



Executive Staff:
Annette St. Urbain
Interim 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 Matr , 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, OCTOBER 18, 2017
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 10:03 a.m.
- Item 2. Public Comment** - None
- Item 3. The Board unanimously approved the Minutes of the September 20, 2017 Regular Meeting and the September 20, 2017 Special Meeting (7-0).**

CONSENT MATTERS- ITEMS 4-8:

The Board unanimously approved the Consent Matters Items 4-8 (7-0).

- Item 4. Disability Retirement Applications**
 - A. GEPHART, Karyn: Granted a nonservice-connected disability retirement as recommended by staff.
 - B. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

- Item 5. **SACRS Fall Conference – Direction to SCERS Voting Delegate for Business Meeting Action Items**
- Item 6. **Placement Agent Disclosure Report – Third Quarter 2017**
- Item 7. **Monthly Report of New Investment Activity- September 2017**
- Item 8. **Monthly Investment Manager Activity, Compliance and Watch List Report-September 2017**

Ms. O’Neil arrived and joined the meeting in progress following the Board’s action on Consent Matters

ADMINISTRATIVE MATTERS:

- Item 9. **Interim Chief Executive Officer’s Report**

Ms. Annette St. Urbain provided the following update on developments affecting public retirement systems and on miscellaneous system and staff activities.

SACRS Fall Conference – Will be held November 14-17, 2017 in Burlingame at the Hyatt Regency San Francisco Airport. Request trustees who have not done so to please contact staff regarding plans to attend.

Reminder that the November Board Meeting will be held on Tuesday, November 7 at 1:00 p.m. to accommodate staff and trustee attendance at the SACRS Fall Conference the following week.

IRS Tax Withholding Issue—SCERS has become aware of several SCERS benefit recipients who have received notices from the IRS regarding their tax withholding from SCERS benefit payments in tax year 2015. Since discovering the issue, SCERS has been working with the County Department of Finance and the IRS to ascertain why the data SCERS has reported to the IRS has not been connected to individual taxpayer accounts. Ms. St. Urbain assured the Board that SCERS has remitted all the taxes and made all the necessary reports. Additionally, SCERS is providing letters to the affected payees who have contacted SCERS on this issue. The Board requested that staff keep them informed on this issue until resolved.

Rio Linda Elverta Recreation and Park District—Eligible employees will become members of SCERS as of October 8, 2017. The payroll reporting and contribution withholding changes applicable for this new participating employer are in final testing and will be ready to go live for the next payroll cycle. Ms. St. Urbain thanked Mr. Lamera and his staff at County Department of Finance for their efforts, as well as those at D-Tech, involved in the programming changes needed to establish this district as a SCERS employer in the County’s payroll system.

Item 10. Results of Actuarial Audit Performed by Cheiron

Graham Schmidt of Cheiron presented the results of the actuarial audit of SCERS' Actuarial Valuation as of June 30, 2017 and the Actuarial Experience Study (July 1, 2013 – June 30, 2016) that were performed by SCERS' retained actuary, Segal Consulting.

Mr. Schmidt reported that Cheiron conducted a parallel valuation and confirmed that the liabilities and costs computed by Segal in the SCERS valuation as of June 30, 2016 are reasonably accurate and computed in accordance with generally accepted accounting principles;

Cheiron also reviewed the economic and demographic assumptions recommended in SCERS' most recent Actuarial Experience Study prepared by Segal and found them to be reasonable and in accordance with generally accepted actuarial principles; and

Cheiron recommended that Segal review Cheiron's recommendations regarding rates of retirement and mortality and determine whether additional analysis is merited. More specifically, Cheiron suggests analyzing SCERS mortality experience on a benefit-weighted, rather than headcount-weighted, basis, and consider how much credibility to assign to the relatively low mortality experience of the last six years in developing adjustments to the standard base mortality tables. Cheiron also recommends reviewing the rates of service retirement by members' age and service in determining the probability of leaving employment.

The Board thanked Mr. Schmidt for Cheiron's work and reports on the actuarial audit.

Paul Angelo and Andy Yeung of Segal Consulting were present and provided comments to the Board on Cheiron's recommendations. Segal will provide written comments to the Board at its next meeting.

Item 11. Update on SCERS IT Modernization Program

Chief Strategy Officer, Stephen Hawley, provided an update on SCERS' IT Modernization Program. Mr. Hawley provided a timeline for the projects included in the IT Modernization Program as follows:

Project Description	FY2017-2018				FY2018-2019	FY2019-2020	FY2020-2021	FY2021-2022
	Q1	Q2	Q3	Q4				
IT Modernization Projects								
IT Modernization Consultant (Linea)								
Data Conversion (ICON)								
Pension Administration System								
Investment Accounting System								
Financial Reporting System								
Website Modernization								

Mr. Hawley provided updates on each of the projects involved in the IT Modernization project as follows:

IT Modernization Consultant - SCERS anticipates extending arrangements with Linea Solutions to provide oversight for the PAS implementation. Mr. Hawley noted that a recommendation for contracting further services with Linea would be brought to the November Board meeting.

Data Conversion - Data conversion began May, 2017 and is expected to continue throughout the PAS implementation project. Staff is currently discussing the potential of automated data capture from a subset of microfiche that is most commonly used by staff for benefit calculations.

Pension Administration System (PAS) – The staff recommendation for award of a contract to a PAS vendor as a result of SCERS' Request for Proposals process will be presented later this meeting.

Investment Accounting System - CastlePeak Associates is currently providing consulting services to identify requirements and potential alternatives for solutions for the Investment Accounting System.

Financial Accounting System - The Financial Accounting System is currently being deferred until after the selection of the PAS vendor and identification of the Investment Accounting System solution strategy due to the project schedule and business requirement interdependencies.

Website Modernization - Digital Deployment has been identified as the preferred vendor to redesign the SCERS website and deploy it using modern technology. Deployment of the new website is expected to be accomplished during the current fiscal year.

Mr. Hawley concluded with an updated budget forecast as follows:

Project Element	Explanation	4/16 Low Estimate	4/16 High Estimate	Current Estimate	Notes
Software	Software licensing cost (one-time).	\$500,000	\$1,100,000	\$537,600	Morneau BAFO
Implementation	Vendor fees to design and implement solution	\$5,200,000	\$8,400,000	\$8,632,600	Morneau BAFO
3 rd Party Software, Hardware or Hosting fees	Servers/hardware, or annual cost for cloud-based solution	\$150,000	\$800,000	\$459,000	Morneau BAFO
Project Oversight	Vendor management, QA of deliverables, Requirements Traceability, Best Practices consulting	\$1,500,000	\$2,000,000	\$1,800,000	Includes current Linea contract
Other Consulting Services	Specialized consulting – design, testing, employer payroll, training, business process reengineering, employer integration	\$1,700,000	\$2,500,000	\$1,500,000	To be determined
Data Conversion Services	Specialized consulting services for data conversion; includes Microfiche conversion	\$700,000	\$1,500,000	\$1,700,000	Icon Contract, assuming \$200K for microfiche conversion (data extraction is additional)
Temporary Staffing	3-6 additional FTEs for 4 years.	\$900,000	\$1,500,000	\$979,200	Assumes between 2 resources at \$85/hour from Dtech or elsewhere.
IAS Implementation		\$0	\$0	\$700,000	
FRS Implementation		\$0	\$0	\$500,000	
Website Modernization		\$0	\$0	\$250,000	Includes discovery phase contract of \$74,000
Modernization Program, Total		\$10,650,000	\$17,800,000	\$17,058,400	Total without contingency
				\$ 2,558,760	15% Contingency
				\$ 19,617,160	Total project budget

Item 12. Proposed Contract Award for Pension Administration System

Brian Colker of Linea Solutions presented the Board with the recommendation to award a contract to Morneau Shepell Limited as the successful bidder in response to SCERS’ Request for Proposal for a Pension Administration System, subject to successful negotiation of terms acceptable to SCERS, and to authorize the Board President or Chief Executive Officer to execute an agreement with Morneau Shepell Limited, not to exceed \$10,500,000.

Mr. Colker reviewed the strengths and weaknesses of all three finalist vendors and noted that, in addition to being the SCERS staff-favored product, Morneau Shepell had the most pros and least cons in comparison the other two systems.

The Board unanimously adopted Resolution 2017-08 to effect the Board’s approval of staff’s recommendations on proposed contract award for Pension Administration System, including adoption of the recommendations. (8-0)

Item 13. Proposed SCERS Compensation Policy

Interim Chief Executive Officer, Annette St. Urbain and Chair of the Board’s Ad Hoc Compensation Policy Committee, Keith Devore presented the proposed SCERS Compensation Policy recommended by the Committee.

The proposed policy elements include:

- Defines seven public retirement systems throughout California similar in size (in terms of members and assets) and comparable to SCERS as the set of survey agencies
- Calls for a compensation study to be conducted every three years (no salary adjustments if market deviations are less than 5%)
- Defines the benchmark classes and internal salary relationships for SCERS unrepresented management positions

The Board approved the SCERS Compensation Policy as recommended by the Ad Hoc Compensation Policy Committee. (7-0, Baird abstained)

Mr. Devore noted that the next step would be to apply the newly adopted policy to develop a Compensation Plan for SCERS unrepresented management employees for the Board's consideration. Board President Fowler assigned development of a proposed compensation plan to the Ad Hoc Committee.

INVESTMENT MATTERS:

Item 14. Education on Available Structures for Private Credit

Jamie Feidler of Cliffwater LLC, and SCERS' staff provided education to the Board on available structures for private credit investments. This session presented an overview of the Private Credit asset class, descriptions of private credit investment vehicles and structures, and an update to the Board on upcoming implementation considerations for Private Credit.

Item 15. Education on Alternative Investment Fund Fee and Expense Disclosures Required by State Law (AB 2833)

Chief Investment Officer Steve Davis and General Counsel Robert Gaumer provided the Board with education on alternative investment fund fee and expense disclosures as required by Section 7514.7 of the California Government Code. This law, enacted on September 14, 2016, mandates that California public pension or retirement systems require each alternative investment manager with which they contract to make annual disclosures of fees and expenses to be publicly disclosed by the fund on an annual basis at an open meeting.

Mr. Gaumer provided background on this law and SCERS' due diligence process since its enactment. Mr. Davis noted that SCERS will be requesting level 2 data with the ILPA template. Mr. Gaumer and Mr. Davis concluded with an overview of the effect this law has had on SCERS investments to date, and the steps SCERS will continue to take to obtain and report alternative investments fees and expenses. The first report is expected to be presented to the SCERS' Board during the first half of 2018.

CLOSED SESSION

- Item 16. Public Employment – Chief Executive Officer
Per Government Code Section 54957
Discussion and action on employment terms.**

OPEN SESSION

**Board President Fowler reported that in closed session the Board unanimously approved the terms to be offered to the prospective employee.
(8-0)**

ADJOURNMENT

There being no further business, the meeting was adjourned at 2:11 p.m.

MEMBERS PRESENT: John B. Kelly, Keith DeVore, Steven L. Baird, Ben Lamera, Alan Matré, Kathy O’Neil, Chris Pittman, John Conneally, Martha Hoover and Rick Fowler presiding

MEMBERS ABSENT: James Diepenbrock

OTHERS PRESENT: Annette St. Urbain, Interim 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; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; Brian K. Miller, Investment Officer; John Lindley, IT Administrator; Shannon Browning, Administrative Services Officer; John Nicolini, Verus Advisory, Inc; Jamie Feidler, Cliffwater LLC; Andy Yeung and Paul Angelo, Segal Consulting, Brian Colker, Linea Solutions, Graham Schmidt, Cheiron, Aysun Kilic, Rothschild Asset Management

Respectfully submitted,

Annette St. Urbain
Interim Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____ DATE: _____
Richard B. Fowler II, President