



Executive Staff:

Richard Stensrud
Chief Executive Officer

Scott Chan
Chief Investment Officer

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

Keith DeVore
Appointed by the Board of Supervisors

Richard B. Fowler II
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Kathy O'Neil
Elected by the Miscellaneous Members

Chris A. Pittman
Elected by the Safety Members

Julie Valverde
Ex Officio, Director of Finance

Nancy Wolford-Landers
Elected by the Retired Members

John Conneally
Elected by the Safety Members

Michael DeBord
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, WEDNESDAY, OCTOBER 16, 2013

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, October 16, 2013, and commenced at 10:01 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the September 18, 2013 regular meeting were approved on Motion by Mr. DeVore; Seconded by Ms. O'Neil. Motion carried (8-0).

CONSENT MATTERS:

Items 3-9

The Consent matters were acted upon as one unit upon a Motion by Mr. Fowler; Seconded by Ms. Gin. Motion carried (8-0).

3. BALL, Roxanne: Granted a nonservice-connected disability retirement.

CONSENT MATTERS (continued):

4. FIERRO, Susie: Granted a nonservice-connected disability retirement.
5. MCCOY, Larrilyn: Denied a nonservice-connected disability retirement.
6. Approved matters presented for a vote by the SACRS membership at the 2013 SACRS Fall Conference.
7. Approved a recommended change to the investment indices used in the portfolio overlay program.
8. Approved a proposed resolution clarifying the investment implementation protocol for the real estate component of the real assets asset class.
9. Received and filed the September 2013 Monthly Investment Manager Compliance Report and Watch List.

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 November Board Meeting would be taking place on Wednesday, November 6 due in part to the State Association of County Retirement Systems (SACRS) Fall Conference, which will be taking place November 12-15.

Mr. Stensrud reported that a new pension reform ballot initiative had been announced. Mr. Stensrud noted that the initiative is being brought forth by a coalition of mayors in cities in California, including San Jose, San Bernardino, Santa Ana, Pacific Grove, and Anaheim. Mr. Stensrud stated that the initiative would seek to modify the constitution to allow state and local governmental entities to declare a fiscal emergency, or determine an inability to provide basic services, and in such a case move to change prospective benefits for existing employees. Mr. Stensrud noted that the benefits that had accrued to date would not be subject to modification, but the benefits that would accrue in the future would be subject to modification. Mr. Stensrud stated that it is possible that future cost of living adjustments could be reduced for current retirees and not just those who retired after the effective date of this measure. Mr. Stensrud further stated that there is also a provision that would require any retirement system that is less than 80% funded to prepare a pension or health care fund stabilization plan, which would provide a process for achieving 100% funded status within 15 years while preserving basic governmental services. Mr. Stensrud noted that this plan would be reviewed each year.

Discussion followed.

ADMINISTRATIVE MATTERS (continued):

11. Chief Executive Officer Richard Stensrud presented a proposed memorandum of understanding (MOU) with the Sacramento County Retired Employees' Association (SCREA) regarding the deduction of premiums from monthly benefit payments for certain insurance products offered to SCREA members. Mr. Stensrud stated that SCERS is working with SCREA toward the implementation of an insurance offering which would be made available through a third party insurance broker, PGA. Mr. Stensrud noted that SCREA would like to have the initial solicitation of participation include both SCREA members and non-SCREA members, although a retiree would have to join SCREA in order to participate in the insurance offering.

Mr. Stensrud stated that the MOU lays out the respective responsibilities of SCERS, SCREA, and PGA. Mr. Stensrud further stated that the MOU establishes how the process will work, both in terms of the transmission of information, as well as the transmission of funding. Mr. Stensrud noted that SCERS' role would be limited to deducting the amount of the premium that is identified by PGA from the retirement benefit check. Mr. Stensrud also noted that SCERS would facilitate the enrollment mailing that would be going out shortly, but that the mailing is the responsibility of SCREA and PGA to prepare. Mr. Stensrud stated that no identifying SCERS feature would appear on the mailing, that an anonymous PO box would be used for the return address, and that the mailing would be done pursuant to a confidentiality agreement with a professional printer.

Mr. Stensrud noted that SCERS would not be taking walk-in payments of premiums, nor would it be changing the premium deductions or stopping deductions. Mr. Stensrud stated that SCERS would only be operating under the direction of SCREA through its third party insurance broker.

Discussion followed.

Motion by Ms. Wolford-Landers to approve the proposed memorandum of understanding with the Sacramento County Retired Employees' Association (SCREA) regarding the deduction from monthly benefit payments of premiums for certain insurance products offered to SCREA members; Seconded by Ms. Valverde. Motion carried (9-0).

12. Chief Executive Officer Richard Stensrud presented a proposed policy regarding requests to facilitate communication with the SCERS membership. Mr. Stensrud stated that, in light of some of the requests SCERS has been receiving to facilitate mailings to retirees and beneficiaries, he thought it would be prudent to memorialize what SCERS does to facilitate mailings, why SCERS facilitates mailings, and how SCERS facilitates mailings.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud explained that the policy lays out in one document the reasons for SCERS facilitation of mailings, the situations in which SCERS would facilitate mailings, the conditions SCERS would put on the facilitation of mailings, and the controls SCERS would seek to apply in order to protect the confidentiality and privacy of retirees and beneficiaries. Mr. Stensrud stated that this policy would also provide a single document to which retirees and beneficiaries could be referred when questions arise.

Motion by Ms. Wolford-Landers to approve the proposed policy regarding requests to facilitate communication with the SCERS membership; Seconded by Ms. O’Neil. Motion carried (9-0).

INVESTMENT MATTERS:

13. Chief Investment Officer Scott Chan presented proposed amendments to the investment guidelines for fixed income managers Bradford & Marzec and Metropolitan West Asset Management.

Mr. Chan noted that Staff had recently completed two bond manager searches, one for an international opportunistic credit mandate and one for a strategic credit mandate. Mr. Chan also noted that these mandates were established in light of the likely end to the 30 year bond rally and low interest rates, and that it was an opportune time to diversify the bond portfolio. Mr. Chan stated that it was now appropriate to modify the investment parameters of the core-plus bond managers.

Mr. Chan explained that because the decision had been made to utilize specialized managers for both the international opportunistic credit and strategic credit mandates, it was not necessary to expand the parameters to allow SCERS’ core-plus bond managers to make similar investments. Mr. Chan stated that instead, the recommendation was to provide the core-plus managers, within their given mandate, further flexibility, particularly when the manager has the expertise to do so. Mr. Chan noted that both of the current core-plus managers had the capability to invest in bank loans and high yield bonds and that roughly 20% of their portfolios could be devoted to such assets.

Motion by Mr. Kelly to approve the proposed amendments to the investment guidelines for fixed income managers Bradford & Marzec and Metropolitan West Asset Management; Seconded by Mr. Fowler. Motion carried (9-0).

14. Deputy Chief Investment Officer Steve Davis introduced the discussion of the recommendation by Staff and Strategic Investment Solutions (SIS) that the international equity structure be modified to include a dedicated emerging market small cap equity mandate.

INVESTMENT MATTERS (continued):

Mr. Davis noted that at the September Board Meeting, Staff and SIS provided an educational presentation on the emerging market small cap segment of the international equity sub-asset class. Mr. Davis reviewed the positive characteristics of the emerging market small cap segment including that it is an inefficient asset class compared to the all-cap emerging market and that it provides diversification benefits.

Chief Investment Officer Scott Chan reviewed the risk considerations for the emerging market small cap segment, including liquidity constraints, greater volatility, political and regulatory risk, and potential administrative burdens.

Pete Keliuotis of SIS reviewed the recommended international equity structure with a \$40 million dedicated emerging market small cap mandate. Mr. Keliuotis noted that this mandate would draw from SCERS' current emerging market exposure and that it would be taking on more active risk for the expectation to earn greater excess returns, while maintaining the current level of style risk. Mr. Keliuotis provided a comparison to the existing portfolio with respect to emerging markets.

Mr. Chan concluded by requesting that the Board approve the modification of the international equity manager structure to include a \$40 million dedicated emerging market small cap mandate, and to authorize Staff and SIS to develop and execute an implementation plan for the modified manager structure, including conducting a manager search. Mr. Chan stated that Staff anticipated providing a manager recommendation at the November Board Meeting, including a proposed plan for the transition of assets.

Motion by Mr. Kelly to approve the recommended change to the emerging markets component of the international equity asset class structure; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

15. Chief Investment Officer Scott Chan introduced Courtney McCarthy and Joseph Trustey of Summit Partners who provided an educational presentation regarding the private equity strategies they implement for SCERS.

Mr. Trustey noted that Summit currently manages two funds for SCERS, an equity fund called Venture Capital Fund III and a fixed income credit opportunities fund. Mr. Trustey provided an overview of Summit's investment process and philosophy. Mr. Trustey also provided an overview of Summit's investment team and the portfolios for the two funds.

Mr. Trustey explained how Summit measures each potential investment, including: (1) Whether the company is profitable at the time of investment; (2) The seniority of Summit's investment in the company; (3) Whether Summit would be the first professional investor; (4) Whether Summit would be the lead investor; and (5) Whether Summit would receive a seat on the company's board or rights to attend the meetings.

INVESTMENT MATTERS (continued):

Mr. Trustey reviewed the investment returns from previous funds, noting that approximately one-half of Summit's investments have generated greater than two times their cost. Mr. Trustey then reviewed all of the funds established in the history of the firm, and provided a snapshot of the current Venture Capital Fund III, in which SCERS is an investor.

Mr. Trustey also reviewed Summit's credit strategy and how it fits within Summit's overall investment model. Mr. Trustey detailed the current credit fund, in which SCERS is an investor.

The meeting was adjourned at 11:42 a.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly DeVore (arrived at 10:05 a.m.), Keith, Richard B. Fowler II, Diana Gin, Kathy O'Neil, Chris A. Pittman, Julie Valverde, Nancy Wolford-Landers (arrived at 10:03 a.m.), John Conneally, and Michael DeBord.

MEMBERS ABSENT: None

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Scott Chan, Chief Investment Officer; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Pete Keliuotis, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Courtney McCarthy and Joseph Trustey, Summit Partners; Diana Ruiz, Deputy County Counsel; and Lanford B. Tobe, Tobe Advocates.

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.