



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

MINUTES

REGULAR MEETING OF THE BOARD OF RETIREMENT

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

WEDNESDAY, JULY 19, 2017

10:00 A.M.

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

OPEN SESSION

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

Item 1. Call to Order – The meeting was convened at 10:00 a.m.

Item 2. Public Comment - None

Item 3. Minutes

The Board unanimously approved the Minutes of the June 21, 2017 meeting (7-0).

CONSENT MATTERS – ITEMS 4-8:

Item 4a was removed for discussion in a closed session at the request of Mr. DeVore.

The Board unanimously approved the Consent Matters Items 4B, 4C, 4D,4E and 5-8 (7-0).

Item 4. Disability Retirement Applications

B. CLEMENT, Jenean: Granted a nonservice-connected disability retirement and referred the matter of a service-connected disability for an administrative hearing as recommended by staff.

- C. DECLUSIN, Joshua: Granted a nonservice-connected disability retirement as recommended by staff.
- D. HACKMAN, Veronica: Granted a service-connected disability retirement as recommended by staff.
- E. Reference; General Law and Authorized Board Actions on Disability Retirement Proposed Decisions

- Item 5. Sacramento County's Request for Employer Contribution Prepayment for FY 2017-2018 and Final Reconciliation for FY 2016-2017**
- Item 6. Annual Oath of Office and Affirmation of Duties and Responsibilities by SCERS Board Members.**
- Item 7. Monthly Investment Manager Activity, Compliance and Watch List Report June 2017**
- Item 8. Monthly Report of New Investment Activity – No new activity to report for June 2017**

CLOSED SESSION

The Chair convened a closed session at 10:02 a.m. to discuss Item 4A. Upon adjournment of closed session at 10:09 a.m., action on this item was taken in open session.

OPEN SESSION

ADMINISTRATIVE MATTERS:

Item 4. Disability Retirement Applications

- A. BEST-OLDS, Susan: The Board unanimously granted a service-connected disability retirement as recommended by staff.

Item 9. Interim Chief Executive Officer's Report

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

SCERS' Member Handbook (Legacy Version) – The Legacy Version of SCERS' member handbook has been completed and was provided to The Board with the note that the PEPR version would be coming soon.

Assembly Bill 526 (Cooper) – This bill, which would formalize a change in the operating authority arrangement and structure for SCERS is now a two-year bill. In the months ahead, dialogue would continue with Sacramento County in hopes of finding alternatives or amendments that would remove Sacramento County's opposition to the bill.

Assembly Bill 283 (Cooper) – This bill, regarding permanent incapacity for peace officer, is now a two-year bill.

Cyber Security Risk Assessment – SCERS' Management Consultant recently provided a cyber security risk assessment report that was provided to SCERS' Executive Staff. The identified risks will be brought into SCERS' Enterprise Risk Management program and a project initiated to identify and implement mitigating actions.

Upcoming items of note:

- Verus' 2017 Client Summit Program is being held August 28-29, 2017 in San Francisco, with a mix of general and breakout sessions.
- SCERS will soon be providing summary reports on SCERS' representatives attendance at educational conferences, events, manager due diligence, etc, Ensures a record is established of who attended, the value of the content and summary of key take aways, and what was accomplished during the travel/meetings. These reports will be made available through the Board's intranet.
- The Annual Renewal of Oath of Office and Affirmation of Duties and Responsibilities are provided for each Board Member's signature.
- 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.
- Ms. St. Urbain will be serving her third year as faculty for the CALAPRS program for trustees at Pepperdine at the end of August.

Item 10. SCERS Enterprise Solutions and IT Modernization Program Update

SCERS' Management Consultant, Steve Hawley, and the Linea Solutions Project Manager, Bryan Colker, presented this item. Mr. Hawley provided the Board with the SCERS Enterprise Solutions Project Plan which outlines the portfolio of projects that have been planned over the next several years as part of the IT Modernization and SCERS Strategic Plan-initiated Continuous Improvement Program.

Mr. Colker provided the Board with an update on the Pension Administration System (PAS) procurement. Mr. Colker stated that the project team had narrowed the search down to three finalists (in alphabetical order): LRS/PensionGold, Morneau-Shepell, and Sagitec Solutions. Mr. Colker stated that the finalists would present demonstrations to and be interviewed by the project team August 1-3, 2017. Following the interviews, the project team will further evaluate the top two firms and conduct references, site visits to other pension systems that have implemented each vendor's solution, and begin "best and final offer" negotiations. It is anticipated that a recommendation on PAS vendor selection will be presented to the Retirement Board in September.

Item 11. Update on Park Tower Transaction and Office Lease Market in Downtown Sacramento

Chris Strain, Executive Director of Cushman & Wakefield of California, provided an update on the Sacramento office market and the Park Tower building, including its recent sale, in which SCERS is a tenant. Mr. Strain provided the Board with the facility options available as SCERS' nears the end of its' 10-year lease including: Remain at the current location and exercise the Fair Market Rent option in 2021, move to a new location in 2021, or recast and extend SCERS' current lease. Discussion followed. The Board thanked Mr. Strain for his presentation.

INVESTMENT MATTERS:

Item 12. Proposed Restated Master Investment Policy Statement

Chief Investment Officer, Steve Davis, provided the Board with the updated and finalized version of the Master Investment Policy Statement that was originally presented to the Board at the June 21, 2017 Board meeting. Mr. Davis noted that other than clean-up and grammatical changes, few modifications were made to the document; a 'redline' version of the final document was provided to highlight any changes that were made to the draft document.

Recent changes include the addition of an Investment Philosophy related to generating sufficient cash flows to support SCERS in meeting its benefit payment obligations, and the addition of symmetrical minimum and maximum allocation ranges around the asset allocation targets, which staff and consultant determined were preferred at this time over the possible asymmetrical ranges contemplated in June.

Barry Dennis of Verus stated that the asset allocation that was approved by the Board at the January 2017 Board meeting is going to become the basis of the new Investment Policy Index that will be seen in SCERS' Performance Reports. Mr. Dennis stated that the new target index would be effective October 1, 2017.

Mr. Dennis noted that there would be an ongoing effort to simplify and consolidate SCERS' asset class policy statements. Mr. Dennis also stated that it would be preferential to have revised asset class investment policy statements approved before beginning the effort to consolidate them.

The Board unanimously approved the proposed restated Master Investment Policy Statement ("IPS") (7-0).

Item 13. Proposed Revisions to SCERS Real Estate Investment Program

As a follow-up to the discussion at the June Board meeting regarding SCERS' real estate investment program structure, Staff and the Townsend Group developed seven recommendations for the Board's consideration and action with the objective of conforming the Real Estate asset class structure and Real Estate Investment Policy Statement ('IPS') to the strategic asset allocation adopted by the Board in January 2017 and enhancing efficiency in managing SCERS' Real Estate program. The seven recommendations are as follows:

1. Approve a structure and orderly transition that, when completed, provides that SCERS' Core real estate exposure will be managed through Core comingled funds and no longer include Core separate accounts.
2. Authorize Staff and Consultant to develop and execute a Core implementation plan for the transition of the existing Core separate account program according to the implementation protocols within the Real Estate Investment Policy Statement ('IPS').
3. Beginning in the second half of calendar year 2017, maintain and report on SCERS' Non-Core and Non-U.S. real estate exposure as part of the Real Estate asset class within SCERS' Real Return asset category, rather than the Opportunities asset category.
4. Approve the Real Estate portfolio construction targets and ranges for Core Real Estate, Non-Core Real Estate and Non-U.S. Real Estate as proposed.
5. Establish a Primary Policy Index Real Estate Benchmark using existing Core and Non-Core benchmarks and weights.
6. Establish a Secondary Custom Global Benchmark for the total Real Estate Program that reflects SCERS' exposure to Non-U.S. Real Estate.
7. Approve the proposed revisions to the Real Estate IPS.

Chief Investment Officer Steve Davis introduced the presentation by Staff and Jennifer Young-Stevens of the Townsend Group. Ms. Young-Stevens opened by reviewing the SCERS' core portfolio composition recommendation and implementation plan. SCERS has two options for SCERS Core Program Implementation: Selling Individually Managed Account (IMA) assets or transferring IMA assets to Open-End Commingled Funds (OECFs) in exchange for shares in the OECF(s).

Following the review of the core portfolio, Investment Officer JR Pearce reviewed the recommendation to move SCERS' Non-Core/Non-U.S. portfolio classification from the Opportunities asset class to the Real Estate asset class.

Ms. Young-Stevens and Mr. Pearce concluded the presentation with a review of the Real Estate Portfolio Implementation plan as well as a recommendation for SCERS' Real Estate Benchmarking. Discussion followed.

The Board unanimously approved Staff and Townsend Group's recommendations for SCERS Real Estate Investment Program (7-0)

CLOSED SESSION

The Chair convened a closed session at 11:36 a.m.

- Item 14. Public Employee Performance Evaluation**
Interim Chief Executive Officer
Per Government Code Section 54957

OPEN SESSION

Upon reconvening open session at 11:48 a.m., it was noted that there was no action in closed session to report.

- Item 15. Possible Amendment to Interim CEO Employment Agreement**

Several amendments were made to the Interim CEO Employment Agreement to clarify the Original Employment Agreement with Interim CEO, Annette St. Urbain that commenced May 28, 2017, and to add 80 hours to Ms. St. Urbain's accrued vacation.

The Board unanimously approved the amendment to the Interim CEO Employment Agreement (7-0)

- Item 16. Election of Board Officers**

Interim CEO, Annette St. Urbain moderated the election of Board Officers for FY 2017-2018. A recommendation was made to maintain the current appointments with Rick Fowler as President, John B. Kelly as Vice President and Keith DeVore as Vice President.

The Board unanimously approved the motion by DeVore, second by Baird, to maintain the current Board Officers for fiscal year 2017-2018: Rick Fowler as President, John B. Kelly as Vice President and Keith DeVore as Vice President.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:50 a.m.

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

MEMBERS ABSENT: James A. Diepenbrock, Ben Lamera

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; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Shannon Browning, Administrative Services Officer; Brian Colker, Linea Solutions; Barry Dennis and Margaret Jadallah, Verus Advisory, Inc; Jennifer Young-Stevens, The Townsend Group; Veronica Hackman; and Susan Best-Olds

Respectfully submitted,

/s/

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

APPROVED: _____
Richard B. Fowler II, 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.