



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, FEBRUARY 17, 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, February 17, 2016, and commenced at 10:01 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

##### MINUTES:

2. The Minutes of the January 20, 2016 regular meeting were approved on Motion by Mr. DeBord; Seconded by Mr. Baird. Motion carried (7-0).

##### CONSENT MATTERS:

Items 3-11

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

3. KUNITAKE, Karen K.: Granted a nonservice-connected disability retirement.

**CONSENT MATTERS (continued):**

4. FRANKLIN-JOHNSON, Lesa: Denied service-connected disability death benefits.
5. Approved the proposed cost-of-living adjustments (COLA) effective April 1, 2016 for SCERS' monthly benefit payments.
6. Received and filed the Selected Fees and Costs for Outside Legal Services for the Quarter Ended December 31, 2015.
7. Received and filed the Semi-Annual Administrative Expense Report for the Six Months Ended December 31, 2015.
8. Received and filed the Portfolio Re-Balancing Report for the Quarter Ended December 31, 2015.
9. Received and filed the Trading Cost Report for the Quarter Ended December 31, 2015.
10. Received and filed the January 2016 Monthly Investment Portfolio Activity Report.
11. Received and filed the January 2016 Monthly Investment Manager Compliance Report and Watch List.

**ADMINISTRATIVE MATTERS:**

12. 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 the California Association of Public Retirement Systems (CALAPRS) General Assembly would be taking place in Indian Wells, California, from March 6 to March 8. Mr. Stensrud stated that any Board Members who are interested in attending should let Staff know.

Mr. Stensrud reported that he had recently provided a presentation that he gives annually to a group of retired Safety members regarding the status of the retirement system and the expected cost-of-living adjustment for 2016.

Mr. Stensrud reported that legislation had recently been introduced, AB 1853, which had been initiated by the State Association of County Retirement Systems (SACRS). Mr. Stensrud stated that this bill would allow 1937 Act retirement systems to modernize their operating authority structure. Mr. Stensrud noted this would be optional for each of the 1937 Act Systems, but that five of the 20 Systems have already modernized their operating authority. Mr. Stensrud stated that there would be a range of options to modernize the operating authority depending on how extensively the systems wanted to establish operating control over their personnel. Discussion followed.

**ADMINISTRATIVE MATTERS (continued):**

13. Chief Executive Officer Richard Stensrud presented a recommendation to add a new position to SCERS' Investment Technology (IT) staff, the position of Information Technology Customer Support Specialist (Level I/II). Mr. Stensrud noted that in the 2015-16 fiscal year budget, the SCERS Board approved the addition of a Senior IT Analyst position, but that the County Department of Personnel Services (DPS) would not recommend the Senior IT Analyst position for approval by the County Board of Supervisors. Mr. Stensrud explained that because supervision is a part of the Senior IT Analyst job class, the DPS preferred to see at larger number of subordinate staff positions.

Mr. Stensrud stated that as SCERS worked with the IT Modernization Project consultant Linea Solutions to analyze and document current systems, business processes, and organization resources in order to develop a request for proposal for new pension administration and financial systems, it became very clear that a one person IT staff will not be sufficient to address the needs of both the systems project and SCERS' ongoing business operations. Mr. Stensrud further explained that the proposed IT staff structure would have the Senior IT Analyst position devoted nearly full-time to the systems modernization project, the IT Analyst position would devote 30% to 50% of their time to the systems modernization project with the remainder of their time to oversight and direction with respect to day-to-day business needs, and the IT Customer Support Specialist position devoted full-time to the 'hands-on' day-to-day needs of SCERS.

Mr. Baird provided some information on the County's current IT classification study. Mr. Baird suggested that any further changes to SCERS IT staff be postponed until after the results of the classification study had been published. Discussion followed.

The Board agreed to take no action on this item at this time and requested more information regarding the responsibilities of IT positions available within the County personnel structure.

14. General Counsel Robert Gaumer presented the proposed engagement of National Disability Evaluations to provide medical advisor services regarding disability retirement applications.

Mr. Gaumer noted that the Board had approved the new Disability Retirement Procedures (DRPs) at the January Board Meeting and that the DRPs provide for the use of a medical advisor (MA) in the processing and evaluation of disability applications. Mr. Gaumer stated that in beginning the search for MA services, Staff discussed whether having an individual MA or a panel of MAs (i.e. a medical group) was the best approach. Mr. Gaumer noted that Staff believed that with a panel of doctors, SCERS might be able to reduce the number of independent medical examinations (IMEs) by not making one doctor review the myriad of injuries and ailments that Staff observes in the applications. Mr. Gaumer further noted that, with a panel of doctors, Staff would be able to direct certain applications to doctors

**ADMINISTRATIVE MATTERS (continued):**

more specialized in practice areas (i.e. orthopedic, neurology, psychiatry and internal medicine). Mr. Gaumer stated that after evaluating entities that could provide the desired medical advisor services, Staff is recommending National Disability Evaluations.

Rick Albert, David Gyepes, and Stuart Pearson of National Disability Evaluations provided an overview of their firm and discussed the services they provide. Discussion followed.

Motion by Ms. Gin to approve the proposed engagement of National Disability Evaluations to provide medical advisor services regarding disability retirement applications; Seconded by Mr. DeBord. Motion carried (7-0).

15. General Counsel Robert Gaumer provided an educational presentation on the Statement of Economic Interest (Form 700) electronic filing process. Mr. Gaumer reviewed the steps in the process to log into the website and fill in the appropriate information. Mr. Gaumer noted that he would provide each Board Member with copies of their Form 700 filing from 2015 for reference. No action was requested or taken.

**INVESTMENT MATTERS:**

16. Chief Executive Officer Richard Stensrud introduced the presentation of the 2015 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 stated that in 2015, 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 noted that asset class implementation and refinement will continue in 2016, with an expected focus on risk assessment and risk management. Mr. Stensrud stated that SCERS continues to work on maintaining a strong internal investment Staff capable of sustaining the success of the investment program.

Deputy Chief Investment Officer, Steve Davis provided an overview of the domestic and international markets in 2015. Mr. Davis stated that the results of 2015 highlight the importance of having a diversified portfolio and maintaining both discipline and flexibility in the asset allocation/manager structure. Mr. Davis noted that SCERS' asset allocation

**INVESTMENT MATTERS (continued):**

structure is designed to provide diversified exposure across asset classes along with the flexibility to allocate capital toward the most attractive relative value investment opportunities within each asset class. Mr. Davis noted that as the market cycle matures, capital preservation continues to play an important role for SCERS' portfolio, and this is accomplished by positioning the portfolio to better weather potential recessionary and dislocating periods.

Mr. Davis then reviewed SCERS' portfolio, noting that significant progress had been made in the implementation of the asset allocation model, but that it would take a few years to reach the target allocation levels in certain of the alternative asset classes. Mr. Davis also stated that strategic partnerships have taken an increasing role in SCERS' portfolio, in that they provide an opportunity to serve as an extension of staff in areas where SCERS' access or expertise might otherwise be constrained. Mr. Davis noted that these strategic partnerships are designed to provide greater control in the investment guidelines, terms, and portfolio holdings.

Mr. Davis then reviewed the performance of the portfolio for calendar year 2015. Mr. Davis stated that SCERS' portfolio returned -0.5% in 2015, which underperformed the policy index by 0.9%. Mr. Davis noted that the performance of SCERS' portfolio over longer periods has been pulled down by lower returns in 2014 and 2015, with a 3-year absolute return of 6.9% and a 5-year absolute return of 6.9%.

Mr. Davis then provided in-depth reviews of the domestic equity, international equity, absolute return, and private equity asset classes, while Investment Officer JR Pearce did the same for the fixed income, real assets, and opportunities asset class. Mr. Davis 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 2016.

Mr. Davis reported on other investment accomplishments in 2015 and the goals for investment activities in 2016. Mr. Davis stated that those goals include (a) Revising and updating SCERS' broad Investment Policy Statement (IPS) to reflect changes and incorporate individual asset class IPS's; (b) Expanding the risk management program of SCERS' investment portfolio; and (c) Reviewing SCERS' asset allocation, which was last restructured in 2011.

John Nicolini from Verus Advisory, Inc.; Jamie Feidler from Cliffwater LLC; and Jennifer Young from The Townsend Group each provided a brief summary of SCERS' performance in 2015 and outlook for 2016 from their point of view. Each commended Staff on their work in 2015 and noted that SCERS was well positioned for 2016 and beyond.

Motion by Mr. Diepenbrock to receive and file SCERS' 2015 Investment Year in Review report; Seconded by Mr. DeBord. Motion carried (7-0).

**INVESTMENT MATTERS (continued):**

17. Barry Dennis of Verus Advisory, Inc. presented the Investment Performance Report for the Quarter Ended December 31, 2015.

Mr. Dennis reported that the Total Fund (TF) return for the second quarter, including the impact of the overlay program, was 1.9% gross of fees. The TF return was 0.1% above the policy index of 1.8%, and 0.6% below the allocation index return of 2.5%. The TF return without the impact of the overlay program was 2.5%.

Mr. Dennis reported that on a comparative basis, the return for the quarter was below the Public Funds \$1+ Billion Median return of 2.5%. The TF return ranks in the 79th percentile in the InvestorForce Universe, which is the ranking universe used by Verus. The major asset classes experienced mixed returns for the quarter.

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

Mr. Dennis reported that for the fiscal year-to-date, the TF return gross of fees, including the impact of the overlay program was -2.9%, which was 0.6% below the return of the policy index benchmark return of -2.3%, and 0.6% below the allocation index return of -2.3%. The return of the TF for the fiscal year without the impact of the overlay was -1.8%. The TF fiscal year-to-date return was 0.4% below the Public Funds \$1+ Billion Median return of -2.5%, and ranks in the 72nd percentile in the InvestorForce Universe.

Mr. Dennis reported that the annualized TF return gross of fees for three years of 6.9% is 0.1% above the policy index benchmark for the same period. The annualized TF return gross of fees for five years of 6.9% is equal to 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.

Discussion followed regarding the negative impact of the overlay program on returns and the challenges in using the overlay program to fill larger gaps in reaching asset allocation targets as opposed to rebalancing to reach asset allocation targets.

Motion by Mr. Diepenbrock to receive and file the quarterly report; Seconded by Mr. DeBord. Motion carried (7-0).

**MINUTES – FEBRUARY 17, 2016**

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The meeting was adjourned at 12:26 p.m.

MEMBERS PRESENT: Rick Fowler, Steven L. Baird, Michael DeBord, James A. Diepenbrock, Diana Gin, Ben Lamera, Chris Pittman, John Conneally, and Martha J. Hoover (arrived at 10:05 a.m.).

MEMBERS ABSENT: John B. Kelly and Keith DeVore.

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; Barry Dennis and John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Jennifer Young, The Townsend Group; Kevin Isawa and Arthur Neville, J.P. Morgan; Rick Albert, David Gyepes, and Stuart Pearson, National Disability Evaluations; and John Reed, Deputy 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.