



Executive Staff:

Richard Stensrud
Chief Executive Officer

Steve Davis
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

Steven L. Baird
Elected by the Miscellaneous Members

Michael DeBord
Elected by the Retired Members

James A. Diepenbrock
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Ben Lamera
Ex Officio, Director of Finance

Chris A. Pittman
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, MONDAY, NOVEMBER 7, 2016

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 Monday, November 7, 2016, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the October 19, 2016 regular meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. Pittman. Motion carried (9-0).

CONSENT MATTERS:

Items 3-10

The Consent Matters were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Mr. Kelly. Motion carried (9-0), Mr. Lamera abstained on Item 5.

3. CODOG, Marcello: Granted an interim nonservice-connected disability retirement.

4. REICHENBERG, Michelle L.: Granted a service-connected disability retirement.
5. CARDOZA, Lora M.: Denied a nonservice-connected disability retirement.
6. Approved matters being presented for a vote by the membership at the State Association of County Retirement Systems (SACRS) Fall Conference.
7. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended September 30, 2016.
8. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended September 30, 2016.
9. Received and filed the Trading Cost Report for the Quarter Ended September 30, 2016.
10. Received and filed the October 2016 Monthly Investment Portfolio Activity Report.

ADMINISTRATIVE MATTERS:

11. 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 at the December Board Meeting, Staff would be presenting the Comprehensive Annual Financial Report (CAFR) as well as the results of the annual external audit of SCERS' financial statements.

Mr. Stensrud also noted that at the December Board Meeting, Staff anticipates providing a recommendation to the Board for an International Equity manager. Mr. Stensrud stated that the current manager position is vacant due to a termination and that Staff and Consultant have been conducting a search to fill that vacancy.

Mr. Stensrud reported that an application for disability retirement involving a SCERS member was taken up on appeal and produced an appellate decision that was favorable to the determination that had been made by the SCERS Board. General Counsel Robert Gaumer provided additional details about the decision.

Mr. Stensrud reported on recent coverage in the pension industry press regarding a paper that was written on the valuation of pension liabilities. Mr. Stensrud stated that the paper discussed the methodology that has historically been used in the public pension industry for valuing liabilities (i.e., using the investment return assumption as the discount rate) versus an approach advocated by financial economists who suggest that the discount rate should be a risk free or a market value type discount rate. At Mr. Stensrud's request, Paul Angelo of Segal Consulting provided more detail on this issue. Discussion followed.

12. Paul Angelo and Andy Yeung of Segal Consulting (Segal) presented the SCERS Actuarial Valuation as of June 30, 2016.

Mr. Angelo began by reviewing SCERS' funding policy including the amortization methods for unfunded liability. Mr. Angelo then noted SCERS' funding ratio on a smoothed value basis had increased from 86.8% to 87.3%, but that it had decreased on a market value basis from 87.3% to 81.4%. Mr. Angelo explained that this was due to lower than expected returns on a market value basis after smoothing.

Mr. Angelo reported that the aggregate employer contribution rate decreased from 22.29% of payroll to 21.13% of payroll. Mr. Angelo explained the various elements that pushed upward and downward on the contribution rate, noting that the net decrease was due primarily to higher than expected contributions, lower than expected salary increases, and changes in cost sharing.

Mr. Angelo reported that the aggregate member contribution rate increased from 8.88% of payroll to 10.0684% of payroll. Mr. Angelo stated that this increase was due primarily to changes in normal cost sharing.

Mr. Angelo reported that the total net unrecognized investment loss is \$555.5 million, which will be recognized in the determination of the actuarial value for funding purposes over the next six years as part of the smoothing process.

Discussion followed, including discussion of membership levels; the active member to retiree and beneficiary ratio; the impact on that ratio of the County's downsizing measures; and the portion of the benefit funded by member contributions.

Chief Executive Officer Richard Stensrud noted that a triennial actuarial experience study would be conducted in early 2017, and that the study would review the various actuarial assumptions used in preparing the annual actuarial valuation. Mr. Stensrud noted that it was anticipated that changes to the actuarial assumptions related to the target investment return, inflation, payroll growth, and mortality may be recommended in the upcoming triennial experience study. Mr. Angelo concurred.

Motion by Mr. Kelly to receive and file the Actuarial Valuation as of June 30, 2016 and to adopt the proposed employer and employee contribution rates for the 2016-17 Fiscal Year; Seconded by Mr. Diepenbrock. Motion carried (9-0).

13. Paul Angelo and Andy Yeung of Segal Consulting (Segal) presented the Government Accounting Standards Board Statement No. 67 (GASB 67) actuarial valuation report as of June 30, 2016.

Mr. Angelo stated that this is the third time the GASB 67 report has been issued and that the implementation of GASB 67 has resulted in major accounting and financial reporting changes as employers are now required to report their share of pension liability on their

respective balance sheets.

Mr. Angelo noted that when measuring pension liability, GASB uses the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as SCERS uses for funding. Mr. Angelo stated that this means that the Total Pension Liability (TPL) measure for financial reporting shown in this report is determined on the same basis as SCERS' Actuarial Accrued Liability (AAL) measure for funding. Mr. Angelo also explained that the Net Pension Liability (NPL) is equal to the difference between the TPL and the plan's Fiduciary Net Position and that the plan's Fiduciary Net Position is equal to the market value of assets. Mr. Angelo stated that, therefore the NPL measure is very similar to an Unfunded Actuarial Accrued Liability (UAAL) on a market value basis.

Mr. Angelo reported that the NPL increased from \$1,149.9 million to \$1,755.2 million as of June 30, 2016, primarily as a result of unfavorable investment results during 2015/2016.

Motion by Mr. DeVore to receive and file the GASB 67 actuarial valuation report; Seconded by Mr. Kelly. Motion carried (9-0).

14. Board Member Steven Baird read a statement acknowledging that as an employee of the Sacramento County Department of Technology, he has a remote interest in the SCERS Board selection of a data conversion service provider and therefore will recuse himself from any discussion on the matter.

Brian Colker of Linea Solutions provided an update on SCERS' IT Modernization Program. Mr. Colker discussed the current state of the data conversion procurement. Mr. Colker reviewed some procurement considerations, noting that starting the data conversion 6-9 months before the Pension Administration Software (PAS) vendor begins is best practice and is critical because of SCERS' complex legacy data and also to allow the PAS vendor to begin development with "clean" data. Mr. Colker discussed the scope of work for the data conversion and provided an update on the data conversion procurement. Mr. Colker noted that two finalists have been selected and that Linea and Staff anticipate providing a recommendation to the Board in December.

Mr. Colker provided an overview on member data security and how it will be addressed both as part of data conversion and during the PAS implementation. Discussion followed.

Mr. Colker provided an update on the PAS procurement, noting that Linea and Staff anticipate releasing the RFP for the PAS vendor in January, 2017. Mr. Colker then reviewed the resource strategy that SCERS has elected to employ given the limited resources available. Mr. Colker provided examples and projections of how those resources will be utilized during the IT Modernization Program. Chief Executive Officer Richard Stensrud noted that SCERS would need to tap into multiple sources and be creative in addressing its personnel resource needs in order to address the IT Modernization Program and other major initiatives.

Discussion followed.

Motion by Mr. Diepenbrock to receive and file the presentation of an update on the IT Modernization Program by Linea Solutions; Seconded by Mr. Kelly. Motion carried (9-0).

INVESTMENT MATTERS:

15. Barry Dennis of Verus Advisory, Inc. presented the Preliminary Investment Performance Report for the Quarter Ended September 30, 2016.

Mr. Dennis reported that the Total Fund (TF) return for the third quarter, including the impact of the overlay program, was 3.9% gross of fees. The TF return was 0.5% above the policy index of 3.4%, and 0.6% above the allocation index return of 3.3%. The TF return without the impact of the overlay program was also 3.5%.

Mr. Dennis reported that on a comparative basis, the return for the quarter was slightly above the Public Funds \$1+ Billion Median return of 3.8%. The TF return ranks in the 41st percentile in the InvestorForce Universe, which is the ranking universe used by Verus. All of the major asset classes experienced positive returns for the quarter, except for the opportunities asset class.

Mr. Dennis reported that at the asset class level, quarter outperformance occurred, gross of fees, in the domestic equity, international equity, fixed income, absolute return, and real assets segments. Underperformance occurred in the private equity and opportunistic segments.

Mr. Dennis reported that for calendar year-to-date, the TF return gross of fees, including the impact of the overlay program was 6.8%, which was 0.6% below the return of the policy index benchmark return of 7.4%, and 0.2% below the allocation index return of 7.0%. The return of the TF for the calendar year-to-date without the impact of the overlay was 6.1%. The TF calendar year-to-date return was 0.3% below the Public Funds \$1+ Billion Median return of 7.1%, and ranks in the 60th percentile in the InvestorForce Universe.

Mr. Dennis reported that the annualized TF return gross of fees for three years of 5.3% is 0.9% below the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 9.4% is 0.2% above the policy index benchmark for the period. The TF gross of fees return of 8.2% since the inception of SIS's data in June of 1986 is 0.3% below the Total Benchmark return of 8.5% 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. Kelly to receive and file the quarterly report; Seconded by Mr. Pittman. Motion carried (9-0).

16. Chief Investment Officer Steve Davis introduced the annual report on the Real Assets asset class.

Mr. Davis provided an overview of the Real Assets asset class including the investment objectives, the benchmark, and the sub-asset class targets.

Investment Officer JR Pearce, Jennifer Young-Stevens of The Townsend Group, and Jamie Feidler of Cliffwater, LLC reviewed the real asset activities over 2016. Mr. Pearce and Ms. Young-Stevens discussed activities within core and non-core real estate and private real assets. Mr. Feidler reviewed the private real asset activities over 2016.

Discussion followed.

Mr. Davis then reviewed the actual and target allocations for this asset class. Mr. Davis noted that the gaps between the actual and target allocations were being filled by the portfolio overlay program. Mr. Davis also noted that Staff and Consultants are in the process of reviewing and identifying appropriate benchmarks for private real estate, private real assets, and the broad real assets asset class.

Jamie Feidler of Cliffwater, LLC presented the recommended 2017 private real assets plan. Mr. Feidler stated that Staff and consultant were recommending a \$150 million annual commitment budget, with a range of \$100 - \$200 million over 3 – 6 commitments.

Motion by Mr. Pittman to approve the proposed real assets investment plan for 2017 and to receive and file the annual report on the real assets asset class; Seconded by Mr. Diepenbrock. Motion carried (9-0).

17. Chief Investment Officer Steve Davis introduced the educational presentation by Verus Advisory Inc. and Staff regarding asset class construction and its impact on investment performance, funded ratio, and contribution rates.

Mr. Davis discussed the objectives of performing an asset/liability study and the initial findings of the study. Mr. Davis then reviewed the historical experience of the fund over the past 10 years, including the fund performance, actuarial valuations, market value funded status, as well as contribution and benefit payments.

John Nicolini of Verus Advisory Inc. reviewed the deterministic projections that came from the study, including fund performance, actuarial funded status, and employer contributions.

Mr. Davis then provided an overview of the asset allocations and market assumptions used in the study.

Margaret Jadallah of Verus Advisory Inc. then reviewed the results of the study, including investment model forecasts, risk analysis, diversification profiles, scenario analysis, and stress tests.

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Discussion followed.

Motion by Mr. Kelly to receive and file the educational presentation by Verus Advisory Inc. and Staff regarding asset class construction and its impact on investment performance, funded ratio, and contribution rates; Seconded by Mr. Pittman. Motion carried (9-0).

The meeting was adjourned at 2:01 p.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Keith DeVore, Steven L. Baird, Michael DeBord, James A. Diepenbrock, Diana Gin, Ben Lamera, Chris Pittman, John Conneally, and Martha J. Hoover

MEMBERS ABSENT: none

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Steve Davis, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Barry Dennis, John Nicolini, and Margaret Jadallah, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Young-Stevens and Robert Miranda, The Townsend Group; Peter Angelo and Andy Yeung, Segal Consulting; Brian Colker, Linea Solutions; John Kennedy, Nossaman LLP; Amanda Thomas and Brian Shannon, Sacramento Metro Fire; and Marcello Codog

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.