



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

James A. Diepenbrock
Appointed by the Board of Supervisors

Ben Lamera
Ex Officio, Director of Finance

Alan Matré, CPA
Elected by the Miscellaneous Members

Kathy O'Neil
Elected by the Retired Members

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, JANUARY 18, 2017

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, January 18, 2017, and commenced at 10:04 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the December 21, 2016 regular meeting were approved on Motion by Mr. Diepenbrock; Seconded by Ms. Hoover. Motion carried (8-0).

CONSENT MATTERS:

Items 3-8

Mr. Diepenbrock abstained from voting on Item 3.

Item 3 was approved on a Motion by Mr. Baird; Seconded by Mr. Kelly. Motion carried (7-0).

CONSENT MATTERS (continued):

The remaining Consent Matters (Items 4-8) were acted upon as one unit upon a Motion by Mr. Diepenbrock; Seconded by Mr. Kelly. Motion carried (8-0).

3. SCHULZ, Karl: Denied a service-connected disability retirement.
4. MILLER, Susan A.: Granted a service-connected disability retirement.
5. CLIFTON, Violeta: Granted a nonservice-connected disability retirement.
6. Received and filed the domestic equity rebalancing post-transition analysis report.
7. Received and filed the December 2016 Monthly Investment Portfolio Activity Report.
8. Received and filed the December 2016 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

9. 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) Trustee Roundtable would be taking place in San Jose, CA on Friday, February 3rd. Mr. Stensrud also reported that the CALAPRS General Assembly would be taking place in Monterey from March 5th-7th. Finally, Mr. Stensrud reported that the CALAPRS Advanced Principles of Pension Management for Trustees would be taking place at UCLA from March 29th-31st. Mr. Stensrud stated that any Board Members who are interested in attending should let Staff know.

Mr. Stensrud reported that the State Association of County Retirement Systems (SACRS) Spring Conference is scheduled for May 16th-19th in Napa. Mr. Stensrud noted that the dates of the SACRS Spring Conference would cause the May Board Meeting to be rescheduled. Mr. Stensrud stated that possible dates would be proposed soon. Mr. Stensrud further noted that Staff anticipates that the results of SCERS' triennial actuarial experience study would be presented by Segal Consulting at the May Board Meeting.

Mr. Stensrud reported that the SACRS Fall Conference, which is scheduled for November 14th-17th in Burlingame, will cause the November Board Meeting date to change as well. Mr. Stensrud stated that possible dates will also be proposed for the November Board Meeting. Mr. Stensrud noted that the annual actuarial valuation will be presented at this meeting.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that the retiree cost-of-living-adjustment (COLA), effective in April 2017, will have a base of approximately 3%. Mr. Stensrud stated that the recommend COLA will be presented for Board approval at the February Board Meeting.

Mr. Stensrud reported that SCERS would soon need to issue a Request for Proposals (RFP) for outside audit services. Mr. Stensrud noted that SCERS had used Macias Gini & O'Connell for outside audit services for several years, and while SCERS was very pleased with the relationship, it was a good practice to change auditors periodically to provide a new analysis of the financial records. Discussion followed regarding the number of audit firms with experience and expertise with public retirement systems. Mr. Stensrud noted that the pool of prospective firms was not very large.

Mr. Stensrud reported that the contract with Segal Consulting for actuarial services expires in June. Mr. Stensrud explained that the situation with actuarial services was similar to that with audit services in that Segal Consulting had been providing actuarial services to SCERS for several years; it was a good practice to periodically have the actuarial analysis done by a new party; but there was a limited pool of firms with the necessary expertise and experience. Mr. Stensrud further noted that this situation could be resolved by having an actuarial audit performed by a different actuary, through which the new actuary would review the methodology and calculations of the current actuary, confirm their soundness and accuracy, and identify possible adjustments. Mr. Stensrud noted that SCERS had had an actuarial audit performed several years ago and should consider having one performed again. Discussion followed and it was agreed that if the terms were acceptable, the engagement with Segal Consulting should be extended, and that an actuarial audit should be conducted. Mr. Stensrud stated that Staff will work with Segal to obtain an estimate to extend the contract for actuarial services, and Staff will also prepare a Request for Proposals (RFP) for an actuarial audit.

Mr. Stensrud reported on a recent court decision that could have potential ramifications in the public pension world. Mr. Stensrud reminded the Board of a previous court ruling involving a challenge to a retirement system's decision regarding what should be included in the pay elements considered as pensionable compensation under CalPEPRA. Mr. Stensrud noted that the court opinion supported the authority of and decision by the retirement system, but went beyond what was necessary and included substantial discussion of whether pension benefits for active employees could be modified with respect to future service. Mr. Stensrud stated that decision had been taken up by the California Supreme Court, but that it was waiting to move forward while other pension reform related challenges were addressed in another appellate division. Mr. Stensrud reported that another case had recently been decided by an appellate court featuring an analysis similar to the first case, suggesting that "vested" rights of employees could be changed without offering a replacement benefit of equal or greater value. Mr. Stensrud noted that it seemed likely that the Supreme Court would want to consolidate all of these decisions.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud stated that he would continue to update the Board on activities in these cases.

INVESTMENT MATTERS:

10. Chief Executive Officer Richard Stensrud introduced the presentation of the asset allocation model for SCERS' investment portfolio being recommended by Verus Advisory, Inc. (Verus) and Staff.

Mr. Stensrud noted that at the start of the asset allocation analysis Verus and Staff had conducted an Enterprise Risk Tolerance (ERT) study with the Board to help identify and prioritize objectives, principles and risks that the Board wanted to have addressed in the investment portfolio. Mr. Stensrud noted that these considerations had been both factored into and had driven the asset allocation model being recommended. Mr. Stensrud noted that the biggest change in the new asset allocation model was not with respect to what SCERS invests in, but rather, how the portfolio is structured, presented and understood. Mr. Stensrud stated that new asset allocation structure provides a clearer view of sources of risk and return in the portfolio, and a greater understanding of the economic environments in which different segments of the portfolio would be expected to perform well or be challenged. Mr. Stensrud noted that the result was a more risk-balanced portfolio with a similar expected return to the current portfolio, but with lower standard deviation a less susceptibility to substantial drawdowns in negative markets. Mr. Stensrud stated that Chief Investment Officer Steve Davis and John Nicolini of Verus would be providing further detail regarding the recommended asset allocation structure.

Mr. Davis reviewed the asset allocation modeling process leading to the recommendation, including reviewing past asset liability studies; surveying the Board through the ERT study to understand its risk tolerance; providing education and analysis centered on viewing the portfolio through risk and economic environment lenses; incorporating Board input to create potential allocation mixes; analyzing the mixes with respect to risk exposure, volatility, projected returns, liquidity and cash flow; and providing a recommendation for the new asset allocation structure.

Mr. Nicolini reviewed the 10-year return and risk assumptions that were used in the modeling that Verus performed to analyze the potential allocation mixes. Mr. Nicolini discussed the steps taken to hone in on the specific allocation mix being recommended and how the recommended asset allocation structure met the objectives, principles and risks identified by the Board. Mr. Nicolini discussed how the recommended asset allocation structure moves the SCERS portfolio towards a more risk diversified position without giving up substantial liquidity.

Mr. Davis discussed how the recommended asset allocation structure was similar to and different from the current structure. Mr. Davis also reviewed the next steps that would

INVESTMENT MATTERS (continued):

made to implement the new asset allocation structure, including developing the sub-asset class structures; providing implementation recommendations and timelines; conducting benchmark reviews for each portfolio component, aggregate asset class, and the total fund; and drafting a new Investment Policy Statement for the broad portfolio, while also revising individual asset class Investment Policy Statements.

Discussion followed.

Motion by Mr. Kelly to approve the asset allocation model for SCERS' investment portfolio proposed by Staff and Verus; Seconded by Ms. O'Neil. Motion carried (8-0).

The meeting was adjourned at 10:57 a.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Steven L. Baird, James A. Diepenbrock, Ben Lamera, Kathy O'Neil (arrived at 10:10 a.m.), Chris Pittman, John Conneally, and Martha J. Hoover

MEMBERS ABSENT: Keith DeVore and Alan Matré

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; Annette St. Urbain, Assistant Retirement Administrator; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; John Nicolini and Joe Abdon, Verus Advisory, Inc.; Jamie Feidler, Cliffwater LLC; John Reed, Deputy County Counsel; and Kevin Isawa

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.