



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Vacant  
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, Interim 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, WEDNESDAY, MARCH 16, 2016

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, March 16, 2016, and commenced at 10:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Dolleen Oldham addressed the Board regarding her application for disability retirement.

Dawn Smith also addressed the Board regarding her application for disability retirement.

##### MINUTES:

2. The Minutes of the February 17, 2016 regular meeting were approved on Motion by Mr. Diepenbrock; Seconded by Mr. Pittman. Motion carried (9-0).

##### CONSENT MATTERS:

Items 3-8

Items 4 and 5 were taken off the Consent Calendar for discussion at the request of Mr. Diepenbrock. The remaining Consent Matters (Items 3 and 6-8) were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Mr. Pittman carried (9-0).

**CONSENT MATTERS (continued):**

3. CLABORNE, Victor: Granted a nonservice-connected disability retirement.
6. Approved the proposed amendments to the SCERS Bylaws.
7. Received and filed the February 2016 Monthly Investment Portfolio Activity Report.
8. Received and filed the February 2016 Monthly Investment Manager Compliance Report and Watch List.

Chief Benefits Officer John Gobel reviewed the process for the submission of a disability retirement application and the subsequent review. Discussion followed.

4. OLDHAM, Dolleen R.: Denied a service-connected disability retirement on Motion by Mr. DeVore; Seconded by Mr. Diepenbrock. Motion carried (9-0).
5. SMITH, Dawn: Denied a service-connected disability retirement on Motion by Mr. Diepenbrock; Seconded by Mr. Kelly. Motion carried (9-0).

**CLOSED SESSION:**

9. Considered the purchase or sale of a particular, specific pension fund investment pursuant to Government Code Section 54956.81.

**OPEN SESSION:**

**ADMINISTRATIVE MATTERS:**

10. 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 the Board Members had received printed copies of the Comprehensive Annual Financial Report (CAFR) for the 2014-2015 fiscal year.

Mr. Stensrud reported that the annual statements for SCERS' active members would be going out very soon and that the annual statements for SCERS' retired members would be going out in April.

Mr. Stensrud reminded the Board that the May Board Meeting had been scheduled for Monday, May 9 to accommodate the State Association of County Retirement Systems (SACRS) Spring Conference, which is scheduled for May 10 – 13 in Costa Mesa.

Mr. Stensrud complimented the Board on submitting their Statement of Economic Interest (Form 700) well in advance of the deadline.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported that there had recently been some news articles regarding changes in the financial statements of local government entities based on the new Governmental Accounting Standards Board (GASB) rules. Mr. Stensrud noted that the information on the unfunded liability associated with an employer's pension fund has always been in the financial statements and that the new GASB rules simply shifted it from the footnotes to the balance sheet. Mr. Stensrud noted that it is important to remember that unfunded liability is not a fixed number, but rather a point-in-time calculation that can go up or down. Mr. Stensrud also noted that unfunded liability is not due and payable immediately, but rather is paid off over time through contributions and investment returns, with the largest component (60% to 70%) paid by investment returns.

11. Brian Colker of Linea Solutions presented the preliminary findings of the assessment phase report on SCERS' information technology modernization program.

Mr. Colker covered (1) Linea's summary of findings, including the current state of SCERS' systems and the risks caused by that state, (2) Linea's recommendations for an IT modernization program, including the objectives of that program and examples of the future state; (3) the recommended sequence of projects; (4) the resource requirements of the program; (5) the cost considerations; and (6) the next steps.

Mr. Colker stated that SCERS' current systems lack significant functionality, are not integrated, and are not process-centric. Mr. Colker noted that SCERS Staff work around system limitations through time consuming and manual processes. Chief Executive Officer Richard Stensrud provided the Board Members with flowcharts showing the extensive manual processes that both the benefits and accounting staffs perform in order to complete their tasks. Mr. Colker stated that, with the current tool set, neither member service levels nor the business processes in benefits or accounting can be improved.

Mr. Colker stated that in order to mitigate risks, and in order to better position SCERS to meet its organizational objectives, Linea will be recommending a multi-year IT modernization program. Mr. Colker noted that the program will involve implementing a series of solutions that will improve member, accounting, and investments business processes. Mr. Colker stated that two key systems – a Financial Reporting Solution (FRS) and a Pension Administration System (PAS) – will be the centerpieces of the program.

Mr. Colker stated that there are multiple software vendors that produce PAS software and that many of these systems are considered "COTS," or commercial off the shelf, which can be configured to meet SCERS' needs. Mr. Colker stated that while there are many options for "standard" accounting software and that there are companies that specialize in accounting software for the public sector, there are few companies that have experience implementing accounting systems at public retirement systems. Mr. Colker noted that there are companies that specialize in pension investments accounting software systems that may also be an option for SCERS.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Colker then reviewed the recommended sequence of projects, starting with the FRS phase one covering investments accounting, followed by data conversion, then the PAS, and finally the FRS phase two covering the migration of the general ledger and pension payroll. Mr. Colker stated that the proposed timeline would have the PAS online in mid-2021 and the entire IT modernization program complete in early 2022.

Mr. Colker stated that this program will have considerable resource needs and that the lack of sufficient resources is the number one cause of issues on projects. Mr. Colker noted that a major challenge will be balancing operational needs with the needs of the projects.

Mr. Colker addressed the cost considerations of this program, noting that the costs will be driven by the scope of desired functionality, the vendors selected through procurement, and the resource requirements. Mr. Colker stated that based on past projects at similar organizations, Linea estimates that the total cost for the program would be \$10.7 - \$17.8 million over a five year period.

Mr. Colker stated that Linea would return to the Board in April with the completed assessment deliverable and that Linea and Staff will be seeking confirmation from the Board to continue moving forward on the program. Mr. Colker noted that as the procurements are completed, Linea and Staff will return to the Board with vendor recommendations.

Discussion followed.

Motion by Mr. Diepenbrock to receive and file the presentation by Linea Solutions of the preliminary findings of the assessment phase report on SCERS' information technology modernization program; Seconded by Mr. Baird. Motion carried (8-0).

**INVESTMENT MATTERS:**

12. Deputy Chief Investment Officer Steve Davis introduced the recommendation for new managers for SCERS' emerging markets equity mandate. Mr. Davis noted that since 2010, there has been a growing lack of confidence from Staff and Verus Advisory regarding the differentiation of SCERS' emerging markets all cap manager Capital Group's (CG) investment strategy and its ability to generate long-term excess returns. Mr. Davis stated that CG has continued to underperform against the benchmark for all reporting periods, prompting Staff and Verus to enter into a replacement search.

Mr. Davis stated that Staff and Verus had interviewed multiple managers in the emerging markets universe and that Baillie Gifford and Mondrian Investment Partners distinguished themselves as the best growth and value managers, respectively, and also offered well balanced portfolios for SCERS' emerging markets all cap mandate.

**INVESTMENT MATTERS (continued):**

Mr. Davis then introduced Larysa Bemko and Tim Campbell from Baillie Gifford to provide a presentation on their firm. Ms. Bemko first provided an overview of the firm. Mr. Campbell then discussed the emerging markets team at Baillie Gifford. Mr. Campbell also reviewed the firm's emerging markets investment philosophy and process.

Mr. Davis then introduced Greg Halton and Paul Ross from Mondrian Investment Partners to provide a presentation on their firm. Mr. Ross provided an overview of their organization and investment team. Mr. Halton then reviewed Mondrian's investment philosophy and process. Mr. Halton then discussed the firm's framework for decision making and the ways they work to control risk.

Motion by Mr. Kelly to receive and file the presentations by Baillie Gifford and Mondrian Investment Partners on their respective qualifications for managing an emerging markets equity mandate; Seconded by Mr. DeVore. Motion carried (8-0).

Motion by Mr. Diepenbrock to approve the recommendation of Baillie Gifford and Mondrian Investment Partners to each manage an emerging market all cap equity portfolio; Seconded by Mr. Kelly. Motion carried (8-0).

13. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending September 30, 2015 and December 31, 2015, including information regarding the absolute return, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' absolute return portfolio was up 0.46% in the fourth quarter of 2015, which was below both the absolute policy benchmark (90-day T-Bills + 5%) which was up 1.27%, and the HFRI Fund of Funds Composite Index which was up 0.65%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was down 1.02% in the quarter, and underperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler stated that for the quarter, SCARF B returned -0.06%, which also underperformed the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler reported that SCERS' direct absolute return program was up 1.80% during the fourth quarter, which outperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%.

Mr. Feidler stated that first quarter to date, through January 31, 2016, SCERS' total absolute return program is down 2.26%, the direct absolute return program is down 1.71%, and the SCARF portfolios are down 2.71%. These numbers compare to the HFRI Fund of

Funds Composite Index and the 90-day T-Bills +5%, which are down 2.89% and up 0.41%, respectively.

**INVESTMENT MATTERS (continued):**

Mr. Feidler reported that the net investment rate of return (“IRR”) of SCERS’ private equity portfolio was up 10.66% since inception compared to the Cambridge Associates Private Equity Index up 10.03% and the multiple of total value to paid in capital (“TVPI”) is 1.24x 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 September 30, 2015, SCERS’ real assets portfolio IRR was 5.73% compared to SCERS’ real assets portfolio benchmark (CPI + 5%) IRR of 7.21% and SCERS’ TVPI was 1.14x.

Mr. Feidler reported that SCERS’ opportunities portfolio generated a net IRR of 8.67% as of September 30, 2015 which has outperformed SCERS’ long-term benchmark (SCERS’ actuarial rate of return) of 7.5%.

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

14. Deputy Chief Investment Officer Steve Davis introduced the annual report on the private equity asset class.

Jamie Feidler of Cliffwater, LLC provided an overview of the structure of the private equity portfolio, describing the investment objective, the target allocation, and the strategy diversification guidelines of the private equity portfolio.

Mr. Feidler noted that SCERS’ existing portfolio is reasonably well-diversified, but that the amount of money invested is relatively small (5.9% of SCERS’ total portfolio). Mr. Feidler noted that new commitments are intended to complement the existing investments and maintain long-term diversification.

Mr. Feidler reported that SCERS’ private equity commitment activity since March 2015 has included new commitments to existing relationships, including Accel-KKR Capital Partners V; NEA 15; RRJ II; Summit Partners VC IV; Trinity Ventures XII; and Waterland VI. Mr. Feidler reported that commitments to new relationships included Athyrium Opportunities II and TSG 7. Mr. Feidler noted that SCERS continues to target hard to access, top-tier General Partners to complement its existing private equity investments, noting that many of these new funds were significantly oversubscribed and/or only offered to select investors.

Mr. Feidler reviewed the recommended 2016 private equity annual investment plan, which targets a \$275 million commitment level over 8 funds. Mr. Feidler noted that this target is generated from a proposed commitment range of \$225-\$325 million between 6-10 funds.

Motion by Ms. Gin to approve the proposed private equity annual investment plan for 2016 Seconded by Mr. Kelly. Motion carried (8-0).

**INVESTMENT MATTERS (continued):**

Motion by Mr. Diepenbrock to receive and file the annual report on the private equity asset class; Seconded by Ms. Hoover. Motion carried (8-0).

15. Jennifer Young and Nick Rittenhouse of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended December 31, 2015.

Ms. Young provided a summary of the real estate market for the quarter. Ms. Young also provided an overview of SCERS' real estate portfolio, including the portfolio's funding status and composition.

Mr. Rittenhouse reported that SCERS' total real estate portfolio returned 2.5% during the fourth quarter of 2015, which underperformed SCERS' blended benchmark of 3.4%. Mr. Rittenhouse stated that for the 12-month period ending December 31, 2015, SCERS' real estate portfolio return was 8.3% and that in the same period, the benchmark returned 10.6%.

Mr. Rittenhouse reported that SCERS' core real estate portfolio returned 1.1% during the fourth quarter, underperforming the benchmark of 3.1%. Mr. Rittenhouse stated that for the 12-month period ending December 31, 2015, SCERS' core real estate portfolio return was 9.3% and that in the same period, the benchmark returned 14.0%. Mr. Rittenhouse further stated that the core separate accounts and the core commingled fund returned 6.8% and 14.1%, respectively, for the quarter.

Mr. Rittenhouse reported that SCERS' non-core real estate portfolio returned 5.1% for the quarter, outperforming Townsend's benchmark of the NFI-ODCE plus 100 bps benchmark, which returned 3.4%. Mr. Rittenhouse stated that SCERS' non-core real estate portfolio returned 14.9% for the 12-month period ending December 31, 2015, trailing the benchmark return of 15.1%.

Mr. Rittenhouse reported that SCERS' domestic public REIT portfolio returned 7.6%, compared to a fourth quarter return of 6.3% for the FTSE NAREIT (domestic) REIT Index. Mr. Rittenhouse stated that for the 12-months ending December 31, 2015, SCERS' domestic public REIT portfolio earned 5.1% return, significantly beating the benchmark return of 1.1%.

Mr. Rittenhouse reported that SCERS' international REIT portfolio returned 0.2%, compared to the fourth quarter return of 1.1% for the FTSE EPRA/NAREIT Global ex-US REIT Index. Mr. Rittenhouse stated that for the 12-months ending December 31, 2015, SCERS' international REIT portfolio earned a -2.9% return, beating the benchmark return of -3.2%.

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

The meeting was adjourned at 2:17 p.m.

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MEMBERS PRESENT: Rick Fowler, John B. Kelly, Keith DeVore, Steven L. Baird, James A. Diepenbrock, Diana Gin, Ben Lamera (departed at 10:45 a.m.), Chris Pittman, and Martha J. Hoover

MEMBERS ABSENT: Michael DeBord and John Conneally

OTHERS PRESENT: Richard Stensrud, Chief Executive 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; Tae-Young Weiler, Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Young and Nick Rittenhouse, The Townsend Group; Larysa Bemko and Tim Campbell, Baillie Gifford; Greg Halton and Paul Ross, Mondrian Investment Partners; Brian Colker, Linea Solutions; John Kennedy, Nossaman LLP; John Reed, Deputy County Counsel; Dolleen and Stephen Oldham; and Dawn and Sandra Smith

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