



MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, AUGUST 17, 2022
10:00 A.M.

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

Teleconference Location: SCERS Lobby Offices
980 9th Street, 19th Floor
Sacramento, CA 95814

Live-stream at www.scers.org

OPEN SESSION

Item 1. Swearing-In Ceremony

Alma Munoz, Assistant Clerk of the Board of Supervisors, conducted the oath of office for newly appointed trustee Robert Aguillo Jr.

Item 2. Call to Order/Roll Call

Eric Stern, Chief Executive Officer (CEO), called the meeting to order at 10:05 a.m. and took roll call.

Board Members Present: DeVore, O'Neil, Aguillo, Suter, Lamera, Mangru, Noble, Giboney, Hoover.

Board Members Absent: None.

Also present: Eric Stern, Chief Executive Officer (CEO); Margo Allen, Chief Operations Officer (COO); Steve Davis, Chief Investment Officer (CIO); Stephen Lau, General Counsel; Mario Sierras, Chief Benefits Officer (CBO); Jim Donohue, Deputy Chief Investment Officer; Brian Miller, Senior Retirement Investment Officer; Michael Vang, Retirement Investment Analyst; Brian Kwan, Verus; John Nicolini, Verus; and Carolyn Hill, Executive Secretary.

Members of the Board of Retirement:

Keith DeVore, President
Appointed by the Board of Supervisors

Kathy O'Neil, Vice President
Elected by the Retired Members (Alternate)

Robert Aguillo Jr.
Appointed by the Board of Supervisors

Ronald Suter
Appointed by the Board of Supervisors

Vacant
Appointed by the Board of Supervisors

Ben Lamera
Ex Officio, Director of Finance

Alina Mangru
Elected by Miscellaneous Members

Vacant
Elected by Miscellaneous Members

Jack Noble
Elected by the Safety Members

Chris Giboney
Elected by the Safety Members (Alternate)

Martha Hoover
Elected by the Retired Members

Executive Staff:

Eric Stern
Chief Executive Officer

Margo Allen
Chief Operations Officer

Steve Davis
Chief Investment Officer

Stephen Lau
General Counsel

Mario Sierras
Chief Benefits Officer

Item 3. Election of Board Officers

Mr. Stern opened nominations for Board President. Mr. DeVore was nominated for President, and was elected unanimously. **(8-0)**

President DeVore opened nominations for Vice President. Ms. O'Neil was nominated for Vice President and was elected unanimously. **(8-0)**

Item 4. Public Comment

None.

CONSENT MATTERS – ITEMS 5-17:

The Board approved a motion to approve Consent Calendar Items 5-17, except for Items 5, 6, 7A and 7B. The motion carried 8-0. Agenda Item 5 was abstained by Aguallo, Lamera and Suter. Agenda Items 6, 7A and 7B were abstained by Aguallo.

Item 5. Minutes of the June 15, 2022 Regular Meeting—Approved the Minutes of the June 15, 2022 Regular Meeting.

Item 6. Minutes of the July 6, 2022 Audit Committee Meeting—Approved the Minutes of the July 6, 2022 Audit Committee Meeting.

Item 7. Disability Retirement Applications—Approved the Disability Retirement Applications.
A. Maryland-Monteiro, Colette—Granted a service-connected disability as recommended by staff.
B. Nielsen, Richard—Granted a service-connected disability as recommended by staff.
C. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 8. Ratification of Service Retirement Application Approvals—June and July 2022—Ratified the Service Retirement Applications that were finalized in June and July 2022.

Item 9. State Association of County Retirement Systems Legislative Update—August 2022—Received and filed the SACRS Legislative Update for August 2022.

Item 10. CEO Delegated Authority Expense Quarterly Report – Second Quarter 2022—Received and filed the CEO Delegated Authority Expense Quarterly Report for Second Quarter 2022.

Item 11. Proxy Voting Activity Report—Second Quarter 2022—Received and filed the Proxy Voting Activity Report for Second Quarter 2022.

Item 12. Placement Agent Disclosure Report—Second Quarter 2022—Received and filed the Placement Agent Disclosure Report—Second Quarter 2022.

Item 13. Portfolio Allocation and Rebalancing Report—Second Quarter 2022—Received and filed the Portfolio Allocation and Rebalancing Report for the Second Quarter 2022.

- Item 14. Monthly Investment Manager Activity, Compliance, and Watch List Report—July 2022**—Received and filed the Monthly Investment Manager Activity, Compliance, and Watch List Report for July 2022.
- Item 15. Trading Cost Analysis Reports—Second Quarter 2022**—Received and filed the Trading Cost Analysis Reports for the Second Quarter 2022.
- Item 16. 2021 Alternative Asset Fee and Expense Report**—Received and filed the 2021 Alternative Asset Fee and Expense Report.
- Item 17. Monthly Report of Investment Activity—June and July 2022**—Received and filed the report summarizing SCERS' investment activity for June and July 2022.

EXECUTIVE REPORTS:

Item 18. Chief Executive Officer's Report

Mr. Stern announced the upcoming SACRS Conference in Long Beach, November 8-11, 2022.

Mr. Stern also provided the following updates:

AB 2449 -- This bill would allow board members to use teleconferencing without identifying each teleconference location in the notice/agenda and without making each teleconference location accessible under different scenarios:

1. The legislative body meets remotely during a proclaimed state of emergency and state or local officials have imposed or recommended measure(s) to promote social distancing, board would determine every 30 days if meeting in person would present imminent risks to the health or safety of attendees. This is how we operated for the first year of the pandemic. Or,
2. Some members participate remotely for just cause or due to emergency circumstances, but a quorum has to be on-site.

Alameda Update -- SCERS has completed its analysis of compensation and payroll records and is preparing to issue refunds of overpaid contributions and interest to approximately 4,800 active and deferred members in accordance with the *Alameda* decision.

By the end of August, SCERS will be sending refund notices and a Special Distribution Request Form to active and deferred members. Members will have the option to receive the refund as a direct payment, less taxes, or elect to roll over to a qualified plan, such as an Individual Retirement Account (IRA) or an eligible employer plan such as a 457(b) plan.

For retired members, SCERS is finalizing its analysis of pension calculations and anticipates adjustments to monthly pensions for approximately 2,000 impacted members to begin in the last quarter of 2022 targeting October 2022 to send retired members detailed notices about the adjustments, which may include overpayments that may need to be

recovered. SCERS will be providing extended timeframes to recover overpayments through monthly pension warrants.

Item 19. Chief Investment Officer's Report

Steve Davis, Chief Investment Officer, provided the following updates on SCERS' portfolio:

GLOBAL EQUITY UPDATE

- At the May meeting, the Board approved investing approximately \$125 million each to two global equity managers, Artisan Partners and Nikko Asset Management, to conclude a global equity search within the Global/Unconstrained segment of the Global Equity asset class.
- Since the Board's approval, contracts were completed and signed, and both mandates have been funded and implemented.
- SCERS invested in each manager's commingled fund, with a funding date for each on August 2nd.

BURGISS – PORTFOLIO ANALYTICS UPDATE

- At the June meeting, the Board approved retaining Burgiss to provide its Caissa portfolio analytics software.
- The contract with Burgiss has been finalized, and Staff has been working with Burgiss to onboard SCERS' portfolio hierarchy and data.
- The onboarding process will continue during the remainder of this year, and we expect to have it up and running in early 2023.

PRIVATE EQUITY (PE) SECONDARY SALE UPDATE

- At the April Board meeting, the Board authorized Staff to select and retain an advisory firm to conduct a secondary sales process for some legacy Fund of Funds (FoF) investments in the PE portfolio, which is a small component of the PE portfolio.
- Staff and Cliffwater evaluated a handful of reputable advisory firms, and have retained the services of Evercore.
- Evercore will market the transaction and assist in evaluating potential buyer bids, and Staff will update the Board accordingly.

PORTFOLIO ALLOCATION/REBALANCE REPORT

- Within the consent item Portfolio Allocation and Rebalance Report, there are several deviations from target allocations across asset classes.
- Global equities, in particular, are underweight due to the significant sell off in public equities during the first half of the year.
- Private markets have either rapidly increased toward their target allocations, or have moved above their target allocations, which is also a function of the sell-off in public assets.
- Private market valuations are lagged a quarter and generally experience a smoothing effect since valuations are not marketed to market. They generally won't experience the volatility of public market returns.
- Most institutional investors are experiencing the same challenges as SCERS.
- Staff and consultants are actively monitoring the weights relative to targets. This includes evaluating some level of public equity rebalancing, while also being mindful that equity markets are up in Q3.

- Private markets have a few considerations to manage the allocations:
 - SCERS is implementing toward the lower range of some of the private market commitment budgets for 2022.
 - Staff is currently evaluating selling some legacy FoF positions, if the pricing is right.
 - Private markets are lagged, so private markets could see some valuation decreases over the next couple of quarters.
- Public markets are up meaningfully in the third quarter, which would will reduce private market over-weights.

Item 20. Chief Benefits Officer's Report

Mario Sierras, Chief Benefits Officer, provided the following updates:

- 88 retirement applications were processed in June 2022 and 52 applications were processed in July 2022. Retirement application volume is expected to decrease and normalize as we settle into off-peak season retirement application volume.
- With an annual retirement application volume between 600-700 applications, the expected average monthly production output is between 50-60 applications. Staff has done a great job stabilizing production output over the past 7 months and is expected to continue.
- Median turnaround time for retirees receiving their first retirement payment was 69 days in June 2022 and 55 days in July 2022.
- 30% of retirees received their first retirement payment within 60 days in June 2022, and 65% of retirees were paid within 60 days in July 2022.
- Overall, retirement production volume continues to improve with consistent production output. For context, we delivered inconsistent production output during the first half of this fiscal year but stabilized production with consistent monthly production output during the last half of the fiscal year. During the six-month period between July and December of 2021, we experienced a low/high range of 18 to 100 applications processed, with an average of 49 applications processed during that six-month period. During the second half of the fiscal year, between January and June of 2022, the low/high range was 54 to 113, with an average of 73 applications being processed during this six-month period.
- With the addition of a second retirement services manager to the Benefits team late last year, coupled with internal process improvements, we have been able to stabilize our production output over the last 7 months. This has been done despite a high vacancy rate. We experienced additional staff turnover in the last two months with two employees moving on to other employment, which puts the Benefits team vacancy rate at just under 50%.
- The Benefits team is making progress with recruitment efforts, albeit slow, in getting employment exams created and posted. We are actively pushing and working toward filling vacancies. In the meanwhile, we have utilized two temporary employees in recent months and we are in the process of adding several more to supplement staffing in the short-term.

ADMINISTRATIVE MATTERS:

Item 21. Strategic Management Plan—Quarterly Performance Report

Mr. Stern presented the Strategic Management Plan—Quarterly Performance Report for the Second Quarter 2022.

The Board approved a motion to receive and file the Strategic Management Plan—Quarterly Performance Report for the Second Quarter 2022. **(8-0)**

Item 22. Pension Administration System (PAS) Quarterly Report Review

Mr. Stern presented the PAS quarterly report for review.

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

Item 23. Employer Liability Policies

Margo Allen, COO, presented the Employer Liability Policies.

The Board approved a motion to re-affirm the *Declining Employer Payroll Policy* to ensure an employer will continue to satisfy its obligation to timely pay all unfunded actuarial accrued liability (UAAL) attributable to the prior and future service of active, retired, and deferred members who are or were the employer's employee(s) or qualified beneficiaries; and, (2) the *Terminating Employer Policy* to identify unfunded liabilities and collect contributions from employers that plan to withdraw or have withdrawn membership from SCERS. **(8-0)**

Item 24. Legislative Issues: AB 2493 and Alameda Corrections

Mr. Stern presented the staff report on the Legislative Issues: AB 2493 and *Alameda Corrections*.

The Board approved a motion to take a formal "oppose unless amended" position on Assembly Bill 2493 due to issues of administrative feasibility and authorize the Chief Executive Officer to communicate to the Legislature and Governor as appropriate. **(8-0)**

INVESTMENT MATTERS:

Item 25. Education: Investment Manager Activity, Compliance, and Watch List

Mr. Davis, Michael Vang, Investment Analyst, and Brian Miller, Senior Investment Officer, presented a PowerPoint presentation.

Mr. Aguillo requested the vintage years for the private equity funds be included in the report.

Mr. Noble asked if 7-10 years was the typical investment period for a private equity fund; Mr. Davis confirmed that was the typical timeframe.

Mr. DeVore recommended that producing the report on a quarterly basis would be appropriate.

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

The Board took a recess from 11:57 a.m. to 12:07 p.m.

Item 26. Liquidity Study

Mr. Davis, and Brian Kwan and John Nicolini, representing Verus, presented the Liquidity Study and cash-flow profile of SCERS' portfolio.

Mr. Noble asked for clarification on the projected decrease in contribution rates. Mr. Stern responded that the analysis is based on June 30, 2021 information, which includes a nearly 28% investment return. As the fund moves closer to fully funded status, the employer contributions will decrease as the unfunded liability is paid off. The member contributions will not be affected because those are based on normal costs, he said.

Mr. Aguallo asked if other systems are using a similar Verus model that analyzes liquidating non-risk assets. Mr. Nicolini noted that SCERS was an early adopter of the modified liquidity analysis and their other clients have now adopted it.

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

Item 27. Quarterly Investment Performance Report—Second Quarter 2022

John Nicolini, representing Verus, presented the Quarterly Investment Performance Report for Second Quarter 2022.

The Board approved a motion to receive and file the Quarterly Investment Performance Report for Second Quarter ended June 30 2022. **(8-0)**

ADJOURNMENT

There being no further business, President DeVore adjourned the meeting at 12:53 p.m.