



MINUTES

RETIREMENT BOARD MEETING MINUTES

SECOND MONTHLY MEETING

September 26, 2018

9:00 a.m.

Retirement Board Conference Room

The Willows Office Park

1355 Willow Way, Suite 221

Concord, California

Present: Candace Andersen, Scott Gordon, Jerry Holcombe, Louie Kroll, Jay Kwon, David MacDonald, John Phillips, William Pigeon, Gabe Rodrigues, Todd Smithey, Jerry Telles and Russell Watts

Absent: None

Staff: Gail Strohl, Chief Executive Officer; Christina Dunn, Deputy Chief Executive Officer; Timothy Price, Chief Investment Officer; Karen Levy, General Counsel; Anne Sommers, Administrative/HR Manager; Henry Gudino, Accounting Manager; Tim Hoppe, Retirement Services Manager; and Colin Bishop, Member Services Manager

Outside Professional Support:

Susan Hastings

Ed Hoffman

Eva Young

Joe Wiley

Christopher Boucher

Representing:

Laughlin, Falbo, Levy & Moresi

Verus Investments

Segal Consulting

Wiley Price & Radulovich LLP

Wiley Price & Radulovich LLP

1. Pledge of Allegiance

The Board, staff and audience joined in the *Pledge of Allegiance*.

2. Accept comments from the public

No member of the public offered comment.

Gordon and Pigeon were present for subsequent discussion and voting.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957 and 54957.6.

The Board moved into open session.

- 3.** It was **M/S/C** to adopt the Findings of Fact and Decision to deny the service-connected disability retirement application for Rebecca Halvorson. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Pigeon, Smithey and Watts. No: Telles)

4. There was no reportable action related to Govt. Code Section 54957.6.
5. **Consider and take possible action to accept the GASB 68 report from Segal Consulting** – Eva Young

Young reviewed the results of the GASB 68 report noting the total Net Pension Liability (NPL) decreased from \$1.40 billion as of December 31, 2016 to \$0.81 billion as of December 31, 2017. The decrease was primarily due to the 13.3% return on the market value of assets during 2017. She stated the NPL is allocated to each employer based on payroll and reported on each of their balance sheets as a liability.

There was a discussion on allocating the NPL for Cost Groups with multiple employers and for terminated employers. Strohl noted that every year Segal provides a letter to the terminated employers informing them of what they owe and then the terminated employers pay CCCERA directly.

It was M/S/C accept the GASB 68 report from Segal Consulting. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Pigeon, Smithey, Telles and Watts)

6. **Review of Report on Growth Sub-portfolio**

Price reviewed the role of Growth in CCCERA's portfolio and noted this is the long term sustainability piece of the program. He stated it provides the vast majority of the long term rates of return and future liabilities will be funded by the growth of this portfolio. He reviewed how the program is structured, the asset classes included in the portfolio, how it's working, and the areas of strength and concern noting that risk is a consideration but we accept the volatility. He also reviewed the objectives and measurements used to report out to the Board.

He reviewed the portfolio's performance as of June 30, 2018 noting absolute returns outperformed but not as much as we would have liked. He reviewed recent decisions made by the Board and decisions the Board will be making along the way. He provided status updates on the emerging market, private credit, and risk parity mandates.

He reported we are nearing the final phase of restructuring the Growth Sub-portfolio and expect a complete build-out by the end of the year. He noted the performance results should be reflected within the next three years.

7. **Update from StepStone Group on Private Credit implementation** – Marcel Schindler and Urs von Bueren

Schindler provided an update on the Private Debt mandate noting the only change to the original plan was extending the 2-3 year deployment speed to 3-4 years due to market conditions. He reported \$120 million has been committed to Satellite funds and \$34 million has been funded in co-investments. He stated 3-4 additional fund commitments are planned over the next 12 months and he anticipates continuing the investments pace of approximately \$20 million per quarter for co-investments.

He gave an update on StepStone's Private Debt program noting they currently oversee \$19 billion of debt, have 45 investment professionals, and the core team has been together for over 10 years. He stated they look at private debt very broadly including looking at real estate, infrastructure, and performing credit and non-performing credit.

Schindler gave an update on the market noting yields across all fixed income asset classes have dramatically reduced over the past decade and over half of the Global IG credit today is BBB rated, which is up 25% from ten years ago. He reviewed gross asset yields in direct lending and the challenges to be managed in the credit cycle.

Bueren reviewed CCCERA's private debt investment objectives including the investment amount, return objectives and flexibility. He reviewed the status of the two managed accounts, Core and Satellite, and noted they are working on a third one. He also reviewed the activities to date between CCCERA and StepStone for Core, Satellite, and Co-investment/secondaries.

Schindler reviewed the set-up process and highlights of the currently implemented mandate.

Bueren reported the investment pacing has been slightly reduced. Price noted the size of the program is determined by the Board and the pacing plan is decided by StepStone.

Strohl commented on StepStone mentioning that CCCERA is saving 7-9 basis points using this structure. She acknowledged Price on the time he has spent on the structure and relationship with StepStone.

8. Presentation from Verus on Risk Parity manager search process and recommendations

Hoffman reviewed the background and search process for Risk Parity managers noting the search process began with 20 strategies of which two are now being recommended. He reviewed the backgrounds of AQR GRP-EL (enhanced liquidity) and PanAgora and noted we are looking at investing in commingled funds with both firms. He reviewed their performance to date as of June 30, 2018 on a separate basis and as a 50/50 split. He noted there isn't a single benchmark so 60/40 is the model. He also reviewed the performance summary over the last 5 years.

He reviewed AQR's investment philosophy noting their strategy is to outperform cash. He also reviewed PanAgora's investment philosophy noting it is similar but contains a 4 step process and uses single name stocks which allows for a more controlled exposure.

Hoffman reviewed the next steps which include presentations from the providers and direction to staff to enter into negotiations with the selected providers.

Levy asked if Verus has a recommendation. Hoffman reported the recommendation is a 50/50 split allocating 2.5% of Plan assets to AQR and 2.5% of Plan assets to PanAgora.

9. Presentation from AQR regarding a potential commitment to Risk Parity strategy – Joey Lee and Yao Hua Ooi

AQR waived the confidentiality statement in the presentation materials.

Lee gave an overview of the firm and their investment strategies. She reported they have 20 years of experience and \$226 billion in AUM of which almost \$30 billion is in the risk parity strategy. She reviewed their organizational structure noting the firm is majority owned by 35 partners. She also reviewed the GRP-EL Risk Parity management team and noted they are supported by over 150 people.

Ooi reviewed their investment strategy and how it is implemented in the risk parity space. He reviewed their investment goals including looking for high long-term risk adjusted returns that are

diversified and risk targeted at all times. He also reviewed the characteristics of their portfolios and noted they try to keep risk to a minimum.

It was the consensus of the Board to move to Item 11.

11. Presentation from PanAgora regarding a potential commitment to Risk Parity strategy – Lisa Mahoney and Bryan Belton

PanAgora waived the confidentiality statement in the presentation materials.

Mahoney introduced herself and Bryan Dalton and briefly reviewed their backgrounds. She stated they currently manage over \$50 billion in AUM and serve approximately 15 public plans including 6 public plans located in California.

Belton reviewed the objective of the risk parity strategy and noted the strategy is adapting to volatility, which is unique to risk parity. He reviewed differences in the portfolio when economic surprise months are positive and when they are negative noting returns are much higher during negative surprise months. He reviewed how the asset classes are selected in the strategy and noted 40% are in equities, 40% are in credits, and 20% are in commodities. He also reviewed how the asset classes are weighted, how they build exposures, and how they shift exposures.

It was the consensus of the Board to move to Item 10.

10. Consider and take possible action regarding a commitment to AQR Risk Parity strategy

After a discussion, it was M/S/C to allocate 2.5% which currently is \$215 million of Plan Assets to AQR Risk Parity subject to satisfactory due diligence and legal review and authorize the CEO to execute the necessary contracts. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Pigeon, Smithey, Telles and Watts)

It was the consensus of the Board to move to Item 12.

12. Consider and take possible action regarding a commitment to PanAgora Risk Parity strategy

It was M/S/C to allocate 2.5% which currently is \$215 million of Plan Assets to PanAgora Risk Parity subject to satisfactory due diligence and legal review and authorize the CEO to execute the necessary contracts. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Pigeon, Smithey, Telles and Watts)

Gordon was no longer present for subsequent discussion and voting.

13. Educational session on fiduciary duties presented by fiduciary counsel

Leiderman distributed a handout and discussed the roles and responsibilities of fiduciaries including the primary loyalty rule, the exclusive benefit rule, the prudence standard, duty to diversify and the requirement to act lawfully.

Watts was no longer present for subsequent discussion and voting.

14. Educational presentation on Ralph M. Brown Act open meetings laws

Levy reviewed the Ralph M. Brown Act noting this is an annual educational presentation that is provided to the Board. She reviewed the purpose of the Brown Act and discussed meetings, serial meetings, attendance at conferences, and attendance at social events. She also discussed voting requirements. She reviewed the requirements for posting the agenda, discussing items included and not included on the agenda, public comments, and closed session requirements. She also reviewed the consequences of violating the Brown Act.

15. Educational presentation on the California Public Records Act

Levy reviewed the California Public Records Act (CPRA) noting the purpose is to give the public access to records that enables them to monitor the functioning of their government. She reviewed examples of what a public record is, who can make requests, fees that can be charged, the duty to respond within 10 days, and the duty to produce records within a reasonable time. She reviewed the types of records that are exempt including litigation, attorney-client communications, member's personal records, preliminary drafts and notes, and alternative investments. She noted personal email and text communications about CCCERA business may be public records.

Pigeon was no longer present for subsequent discussion and voting.

16. Consider and take possible action to amend CCCERA's Accessibility of Investment Records Policy

Levy reported this policy is being updated to reflect current provisions enacted by the legislature pertaining to the accessibility of investment records.

It was M/S/C to amend CCCERA's Accessibility of Investment Records Policy as presented. (Yes: Andersen, Holcombe, Kwon, MacDonald, Phillips, Rodrigues, Smithey and Telles)

17. Consider and take possible action to issue a Request for Proposal for Actuarial Consulting and Actuarial Auditing Services

Dunn reviewed the background on the Request for Proposal.

After a discussion, it was M/S/C to authorize the CEO to issue a Request for Proposal for Actuarial Consulting and Actuarial Auditing Services. (Yes: Andersen, Holcombe, Kwon, MacDonald, Phillips, Rodrigues, Smithey and Telles)

18. Consider and take possible action on SACRS Voting Proxy Form

It was M/S/C to appoint Gabe Rodrigues as the SACRS Voting Delegate and Louie Kroll as the Alternate Voting Delegate. (Yes: Andersen, Holcombe, Kwon, MacDonald, Phillips, Rodrigues, Smithey and Telles)

19. Report from Audit Committee

Phillips reported on the highlights of the September 12, 2018 Audit Committee meeting including updates on employer audits for the Moraga-Orinda Fire District, the Contra Costa County Office of the Public Defender, the Housing Authority of Contra Costa County, and the Rodeo-Hercules Fire Protection District. Phillips reported that he, Dutkiewicz and Watts attended the SCCE Board Audit Committee Compliance Conference.

20. Consider authorizing the attendance of Board:

- a. It was M/S/C to authorize the attendance of 2 Board members at the Nossaman's 2018 Fiduciaries' Forum, Nossaman LLP, October 18-19, 2018, San Francisco, CA. (Yes: Andersen, Holcombe, Kwon, MacDonald, Phillips, Rodrigues, Smithey and Telles)

21. Miscellaneous

- (a) Staff Report –

Strohl reported the Rodeo-Hercules Fire Protection District was a little late with their August payment and their September payment was received a few days early; we are reviewing the finalists from the RFP for OPEB Trust Fund Management Services and the RFP for Custodian Bank; the CCCERA picnic was held last weekend. Two of the Trustees attended and it was a very nice event.

Dunn reported a new vocational expert from the Center for Career Evaluations has been contracted with effective October 1, 2018.

- (b) Outside Professionals' Report -

None

- (c) Trustees' comments –

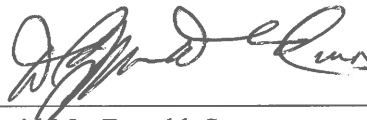
Rodrigues stated the picnic was really nice. He reported there is a SACRS Trustee meeting on Tuesday.

Smithey commented 2 of his coworkers attended group counseling and they were pleased with the service they had.

It was M/S/C to adjourn the meeting. (Yes: Andersen, Holcombe, Kwon, MacDonald, Phillips, Rodrigues, Smithey and Telles)



Todd Smithey, Chairman



David MacDonald, Secretary