



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, DECEMBER 18, 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, December 18, 2013, and commenced at 10:00 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud introduced SCERS' new investment officer JR Pearce.

##### MINUTES:

2. The Minutes of the November 6, 2013 special meeting were approved on Motion by Mr. DeBord; Seconded by Mr. Kelly. Motion carried (7-0).

##### CONSENT MATTERS:

Items 3-7

Item 6 was taken off the Consent Calendar and deferred. The remaining Consent matters were acted upon as one unit upon a Motion by Mr. DeBord; Seconded by Mr. Pittman. Motion carried (8-0).

**CONSENT MATTERS (continued):**

3. DANERI, Laurie E.: Granted a service-connected disability retirement.
4. HASTINGS, Bruce J.: Granted a nonservice-connected disability retirement.
5. Approved the proposed interest crediting rate for member contribution accounts for the six month period ending December 31, 2013.
6. Deliberation and action on proposed amendments to the investment management agreements with BlackRock Realty Advisors and Cornerstone Real Estate Advisors was deferred.
7. Received and filed the November 2013 Monthly Investment Manager Compliance Report and Watch List.

**CLOSED SESSION:**

8. Public Employee Appointment [Government Code Section 54957]: General Counsel

Board President James A. Diepenbrock reported that the Board discussed the General Counsel position with the Chief Executive Officer.

**OPEN SESSION:**

**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 welcomed Martha Hoover who was elected as the Alternate Retiree Board Member and would be joining the Board at the January Board Meeting.

Mr. Stensrud noted that the CALAPRS Advanced Board Leadership Institute: 'Advanced Principles of Pension Management for Trustees' would be taking place from January 22-24, 2014 at UCLA. Mr. Stensrud stated that any Board Members interested in attending could contact Staff for help with registration.

Mr. Stensrud reported that on Thursday, December 19, SCERS would be conducting a retirement planning seminar for those members who were late in their careers. Mr. Stensrud stated that the program was fully subscribed.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Stensrud reported that SCERS had been named runner-up for the aiCIO Industry Innovation Award for pension plans with under \$15 billion in assets. Mr. Stensrud commended the Board, Staff, and SCERS' investment partners and consultants for their contributions toward the recognition.

Mr. Stensrud reported that for the first time since the collapse of the global financial markets, SCERS will have fully met the target for the semi-annual interest crediting for the pension reserves. Mr. Stensrud stated that SCERS actually exceeded the interest crediting target, which further confirmed that the impact of the market collapse had been fully addressed. Mr. Stensrud explained that pursuant to SCERS' Interest Crediting and Unallocated Earnings Policy, the 'unallocated earnings' which result when the investment performance exceeds the interest crediting target will be divided between SCERS' contingency reserve and addressing unfunded liability.

Mr. Stensrud reported that the 1937 Act Systems continue to work with the IRS to achieve tax qualified plan determination letters. Mr. Stensrud stated that the lead system, Orange County, was moving into the final stage and that the IRS was preparing to issue them their tax determination letter. Mr. Stensrud further stated that the necessary changes to the 1937 Act that were identified during this process had been introduced as legislation, which would be taken up in January, 2014. Mr. Stensrud noted that the IRS had reached out to other applicants, including SCERS, and that SCERS anticipated receiving their qualified plan determination letter soon. Mr. Stensrud stated that the letter was good through one IRS review cycle and that Staff would soon be presenting a proposal to the Board to file for the next cycle in 2015. Mr. Stensrud noted that, due to the efforts between the 1937 Act Systems and the IRS, the next application should proceed faster and more efficiently.

10. Richard A. Green and Craig Harner of Macias Gini & O'Connell presented the Report to the Board of Retirement, the Report on Internal Controls and Compliance, and the Independent Auditor's Report for the Fiscal Years Ended June 30, 2013 and 2012.

Mr. Green noted that his firm provided three reports from their audit. The first report was the Independent Auditor's Report, which is the auditor's opinion on the basic financial statements. The second report was the Report on Internal Controls and Compliance. The third report was the Report to the Board of Retirement.

Mr. Green stated that the audit showed no deficiencies, nor any instances of non-compliance with laws or regulations. Mr. Green stated that the audit produced an unqualified or 'clean' opinion on the basic financial statements. Mr. Green explained that this was the highest assurance possible on the state of the financial statements. Mr. Green further explained that this means that the financial statements were fairly presented in accordance with generally accepted accounting principles.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Green commended SCERS' Staff for their preparation and cooperation in conducting the audit.

Motion by Ms. Valverde to receive and file the reports; Seconded by Mr. Kelly. Motion carried (9-0).

11. Chief Operations Officer Kathryn Regalia presented the SCERS Comprehensive Annual Financial Report (CAFR) for the Fiscal Years Ended June 30, 2013 and 2012. The Board complimented Ms. Regalia for the quality of the report. Chief Executive Officer Richard Stensrud commended Ms. Regalia and the other Staff that worked on the report, including SCERS' accounting and investment Staff.

Motion by Mr. Fowler to receive and file the report; Seconded by Ms. O'Neil. Motion carried (9-0).

**INVESTMENT MATTERS:**

12. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending June 30, 2013 and September 30, 2013, including information regarding the hedge fund, private equity, real assets, and opportunities portfolios.

Mr. Feidler reported that SCERS' hedge fund portfolio was up 2.8% in the third quarter of 2013, outperforming the absolute return policy benchmark (90-day T-Bills + 5%) which was up 1.3% in the second quarter of 2013. Mr. Feidler noted that SCERS' hedge funds outperformed the HFRI Equity Hedge Index in the third quarter of 2013, which was up 1.6%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was up 3.9% in the quarter, and outperformed the HFRI Fund of Funds Composite Index and the 90-day T-Bills + 5%, which were up 1.6% and 1.3% respectively.

Mr. Feidler stated that for the quarter, SCARF B returned 3.3%, which slightly underperformed SCARF, but outperformed both the HFRI Fund of Funds Composite Index and the 90-day T-Bills +5%.

Mr. Feidler reported that SCERS' direct hedge fund program was up 1.3% during the first quarter, which was in-line with the 90-day T-Bills + 5% return of 1.3%, but underperformed the HFRI Fund of Funds Composite Index benchmark by 0.3%.

Mr. Feidler reported that the net investment rate of return ("IRR") of SCERS' private equity portfolio was up 5.0% since inception compared to the Venture Economics Private Equity Index up 8.0% and the multiple of total value to paid in capital ("TVPI") is 1.10x since

**INVESTMENT MATTERS (continued):**

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 June 30, 2013, SCERS' real assets portfolio IRR was 6.6% compared to SCERS' real assets portfolio benchmark (CPI + 5%) IRR of 7.4% and SCERS' TVPI was 1.2x.

Mr. Feidler reported that SCERS' opportunistic portfolio generated a net IRR of 8.2% as of June 30, 2013 which has outperformed SCERS' long-term benchmark (SCERS' actuarial rate of return) of 7.5%, but has underperformed SCERS' intermediate benchmark (SCERS' total portfolio policy weighted return) of 8.7%.

Motion by Mr. Kelly to receive and file the quarterly performance report; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

As it was her last meeting as a member of the SCERS Board, the Board considered and unanimously approved a resolution recognizing Nancy Wolford-Landers for her lengthy service on the Board and for her substantial contributions to SCERS and its stakeholders. The resolution noted that she has undertaken her duties with honesty, integrity, and the highest ethical standards; she has consistently served all SCERS constituents in a fair and impartial manner; she has been an active and thoughtful contributor to the decisions made by the SCERS Board on the numerous and challenging issues faced by SCERS; and she has played an important role in the development of a culture and mode of operation at SCERS that is focused on the highest levels of professionalism, accountability, fiscal discipline, transparency, and prudent investment practices. Ms. Wolford-Landers expressed her appreciation to her Board colleagues and thanked Staff for its hard work and professionalism.

13. Jennifer Young of The Townsend Group presented the quarterly performance report on real estate investments for the quarter ended September 30, 2013.

Ms. Young reported that SCERS' total real estate portfolio returned 2.1% during the third quarter of 2013, underperforming the benchmark (NFI-ODCE) by 1.2%. Ms. Young stated that for the 12-month period ending September 30, 2013, SCERS' real estate portfolio return was 12.3% and that in the same period, the benchmark returned 12.0%.

Ms. Young reported that SCERS' core real estate portfolio returned 2.1% during the third quarter, also underperforming the benchmark by 1.2%. Ms. Young stated that for the 12-month period ending September 30, 2013, SCERS' core real estate portfolio return was 9.2% and that in the same period, the benchmark returned 12.0%. Ms. Young further stated that the core separate accounts returned 2.3% for the quarter and 9.4% for the 12-month period, compared to 1.3% and 8.8%, respectively for the commingled funds.

**INVESTMENT MATTERS (continued):**

Ms. Young reported that SCERS' domestic public REIT portfolio returned -2.1%, compared to a third quarter return of -2.6% for the FTSE NAREIT (domestic) REIT Index. Ms. Young stated that SCERS' international REIT portfolio outperformed the FTSE EPRA/NAREIT Global ex-US REIT Index by 0.5% with a return of 8.0% in the second quarter. Ms. Young reported that for the 12-month period ending September 30, 2013, SCERS' domestic public REIT portfolio earned a 6.2% return matching the benchmark index of 6.2%, while SCERS' international REIT portfolio earned 18.1% return, beating the benchmark index of 15.5%.

Ms. Young reported that SCERS' non-core real estate portfolio returned 1.1% for the quarter, trailing Townsend's benchmark of the NCREIF / Townsend Value Added Funds, which returned 2.2%. Ms. Young stated however that SCERS' non-core real estate portfolio returned 14.2% for the 12-month period, exceeding the benchmark return of 10.7%.

Motion by Mr. Fowler to receive and file the quarterly performance report; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

14. Chief Investment Officer Scott Chan introduced a presentation on the proposed structure for a strategic investment partnership for the management of secondary infrastructure and real assets investments. Mr. Chan discussed the current opportunity in real assets and infrastructure, of which a significant portion is in the secondary market.

Deputy Chief Investment Officer Steve Davis reviewed the objectives of SCERS' private real assets portfolio, including (1) attractive risk-adjusted returns; (2) inflation hedging; (3) diversification; and (4) moderate income and cash flow generation. Mr. Davis also discussed the risks and issues involved with private real assets, including (1) investment risk; (2) execution risk; (3) counterparty risk; (4) financial leverage issues; and (5) evolving opportunities in primary funds.

Mr. Chan reviewed the case for real asset secondary investments, noting that Staff and general investment consultant Strategic Investment Solutions (SIS) believes that there is a sustained supply/demand imbalance.

John Nicolini of SIS discussed the skills and expertise required in a real assets secondary investment manager, including (1) infrastructure and energy expertise; (2) private equity and primaries expertise; and (3) secondaries expertise. Mr. Nicolini stated that a request for information (RFI) had been sent out to nine firms, with four expressing interest. Mr. Nicolini noted that ultimately only two responded and that one in particular appears to possess the required characteristics of a real assets secondary investment manager.

Mr. Nicolini then reviewed the key characteristics of a strategic partner for a real assets secondary mandate, including (1) the makeup of the firm; (2) the firm's expertise in infrastructure and energy; (3) the firm's investment process; and (4) the firm's track record.

**INVESTMENT MATTERS (continued):**

Mr. Chan reviewed the structure and terms that will be involved in the strategic partnership with the real assets secondary investment manager. Mr. Chan noted that this would be a \$100 million commitment by SCERS, over a three year investment period, and a 12 year fund term. Mr. Chan also noted that the agreement would include an attractive fee structure for SCERS, and veto power for SCERS on any investment.

Discussion followed. No action was requested or taken.

15. Deputy Chief Investment Officer Steve Davis introduced an educational presentation on global macro hedge fund investment strategies.

Jamie Feidler of Cliffwater, LLC provided an overview of global macro strategies noting that global macro hedge funds seek to exploit fundamental or technical price differences among broad markets globally and that global macro strategies are the most opportunistic of all hedge fund strategies. Mr. Feidler also noted that Macro managers may invest with an outright directional view, or may make relative value investments, within their portfolio.

Mr. Feidler discussed the different styles of global macro strategies including (1) discretionary global macro; (2) systematic global macro; (3) commodity trading advisors; (4) emerging markets; and (5) natural resources. Mr. Feidler then reviewed the strategy characteristics and key return drivers. Finally, Mr. Feidler covered key risk factors with global macro investing and the performance characteristics of both discretionary global macro, as well as systematic global macro and commodity trading advisors.

Discussion followed.

Motion by Ms. Wolford-Landers to receive and file the educational presentation on global macro hedge fund investment strategies; Seconded by Ms. O'Neil. Motion carried (9-0).

The meeting was adjourned at 2:10 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, Keith DeVore (arrived at 10:03 a.m.), Richard B. Fowler II, Diana Gin, Kathy O'Neil (arrived at 10:03 a.m.), Chris A. Pittman, Julie Valverde (arrived at 10:02 a.m.), Nancy Wolford-Landers (arrived at 11:24 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; Thuyet Dang, Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Pete Keliuotis and John Nicolini, Strategic Investment

**MINUTES – DECEMBER 18, 2013**

**PAGE 8**

Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Young, The Townsend Group; Richard A. Green and Craig Harner, Macias Gini & O’Connell; John Kennedy, Nossaman LLP; Martha Hoover; Robert Gaumer; and Laurie E. Daneri.

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.