



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Scott Chan  
Chief Investment Officer

Robert L. Gaumer  
General Counsel

Kathryn T. Regalia  
Chief Operations Officer

John W. Gobel, Sr.  
Chief Benefits Officer

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

Michael DeBord  
Elected by the Retired Members

James A. Diepenbrock  
Appointed by the Board of Supervisors

Diana Gin  
Elected by the Miscellaneous Members

Chris A. Pittman  
Elected by the Safety Members

Julie Valverde  
Ex Officio, Director of Finance

John Conneally  
Elected by the Safety Members

Martha J. Hoover  
Elected by the Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, WEDNESDAY, JANUARY 21, 2015

A regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Wednesday, January 21, 2015, and commenced at 10:03 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the December 17, 2014 special meeting were approved on Motion by Mr. DeVore; Seconded by Mr. Pittman. Motion carried (7-0).

##### CONSENT MATTERS:

Items 3-8

The Consent Matters were acted upon as one unit upon a Motion by Ms. Valverde; Seconded by Mr. Kelly. Motion carried (7-0).

3. RUZICKA, Lawrence V.: Granted a service-connected disability retirement.

**CONSENT MATTERS (continued):**

4. WHITE, Mary H.: Granted a service-connected disability retirement.
5. ZWOLINSKI, Jeana K.: Denied a service-connected disability retirement.
6. Approved the proposed amendment to the investment guidelines for the fixed income engagement with Neuberger Berman.
7. Received and filed the December 2014 Monthly Investment Portfolio Activity Report.
8. Received and filed the December 2014 Monthly Investment Manager Compliance Report and Watch List.

**ADMINISTRATIVE MATTERS:**

9. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud reported that Chief Investment Officer Scott Chan had been nominated by the international financial publication Institutional Investor for their 'CIO of the Year' award. Mr. Stensrud congratulated Mr. Chan on his nomination.

Mr. Stensrud stated that the Board Members had been given a copy of the Board Education Report. Mr. Stensrud noted that under the 1937 Act, there is a two year cycle in which Board Members are required to complete 24 hours of education. Mr. Stensrud stated that all Board Members had fulfilled their requirement by the end of 2014.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 12-15 in Anaheim. Mr. Stensrud noted that the date of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled to May 6.

Mr. Stensrud reported that the California Association of Public Retirement Systems (CALAPRS) General Assembly would be March 8 - 10, 2013 in Monterey. Mr. Stensrud stated that Board Members who wish to attend should contact Staff for assistance.

10. Senior Accounting Manager Thuyet Dang presented a proposed request for proposals (RFP) for pension administration and financial systems consulting services. Ms. Dang noted that Staff had made a presentation on SCERS' technology needs assessment at the September Board Meeting and that SCERS' next step was to prepare a RFP for a consultant who would perform a formal comprehensive analysis of SCERS' current business and IT processes, develop recommendations, and potentially assist with developing an RFP for a system replacement.

**ADMINISTRATIVE MATTERS (continued):**

Ms. Dang stated that through consultation with other 1937 Act Systems and using previous successful requests created by other government agencies, a RFP had been created to find that independent consultant to oversee all phases of a potential system replacement project.

Ms. Dang noted that Staff has prepared a targeted list of potential consultants based on feedback from 1937 Act Systems, discussions at the GFOA Annual Conference, and research. Ms. Dang noted the RFP will also be posted on the SCERS website.

Ms. Dang noted that the RFP responses would be reviewed by an evaluation committee. Ms. Dang further stated that the committee would be comprised of key Staff, at least one person outside of SCERS, plus at least one Board Member, if there is interest from the Board.

Ms. Dang noted that, based on the proposed timeline, Staff expects to present a report and recommendation regarding which consultant to engage, as well as a presentation from that consultant, at the April or May Board Meeting.

Discussion followed.

Motion by Mr. Kelly to approve the proposed request for proposals for pension administration and financial systems consulting services; Seconded by Mr. DeVore. Motion carried (7-0).

11. Chief Executive Officer Richard Stensrud provided a presentation of a report on the final compensation review mandated by CalPEPRA.

Mr. Stensrud stated that this report would provide an overview of the final compensation review process that Staff has been undertaking since CalPEPRA went into effect in January, 2013. Mr. Stensrud noted the CalPEPRA requires retirement systems do an additional level of analysis on retirement applications beyond what had been done in the past. Mr. Stensrud explained that, in particular, retirement systems are now required to look at the compensation in the final average salary period and determine whether or not an element of pay had been provided for the purpose of enhancing the retirement benefit. Mr. Stensrud further explained that, if the element of pay had been provided for the purpose of enhancing the retirement benefit, then that element of pay would be deemed to be impermissible pension spiking.

Mr. Stensrud reminded the Board that it had approved a process through which Staff would undertake the analysis and in cases where Staff found an element of pay that they felt met the statutory standard, Staff would bring that case to the Board for the final decision on whether or not that pay element should be included or excluded. Mr. Stensrud noted that

**ADMINISTRATIVE MATTERS (continued):**

Staff realized that this activity would need to be examined based on the actual experience, which would lead to determining whether modifications would need to be considered with respect to that process.

Mr. Stensrud reported that, in the first two years of this review, SCERS had not had a situation which Staff believed met the standard under CalPEPRA for potential exclusion. Mr. Stensrud further noted, however, that the rules established by the legislature for determining when spiking exists had some complicating features. Mr. Stensrud noted that the guidelines are not quantitative, but rather the focus of the analysis is based solely on intent. Mr. Stensrud further noted that the burden of proof is on the retirement system to establish that requisite intent, which is a challenging benchmark because of reasonable alternative explanations for an element of pay.

Mr. Stensrud reported that almost 1200 retirement applications had gone through the review process over the two years and that 30 of those applications warranted closer scrutiny. Mr. Stensrud stated that the trigger for closer review was if the increase in the final compensation period relative to the preceding period exceeded the actuarial growth assumption by 1.5 times. Mr. Stensrud explained that the review process began with the Benefits Staff, and when an application warranted closer review, it was submitted to the Accounting Staff for analysis.

Mr. Stensrud stated that it was important to note that all of the pay elements receiving closer scrutiny had been approved by the employer, but that they also frequently exhibit a feature of control on the part of the employee. Mr. Stensrud stated that all of the pay elements noted were either required and/or permitted under the compensation rules or bargaining agreement provisions applicable to the member's given job classification and were paid in cash during the member's active employment. Mr. Stensrud reported that the explanations for all of these pay elements included a reasonable alternative explanation for why the element of pay was established, other than for the purpose of enhancing the retirement benefit.

Discussion followed. It was suggested by the Board that more education should be provided, specifically for employers, on how the pay elements during the final average salary period affect a member's retirement benefit and system's unfunded liability.

12. General Counsel Robert Gaumer provided the proposed policy regarding compliance with the financial disclosure requirements of the Fair Political Practices Commission (Form 700).

Mr. Gaumer noted that the Board Members had been provided with the annual Form 700 Statement of Economic Interests. Mr. Gaumer noted that the Board Members had also been given a copy of their previous year's Form 700 for reference and information on how to handle gifts and honorarium.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Gaumer stated that SCERS' external auditor, Macias, Gini & O'Connell (Macias) noted that it was best practice to have a formal, written statement policy (Policy) regarding the Form 700. Mr. Gaumer noted that, while Macias had reported that SCERS has complied with the statutory and regulatory requirements to date, Macias recommended that a Policy be adopted. Mr. Gaumer stated that Staff has prepared this Policy for Board approval.

Mr. Gaumer noted that the Policy content is based largely upon the language of California Code of Regulation §18115. Mr. Gaumer reviewed the process for submission and review of the forms outlined in the Policy.

Motion by Mr. DeVore to approve the proposed policy regarding compliance with the financial disclosure requirements of the Fair Political Practices Commission (Form 700); Seconded by Mr. Pittman. Motion carried (7-0).

**INVESTMENT MATTERS:**

13. Chief Investment Officer Scott Chan introduced an educational presentation on potential investment opportunities related to developments in the energy sector.

Mr. Chan noted the well-publicized decline in oil prices over the previous few months and explained that Staff views this as a potential opportunity. Mr. Chan noted that with oil prices reduced, the value of energy companies and energy projects would also be reduced, making this sector an attractive relative value with some 'margin of safety' against a decline in value since the oil price collapse has already been factored into the valuations. Mr. Chan stated that some of the 'worst case' scenario was already beginning to be discounted in prices of companies.

Jaime Feidler of Cliffwater, LLC reviewed the recent history of oil prices, noting that the recent sell-off is not without precedent. Mr. Feidler then reviewed the impact that oil has had on asset class performance. Mr. Feidler discussed the performance of private and public energy funds relative to the price of oil. Mr. Feidler noted that private energy funds with capital to invest will be well positioned to take advantage of the distress in the sector.

Mr. Feidler reviewed the energy exposure in the SCERS portfolio, noting that it constitutes roughly 5% within SCERS' traditional assets. Mr. Feidler stated that SCERS is well positioned to take advantage of opportunities in the energy sector, should quality opportunities arise.

Patrick Thomas of Strategic Investment Solutions reviewed the public market energy weights in the SCERS portfolio relative to a manager's benchmark. Mr. Thomas and

**INVESTMENT MATTERS (continued):**

Mr. Fiedler then discussed current energy market expectations and potential areas of opportunity.

Discussion followed.

The meeting was adjourned at 12:55 p.m.

MEMBERS PRESENT: Richard B. Fowler II, John B. Kelly, Keith DeVore, Michael DeBord, Chris Pittman, Julie Valverde, John Conneally and Martha J. Hoover.

MEMBERS ABSENT: James A. Diepenbrock and Diana Gin.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Patrick Thomas and John Nicolini, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater LLC; and John Reed, County Counsel.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
Rick Fowler, President

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

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.