



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, DECEMBER 17, 2014

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, December 17, 2014, and commenced at 10:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Member Richard Peña addressed the Board regarding his customer service experience at the SCERS office.

##### MINUTES:

2. The Minutes of the November 5, 2014 special meeting were approved on Motion by Mr. DeVore; Seconded by Mr. Kelly. Motion carried (9-0).

##### CONSENT MATTERS:

Items 3-12

The Consent Matters were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Ms. Valverde. Motion carried (9-0).

3. HAASE, K.C.: Granted a reciprocal service-connected disability retirement.

**CONSENT MATTERS (continued):**

4. KERWIN, Patricia: Granted a nonservice-connected disability retirement.
5. KIVLIN, Holly E.: Granted a reciprocal nonservice-connected disability retirement.
6. SEIPERT, Michael A.: Granted a reciprocal service-connected disability retirement.
7. ZWOLINSKI, Jon A.: Granted a service-connected disability retirement.
8. CHUPP, Rebecca: Denied a service-connected disability retirement and granted a nonservice-connected disability retirement.
9. STUDER, Joe W.: Denied a service-connected disability retirement.
10. Approved the proposed interest crediting rate for member contribution accounts for the six month period ending December 31, 2014.
11. Received and filed the November 2014 Monthly Investment Portfolio Activity Report.
12. Received and filed the October 2014 and November 2014 Monthly Investment Manager Compliance Report and Watch List.

**ADMINISTRATIVE MATTERS:**

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

Mr. Stensrud noted that CEO Julie Wyne of the Sonoma County Employees' Retirement Association (SCERA) was in attendance, as well as Steve Marsh and Jim Failor from the SCERA investment staff.

Mr. Stensrud reported that the international financial publication *Chief Investment Officer* announced that SCERS has been named the 2014 Industry Innovation Award winner in the category of public pension funds with up to \$15 billion in assets. Mr. Stensrud stated that the *Chief Investment Officer* awards look for innovation in institutional investment programs, especially in volatile market environments, and recognize the investors who most successfully execute on that innovation. Mr. Stensrud noted that, in addition to SCERS, finalists for the award included Los Angeles Department of Water and Power; Maine Public Employees Retirement System; New Mexico Public Employees Retirement System; Oklahoma Public Employees Retirement System; and San Diego City Employees' Retirement System. Mr. Stensrud commended the SCERS Staff on their achievement.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Fall Conference occurred in November and invited Board Members who attended to offer

**ADMINISTRATIVE MATTERS (continued):**

comments on the conference. Mr. DeVore and Mr. Kelly noted that conference was well done and that good information was provided.

Mr. Stensrud reported that a new position had been established for a Senior Accounting Manager, which will provide more flexibility when addressing SCERS' accounting staff needs. Mr. Stensrud also stated that work was underway to create an additional Retirement Services Supervisor position. Mr. Stensrud noted that there were also plans to create a new level of positions for the benefits department below the current Retirement Benefits Specialists, which will focus on the more ministerial aspects of benefits administration, allowing more experienced and highly skilled Staff to concentrate on more complicated and customer-centric tasks.

14. Richard A. Green of Macias Gini & O'Connell presented the Report to the Board of Retirement, the Report on Internal Controls and Compliance, and the Independent Auditor's Report for the Fiscal Years Ended June 30, 2014 and 2013.

Mr. Green noted that his firm provided three reports from their audit. The first report was the Independent Auditor's Report, which is the auditor's opinion on the basic financial statements. The second report was the Report on Internal Controls and Compliance. The third report was the Report to the Board of Retirement.

Mr. Green stated that the audit showed no deficiencies, nor any instances of non-compliance with laws or regulations. Mr. Green stated that the audit produced an unqualified or 'clean' opinion on the basic financial statements. Mr. Green explained that this was the highest assurance possible on the state of the financial statements. Mr. Green further explained that this means that the financial statements were fairly presented in accordance with generally accepted accounting principles.

Mr. Green commended SCERS' Staff for their preparation and cooperation in conducting the audit.

Motion by Mr. DeVore to receive and file the reports; Seconded by Mr. Diepenbrock. Motion carried (9-0).

15. Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2014 and 2013.

The Board and Chief Executive Officer Richard Stensrud commended Ms. Regalia and her team for the quality of the document.

Motion by Mr. Kelly to receive and file the report; Seconded by Mr. Pittman. Motion carried (9-0).

**ADMINISTRATIVE MATTERS (continued):**

16. Chief Operations Officer Kathryn Regalia presented the Governmental Accounting Standards Board (GASB) Statement No. 67 actuarial valuation as of June 30, 2014.

Ms. Regalia noted that GASB Statements 67 and 68 were new GASB rules, with GASB 67 applicable to SCERS for the fiscal year ended June 30, 2014, and GASB 68 applicable to the County and other participating employers effective June 30, 2015. Ms. Regalia further noted that rule changes were more significant for employers than for SCERS, and explained how the GASB 67 actuarial valuation was similar to and different from SCERS' Actuarial Valuation and Review. Ms. Regalia noted that going forward the GASB 67 information would be included in the broader annual actuarial valuation but that this could not be done with respect to this first report due to the recent implementation of Statement No. 67.

Motion by Mr. Diepenbrock to receive and file the actuarial valuation; Seconded by Ms. Gin. Motion carried (9-0).

**INVESTMENT MATTERS:**

17. Chief Investment Officer Scott Chan discussed qualitative considerations relative to SCERS' portfolio and the quarterly performance. Mr. Chan reported that market performance during the third quarter was mixed and fairly volatile. Mr. Chan stated that the quarterly performance was a reminder of where the markets are in their cycle. Mr. Chan further stated that due to the apparent high valuations in the markets, decreased returns and increased volatility are to be expected. Mr. Chan then reviewed the changing market and economic cycles and discussed how SCERS asset allocation should dynamically change with the movement in those cycles.

Patrick Thomas of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended September 30, 2014.

Mr. Thomas reported that the Total Fund (TF) return for the third quarter, including the impact of the overlay program, was -1.8% gross of fees. The TF return was 1.4% below the policy index of -0.4%, and 0.8% below the allocation index of -1.0%. The return of the TF without the impact of the overlay program was -1.1%.

Mr. Thomas reported that on a comparative basis, the return for the quarter was 0.3% below the Public Funds \$1+ Billion Median return of -1.5%. The TF return ranks in the 72nd percentile in the InvestorForce Universe, which is the ranking universe used by SIS. The major asset classes generated mixed returns for the quarter.

Mr. Thomas reported that at the asset class level, quarter out-performance occurred, gross of fees, in the fixed income and opportunistic segments. Underperformance occurred in the

**INVESTMENT MATTERS (continued):**

domestic equity, hedge fund, private equity, and real assets segments. International equity was in-line with the benchmark.

Mr. Thomas reported that the annualized TF return gross of fees for three years of 13.3% is 0.6% above the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 10.0% is 0.1% above the policy index benchmark for the period. The TF gross of fees return of 8.6% since the inception of SIS's data in June of 1986 is 0.2% below the Total Benchmark return of 8.8% for the period, but above SCERS' actuarial investment return assumption which has ranged from 8.25% to 7.50% (currently) during the period.

Motion by Mr. Diepenbrock to receive and file the quarterly performance report; Seconded by Mr. Kelly. Motion carried (8-0).

18. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending June 30, 2014 and September 30, 2014, including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' hedge fund portfolio was roughly flat, up 0.02% in the third quarter of 2014, underperforming the absolute return policy benchmark (90-day T-Bills + 5%) which was up 1.23% in the third quarter of 2014. Mr. Feidler noted that SCERS' hedge funds also underperformed the HFRI Fund of Funds Composite Index in the third quarter of 2014, which was up 0.3%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was down 0.43% in the quarter, and underperformed the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler stated that for the quarter, SCARF B returned 0.08%, which was also below both the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%.

Mr. Feidler reported that SCERS' direct hedge fund program was up 0.4% during the third quarter.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 10.5% since inception compared to the Venture Economics Private Equity Index up 10.7% and the multiple of total value to paid in capital ("TVPI") is 1.22x since inception. Mr. Feidler noted that SCERS' private equity portfolio shows lower relative returns due to the early phase/cycle of investments (j-curve affect) compared to the index.

Mr. Feidler reported that, through June 30, 2014, SCERS' real assets portfolio IRR was 7.2% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.4% and SCERS' TVPI was 1.21x.

**INVESTMENT MATTERS (continued):**

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 8.4% as of June 30, 2014 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%.

Motion by Mr. Diepenbrock to receive and file the quarterly performance report; Seconded by Mr. Kelly. Motion carried (8-0).

19. Jennifer Young and Nick Rittenhouse of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended September 30, 2014.

Ms. Young reported that SCERS' total real estate portfolio returned 1.9% during the third quarter of 2014, underperforming the benchmark (NFI-ODCE) by 3.0%. Ms. Young stated that for the 12-month period ending September 30, 2014, SCERS' real estate portfolio return was 11.2% and that in the same period, the benchmark returned 11.4%.

Ms. Young reported that SCERS' core real estate portfolio returned 3.7% during the third quarter, outperforming the benchmark by 0.7%. Ms. Young stated that for the 12-month period ending September 30, 2014, SCERS' core real estate portfolio return was 11.7% and that in the same period, the benchmark returned 11.4%. Ms. Young further stated that the core separate accounts returned 3.7% for the quarter and 11.7% for the 12-month period, compared to 3.5% and 11.7%, respectively for the commingled funds.

Ms. Young reported that SCERS' domestic public REIT portfolio returned -3.3%, compared to a third quarter return of -2.5% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that SCERS' international REIT portfolio outperformed the FTSE EPRA/NAREIT Global ex-US REIT Index by 0.4% with a return of -5.2% in the third quarter. Ms. Young reported that for the 12-month period ending September 30, 2014, SCERS' domestic public REIT portfolio earned a 14.3% return beating the benchmark index of 13.2%, while SCERS' international REIT portfolio earned 1.0% return in-line with the benchmark index of 1.1%.

Mr. Rittenhouse reported that SCERS' non-core real estate portfolio returned 3.5% for the quarter, exceeding Townsend's Non-Core Index Fund, which returned 1.9%. Mr. Rittenhouse stated that SCERS' non-core real estate portfolio returned 16.3% for the 12-month period, greatly outperforming the benchmark return of 12.4%.

Motion by Mr. Diepenbrock to receive and file the quarterly performance report; Seconded by Mr. DeVore. Motion carried (8-0).

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

**MINUTES – DECEMBER 14, 2014**

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MEMBERS PRESENT: Richard B. Fowler II, John B. Kelly, Keith DeVore (arrived at 10:03 a.m.), Michael DeBord, James A. Diepenbrock, Diana Gin (departed at 10:55 a.m.), Chris Pittman, Julie Valverde, and John Conneally.

MEMBERS ABSENT: Martha J. Hoover.

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, Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Patrick Thomas, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Young, Nick Rittenhouse, and Leslie Montag, The Townsend Group; Rick Green, Macias Gini & O'Connell; John Kennedy, Nossaman LLP; Julie Wyne, Jim Failor, and Steve Marsh, Sonoma County Employees' Retirement Association; Richard Peña; and K.C. Haase.

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.