



Executive Staff:

Eric Stern
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

Stephen Hawley
Chief Strategy Officer

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

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

WEDNESDAY, JUNE 20, 2018
10:00 A.M.

Location: SCERS Board Room
980 9th Street, 19th Floor
Sacramento, California 95814

OPEN SESSION

Item 1. Call to Order

The meeting was convened at 10:00 a.m.

Item 2. Public Comment – None

Item 3. The Board approved the Minutes of the May 23, 2018 meeting. (8-0)

CONSENT MATTERS – ITEMS 4-10:

The Board approved the Consent Matters Items 4-10, with the exception of Mr. Baird voting no on Item 6. (8-0)

Item 4. Disability Retirement Applications

- A. AVILA, Shane: Granted a service-connected disability retirement as recommended by staff.

- B. BRIDGES, Eunice; Denied a nonservice-connected disability retirement per proposed decision of Administrative Law Judge.
- C. SCHLEY, Donald; Granted a service-connected disability retirement as recommended by staff.
- D. SWITZER, Carol; Denied a service-connected disability retirement per proposed decision of Administrative Law Judge.
- E. Reference: General Law and Authorized Board Actions on Disability Retirement Proposed Decisions.

Item 5. Correction to Minutes of the April 18, 2018 regular meeting

Item 6. Interest Crediting on Member Contribution Accounts—June 30, 2018

Item 7. Fees and Costs of Outside Legal Services—First Quarter 2018

Item 8. Fiduciary Liability Insurance Coverage and Waiver of Recourse for Fiscal Year 2018-2019

Item 9. Monthly Report of New Investment Activity—May 2018

Item 10. Monthly Investment Manager Activity, Compliance, and Watch List Report—May 2018

ADMINISTRATIVE MATTERS:

Item 11. Chief Executive Officer's Report

Chief Executive Officer Eric Stern provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities:

- Mr. Stern reported that on June 19 the Board of Supervisors recommended the reappointment of Mr. DeVore and Mr. Diepenbrock to the SCERS Board.
- Mr. Stern announced that the annual waiver of recourse premium is due from each Board Member, in connection with SCERS annual renewal of its fiduciary liability insurance.

Item 12. Membership Policy

General Counsel Robert Gaumer discussed revisions to the draft membership policy based on input from the May 4, 2018 meeting SCERS staff held with participating employers. Mr. Gaumer noted the main change from the April 18, 2018 draft policy was the addition of a new threshold for “non-career” seasonal or temporary employees, of 1,566 hours worked in a year. Eligibility for “regular employees” who are assigned to work full-time or to work part-time will remain unchanged at 20 hours per week (1,044 hour per year). Mr. Pittman asked if the employers were given sufficient time to provide responses before the SCERS Board meeting. Mr. Gaumer

confirmed that SCERS participating employers were given several weeks to provide additional input, as the revised policy was redistributed to employers on June 1, 2018.

The Board approved staff recommendation to adopt the Membership Policy. (8-0)

Item 13. Disability Retirement Procedures – Proposed Revisions

General Counsel Robert Gaumer provided revisions to the disability retirement procedures regarding application timeframes, the administrative hearing structure, and other processes. Mr. Gaumer stated that a user-friendly disability handbook is being finalized and will work in tandem to the disability retirement procedures to help members navigate the process.

The Board approved a motion to adopt the revised Disability Retirement Procedures. (8-0)

Item 14. Renewal of SCERS' Custody Agreement

General Counsel Robert Gaumer discussed SCERS' custody agreement with State Street Bank and Trust (SSBT). Mr. Gaumer stated that SCERS has been developing a new 5-year agreement with SSBT. Mr. Diepenbrock asked if SCERS uses the performance analytics services in addition to what Verus provides to SCERS. Chief Investment Officer Steve Davis stated that SCERS staff does utilize the performance analytics portal and it provides daily and monthly securities data. Mr. Davis noted that SCERS is structuring the contract to provide flexibility regarding the performance analytics services. Mr. Fowler asked for clarification on the ability for SCERS to terminate the contract within the 5-year term; Mr. Gaumer confirmed that the custody agreement provides for an exit short of the 5-year term.

The Board approved a motion to authorize the Chief Executive Officer to negotiate and execute documents necessary to update SCERS' custody agreement with SSBT. (8-0)

Item 15. Proposed SCERS Administrative Budget for the 2018-2019 Fiscal Year

Chief Operations Officer Kathy Regalia and Chief Executive Officer Eric Stern presented the proposed SCERS Administrative Budget for the 2018-2019 fiscal year. Mr. Stern stated that the budget reflects priorities and strategies for the next fiscal year, including reallocating vacant positions to meet business needs and hiring additional benefit staff to improve customer service.

The Board approved a motion to adopt the proposed SCERS Administrative Budget for the 2018-2019 fiscal year. (8-0)

Item 16. Investment Manager Recommendation – Domestic Equity

Chief Investment Officer Steve Davis and Investment Officer Brian Miller provided an overview and background on the search for a systematic, multi-factor strategy investment manager. The initial steps in the manager search process included:

- Screening the domestic equity manager universe for qualified investment managers that met the required criteria.
- Performing initial due diligence of managers, including preliminary discussions and reviewing manager materials, to narrow the candidate list to three managers.
- Interviewing the selected managers at SCERS' office on May 2nd and 3rd.

Following the manager interviews, Staff and Verus reviewed the finalist managers and held several conversations to discuss the merits of each candidate. Based upon all relevant considerations including the initial review, subsequent manager interviews, and extended research and due diligence, Staff and Verus are recommending AQR Capital Management, and their U.S. Enhanced Equity strategy for the Board's consideration. Mr. Miller introduced staff from AQR Capital Management who will manage a ~\$245 million systematic, multi-factor strategy within the large capitalization active segment of SCERS' Domestic Equity asset class. Iwan Kjanali and Rodolfo Mortell of AQR provided an overview of the AQR firm and multi-factor strategy.

The Board approved staff and Verus recommendation for AQR Capital Management to manage approximately \$245 million within the SCERS' Domestic Equity asset class. (8-0)

Item 17. Quarterly Investment Performance Report – Alternative Assets

Jamie Feidler of Cliffwater, LLC presented SCERS' Alternative Assets Investment Performance Report for periods ending March 31, 2018 for the Absolute Return portfolio, and the period ending December 31, 2017 for the Private Equity, Private Credit, Real Assets, and Opportunities portfolios. Mr. Feidler reported the performance as presented in the table below:

SCERS ALTERNATIVE ASSETS PERFORMANCE SUMMARY
Quarter Reporting Periods Ending March 31, 2018

SCERS ASSET CLASS	Quarter*	1-Year*	3-Year*	5-Year*	Since Inception*	Since Inception Date*
SCERS Absolute Return	-0.3%	3.9%	2.2%	4.0%	4.3%	Sep-04
HFRI FoF Conservative	0.4%	3.3%	1.6%	2.9%	3.4%	
HFRI FoF Composite + 1%	0.8%	6.9%	3.0%	4.4%	4.3%	
SCERS Private Equity	5.6%	21.5%	14.8%	15.0%	12.8%	Feb-08
Cambridge Private Equity/Venture Capi	5.3%	20.0%	13.3%	14.9%	12.6%	
SCERS Private Credit	2.6%	9.1%	9.0%	9.4%	9.3%	Oct-11
Credit Suisse Leveraged Loan + 2%	1.7%	6.3%	6.5%	6.3%	7.4%	
SCERS Real Assets	7.1%	16.4%	17.7%	18.0%	18.0%	Jan-13
(45%) Cambridge Private Infrastructure + (35%) Cambridge Private Energy + (20%) NCREIF Agriculture/Timber	3.5%	12.3%	6.9%	6.7%	7.0%	
SCERS Opportunities	0.6%	5.0%	8.2%	10.6%	18.5%	Jan-08
SCERS Portfolio Actuarial Rate of Return	1.8%	7.0%	7.0%	7.0%	7.0%	

**Note: Periods ending 12/31/17 for Private Equity, Private Credit, Real Assets, and Opportunities
Periods ending 3/31/18 for Absolute Return
All returns are net IRR, except Absolute Return which is time-weighted*

The Board approved a motion to receive and file the report. (8-0)

Item 18. Quarterly Investment Performance Report – Real Estate

Robert Miranda and Felix Fels of The Townsend Group presented SCERS' Real Estate Investment Performance Report for the period ending March 31, 2018. Mr. Miranda reported that SCERS' Real Estate Portfolio returned 2.5% for the quarter and 13.9% for the 1-year period, as presented in the table below.

SCERS REAL ESTATE PERFORMANCE SUMMARY
As of March 31, 2018

SUB-ASSET CLASS	Quarter	1-Year	3-Year	5-Year	Since Inception	Since Inception Date
SCERS Real Estate Portfolio	2.5%	13.9%	10.8%	11.3%	8.3%	Nov-86
(65%) NFI-ODCE + (35%) NFI-ODCE + 1%	2.1%	7.5%	9.4%	10.8%	6.7%	
Core Portfolio	2.3%	12.6%	9.8%	10.7%	6.6%	Nov-86
Separate Account	1.5%	11.6%	8.4%	9.9%	9.0%	Nov-86
Commingled Funds	2.8%	13.2%	11.9%	11.7%	7.0%	Sep-13
NFI-ODCE Index	2.0%	7.1%	9.0%	10.4%	6.3%	Jul-95
Non-Core Portfolio	3.1%	18.1%	14.5%	14.0%	5.6%	Jun-06
Value Add Portfolio	2.7%	21.4%	15.9%	14.3%	4.6%	Jun-06
Opportunistic	3.5%	14.4%	12.2%	17.4%	7.8%	May-13
NFI-ODCE + 1% Index	2.2%	8.1%	10.0%	11.4%	7.3%	Jun-06

The Board approved a motion to receive and file the report. (7-0)

CLOSED SESSION

Item 19. Conference with Legal Counsel

At 11:57 a.m., the Board met in closed session with its Chief Investment Officer, staff, and consultants to discuss the purchase and sale of specific, pension fund investments.

OPEN SESSION

At 12:40 p.m., the Board reconvened in open session. Mr. Fowler announced that the Board adopted staff’s recommendation on the purchase, sale, and associated transition plan of specific pension fund investments by a unanimous vote. Upon completion of the transition activities, the Board will publicly disclose the transaction terms.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:40 p.m.

MEMBERS PRESENT: John B. Kelly (Departed at 11:56 a.m.), Steven L. Baird, James A. Diepenbrock, Ben Lamera, Alan Matré, Kathy O’Neil, Chris Pittman, John Conneally, Martha Hoover, and Rick Fowler presiding

MEMBERS ABSENT: Keith DeVore

OTHERS PRESENT: Eric Stern, Chief Executive Officer; Steve Davis, Chief Investment Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; Stephen Hawley, Chief Strategy Officer; Margaret Dugger, Retirement Services Manager; Mario Sierras, Retirement Service Manager; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Debbie Musilli-Sidhu, Executive Assistant; Diana Ruiz, Deputy County Counsel; Barry Dennis, Verus Advisory; John Nicolini, Verus Advisory, Inc.; Jamie Feidler, Cliffwater LLC; Robert Miranda, Townsend Group; Felix Fels, Townsend Group; Iwan Kjanali, AQR; Rodolfo Mortell, AQR; and Dave Mitchell, Sunrise Recreation and Park District

Respectfully submitted,

/S/

Eric Stern
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Richard B. Fowler II, President

DATE: _____