



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, SEPTEMBER 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, September 18, 2013, and commenced at 10:01 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the August 21, 2013 regular meeting were approved on Motion by Mr. Kelly; Seconded by Mr. Pittman. Motion carried (7-0).

CONSENT MATTERS:

Items 3-8

The Consent matters were acted upon as one unit upon a Motion by Ms. Valverde; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

CONSENT MATTERS (continued):

3. CAMINITI, John: Granted a service-connected disability retirement.
4. CHEW, Bradley K.: Granted a reciprocal service-connected disability retirement.
5. LEWIS, Elaine: Granted a reciprocal nonservice-connected disability retirement.
6. LOTFALIAN, Zahra: Granted a service-connected disability retirement.
7. TAYLOR, Michael B.: Granted a nonservice-connected disability retirement.
8. Received and filed the August 2013 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 noted that the State Association of County Retirement Systems (SACRS) Fall Conference will be taking place November 12-15 and to contact Staff for assistance for those interested in attending.

Mr. Stensrud reported that SCERS had been nominated for aiCIO's Industry Innovation Award for pension plans with up to \$15 billion in assets. Mr. Stensrud noted that the aiCIO Awards recognize the world's leading institutional investors in ten categories, including foundations, endowments, corporate plans, sovereign wealth funds, and public pension plans of various asset levels. Mr. Stensrud noted that the nominees come from around the globe, and that last year the winner in this category was the CERN Pension Fund, which is the Switzerland-based pension fund for the European nuclear regulatory agency.

Mr. Stensrud reported that SB13, the state legislation to clarify sections of the CalPEPRA bill, had finally been voted on. Mr. Stensrud noted that the legislature had declined to provide clarification on what counts as retirement-eligible compensation under the new CalPEPRA tiers. Mr. Stensrud noted that the bill provided no reason for SCERS to change its current view that only base pay should be considered as pensionable compensation under the new CalPEPRA tiers.

Mr. Stensrud noted that a recent Sacramento Bee article reported that 173 members of the Deputy Sheriff's Association (DSA) had agreed to retire by June 30, 2015 in exchange for a retirement incentive offered under a new bargaining agreement. Mr. Stensrud stated that the incentive would provide pay raises on an accelerated basis between now and June 30,

ADMINISTRATIVE MATTERS (continued):

2015, which would result in higher retirement benefits than would otherwise be received by those members.

Mr. Stensrud reported that SCERS had been working to receive a tax compliance letter from the IRS. Mr. Stensrud noted that virtually all of the 1937 Act systems had voluntarily requested such a letter. Mr. Stensrud stated that as part of the request, a voluntary compliance plan had been proposed which was intended to address potential tax law issues in the 1937 Act, as well as potential tax law issues that might have occurred at the individual system level. Mr. Stensrud reported that the IRS had completed their review of the first application, which was submitted by the Orange County Employees' Retirement System (OCERS). Mr. Stensrud stated that it appears the IRS has accepted the proposed changes to the 1937 Act that were constructed collectively by the 1937 Act systems and submitted by OCERS. Mr. Stensrud reported that the actual changes to the 1937 Act had been introduced in AB 341, which was expected to be addressed in January, 2014. Mr. Stensrud stated that it is anticipated that the IRS will now begin to look at applications from the other 1937 Act systems, which will be reviewed concurrently, and that this process will likely take several months.

Mr. Stensrud discussed a recent article in the Sacramento Bee comparing 1999 retirement benefit levels to 2012 retirement benefit levels, which concluded that the levels had doubled during that period. Mr. Stensrud noted that the comparison focused on safety benefits at the California Public Employees' Retirement System (CalPERS). Mr. Stensrud stated that the CalPERS actuary was quoted as attributing 50%-75% of that increase to salary growth during the period. Mr. Stensrud noted that salary changes to match the increase in the consumer price index (CPI) would alone account for 45% of the growth. Mr. Stensrud noted that for SCERS the time period looked at included benefit enhancements, as well as the Ventura Settlement, which increased the number of pay elements that count toward the retirement benefit.

Mr. Stensrud noted that SCERS is periodically asked to facilitate mailings to retirees from Sacramento County and the Sacramento County Retired Employees Association (SCREA). Mr. Stensrud explained that this is because SCERS maintains the mailing addresses for retirees and handles the mailings rather than provide that confidential information to other organizations. Mr. Stensrud also noted that SCERS has a legal duty under the 1937 Act to facilitate the mailings. Mr. Stensrud stated that while SCERS places its return address on the mailings, it adds a disclaimer indicating that the mailing is not from SCERS and that they are not responsible for the content. Mr. Stensrud reported that SCERS was approached by SCREA with a mailer they wanted to send to retirees endorsing two retiree candidates for the Retirement Board election. Mr. Stensrud stated that the printer executed a confidentiality agreement, SCREA developed the mailer, and SCERS added the return address and disclaimer. Mr. Stensrud reported that one of the other candidates had an

ADMINISTRATIVE MATTERS (continued):

issue with SCERS facilitating the mailing and wrote a letter to Mr. Stensrud, Mr. Diepenbrock, and others. Mr. Stensrud provided a copy of the letter and his response to the Board Members. Mr. Stensrud stated that his response explained that SCERS had done nothing to take a stance in the election and that mailer had been executed consistent with SCERS' historic practice and consistent with its duty under the law. Mr. Diepenbrock noted that the return address could mislead some to conclude that SCERS was supporting the contents, although the disclaimer clearly refutes that. Discussion followed. Mr. Stensrud stated that Staff would look at ways to prevent any potential for confusion with future mailings.

10. Chief Executive Officer Richard Stensrud presented a recommendation to add an Investment Analyst position to SCERS' internal investment staff. Mr. Stensrud stated that the original investment staff structure included an Investment Analyst position, but that as SCERS began to build out its staff, there was an opportunity to capture more talent at the Investment Officer position and hence the Investment Analyst position was reallocated to an Investment Officer position. Mr. Stensrud explained that this resulted in the loss of the Investment Analyst position in the staff structure. Mr. Stensrud reported that as the Investment Officers moved up to the Chief Investment Officer and Deputy Chief Investment Officer positions, respectively, with the current vacancies in the Investment Officer positions, administrative, implementation, and report-building tasks have had to be completed by the CIO and Deputy CIO. Mr. Stensrud noted that these tasks can effectively be performed by someone with an Investment Analyst's background and skills. Mr. Stensrud stated that it is important to the successful performance of SCERS' investment staff that the Investment Analyst position be re-established.

Motion by Ms. O'Neil to approve the recommendation to add an Investment Analyst position to SCERS' internal investment staff; Seconded by Mr. DeVore. Motion carried (9-0).

11. Chief Operations Officer Kathy Regalia presented the request by the Sacramento Metropolitan Fire District (SMFD) to permit deduction of the retiree portion of the health care premiums associated with the retiree's participation in the SMFD retiree health care plan from the monthly SCERS benefit payment to the retiree. Ms. Regalia stated that the retirees did not previously pay a portion of the health care premium but that had changed due to recent negotiations. Ms. Regalia noted that there is a memorandum of understanding in progress between SCERS and SMFD.

Motion by Mr. Fowler to approve the request by the Sacramento Metropolitan Fire District (SMFD) to permit deduction of the retiree portion of the health care premiums associated with the retiree's participation in the SMFD retiree health care plan from the monthly SCERS benefit payment to the retiree; Seconded by Mr. Kelly. Motion carried (9-0).

INVESTMENT MATTERS:

Deputy Chief Investment Officer Steve Davis introduced Donald Morgan and Robert Brady of Brigade Capital Management (Brigade) which was being recommended by Staff and Strategic Investment Solutions (SIS) to execute a strategic credit mandate as part of SCERS' fixed income asset class.

Mr. Brady presented an overview of Brigade and their opportunistic credit strategy. Mr. Brady discussed the history of the company, as well as Brigade's structure and basic approach to the markets.

Mr. Morgan spoke in depth about Brigade's process and the benefit of a flexible strategic credit mandate at this point in the credit cycle. Mr. Morgan stated that the portfolio is rotated across the credit cycle to maximize performance. Mr. Morgan also provided a market outlook going forward.

Motion by Mr. Kelly to approve the engagement of Brigade Capital Management to manage a strategic credit mandate; Seconded by Mr. Fowler. Motion carried (9-0).

CLOSED SESSION:

INVESTMENT MATTERS:

12. Board President Jim Diepenbrock reported that discussion took place regarding the purchase and sale of specific pension fund investments.

OPEN SESSION:

INVESTMENT MATTERS:

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

Ms. Young reported that SCERS' total real estate portfolio returned 3.2% during the second quarter of 2013, underperforming the benchmark (NFI-ODCE) by 0.4%. Ms. Young stated that for the year ended June 30, 2013, SCERS' real estate portfolio return was 14.6% and that in the same period, the benchmark returned 11.1%.

Ms. Young reported that SCERS' core real estate portfolio returned 3.2% during the second quarter, underperforming the benchmark by 0.4%. Ms. Young noted that this underperformance is largely due to poor performance from the Granite Fund, which has

INVESTMENT MATTERS (continued):

since been terminated. Ms. Young stated that for the year ended June 30, 2013, SCERS' core real estate portfolio return was 10.4% and that in the same period, the benchmark returned 11.1%.

Ms. Young reported that, within core real estate, SCERS' separate account portfolio underperformed the commingled fund investments for the quarter, but outperformed the commingled fund investments for all other periods. Ms. Young stated that the separate accounts returned 3.1% for the quarter and 10.4% for the year, compared to 3.6% and 10.3%, respectively for the commingled funds.

Ms. Young reported that SCERS' domestic public REIT portfolio returned -1.3%, compared to a second quarter return of -2.1% 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 4.6% with a return of 1.0% in the second quarter.

Ms. Young reported that SCERS' non-core real estate portfolio returned 5.4% for the quarter and 24.6% for the one year period, above Townsend's benchmark of the NCREIF / Townsend Value Added Funds benchmark, which returned 3.7% and 11.4% respectively.

Motion by Ms. Wolford-Landers to receive and file the quarterly performance report; Seconded by Ms. O'Neil. Motion carried (8-0).

14. Chief Investment Officer Scott Chan introduced an educational presentation on making 'secondary' investments in the infrastructure sub-asset class. Mr. Chan stated that in the presentation Staff and SIS would review the case for investing in infrastructure, namely providing the capability to hedge inflation, providing moderate income, and providing diversification relative to the equity portfolio. Mr. Chan noted that opportunities in the secondary market for investing in infrastructure are trading at more substantial discounts than are typically seen in other private assets.

Deputy Chief Investment Officer Steve Davis reviewed SCERS' real assets portfolio and its objectives. Mr. Davis also reviewed the sectors of infrastructure and their return characteristics. Mr. Chan covered the risks associated with infrastructure investing including investment risk, execution risk, and counterparty risk.

John Nicolini of SIS reviewed the diversification benefits of infrastructure investing, noting that there is a low correlation to traditional asset classes and that there is some correlation to inflation. Mr. Nicolini also provided an explanation of secondary markets.

INVESTMENT MATTERS (continued):

Mr. Chan then discussed the rationale for investing in infrastructure secondaries, including that high supply and low demand was resulting in more substantial discounts; transparency into the assets that had already been acquired; and the ability to bypass the initial effects of the J-curve.

Mr. Nicolini reviewed the pros and cons with both primary and secondary investing in infrastructure. Mr. Nicolini discussed the size of the secondary markets and recent growth trends.

Mr. Chan provided a conclusion and stated that Staff and SIS would be considering investment partners with strong expertise in infrastructure secondaries and that they anticipate making a recommendation in the near future.

Discussion followed.

15. Jamie Feidler of Cliffwater, LLC presented the Alternative Assets Investment Performance Report for periods ending March 31, 2013 and June 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 1.6% in the second quarter of 2013, outperforming the absolute policy benchmark (3 Month T-Bills + 5%) which was up 1.2% in the second quarter of 2013. Mr. Feidler noted that SCERS' hedge funds outperformed the HFRI Equity Hedge Index in the first quarter of 2013, which was down 0.03%.

Mr. Feidler stated that the SC Absolute Return Fund, LLC ("SCARF") was up 1.9% in the quarter, and outperformed the HFRI Fund of Funds Composite Index and the 3 Month T-Bills + 5%, which were up 1.6% and down 0.03% respectively.

Mr. Feidler noted that over the course of the second quarter, SCERS had substantially completed its \$150 million investment in SCARF B, a multi-strategy hedge fund portfolio managed by SCERS' hedge fund strategic partner Grosvenor Capital, and which serves as an interim hedge fund component to close the gap between SCERS' actual hedge fund allocation, and its target allocation of 10%. Mr. Feidler stated that for the quarter, SCARF B returned 1.7%, 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 1.0% during the first quarter, and outperformed the HFRI Fund of Funds Composite Index by 1.0%, but underperformed the 90-day T-Bills + 5% benchmark by 0.2%.

INVESTMENT MATTERS (continued):

Mr. Feidler reported that the net investment rate of return (“IRR”) of SCERS’ private equity portfolio was up 4.02% since inception compared to the Venture Economics Private Equity Index up 7.6% and the multiple of total value to paid in capital (“TVPI”) is 1.08x since 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 December 31, 2012, SCERS’ real assets portfolio IRR was 7.0% 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 March 31, 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 8.5%.

Motion by Mr. Fowler to receive and file the quarterly performance report; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

16. Chief Investment Officer Scott Chan introduced an educational presentation on the emerging market small cap segment of the international equity sub-asset class. Mr. Chan began with an overview of emerging market small cap equity and an overview of SCERS’ international equity structure.

Patrick Thomas of SIS reviewed how the international equity asset class has matured over time and the evolution of emerging markets. Mr. Thomas noted that developing countries, such as China, Korea, and Brazil, have become ‘developed’ countries. Mr. Thomas then provided an explanation of emerging market small cap equity. Mr. Thomas explained that the emerging market small cap index includes stocks that are approximately ranked in the bottom 15% by market capitalization in each constituent country’s local market index.

Deputy Chief Investment Officer Steve Davis stated that the emerging market small cap segment is an inefficient asset class, which makes it attractive since there is an opportunity to add value through skilled active management. Mr. Davis then reviewed the sector allocation for the emerging market small cap segment versus the broader emerging market segment. Mr. Davis stated that the emerging market small cap segment has a higher allocation to the consumer discretionary, health care, and industrial segments and a lower allocation to the energy and financials segments. Mr. Davis reviewed the correlation between the emerging market small cap segment and other asset classes. Finally, Mr. Davis discussed the risks and disadvantages with the emerging market small cap segment, including lower liquidity, greater volatility, higher country and political risk, higher transaction costs, and higher investment management fees.

INVESTMENT MATTERS (continued):

Mr. Thomas reviewed SCERS' current international equity structure. Mr. Thomas also discussed how a proposed international equity structure that included a \$40 million dedicated emerging market small cap allocation would compare to SCERS' current international equity structure.

Mr. Chan noted that the universe of potential managers is small in this segment of the market, but two of SCERS' current international developed small cap managers, William Blair and Mondrian, would be potential candidates. Mr. Chan concluded by stating that Staff is anticipating making a recommendation at the October Board Meeting for a modification to SCERS' international equity portfolio to include a dedicated \$40 million emerging market small cap mandate. Mr. Chan said that Staff will also be conducting due diligence on manager candidates, expecting to recommend a manager at the November Board Meeting.

17. Chief Investment Officer Scott Chan introduced an educational presentation on opportunistic real estate investing.

Jennifer Young of The Townsend Group provided a definition of non-core real estate, covering value added strategies and opportunistic strategies. Ms. Young reviewed non-core real estate themes, including capitalizing on distress; the scarcity of capital; debt and equity structures; and international opportunities. Ms. Young also discussed non-core real estate risks. Ms. Young provided the performance history of non-core real estate funds over the past 30 years, as well as the performance history by vintage year. Ms. Young reviewed some potential investment opportunities in non-core real estate in the US, Europe, and Asia.

Mr. Chan concluded the presentation noting that Staff will likely be developing opportunistic real estate investment recommendations over the next several months.

The meeting was adjourned at 2:29 p.m.

MEMBERS PRESENT: James A. Diepenbrock, John B. Kelly, Keith DeVore (arrived at 10:06 a.m.), Richard B. Fowler II, Diana Gin (arrived at 10:05 a.m.), Kathy O'Neil (arrived at 10:02 a.m.), Chris A. Pittman, Julie Valverde (departed at 11:20 a.m.), Nancy Wolford-Landers, John Conneally, and Michael DeBord (arrived at 10:02 a.m.).

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; John Lindley, IT Administrator; Lance Kjeldgaard, Outside Counsel; Patrick Thomas, John

Nicolini, and Steve Masarik, Strategic Investment Solutions, Inc; Jamie Feidler, Cliffwater, LLC; Jennifer Young, The Townsend Group; Donald Morgan and Robert Brady, Brigade Capital Management; and John Kennedy, Nossaman LLP.

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.