



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

James A. Diepenbrock, President  
Appointed by the Board of Supervisors

John B. Kelly, Vice President  
Appointed by the Board of Supervisors

Michael DeBord  
Elected by the Retired Members

Keith DeVore  
Appointed by the Board of Supervisors

Richard B. Fowler II  
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Diana Gin  
Elected by the Miscellaneous Members

Kathy O'Neil  
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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, FEBRUARY 19, 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, February 19, 2014, and commenced at 10:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the January 18, 2014 regular meeting were approved on Motion by Mr. Fowler; Seconded by Mr. DeBord. Motion carried (8-0).

##### CONSENT MATTERS:

Items 3-12

Item 5 was taken off the Consent Calendar for discussion. The remaining Consent matters (Items 3, 4, and 6 – 12) were acted upon as one unit upon a Motion by Ms. Gin; Seconded by Ms. Valverde. Motion carried (8-0).

3. CAMPBELL, Maureen: Granted a nonservice-connected disability retirement.

**CONSENT MATTERS (continued):**

4. MENDOZA, Juana L.: Granted a service-connected disability retirement.
5. TALLMAN, Matthew L.: Moved to the Closed Session, Disability Matters.
6. Approved the proposed annual cost-of-living adjustment (COLA) effective April 1, 2014, for SCERS' monthly benefit payments.
7. Approved the proposed amendments to the Investment Management Agreements with BlackRock Realty Advisors and Cornerstone Real Estate Advisors.
8. Approved the proposed amendments to the Investment Management Agreement with Eagle Capital Management.
9. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended December 31, 2013.
10. Received and filed the Semi-Annual Administrative Expense Report for the six months ended December 31, 2013.
11. Received and filed the Trading Cost Report for the Quarter Ended December 31, 2013.
12. Received and filed the January 2014 Monthly Investment Manager Compliance Report and Watch List.

**CLOSED SESSION:**

**DISABILITY MATTERS:**

5. Moved from Consent Matters at the request of Mr. Pittman.

TALLMAN, Matthew L.: Denied a service-connected disability retirement upon unanimous vote (8-0).

**OPEN SESSION:**

**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 reminded the Board that the deadline to file the annual Form 700 Statement of Economic Interests Form is April 1, 2014. Mr. Stensrud noted that General Counsel Robert Gaumer was available to answer any questions regarding the Form.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud also reminded the Board that the Special Retirement Board Meeting to be held for the purpose of conducting a strategic planning exercise was scheduled for Monday, March 3, and Tuesday, March 4, in the SCERS administrative offices.

Mr. Stensrud reported that Staff would be presenting the Board proposed modifications to the disability determination process at the April meeting.

Mr. Stensrud reported that a lawsuit regarding retiree health care and Orange County had recently been ruled upon. Mr. Stensrud noted that this case dealt with the decision in 2008 by Orange County to de-pool the retired members from the active members for the purposes of calculating health insurance rates. Mr. Stensrud explained that the court found that there was not sufficient evidence of an implied contract regarding the previous pooling arrangement to support the retirees' claim that pooling should be reinstated.

Mr. Stensrud reported that the proponents of the ballot initiative that would amend the constitution to authorize prospective modification of pension benefits had announced that it would be deferred to 2016. Mr. Stensrud stated that this was likely done so that the initiative would be voted on at an election with a higher voter turnout and to allow more time for fundraising.

Mr. Stensrud reported that as bargaining continues between the County and various employee organizations, discussions are occurring as to whether employees would be willing to take on a greater share of the normal cost of the retirement benefits. Mr. Stensrud stated that upon the request of the parties, he had been participating in these discussions to ensure that both parties had accurate information about retirement benefits and their cost.

Mr. Fowler asked Mr. Stensrud to comment on recent stories in the news regarding higher future costs for employers in CalPERS due to people living longer. Mr. Stensrud explained that SCERS reviews its actuarial assumptions at least every three years, and in the last review changes had been made to the life expectancy assumptions to address the fact that people were living longer. Mr. Stensrud noted that these changes were already incorporated in the contribution rates and had not significantly increased cost.

Mr. Fowler also asked Mr. Stensrud to comment on the news stories regarding the need to increase costs for CalSTRS. Mr. Stensrud explained that unlike at SCERS (and most other public pension funds), where the contribution rates are adjusted each year based on the annual actuarial valuation, the contribution rates for CalSTRS are set by statute. Mr. Stensrud noted that if contribution rates needed to be changed, the statute would have to be amended. Mr. Stensrud explained that this had not happened for several years, and as a result, the funding for CalSTRS has been below the level necessary to maintain/improve the funded status of the plan.

**INVESTMENT MATTERS:**

14. Chief Executive Officer Richard Stensrud introduced the presentation of the 2013 Investment Year in Review.

Mr. Stensrud stated that the purpose of the Investment Year in Review report is to: (a) Summarize the major events and developments of the past year, including investment performance; (b) Remind the Board of what has been accomplished over the year; (c) Highlight the decisions that were made, the rationale for those decisions and the direction(s) established going forward; and (d) Preview the investment program projects, issues and objectives for the year to come.

Mr. Stensrud noted that in 2013, SCERS leveraged the expertise of its internal investment staff, investment consultants and key investment partners to continue to implement the asset allocation structure adopted in 2011, which was designed to reduce risk, increase diversification and improve investment performance across economic environments. Mr. Stensrud explained that the primary focus of SCERS' investment team in 2013 was to apply those same objectives to the construction and implementation of the individual asset classes, by establishing a customized investment manager structure for each asset class designed to meet the investment objectives of the asset class and assure that the asset class performs its assigned role relative to the overall investment portfolio.

Mr. Stensrud noted that the investment program continues to see the benefit of greater diversification and reduced risk, with 2013 calendar year investment performance of 16.5%, which is 2.5% above the investment portfolio benchmark, and well above SCERS' long term investment return assumption of 7.5%. Mr. Stensrud noted that the investment performance continues to be strong over the long term, with a return of 8.7% for the last twenty-seven years.

Mr. Stensrud observed that the success of SCERS' investment program since the collapse of the global financial markets in 2007-2009 has enabled SCERS' assets to grow to more than \$7.5 billion, which is more than \$1.3 billion higher than the asset level before the market collapse. Mr. Stensrud stated that over this period, the strong investment performance has minimized the impact of the market collapse on employer pension costs, saving employers millions of dollars and that future cost impact from the market collapse has largely been erased.

Mr. Stensrud noted that the success of SCERS' investment program also led to recognition by the institutional investor community in 2013, with the international financial publication *aiC/O* selecting SCERS from a roster of global nominees as the runner-up for its annual 'Industry Innovation Award' for public pension funds with \$15 billion or less in assets. Mr. Stensrud stated that the *aiC/O* recognition demonstrates that SCERS' investment program is viewed as a worldwide leader among public pension fund investors.

Chief Investment Officer Scott Chan provided a market overview, followed by an overview of SCERS' portfolio. Mr. Chan reviewed the enhanced long-term asset allocation plan

**INVESTMENT MATTERS (continued):**

established in 2011 that Staff continued to implement in 2013. Mr. Chan discussed how SCERS added value through asset and investment manager structure, as well as through the manager selection process. Mr. Chan stated that Staff continued to prioritize projects around the potential for producing excess returns, lowering risk, and reducing costs.

Mr. Chan then reviewed the 2013 portfolio performance and attribution, noting that SCERS' had earned an additional \$155 million (net of all manager fees) over and above the market indices in 2013. Mr. Chan summarized the asset class performance, with domestic equities leading the way with a 33.1% gain. Mr. Chan noted that these results provided validation of the investment program reflected in the increasing excess returns over the 5-year, 3-year, and 1-year periods.

Deputy Chief Investment Officer Steve Davis provided in depth reviews of the domestic equity, international equity, fixed income, private equity, and opportunities asset classes, while Mr. Chan did the same for the hedge fund asset class, and Investment Officer JR Pearce covered the real assets asset class. Mr. Davis, Mr. Chan, and Mr. Pearce discussed the developments within each asset class over the year, the asset class performance, and the goals for the asset class for 2014.

Mr. Chan reported on other investment accomplishments in 2013 and the goals for investment activities in 2014.

Pete Keliuotis from Strategic Investment Solutions, Jamie Feidler from Cliffwater, and Jennifer Young from The Townsend Group each provided a brief summary of SCERS' performance in 2013 and outlook for 2014 from their point of view. Each commended Staff on their work in 2013 and noted that SCERS was well positioned for 2014 and beyond.

Motion by Ms. O'Neil to receive and file SCERS' 2013 Investment Year in Review report; Seconded by Ms. Gin. Motion carried (8-0).

17. Chief Executive Officer Richard Stensrud introduced the proposed supplement to the investment policy statements for the real assets and private equity asset classes to address potential 'secondary' investments.

Mr. Stensrud reviewed differences between 'secondary' and 'primary' investments. Mr. Stensrud then stated that this supplement outlines how Staff will evaluate potential investments with those differences in mind.

Motion by Ms. Valverde to approve the proposed supplement to the investment policy statements for the real assets and private equity asset classes to address potential 'secondary' investments; Seconded by Mr. Kelly. Motion carried (7-0).

16. Chief Investment Officer Scott Chan reviewed the presentation of the portfolio re-balancing report for the quarter ended December 31, 2013.

**INVESTMENT MATTERS (continued):**

Mr. Chan reported that, due to the strong performance by US equities in 2013, SCERS' allocation to US equities was now beyond an overweight position. Mr. Chan stated that Staff would be rebalancing back to the high end of the allocated range. Mr. Chan noted that this will also allow Staff to deploy the additional capital to new investments in other asset classes.

Motion by Mr. Kelly to receive and file the portfolio re-balancing report for the quarter ended December 31, 2013; Seconded by Ms. Gin. Motion carried (7-0).

15. Pete Keliuotis of Strategic Investment Solutions presented the Investment Performance Report for the Quarter Ended December 31, 2013.

Mr. Keliuotis reported that the Total Fund (TF) return for the quarter, including the impact of the overlay program, was 4.8% gross of fees, and that the TF return was 0.5% above the policy index of 4.3%, and 0.6% above the allocation index of 4.2%. Mr. Keliuotis noted that the overlay program had a positive impact of 0.2% during the quarter.

Mr. Keliuotis reported that on a comparative basis, the return for the quarter was 0.1% above the Public Funds \$1+ Billion Median return of 4.7%. The TF return ranks in the 49th percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Keliuotis reported that all the major asset classes experienced positive returns for the quarter. Mr. Keliuotis noted that at the asset class level, quarter outperformance occurred, gross of fees, in the international equity, fixed income, and hedge fund segments. Mr. Keliuotis noted that underperformance occurred in the domestic equity, private equity, real assets, and opportunistic segment.

Mr. Keliuotis reported that, for the calendar year-to-date, the TF return gross of fees, including the impact of the overlay program was 16.5%, which was 2.5% above the return of the policy index of 14.0% and 1.7% above the allocation index return of 14.8%. Mr. Keliuotis noted that the TF calendar year return was 1.5% above the Public Funds \$1+ Billion Median return of 15.0%, and ranks in the 31st percentile in the InvestorForce Universe, which is the ranking universe used by SIS.

Mr. Keliuotis reported that the annualized TF return gross of fees for three years of 10.0% is 0.7% above the policy index benchmark for the same period, and that the annualized TF return gross of fees for five years of 12.3% is 0.3% above the policy index benchmark for the period. Mr. Keliuotis noted that the TF gross of fees return of 8.7% since the inception of SIS' data in June of 1986 is 0.2% below the Total Benchmark return of 8.9% for the period.

Motion by Ms. Gin to receive and file the quarterly report and to approve the recommendations made in the presentation; Seconded by Mr. Kelly. Motion carried (7-0).

**MINUTES – FEBRUARY 19, 2014**

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The meeting was adjourned at 12:22 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, Michael DeBord, Richard B. Fowler II (departed at 12:01 p.m.), Diana Gin, Kathy O'Neil, Chris A. Pittman, Julie Valverde, John Conneally, and Martha J. Hoover.

MEMBERS ABSENT: Keith DeVore.

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; JR Pearce, Investment Officer; John Lindley, IT Administrator; Pete Keliuotis and John Nicolini, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Young, The Townsend Group; Claire van Dam, Deputy County Counsel; Brad Branan, Sacramento Bee; and Ted Thatcher, Jr.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
James A. Diepenbrock, 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.



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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, MONDAY, MARCH 3, 2014

A special 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, March 3, 2014, and commenced at 9:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### STRATEGIC PLANNING SESSION:

2. The Board of Retirement, the Chief Executive Officer, the Chief Investment Officer, the General Counsel, the Chief Operations Officer, the Chief Benefits Officer, the Deputy Chief Investment Officer, the Retirement Services Manager, and the Accounting Manager, discussed potential strategic goals and objectives in a strategic planning session facilitated by Keith Bozarth of Keith Bozarth, LLC.

The meeting was adjourned at 3:42 p.m.

**MEMBERS PRESENT:** James A. Diepenbrock, John B. Kelly, Michael DeBord, Keith DeVore, Richard B. Fowler II (arrived late), Diana Gin, Chris A. Pittman, Julie Valverde, John Conneally, and Martha J. Hoover (departed early).



**MEMBERS ABSENT:** Kathy O’Neil.

**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; Lance Kjeldgaard, Outside Counsel; Michael Perri, Lincoln Crow; and Keith Bozarth, Keith Bozarth LLC.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
James A. Diepenbrock, 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.



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Ex Officio, Director of Finance

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Elected by the Safety Members

Martha J. Hoover  
Elected by the Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, MONDAY, MARCH 4, 2014

A special 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, March 4, 2014, and commenced at 9:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### STRATEGIC PLANNING SESSION:

2. The Board of Retirement, the Chief Executive Officer, the Chief Investment Officer, the General Counsel, the Chief Operations Officer, the Chief Benefits Officer, the Deputy Chief Investment Officer, the Retirement Services Manager, and the Accounting Manager discussed potential strategic goals and objectives in a strategic planning session facilitated by Keith Bozarth of Keith Bozarth, LLC.

The meeting was adjourned at 11:40 a.m.

**MEMBERS PRESENT:** James A. Diepenbrock, John B. Kelly, Michael DeBord, Keith DeVore, Richard B. Fowler II (arrived late), Diana Gin, Kathy O'Neil (arrived late), Chris A. Pittman (arrived late), Julie Valverde, and John Conneally.

**MEMBERS ABSENT:** Martha 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; Lance Kjeldgaard, Outside Counsel; Michael Perri, Lincoln Crow; and Keith Bozarth, Keith Bozarth LLC.

Respectfully submitted,

Richard Stensrud  
Chief Executive Officer and  
Secretary of the Retirement Board

APPROVED: \_\_\_\_\_  
James A. Diepenbrock, 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.