; Connor McCleskey; David Mitchell; Jacob Trujillo; Jim Baker; Kevin Mickelson; Lindsey Clementz; Monica Peterson; Terry Brewton; Todd Thiessen 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: _____