Stanislaus County Employees' Retirement Association
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AGENDA

BOARD OF RETIREMENT **January 24, 2017**
832 12th Street Ste. 600, **Wesley W. Hall Board Room** **1:30 p.m.**
Modesto, CA 95354

The Board of Retirement welcomes you to its meetings, which are regularly held on the third Wednesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

PUBLIC COMMENT: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

BOARD AGENDAS & MINUTES: Board agendas, minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

AUDIO: All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at http://www.stancera.org/agenda.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Call Meeting to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items

   a. Approval of the December 13, 2016 Meeting Minutes View

   b. Monthly Staff Report View

   c. Executive Director Goals Update Quarter 4 2016 View

   d. StanCERA Complaint Log of October 1 – December 1, 2016 View

   e. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

      1. Burt, Gary – SBT – Effective 01-21-17
      2. *Drury, Lisa – HSA – Effective 01-21-17*
      3. *Farias, Gina – CEO – Effective 03-14-16*
      4. *Hamilton, Angeline – DER – Effective 01-28-17*
      5. *Herzog, Susan – HSA – Effective 01-14-17*
      6. *Lasater, Jeanette – BHRS – Effective 01-07-17*
      7. *Layne, Kathryne – BHRS – Effective 12-31-16*
      8. *Magdaleno, Delia – CSA– Effective 01-21-17*
      9. *Rehder, Glenn – Probation – Effective 01-06-17 **
      10. *Rodriguez, Debora – BHRS – Effective 12-30-16*
      11. *Supremo, Betty - CSA – Effective 01-13-17*

** Indicates Safety Personnel*

5. Consent Items(Cont.)

   e. Approval of Deferred Retirement(s) **– Section 31700**

      1. Barraza, Edith – DCSS – Effective 07-15-16
      2. Bauman, Magdalena – BHRS – Effective 08-27-16
      3. Bernardi, Janet – CSA – Effective 11-16-16
      4. Fleming, Rebecca – Courts - Effective 12-08-16
      5. Gozzo, Robin – County Counsel – Effective 10-29-16
      6. Le, Ngoc – HSA – Effective 05-18-16
      7. Matos, Marcia – Sheriff – Effective 10-04-16 *
      8. No, Peggy – DA – Effective 10-15-16 *
      9. Nunes, Joey – BHRS – Effective 10-15-16
      10. Shinn, Laura – Alliance WorkNet – Effective 10-29-16
      11. Sims Jr., John – Children & Family Comm – Effective 01-07-17
      12. Sperry, Marcus – Probation – Effective 10-01-16 *
      13. Vertino, Timothy – Planning – Effective 11-30-16

      * Indicates Safety Personnel

   f. Approval of Reciprocal Disability Retirement - **Section 31838.5**

      1. Leap, Latisha - Probation, Service Connected, Effective 08-02-16

   g. Approval of Disability Retirement - **Section 31724**

      1. Bass, Pamela - Stanislaus Superior Court, Non-Service Connected, Effective 12-01-14
      2. Rodriguez, Rodrigo - Stanislaus County, Service-Connected, Effective 12-12-15

6. Liquidity Mandate

   a. Discussion and Action Regarding Liquidity Portfolio Finalist View

      - Verus Update for Liquidity Mandate View
      - Insight Investment Presentation
      - Dimensional Fund Advisors (DFA) Presentation

7. Executive Director – Investment

   a. Discussion and Action Regarding the Investment Policy Final Draft View

   b. Discussion and Action Regarding Investment Directive #1, Asset Allocation View

   c. Discussion and Action Regarding the Emerging Manager Policy View

8. Verus – Investment Consultant

   a. November 30, 2016 Flash Report View

   b. December 31, 2016 Flash Report View

9. Executive Director – Administrative

   a. Legal/Legislation Update View

   b. Information Technology Solutions (ITS) Project Update View

   c. Discussion and Action to Accept the 2017 Executive Director Goals View

10. Closed Session

   a. Recommendation for Non-Service Connected Disability Retirement for Jeannette Apolinar – Section 31533

   b. Conference with Legal Counsel – Pending Litigation – One Case:
   Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152
   Government Code Section 54956.9(d)(4)

   c. Conference with Legal Counsel – Pending Litigation – One Case:
   O'Neal et al v. Stanislaus County Employees' Retirement Association
   Stanislaus County Superior Court Case No. 648469
   Government Code Section 54956.9(d)(1)

11. Members' Forum (Information and Future Agenda Requests Only)

12. Adjournment

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BOARD OF RETIREMENT MINUTES
December 13, 2016

1. Call Meeting to Order

   Meeting called to order 1:30 p.m. by Trustee Riley, Chair

2. Roll Call

   Trustees Present: Donna Riley Jim DeMartini, Michael O'Neal, Jeff Grover, , Mandip Dhillon, Mike Lynch, Darin Gharat and Gordon Ford

   Trustees Absent: Sam Sharpe

   Alternate Trustee Joan Clendenin, Alternate Retiree Representative

   Staff Present: Rick Santos, Executive Director
   Kellie Gomes, Executive Board Assistant
   Kathy Herman, Fiscal Services Manager
   Dawn Lea, Member and Employer Services Manager

   Others Present: Fred Silva, General Legal Counsel
   Ed Hoffman, Investment Consultant joined by phone

3. Announcements

4. Public Comment

5. Consent Items

   a. Approval of the November 22, 2016 Meeting Minutes

   b. Monthly Staff Report

   c. Approval of the 2017 StanCERA Master Calendar

   d. Receipt of the 2017 Board of Retirement Standing Committee Assignments

   e. Accept the 2016 Continuing Education Record and the 2017 Education Opportunities

   f. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

      1. Allan, Deborah – Library – Effective 12-03-16
      2. Conway, Rudy.– Stan Cons Fire – Effective 12-30-16 *
      3. Johnson, David – Sheriff – Effective 12-10-16 *
      4. Kavarian, Dan – Public Works – Effective 12-31-16
      5. Kent, Emily – Probation – Effective 12-15-16 *
      6. McEntire, Michael – Sheriff – Effective 12-09-16 *
      7. Neira, Janet – HSA – Effective 12-03-16
      8. Nunes, Dorothy – Animal Services – Effective 12-29-16
      9. Oaks, Dee – City of Ceres – Effective 11-27-16
      10. Saldivar, Michael – Sheriff – Effective 11-15-16 *
      11. Torrian, Peggy – District Attorney – Effective 11-19-16

      ** Indicates Safety Personnel*

5. Consent Items(Cont.)

g. Approval of Deferred Retirement(s) **– Section 31700**

1. Fisher, Melanie – Ag Comm – Effective 11-24-16
2. Jimenez, Naomi – CSA – Effective 08-13-16
3. Massoomi, Emaan – Planning – Effective 08-17-16
4. Muyres, Cynthia – Sheriff – Effective 11-11-16
5. Shindler, Monty – CSA – Effective 11-17-16
6. Valenzuela, Britney – Probation – Effective 09-18-16 *

* Indicates Safety Personnel

Motion was made by Trustee Grover and seconded by Trustee Dhillon to accept the consent items as presented.

Motion carried unanimously

6. Investment Manager Annual Presentation

a. None

7. Executive Director – Investment

a. The Functionally Focused Portfolio Process

Director Santos provided an education regarding the Functionally Focused Portfolio Process.

2:25 Trustee Grover left
2:30 Trustee Clendenin arrived

b. Discussion and Action Regarding Manager Quality Control Chart

No action needed on this item.

8. Verus – Investment Consultant

None

9. Executive Director – Administrative

a. Legal/Legislation Update

Dawn Lea provided a legal update. Please see agenda item for details.

b. Information Technology Solutions (ITS) Project Update

Kathy Herman informed the Board that we have completed the contacts and the Pension Administration System Project is set to kick off in January and will be underway prior to our next Board meeting.

c. Discussion and Action for Request for Media Training

Trustees asked for cost related to this training as well as more information.

10. Closed Session

Motion was made by Trustee Gharat and seconded by Trustee O'Neal to move in to closed session at
2:51 p.m.

Motion carried unanimously

a. Conference with Legal Counsel – Pending Litigation – One Case:
   O'Neal et al v. Stanislaus County Employees' Retirement Association
   Stanislaus County Superior Court Case No. 648469
   Government Code Section 54956.9(d)(1)

b. Conference with Legal Counsel – Pending Litigation – One Case:
   Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152
   Government Code Section 54956.9(d)(4)

Motion was made by Trustee Gharat and seconded by Trustee O'Neal to move in to open session at 3:03p.m.

Motion carried unanimously

Kellie Gomes read out the motion from closed session for item 10.b as follows;

Motion was made by Trustee Lynch and seconded by Trustee O'Neal to form a committee consisting of the Chair, Vice Chair and Executive Director to negotiate settlement terms in the StanCERA v. Buck Consultants matter.

Motion carried unanimously

11. Members' Forum (Information and Future Agenda Requests Only)

Trustee DeMartini asked for clarification regarding education hours.

Trustee Riley asked for a mid-year budget report for the Boards review

12. Adjournment

Meeting adjourned at 3:30 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:
Fred Silva, GENERAL LEGAL COUNSEL

By: ______________________
Fred Silva, General Legal Counsel

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January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Monthly Staff Report

II. ITEM NUMBER: 5.b

III. ITEM TYPE: Information Only

IV. STAFF RECOMMENDATION: None

V. ANALYSIS:

a) *Fiscal Services* – Employer and employee contributions totaling $6,564,158 were received through 9 different payroll batches. In addition, 24 contribution refunds and death benefit payouts totaling $356,676 were processed. The retiree payroll for January of $9,327,812 was processes as scheduled. Staff did an excellent job of completing and distributing the Popular Annual Financial Report to all members and the State Controllers report was submitted without issue. December was spent getting caught up on everything put aside during the fiscal year end and audit process. In addition the contracts were finalized for the Pension Software System.

b) *Member & Employer Services* – During the month of December 2017, Member and Employer Services Staff processed 44 new hires (7 Safety and 37 General), 22 terminations, 17 estimates and 13 buy backs. There were 32 individual counseling sessions and one group presentation at the County's New Employee Orientation.

   Staff continue to audit member files in anticipation of the data conversion that will be required with the implementation of a new pension administration system.

c) *Investment Governance and Compliance* – Staff has been working on the development of the Investment Policy, Schedule of Investment Directives and Schedule of Investment Processes. Additionally, staff completed its due diligence on potential liquidity managers in December. Staff has also begun the process of converting all its investment data into an Access database. This data has been kept in an excel spreadsheet and as our System and its needs grows, the ability to manage the data and reporting process in excel is becoming overwhelming. Additionally, the conversion of data into an actual database will allow internal staff access to this data in a logical and quick fashion.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently*

VIII. ADMINISTRATIVE BUDGET IMPACT: NONE

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

Dawn Lea, Member and Employer Services Manager

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January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Executive Director Goals Update - Quarter 4

II. ITEM NUMBER: 5.c

III. ITEM TYPE: Consent

IV. STAFF RECOMMENDATION: None

V. ANALYSIS: This is the Quarter 4 Executive Director goals update for 2016 (Attachment 1). Quarter 4 progress for all items is denoted in green. This quarter, as it relates to the goals, was driven largely by work surrounding the information technology solutions, data cleanup, the Investment Policy draft, various policy changes and implementation and preparation for the asset allocation transition.

This quarter represents the final quarter of a 3 year Strategic Plan. There are 3 specific goals where staff was not able to complete all of the action items related to the completion of the goal. This does not mean that staff made no progress on the goals, just that some of the specific action items associated with the goal weren't met.

1. *Formulate a process to educate stakeholders*. The following action items were not completed during the 3-year period:
   a. Determining areas of educational needs for members, plan sponsors and taxpayers
   b. Development of a policy for member outreach
2. *Ensure organizational quality and performance through continuous improvement*. The following item was not completed during the 3-year period:
   a. The establishment of a formal peer review process for all internal and external documents and communications
3. *Enhance StanCERA technology in order to optimize our human resources and productivity*. The following action items were not completed during the 3-year period:
   a. Preparation of short educational videos for use on StanCERA's website
   b. Establishment of a process to send retirement advice notices and other communications to members and retirees via e-mail
   c. Establishment of technology to allow StanCERA employees to have live chat capability with members via StanCERA's website

Stakeholder education is still be a priority for the Organization and staff will explore the idea of re-convening the ad-hoc Education Committee to discuss where the Organization wants to head during the next 3 years.

The establishment of a formal peer review process is important. StanCERA has put into place certain informal peer review process, however, a more rigourous process is desired. This will be a part of the 3-year Strategic Plan for 2017-2019.

The enhancement of StanCERA technology for member education and the creation of additional efficiencies was purposefully not accomplished during the last strategic plan when StanCERA decided to begin implementation of the new Pension System earlier than expected. It is still staff's intent to create educational videos and establish the capability to communicate with retirees and members and is a part of the RFP for pension software solutions. The resolution of these action items is dependent of the completion date of the new System.

Finally, one ongoing item, 95% completion of the data clean-up project was not accomplished during the past 3 years. In fact, staff estimates roughly 25% of the data has been audited and cleansed. Staff sorely underestimated the amount of clean-up necessary and the available resources to accomplish the task. Staff will always maintain a deep commitment to clean data and will again be on the ongoing task list for 2017-2019.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently

VIII. ADMINISTRATIVE BUDGET IMPACT: NONE

Rick Santos, Executive Director

General Items

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts and Employee Groups
    - Meet with County staff and Supervisors regarding various pension issues
2. Facilitate completion of the transition to alternative investments
    - The transition to alternative investments now incorporates the new asset allocation the Board approved in May and is currently ongoing. While this goal was set with regard to the old asset allocation, its intent is still valid and will become a major component of the Executive Director Goals for 2017. During Quarter 4, staff and the investment consultant have been working on the process, timeline and strategy for deployment of assets into this space.
3. 95% completion of clean-up of member data
    - Approximately 25% complete
4. Complete Trustee Election
    - Task complete
5. Continued monitoring of StanCERA lawsuits
    - Numerous meetings with StanCERA's attorneys and actuary regarding the Buck and O'Neal cases
6. Director Professional Development
    - Society of Actuaries annual conference
7. Facilitate RFP for actuarial consultant
    - Task complete
8. Oversee Information Technology Solutions Project
    - Meet with various consultants and vendor regarding contract issues and project kick-off
    - Contract for Pension Software System finalized.
9. Gauge plan sponsor interest in hybrid defined benefit/contribution plan
    - Discussions with County Supervisors and Executive Staff and presentation at Board offsite
10. Oversee and complete day to day administrative functions
    - Outstanding disabilities: 12 as of January 17
11. Complete cost benefit analysis of Investment Officer position
    - Task complete
12. Facilitate StanCERA 2017-2019 Strategic Plan
    - Task Complete
13. Finalize Record Retention Policy
    - Structure and philosophy of the Records Retention Policy approved 11/22/16
14. Development of policy related to the use and legal implications of electronic signatures
    - Similar 37 Act Systems and Stanislaus County surveyed.

Items Explicitly Tied to the 2014-2016 Strategic Plan

Strategic Objective #1

Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability

2016 Action Plan with Deliverables

I. *Communicate with plan sponsors*
   a. Meet with plan sponsors annually to discuss any issues that may affect StanCERA's future projected cash flows – ongoing
   b. Meet with plan sponsors at least annually to determine the sponsor's willingness and capacity to take pension risk – ongoing

Strategic Objective # 2

Develop efficient and effective processes for the evaluation, monitoring and disposition of StanCERA's active managers

2016 Action Plan with Deliverables

I. *Develop clear and concise processes and policies dedicated to the continual assessment, monitoring and disposition of StanCERA's active managers*
   a. Develop:
      i. reasonable criteria that defines satisfactory performance with an eye towards asset liability and total risk management
         - Study and proposal of asset mixes that incorporate insuring or immunizing benefit shortfalls (benefits less contributions)
         - Discussed with current manager lineup, the ability to manage the liquid portfolio
         - Board decision made to immunize 6 years of benefit shortfalls
         - Meet with stakeholders regarding actual investment process (shortfall portfolio)
         - Meet with stakeholders regarding optimal benchmarking process
         - Staff working in conjunction with the investment consultant is developing objectives and policies dedicated to this deliverable
         - Development of a value added analysis for the alternative investments
         - Research regarding effective benchmarking for alternative investments
         - Draft of new Investment Policy and Schedule of Procedures complete

ii. processes and remedies for active managers when performance is deemed to be unsatisfactory
   - Meet with stakeholders regarding the use of a symmetric performance fee schedule related to the shortfall investment process
   - Staff working in conjunction with the investment consultant is developing objectives and policies dedicated to this deliverable
   - Final draft of Schedule of Procedures including manager disposition

Strategic Objective # 3

Continue to foster an organizational culture that values and promotes team work, education, awareness, accountability and achievement.

2016 Action Plan with Deliverables

I. *Optimize StanCERA's organizational resources*
   a. Complete review and amendment of process manuals (ongoing)
      - All processes reviewed and documented through the creation of the business requirement documents (first iteration of the ITS project)
      - The accounting staff has completed review and updated all of our current processes. Many of these will actually be reviewed again through the creation of the final business requirement documents for the ITS Project.

II. *Ensure organizational quality and performance through continuous improvement*
   a. Establish a formal peer-review process for internal and external documents and external communications
      - Many workflow processes require multiple steps. Staff has developed a system to ensure accuracy and workflow completion. However, these will be incorporated into a more formal peer-review process as the Organization develops workflows within the new ITS solution.

Strategic Objective # 4

Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

2016 Action Plan with Deliverables

I. *Formalize a process to educate stakeholders*
   a. Determine areas of educational need
      1. Members
      2. Plan Sponsors/Employers
      3. Tax Payers/Members of the public
      - Nothing to report

   b. Review and amend the media policy
      - Media policy amended on 11/22/16

II. *Expand technology and training to ensure continuity of operations during a natural disaster or a period of major outage*
   a. Develop a formal schedule and process for disaster drills of Technology systems
      - Process and schedule currently being laid out; Staff anticipates its first formal disaster drill late Q2 or early Q3
      - The pension software disaster program is tested annually. The first annual complete disaster drill is scheduled for August 2016
      - The drill was held on August 31st and the report will be presented to the Internal Governance Committee on November 15th
      - Report presented on 11/15/16, an annual drill is scheduled.

   b. Determine optimal level of redundancy for continuity of operations

   - This analysis is complete and will be reported to out the Internal Governance Committee on November 15th
   - Report presented on 11/15/16, Staff will maintain annually.

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January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Alaine Taa, Adminstrative Assistant

I. SUBJECT: StanCERA Complaint Log

II. ITEM NUMBER: # 5.d

III. ITEM TYPE: Information Only

IV. STAFF RECOMMENDATION: None

V. ANALYSIS:

There were several retiree and member complaints between October 1 and December 31, 2016. Staff keeps a tally of duplicate complaints to better gage the extent of any problems. A summary of these complaints follows:

Number of Complaints	Caller Status	Nature of Complaints
2	Retiree	Concerns regarding health benefit billing
1	Active	Terminated member complained about turn around time for establishing Reciprocity.
1	Active	Active member complaining about the status of her Domestic Relations Order
	Active	Numerous calls from active members regarding the long turn around time for Estimates and Buy Backs (up to 11 months)

The number of complaints this quarter slightly increased compared to the previous report period July 1 through October 31, 2016.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Alaine Taa

Alaine Taa, Adminstrative Assistant

K Herman

Kathy Herman, Fiscal Services Manager

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January 24, 2017

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Liquidity Portfolio Finalists

II. ITEM NUMBER: 6.a

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION

1. Approve the recommendation by Ed Hoffman, Verus Consultant to allocate $230 million to Dimensional Fund Advisors (DFA)

2. Approve the recommendation by Ed Hoffman, Verus Consultant to allocate $100 million to a custom portfolio managed by Insight Investment

3. Authorize staff to engage Scott Smith of Hanson Bridgett LLP to complete the legal review, and assist with negotiation and execution of contracts with DFA and Insight.

4. Authorize the Executive Director to enter into agreement with DFA and Insight.

V. EXECUTIVE SUMMARY: At the May 2016 meeting the Board adopted a Functionally Focused Portfolio (FFP 6-yr) asset allocation. Verus Consulting with staff initiated a search and due diligence process to determine two finalists to manage the liquidity portion of the asset allocation.

VI. ANALYSIS: See the attached Liquidity Portfolio Design Presentation provided by Verus.

VII. RISK: Implementation of the asset allocation adopted by the Board of Retirement is critical to meeting the assumed discount rate. Delaying the process could jeopardize this goal.

VIII. STRATEGIC PLAN: Strategic Objective I: Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability

IX. ADMINISTRATIVE BUDGET IMPACT: Government Code Section 31596.1 states "the expenses of investing its moneys shall be borne solely by the system" and are not included in the administrative budget.

____
Rick Santos, Executive Director

____
Kathy Herman, Fiscal Services Manager

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

JANUARY 24, 2017

Liquidity Portfolio Design Presentation to

Stanislaus County Employees' Retirement Association

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Verus

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

Executive summary

Executive summary

Background:

— At the May 2016 meeting, the Board adopted the “FFP 6-yr” asset allocation, which allocates approximately 18% of Plan assets to the Liquidity Sub-portfolio.

— At the October 2016 meeting, the Board was presented with a search comprised of six investment managers, including 3 solution managers and 3 products managers.

— Following the October Board meeting, Verus and Staff conducted on-site due diligence for each of the six investment managers and performed further analysis of various combinations of investment strategies.

This presentation includes:

— A discussion of the liquidity portfolio design and portfolio characteristics; and

— An overview of the two finalists, Insight and DFA.

This presentation concludes with a recommendation, following the managers’ presentations, to:

1. Allocate $230mm to DFA’s US Short Credit Strategy and $100 mm to a custom portfolio managed by Insight; and
2. Authorize Staff to negotiate and execute final contracts with managers.

Liquidity portfolio process update

Liquidity portfolio update

Step 1: Initial Questionnaire

- 52 firms responded
- Managers provided basic information on their strategy and answered high-level, open ended questions
- Process was open to all interested firms; no minimum selection criteria
- Completed Spring 2016

Step 2: Follow-up Questions

- 12 firms selected from pool of initial respondents
- Managers provided detailed information on their firm, investment philosophy, process, team, capabilities, etc.
- Completed Summer 2016

Step 3: Due Diligence

- Due-diligence was conducted on the 12 respondents in the Summer of 2016
- Result: Short list of high quality “solutions” and “products” managers

Step 4: StanCERA Search & On-Site Due Diligence

- StanCERA Board presented with a search containing 6 semi-finalist managers at the October 2016 meeting
- Verus and Staff conducted on-site due-diligence on each of the managers in November & December.
- Quantitative analysis performed on proposed manager portfolios and various portfolio “mixes”

Step 5: Finalists Present & Recommendation

- January 24th Board Meeting:
    - Verus / Staff to make recommendation to the Board; and
    - Insight & DFA to present to the Board

Liquidity portfolio design

Liquidity portfolio design

In assessing the various potential combinations of managers from the pool of semi-finalists, Insight and DFA were selected for the following reasons:

— Based on the quantitative analysis performed on various portfolio mixes, the Insight/DFA combination provides a balance of good long-term performance with minimal volatility and draw-down risk

— Insight, acting as the solutions manager, will optimize the liquidity portfolio around the Plan’s liabilities, which should minimize the operational burden on staff related to raising cash for benefit payments

— While both managers run substantively different strategies, having two managers provides flexibility and redundancy to the liquidity program

Liquidity portfolio characteristics

The table below shows the characteristics of a 70% DFA / 30% Insight portfolio

- Key characteristics include:
  - High quality: Average credit quality of A
  - Minimal interest rate risk: Portfolio duration < 3.5 years
  - Predominantly investment grade corporate bonds

Sector Allocation			Characteristics			
Treasury	Gov't Related / Agency	Corporate	Avg. Credit Quality	BBB Allocation	Yield	Duration
2%	12%	86%	A	34%	2.1%	3.4 years

Sources: Insight, DFA, eVestment

Manager and combined portfolio fees

The analysis below assumes the following:

— $330 mm liquidity portfolio (~18% of StanCERA's total portfolio); and

— A $100 mm allocation to Insight (30%), and $230 mm to DFA (70%)

Manager Fee Schedules			
DFA		Insight	
Asset Range	Fee	Asset Range	Fee
First $25 mm	0.20%	All Assets	0.12%
> $25 mm	0.10%		

Combined Portfolio			
Manager	Allocation (est.)	Annual Fee	Expense Ratio
Insight	$100,000,000	$120,000	0.120%
DFA	$230,000,000	$255,000	0.111%
Blended	**$330,000,000**	**$375,000**	**0.114%**

Insight's fee schedule assumes a minimum asset level of $100 mm is maintained

Finalist overview

Finalist summary

	Insight	DFA
Headquarters / Team location	New York, NY	Austin, TX (HQ) & Santa Monica, CA
Ownership structure	Wholly owned subsidiary of BNY Mellon	Privately owned (majority co-founders, board members, current & former employees)
Firm inception	2002	1981
Firm assets	$700 bn	$409 bn
Proposed strategy description	"Buy and maintain" strategy aims to achieve target yield with low turnover. Customized, investment grade portfolio designed to tightly match the Plan's liabilities utilizing predominantly investment-grade corporate and some government-related bonds.	"US Short Credit" strategy is a short duration (max 3 years) portfolio comprised of Treasuries, Agencies, and investment grade corporates.
Key investment professionals (years experience / at firm)	Gerard Berrigan, Head of US Fixed Income (32/23) Jesse Fogerty, Senior Portfolio Manager (23/20) Jason Celente, Senior Portfolio Manager (19/19) Kevin McLaughlin, Head of Liability Risk Management (20/<1) Kevin Loescher, Asset Liability Specialist (23/23)	David Plecha, Head of Fixed Income (28/26) Joseph Kolerich, Sr. PM (23/15) Gerard O'Reilly, Co-CIO, Head of Research (11/11) Eduardo Repetto, Co-CEO & Co-CIO (15/15)
Proposed fee schedule	12 bps on all assets ($100 mm min assets) (10 basis points for the US Buy and Maintain strategy plus 2 basis points for the liability defeasance solution)	20 bps on first $25 mm 10 bps thereafter

Insight overview

Strategy description: Customized, investment grade portfolio designed to tightly match the Plan's liabilities utilizing investment-grade corporate and government-related bonds.

Philosophy: "Liability aware" solution, designed specifically to meet StanCERA's liabilities. Insight to optimize the liquidity portfolio in order to ensure cash flows are tightly matched with the Plan's liabilities.

Process: "Buy and maintain" process designed to achieve target yield with low turnover and minimal volatility and downside risk. Rigorous credit research process focuses on high credit quality securities in order to avoid defaults and ensure stability and certainty of cash flows. Optimization model capturing cash flows against liabilities to design the complete solution.

Thesis for selection: Strong credit research capabilities, experience managing similar mandates, a thorough understanding of StanCERA's liabilities and the function of the liquidity portfolio, and low fees.

Recommended allocation of Liquidity sub-portfolio assets: 30% ($100 mm)

Portfolio Characteristics:

Sector Allocation		
Treasury	Gov't Related / Agency	Corporate
0%	9%	91%

Characteristics			
Avg. Credit Quality	BBB Allocation	Yield	Duration
A	30%	3.2%	4.9 years

Portfolio characteristics provided by Insight as of September 30, 2016

Sector allocation shown above is illustrative of Insight's "US Corporate Fixed Income" strategy and may be customized to meet StanCERA's objectives.

DFA overview

Strategy description: Short duration (max 3 years) portfolio comprised of Treasuries, Agencies, and IG corporates.

Philosophy: Dimensional's fixed income philosophy, based on the academic research of Professor Eugene Fama, is that the market efficiently prices securities. Therefore, DFA uses market data rather than a traditional credit research team, to determine the risk associated with specific securities.

Process: DFA's systematic process positions the portfolio such that when term spreads are wide (narrow), portfolio duration is increased (reduced). Similarly, when credit spreads are wide (narrow), the allocation to lower credit quality bonds is increased (decreased). DFA's process employs a flexible, patient trading strategy to minimize trading costs.

Thesis for selection: Systematic investment process fully customizable to StanCERA's parameters, strong track record, stable organization, and low fees.

Recommended allocation of Liquidity sub-portfolio assets: 70% ($230 mm)

Portfolio Characteristics:

Sector Allocation		
Treasury	Gov't Related / Agency	Corporate
4%	13%	84%

Characteristics			
Avg. Credit Quality	BBB Allocation	Yield	Duration
A	36%	1.7%	2.8 years

Source: DFA & eVestment, as of September 30th, 2016.
Characteristics are illustrative of DFA's "US Short Credit" strategy and may be customized.

Next steps

Next steps

Following the managers' presentations, we recommend that the Board:

— Allocate $230mm to DFA's US Short Credit Strategy and $100 mm to a custom portfolio managed by Insight; and

— Authorize Staff to negotiate and execute final contracts with managers.

Funding of the strategies will be coordinated with the Phase 1 of the implementation plan.

Appendix I – Manager performance

Manager performance

	Trailing Period Returns - Through Q3 2016					
	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
DFA US Short Duration Credit	3.34	2.98	2.29	2.25	2.93	---
BAML 1-5 yr US Corp. & Gov. Index	*2.66*	*2.10*	*1.78*	*1.69*	*2.24*	---

	Calendar Year Returns									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
DFA US Short Duration Credit	1.38	1.90	0.62	3.86	3.15	5.38	---	---	---	---
BAML 1-5 yr US Corp. & Gov. Index	*1.05*	*1.50*	*0.32*	*2.47*	*3.09*	*4.17*	---	---	---	---

	Trailing Period Returns - Through Q3 2016					
	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Insight US Corporate Fixed Income	10.64	10.10	6.58	6.46	--	---
Barclays US Credit Index	*8.86*	*8.30*	*5.44*	*4.83*	--	--

	Calendar Year Returns									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Insight US Corporate Strategy	-0.92	8.86	-0.24	12.26	7.26	---	---	---	---	---
Barclays US Credit Index	*-0.77*	*7.52*	*-2.01*	*9.37*	*8.35*	---	---	---	---	---

	Trailing Period Returns - Through Q3 2016					
	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Insight US Short-Term Fixed Income	1.40	1.13	1.18	1.10	1.32	2.52
BAML US Treasury 1-3 yr Index	*1.33*	*0.88*	*0.85*	*0.69*	*1.03*	*2.25*

	Calendar Year Returns									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Insight US Short-Term Fixed Income	0.87	1.15	0.27	1.44	1.79	2.04	2.27	6.12	6.84	1.19
BAML US Treasury 1-3 yr Index	*0.54*	*0.62*	*0.36*	*0.43*	*1.56*	*2.35*	*0.79*	*6.61*	*7.31*	*0.91*

Source: Insight, DFA, eVestment. All manager performance is gross of fees.

Inception dates: DFA Short Credit - 4/2009, Insight US Corporate Fixed Income – 9/2010, Insight US Short-Term Fixed Income – 1/2005

Note: Insight's proposed strategy is fully customized to meet StanCERA's objectives. The track records above demonstrate Insight's capabilities managing US investment grade corporate & short duration mandates

Notices & disclosures

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January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Investment Policy Final Draft

II. ITEM NUMBER: 7.a.

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Approve Investment Policy Final Draft (Attachment 1)

V. EXECUTIVE SUMMARY: In 2016, StanCERA staff and the Investment Consultant began an extensive review of StanCERA's current Investment Policy and its applicability with regard to the recent governance and asset allocation changes approved by the Board of Retirement. During the review, it was determined that our current policy did not accommodate StanCERA's new asset allocation, that roles and responsibilities were not cleary defined and that the nature of the policy was not robust enough to accommodate a dynamic governance and investment structure.

VI. ANALYSIS: As mentioned in the Executive Summary, staff determined that the current Investment Policy was not accommodative of the changes the Board of Retirement approved regarding governance and asset allocation. The following represents a synopsis of staff's findings.

Asset Allocation

StanCERA's new asset allocation was crafted to support the idea that the ability of the fund to pay member benefits and maintain stability in plan sponsor rates and control risk are fundamental to the maintenance of a sustainable System.

StanCERA's current policy does not support the concept of a defined portfolio whereby risk and return are segregated into strategies that have specific purposes, yet work together to support StanCERA's overall mission. While the policy does attempt to optimize the risk/reward profile of the portfolio, it does it from an "asset only" perspective. In other words, it does not specifically address the role StanCERA's liabilities play in efficient portfolio management.

Roles and Responsibilities

StanCERA's current policy does not address the roles and responsibilities of those that ultimately manage and set policy for the System. Bylaws, processes and procedures related to the investment governance process are currently not organized in a sensible fashion. For example, Article 14 of StanCERA's general bylaws are policy and procedural driven and related to the investment governance process. Likewise, parts of StanCERA's current Investment Policy are process driven and need to be acknowledged elsewhere.

Ability of the Policy to Support a Dynamic Governance Structure

Given a continually evolving and complex capital market structure, the ability for StanCERA's current Investment Policy to keep up is severely lacking. For example, the way we monitor, fund and assess alternative investments is different from other investments. Incorporating alternative investments into the current policy, require us to find and change other parts of the policy to make sure they conform.

New Investment Policy (Attachment 1)

The new Investment policy addresses the inadequacies in our current Policy. It is indeed policy driven and is premised on two main tenets:

- It speaks to the roles, requirements and responsibilities of all that manage assets for the System
- It states the Organization’s beliefs on portfolio management

The new policy structure maintains its procedures and near-term directives in separately managed documents. While these documents interact with the Policy itself, they are independent in that future changes in procedures or directives are interchangeable with the Policy and don’t disrupt its integrity.

Schedule of Investment Processes (Attachment 2)

Attachment 2 contains the Schedule of Investment Processes document. It is an evolving document containing processes and procedures that could change in the future, depending on the way StanCERA views portfolio management. These are administrative in nature and apply mainly to internal staff and the Investment Consultant. They are not part of this agenda item, but are included for completeness.

Schedule of Investment Directives

The directives document contain certain policies that can change in the future based on the way StanCERA invests its assets. It also is not a part of this agenda item, but since they are policy, do need Board approval. Staff intends to bring the directives to the Board over the next few months.
Directive #1, the Asset Allocation table with the permissible ranges, is included in this month’s agenda for approval.

VII. RISK: None

VIII. STRATEGIC PLAN: Strategic Objective I: Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability.

IX. ADMINISTRATIVE BUDGET IMPACT: None

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Rick Santos, Executive Director

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Stanislaus County Employees' Retirement Association

Investment Policy Statement

-DRAFT-

Adopted: April 27, 1999

Restated [______, 2017]

Contents

Stanislaus County Employees' Retirement Association

Investment Policy Statement

Adopted: April 27, 1999

Restated [______, 2016]

The Stanislaus County Employees' Retirement Association ("StanCERA") is a public employee retirement system that was established by the County of Stanislaus on July 1, 1948. StanCERA is administered by the StanCERA Board of Retirement ("the Board") to provide service retirement, disability, death and survivor benefits for county employees and [xx] other participating agencies under the County Employees Retirement Law of 1937, California Government Code Section 31450 *et. seq.* (CERL) and the California Public Employees' Pension Reform Act of 2013, California Government Code Section 7522 *et. seq*. (PEPRA) and other applicable laws.

1. Purpose

StanCERA has established an investment program ("Investment Program") designed to provide sufficient assets in a timely manner to pay the benefits due to participants today and in the future, over the long-term. The purpose of this Investment Policy Statement ("IPS") is to establish the policies that will guide the Investment Program. This IPS is intended to provide guidance to the Board and to its delegates, the Staff and third-party professionals. This IPS is supported by the Board's Investment Resolutions, the Investment Procedures ("Procedures"), and Board policies that reflect the needs of the defined benefit plan ("Plan") that the Board administers. The Investment Resolutions, policies and other Board documents identified in Appendix 1 hereto are incorporated into this IPS and made a part hereof by this reference.

2. Authority

The Investment Program shall be managed in accordance with applicable law, including but not limited to the following:

- The assets of the Plan are trust funds and shall be held for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries and defraying reasonable expenses of administering the Plan (Cal. Const. art. XVI, sec. 17(b); Cal. Govt. Code sec. 31595).

- The Board and its officers and employees shall discharge their duties with respect to the system:
  a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
  b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these

matters would use in the conduct of an enterprise of a like character and with like aims.

c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

(Cal. Const. art. XVI sec. 17(b), (c) and (d); Cal. Gov. Code Sec. 31595 (a), (b) and (c)).

3. Governance

The Board hereby adopts a governance model whereby specific authority, responsibility, and accountability are either retained by the Board or delegated to others based on areas of expertise and appropriate oversight. The Board retains sole responsibility governing the Plan, setting investment policy, and monitoring the Investment Program. It may choose to delegate specific areas of responsibility provided it retains appropriate oversight of the delegated activity.

A. **Roles and Responsibilities**

1. BOARD OF RETIREMENT

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

- The governance model of the Investment Program
- Establishing and maintaining investment policy, including:
  - Investment philosophy
  - This IPS
  - Investment objectives
  - Strategic asset allocation
  - Allocation-level performance benchmarks
  - Risk philosophy
- Engaging Board consultants and service providers
- Monitoring the Investment Program

2. STAFF

StanCERA Staff (“Staff”), is broadly responsible for supporting the Board in the effective execution of its fiduciary duties. The Executive Director has been delegated authority to execute specific elements of the Investment Program as outlined in the Guidelines and Procedures.

3. GENERAL INVESTMENT CONSULTANT

The General Investment Consultant (“Consultant”) is engaged by the Board to provide independent, objective investment advice. The Consultant is and shall agree to be a fiduciary to the Plan under California law. The Consultant works with

Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the Consultant are contained in the Revised Model Agreement for Investment Consulting Services, and generally include providing advice with respect to:

- Investment strategy development and implementation
- Investment policy development
- Asset allocation among classes and subclasses
- Investment manager selection, evaluation and termination
- Investment performance monitoring
- Investment risk monitoring
- Investment fee analysis and negotiation
- Capital markets projections
- Coordination with the Plan's actuary in conducting periodic asset/liability studies and other required reporting
- Board education

4. SPECIALTY INVESTMENT CONSULTANTS

Specialty consultants may be hired by the Board to work with Staff, the Consultant, and/or the Board. These will typically be asset class consultants (e.g., real estate, private equity, hedge funds) that may operate on a discretionary or non-discretionary basis, as directed by the Board, to meet the objectives of the Investment Program.

5. INVESTMENT MANAGERS

Investment Managers are delegated the responsibility of investing and managing Plan assets in accordance with this IPS and all other applicable laws and the terms of the applicable investment documents evidencing StanCERA's acquisition of an interest in an investment vehicle, and other controlling documents. Each Investment Manager must be (1) an investment advisor registered under the Investment Advisors Act of 1940; (2) a bank, as defined in that Act; (3) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Plans' assets; (4) a trust operating as an investment company under the Investment Company Act of 1940; or (5) a state-chartered trust company authorized to carry on a trust banking business. Each Investment Manager shall agree that it is a fiduciary of the Plan under California law. Subject to this IPS and their specific contractual obligations to the Plan, Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

6. CUSTODIAN BANK

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by StanCERA in investment vehicles and cash (and equivalents). The Custodian Bank accepts a fiduciary duty to hold such assets separate and apart from its own assets (other than cash that is held as a deposit obligation with its banking department). The Custodian Bank also accepts fiduciary duties with respect to any Plan assets for which it maintains or exercises any discretionary authority. The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of Plan assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

4. Investment Philosophy

The Investment Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of the fiduciary obligations. The statements below set forth the Board's Investment Philosophy:

Plan objectives should guide all decision making

The Investment Program is designed to provide benefits to participants over a long term without accepting undue risks that could be detrimental to the participants or Plan sponsors. The Investment Program, therefore, must be managed in a prudent manner recognizing the relationships between the benefits promised to participants and their beneficiaries, the financial health of the Plan sponsors, and the exposures within the Investment Program.

Asset allocation drives portfolio volatility and returns

It is impossible to accurately and consistently predict the future; therefore, the Plan is required to be prudently diversified across and within asset classes in anticipation of various economic conditions. In a well-diversified portfolio, the overall volatility of investment returns is principally driven by the asset allocation and secondarily driven by the individual investment strategies. As such, asset allocation is the primary tool by which the Board can manage the expected risk/return profile of the Plan.

Short-term investing

Over shorter investment periods of up to five (5) years, volatility can be more detrimental to the success of the Investment Program. Because paying benefits to participants and their beneficiaries occurs continuously, the forced selling of assets during broad market corrections to meet these payments could result in the long-term impairment of investable capital. By maintaining a portion of the portfolio invested in low-volatility, highly liquid securities and investment strategies, the Investment Program will be able to mitigate or avoid the forced selling of assets during broad market corrections.

Long-term investing

Over longer investment periods, volatility can be managed more effectively to produce beneficial results for the Investment Program. Market corrections will occur and when they do, patient and well-capitalized investors are able to wait until the market recovery takes place. Additionally, broad market corrections have historically provided investment opportunities for those with available capital and the foresight to make additional investments.

Fees

Fees directly impact the investment results of the Investment Program but are necessary to appropriately compensate the investment management of the Investment Program. Fees must, therefore, be measured closely against the value the Investment Program expects to earn and aligned to ensure incentives are consistent with the objectives of the Plan.

5. Investment Objectives

The investment objectives of the Investment Program are:

- To provide liquidity to meet retiree benefit payments in a timely manner;
- To produce long-term growth to meet future retiree benefit payments and, if applicable, to close a funding gap over time; and
- To protect the assets against the adverse impacts of rising inflation and investment market volatility.

Investment objectives specific to the individual investment strategies are further defined in the Board's Investment Strategy portion of this IPS.

6. Investment Strategy

The Board has chosen to employ an investment strategy that seeks to align the Investment Program with the investment objectives listed in Section 5 of this IPS. The strategy divides the portfolio into three functional sub-portfolios—Liquidity, Growth, and Diversifying—to address each investment objective highlighted in Section 5. The Liquidity Sub-portfolio is dedicated to funding near-term benefit payments. It is joined with the longer-term Growth Sub-portfolio as well as the Diversifying Sub-portfolio, which is intended to offset some of the investment risks embedded in the Growth Sub-portfolio. While the three sub-portfolios are aligned with the investment objectives individually, collectively they allow the Investment Program to provide appropriate risk and return characteristics.

A. Asset Allocation

The Board has adopted a strategic asset allocation based on the Plan's projected actuarial liabilities, liquidity needs, risk tolerance and the risk/return expectations for various asset classes. This asset allocation seeks to optimize long-term returns for the level of risk the Board considers appropriate. The current asset allocation table may be found in the Asset Allocation Investment Resolution.

Since projected liability and risk/return expectations will change over time, the Board will conduct a periodic review of the strategic asset allocation to maintain an expected optimal allocation. The Board may also revise the asset allocation in response to significantly changing conditions that have affected valuations and forward-looking expected returns of asset classes. The Board will review capital market expectations annually. The result of this review will be used to update the Investment Resolutions as needed.

B. **Functional Sub-portfolios**

As noted previously, the investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the Liquidity Sub-portfolio is assessed annually and is based on the projected benefit payments and expenses of the Plan. The remaining assets are invested in the Growth and Diversifying sub-portfolios. Annually the Board shall review the relative size and composition of these sub-portfolios and revise them as necessary through Investment Resolutions. The functional sub-portfolios are set forth below:

1. LIQUIDITY SUB-PORTFOLIO

The purpose of the Liquidity Sub-portfolio is to ensure adequate assets are available to pay benefits over an extended timeframe as outlined in the Investment Resolutions. The Board has established a target allocation amount of 72 months of the difference between contributions and benefit payments plus expenses (“shortfall”) in the Liquidity Sub-portfolio. The assets will be invested in highly liquid, low volatility securities expected to generate modest levels of return while preserving capital throughout a market cycle. This portfolio will contain assets such as cash, short-term bonds, laddered government bonds, and other investments that provide fixed, contractual cash flows with a minimum level of credit risk. As a secondary purpose, a portion of the Liquidity Sub-portfolio may be allocated to the Growth Sub-portfolio during broad market corrections so long as at least 48 months of projected shortfall is maintained in the Liquidity Sub-portfolio.

The success of the Liquidity Sub-portfolio will be measured by its ability to directly fund each year’s annual benefit payments without having to draw from other sources of capital or add any unfunded liabilities to the System to meet this obligation. It will accomplish this objective through low-risk, cash flowing investments, as well as providing a stable offset to the rest of the portfolio during periods of severe market stress.

2. GROWTH SUB-PORTFOLIO

The purpose of the Growth Sub-portfolio is to grow invested assets over the long term in order to pay future benefits. Assets from the Growth Sub-portfolio may be sold over time and transferred to the Liquidity Sub-portfolio as needed. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate and other private assets.

The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

3. DIVERSIFYING SUB-PORTFOLIO

The purpose of the Diversifying Sub-portfolio is to offset the investment risk of the Growth Sub-portfolio. Investment strategies in the Diversifying Sub-portfolio are expected to have return profiles that have a low correlation to those in the Growth Sub-portfolio. This is expected to effectively dampen the market volatility across the entire portfolio. As a secondary objective, the investment strategies in the Diversifying Sub-portfolio will offer additional sources of return to those in the Liquidity and Growth sub-portfolios. Assets in the Diversifying Sub-portfolio may be sold during times of market stress or when the assets in the Growth Sub-portfolio are impaired in order to fund the Liquidity Sub-portfolio.

The success of the Diversifying Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

4. INTERACTION BETWEEN THE FUNCTIONAL SUB-PORTFOLIOS

The allocations to the Liquidity, Growth, and Diversifying sub-portfolios will vary over time. The Liquidity Sub-portfolio will operate as a drawdown vehicle to pay benefits and expenses. The Growth and Diversifying sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order to reallocate between the functional sub-portfolios, the Board will conduct two annual reviews: an annual capital markets review to assess the relative value and risks associated with each asset class; and an annual funding plan to determine how to replenish the Liquidity Sub-portfolio.

An annual review of the capital markets will be delivered to the Board by the Consultant. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the Consultant will also provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the Consultant will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year.

Additionally, and in coordination with the capital markets review, Staff will present an annual funding plan, which will provide a recommendation of how best to replenish the Liquidity Sub-portfolio program to maintain the required 72 months of shortfall coverage. Staff will provide an annual report to the Board on the progress of funding the Liquidity Sub-portfolio through a combination of harvesting income from the Growth and Diversifying sub-portfolios, asset sales in the Growth and/or Diversifying sub-portfolios or the use of contributions. Under normal market conditions, the balance in the Liquidity Sub-portfolio is expected to vary between 60 and 72 months of projected benefit payments and expenses.

C. **Investment Strategy Attributes**

All investment strategies, whether currently used by the Investment Program or being considered for inclusion in the Investment Program, will be evaluated on their own unique risk and return characteristics as well as their contribution to the overall Investment Program's risk and return characteristics. Other risks pertaining to the individual investment strategies and/or the firm managing the strategy will also be considered.

Fees and expenses of the investment strategies will be closely evaluated against competitive strategies and the value provided for the services rendered. While lower fees are clearly preferred over higher fees, the Plan seeks to identify investment strategies capable of providing value for participants by generating investment returns in excess of benchmark returns plus fees. Fee structures will be evaluated to ensure appropriate incentives are provided to achieve the desired outcomes for the Investment Program.

D. **Rebalancing**

The Board recognizes there may be a cost to maintaining strict adherence to a target asset allocation in terms of both transaction costs and opportunity costs. The Board also recognizes that the benefit of cost minimization must be balanced against the assumption of active risk associated with allowing variances to asset allocation targets.

Portfolio rebalancing shall be conducted in order to meet two distinct objectives. The first objective is to maintain the long-term strategic asset allocation targets approved by the Board. The second is to capture valuation-based opportunities by deviating from the long-term strategic asset allocation targets as deemed appropriate by the Board.

Special consideration will be given to illiquid asset classes recognizing that the funding and redemption processes are different than those of the liquid asset classes. As such, each illiquid asset class is assigned a specific liquid asset class to function as a holding asset class while the corresponding illiquid strategies are being funded.

E. **Managing Investment Strategies**

While the Board believes the vast majority of investment return over the long term is dependent on the asset allocation decision, it recognizes additional risk and return may be generated by how the asset allocation is implemented.

1. HIRING A NEW MANAGER

The Consultant shall conduct all investment due diligence activities in connection with hiring new managers. In all cases, the hiring process must be consistent with the requirements for vendor selection detailed in the Procedures and other Plan policy documents (e.g., Procurement of Products and Services Policy, Placement Agent Disclosure Policy, Conflict of Interest Code). The Executive Director shall have authority to execute the contracts consistent with the Procedures.

Quiet period. During the process of hiring a new manager, a "quiet period" will apply during the evaluation process, during which time no Board member may knowingly have any communication with any actual or potential candidate for the mandate, unless authorized by the Board in connection with the due diligence process in selecting managers. The quiet period shall cease upon the Board's entering into a contract for the Investment Manager(s) selected for the mandate. The Consultant is responsible for alerting the candidates to the quiet period and its restrictions. A violation of the quiet period rule may result in disqualification of the candidate or other appropriate Board action.

i. Investing in a new closed-end fund with an existing manager

In the case of closed-end funds with a limited investment lifecycle, additional investments are periodically required to maintain asset allocation targets. For such “follow-on” investments, Staff shall have the authority to make additional investments in an amount necessary to maintain the intended exposure, as estimated by a detailed funding analysis. Any additional investment beyond that which is required to maintain the intended exposure must be pre-approved by the Board.

In all cases, the hiring process must be consistent with the requirements for vendor selection detailed in the Procedures and other Plan policy documents (e.g., procurement policy, placement agent policy).

2. TERMINATING EXISTING MANAGERS

The Board recognizes investments may need to be adjusted or removed from the Plan portfolio from time to time for a variety of reasons, including:

- Organizational changes including those to the people and processes in place
- Manager’s style has deviated from initial investment thesis
- A manager’s style, strategy, ethics, or philosophy is no longer appropriate for the Investment Program
- Underperformance relative to benchmark or other expectations
- Uncompetitive pricing vis-à-vis available alternatives

Absent emergency circumstances (described below), prior to terminating a manager, the Consultant and/or Staff shall present a detailed termination memo to the Board that includes:

- Purpose of the mandate
- Reason(s) for termination
- Specific plan to replace or temporarily invest the assets

Emergency termination. An "emergency" will be deemed to exist when an investment strategy suffers the resignation or other loss of an investment manager and no appropriate replacement is available; when an investment manager dissolves, ceases to exist, or is otherwise incapable of carrying out its activities in the ordinary course of its business; when an investment manager is actually or effectively "shut down" by a regulatory agency of a state or the Federal government or is accused of theft or fraud by a regulatory agency or other government body; when the Plan's investment is in jeopardy of material loss; or when such other developments with the investment manager give concern to the Consultant or Executive Director that the investment is no longer prudent for the Program. Action to transfer management of the affected investment strategy shall be taken as soon as possible after StanCERA learns of the emergency. In the case of an emergency, the Executive Director, or in the Executive Director's absence, the [Kathy's title] will attempt to notify the Chair and Vice Chair of the Board immediately; notify the Custodian Bank that the Investment Manager's Managed Account is to be frozen and, except for those trades which are pending, no further trading is authorized; and may call an emergency meeting of the Board to take further action.

7. Risk Philosophy

The Board recognizes that the assumption of investment risk is necessary to meet the Plan's objectives. Investment risk is viewed as both the annualized standard deviation of investment returns (volatility) and drawdown exposure. Drawdown exposure measures the expected investment loss during a market correction. Additional sources of risk include regulatory, governmental, counterparty, environmental, social and currency, among others. Investment risk, in and of itself, is neither intrinsically good nor bad; it is a condition accepted in the pursuit of investment returns. The goal in managing investment risk is to ensure that an acceptable level of risk is being taken at the total Plan portfolio level. To accomplish this goal, the Plan invests in broad asset classes, via specific investment strategies within those asset classes, which have desirable expected return, risk, and correlation characteristics. While the individual strategies have a wide range of risk and return characteristics, the correlations between the strategies allow for effective portfolio diversification.

The approach used in constructing the portfolio further focuses on the risk characteristics by ensuring the preservation of the Liquidity Sub-portfolio assets as detailed previously in this IPS. Because these assets are invested in lower risk and lower return investments, the assets are well protected. This then allows for the Growth Sub-portfolio to assume greater investment risk in pursuit of higher expected returns. The Diversifying Sub-portfolio then offsets a portion of the investment risk embedded in the Growth Sub-portfolio to protect against drawdown risks.

8. Portfolio Monitoring

Delegation of investment functions by the Board requires proper oversight. Reporting processes are, therefore, designed to provide the Board with this oversight. Accurate, timely, and clear reporting to the Board of the Plan's assets, investment returns and risks, portfolio costs, and investment decisions are essential to assisting the Board in discharging its fiduciary duties.

The Executive Director, with the assistance of the Consultant and Specialty Consultants, shall conduct periodic on-site due diligence activities in connection with evaluating managers. The Executive Director shall invite the involvement of one or more Board members in the due diligence process. Additionally, the Board may from time to time determine that it is in the best interest of the participants and beneficiaries for one or more Board members to visit the offices of an investment manager, in order to further the Board members' understanding of the manager's strategy and its role in the StanCERA portfolio.

9. History of Policy Revisions

POLICY APPROVAL DATE: April 27, 1999
Revised 4/2000.
Revised 7/2000.
Revised 5/2005.
Revised 7/2006.
Revised 2/2007.
Revised 9/2007.
Revised 3/2008.
Revised 12/2008.
Revised 07/2009.
Revised 05/2010.
Revised 10/2010.
Revised 7/2011.
Revised 11/2013.
Revised 6/24/2014.
Revised 7/22/2014.
Revised 1/24/2017

Policy Review

This Board shall review this policy at least every three years.

Policy History

Adopted by the Retirement Board on _______________

Reviewed and amended by the Board of Retirement

____

Rick Santos, Executive Director

Approval/Adoption Date:_________________

Revised __________________

Attachment 2

Stanislaus County Employees' Retirement Association

Schedule of Investment Processes

1. *Performance and risk reporting – Total Plan*

   The StanCERA General Investment Consultant shall be responsible for performance and risk reporting at the Total Plan level on a monthly and/or quarterly basis. StanCERA staff will assist in the evaluation of the value of these reports with an eye towards simplicity, readability and information content.

   Quarterly Total Plan reporting shall include:

   - Cash flow reconciliation showing net inflows (outflows) for the Plan as well as investment income generated over the reporting period;
   - Portfolio allocations across the major asset classes, as defined by the Plan's asset allocation;
   - Total fund performance over the standard time periods (i.e. 1-, 3-, and 5-yr periods), the most recent 5 calendar years, and on a rolling 3-yr basis;
   - Gross-of-fees relative performance as compared to a universe of similarly sized public plans;
   - Net of fees performance and volatility over the most recent 5-yr period;
   - Risk exposures for the Plan including equity beta and duration as well as other risk factors.

   From a risk perspective, on a quarterly basis, absolute and relative contribution to total portfolio risk at the manager and asset class level should be performed.

2. *Performance and risk reporting – Investment Strategies*

   The StanCERA General Investment Consultant shall be responsible for performance and risk reporting at the Strategy level on a monthly and/or quarterly basis. StanCERA staff will assist in the evaluation of the value of these reports with an eye towards simplicity, readability and information content. In general, the level and content of this reporting should be similar to the guidelines set out at the total plan level (see Procedure #1).

   Quarterly Investment Strategy reporting shall include:
   - Public markets investment strategies:
     - Net-of-fees performance over standard time periods over the standard time periods (i.e. 1-, 3-, and 5-yr periods), the most recent 5 calendar years, and on a rolling 3-yr basis;
     - Relative performance on a gross-of-fees basis as compared to a universe of similarly managed investment strategies;
     - Risk statistics including annualized standard deviation, information ratio, and Sharpe ratio. Trends in these statistics should be reviewed

- Tracking error should be compared to proscribed limits and any trends noted
  - Investment management fees for each investment strategy.

- Private markets investment strategies:
  - Internal rate of return;
  - Funding progress; and
  - Distributions and Total Value as compared to capital invested in each strategy.

3. *Value Added, Investment Fee Summary and Auxiliary reporting*

StanCERA internal staff shall be responsible for the value added reporting, investment fee summary and any other auxiliary reporting related to the alternative investments or other risk or liability driven information. These reports shall be produced on a quarterly basis and reported out to the Board as a non-consent item.

Value added can be defined as the additional funds on hand from an actively managed strategy relative to a passive strategy over a particular reporting period. Value added can be positive or negative and must take into account the managerial and custodial fees paid to maintain the active strategy.

The Investment Fee Summary is meant to convey information regarding the fees StanCERA pays to manage the investment process. Fees in dollars and basis points shall be reported by investment manager, asset class and total portfolio. The fees shall include managerial, custodial and consultancy.

Auxiliary reporting is mainly concerned with alternative investments or strategies where typical reporting metrics and methodologies may be difficult to apply. The goal of auxiliary reporting relates to the presentation and interpretation of fees, risk metrics, net performance results and liability and cash flow analysis.

4. *Rebalancing*

Asset allocation targets and ranges will be monitored at least quarterly or more frequently if market conditions warrant. StanCERA staff and the General Investment Consultant will be responsible for the monitoring and movement decisions of assets across the portfolio. StanCERA staff will be responsible for the actual transfers.

Rebalancing targets are generally set during the triennial asset allocation process, are long-term in nature and meant to preserve the strategic asset allocation policy set by the Board of Retirement. Staff will maintain the allocation percentages within the bounds proscribed by the Board and in light of near-term cash flow considerations.

5. *Performance Measurement Standards*

StanCERA understands that selecting an appropriate benchmark is critical to portfolio management and performance management. Fundamentally, a benchmark proxy represents a choice that the Board of Retirement has regarding whether to pursue an actively managed strategy or a passive one. The use of an incorrect benchmark may not capture the true beta effects that the market provides and could lead to a faulty decision regarding the manager's ability to add alpha or excess returns to the portfolio. To that end, if the Board chooses to actively manage a particular asset class or strategy, then the benchmark should be one that represents that particular strategy to a high degree and actually be investable.

A valid benchmark should also be transparent and independent. Transparency allows the investment manager to readily understand the components and design of the benchmark and independence precludes the investment manager from designing and calculating their own benchmark.

A valid benchmark may not necessarily try to capture index performance in its entirety. If a strategy is purposefully designed to capture only certain return components of a passive strategy, then it is appropriate to weight that benchmark relative to the intended strategy.

StanCERA staff will work with the General Investment Consultant to establish and maintain appropriate benchmarks for the investment managers.

6. *Annual FFP review*

A review of the Functionally Focused Portfolio process (FFP) will take place once a year. It is the intent to commence this study In April or May of each year with a final report to the Board occurring at its June meeting. StanCERA staff will be responsible for this report with assistance from the General Investment Consultant.

The review will consist of the projection of the new 6-year shortfall matrix, a balance sheet report detailing changes in the market value of the portfolio of assets dedicated to the process and corresponding changes in the market value the shortfall liabilities, the derivation of the new surplus or unfunded liability generated by the process and the reformulation of the balance sheet, such that the market value of assets and liabilities always begin the new reporting year equal to one another. The report should also detail where surplus assets (if applicable) will be deployed in other areas of the portfolio or if unfunded liabilities are realized, where those assets will come from.

During the annual review process, staff may recommend to the Board increasing or decreasing the number of shortfall years to be immunized by the process. In general, the recommendation will be a function of total portfolio returns for the current year (i.e. additional surpluses or unfunded liability generated by the total portfolio), the current level of interest rates, capital market expectations and staff's ability to reliably project intermediate term shortfall liabilities.

7. *Annual review of CMA's*

StanCERA staff and the General Investment Consultant are responsible for reviewing capital market assumptions on an annual basis to determine whether changes in capital market conditions and expectations warrant further discussion and potential reformulation of StanCERA's asset allocation. If the review indicates no significant changes, staff will report out to the Board on its findings. If it is decided that a potential shift in assumptions or expectations has occurred and the shift has allocation implications, staff and the General Investment Consultant will present a more detailed analysis and recommendations for the Board. If necessary, the StanCERA actuary will be engaged for further input. Regardless of changes in expectations or assumptions, it is the intention that staff and the General Investment Consultant will present a comprehensive asset liability study on a triennial basis.

8. *Cash flow management and monitoring*

StanCERA staff is responsible for managing and monitoring organizational and Fund cash flow. This task is important as it relates to the efficiency of the Fund, expense management and the Functionally Focused Portfolio (FFP) process.

StanCERA staff is required at least annually, to project benefit payments, administrative expenses and contributions over a rolling six-year period. Staff will meet with the larger plan sponsors to understand why changes in future contributions might occur and then with the consultant to determine an optimal rebalancing strategy to maintain the six-year rolling FFP process. It is desirable to keep minimal levels of cash on hand to cover errors in monthly projection shortfalls.

Through the FFP process, benefit payments will be insured or immunized on a rolling six-year basis by using short duration assets and employer and employee contributions.

StanCERA also understands that cash flows into and out of the alternative investment space are sporadic and difficult to predict. Staff will work with the alternative managers to understand the magnitude and timing of these uncertain cash flows and then with the consultant to determine an optimal rebalancing strategy.

This means that in general, there will be no new money flowing into the non-FFP portion of the portfolio. Investment outflows will be driven mostly by the annual replenishment requirement of the FFP process. Investment income will come mainly from dividends, coupons, sale of assets and alternative cash distributions. Since alternative contribution requirements are difficult to project and rebalancing will be necessary from time to time, staff must rely on these sources of income to meet those demands. The decision regarding the source of cash necessary to fund the demands must be on a case-by-case basis and dependent on the current state of the portfolio. It should be noted that consistently, StanCERA investment managers in the aggregate, keep enough cash on hand to satisfy most any contribution or re-balancing requirement.

9. *Reporting reconciliation between custodial and investment managers*

Each quarter, StanCERA staff will reconcile all invoices submitted by the investment managers. Generally, staff is able to reconcile fees to a high degree. In the event that fees cannot be reconciled to an acceptable level, StanCERA will work with the manager and custodial bank to reconcile.

Additionally, each month, StanCERA staff will reconcile portfolio holdings and corresponding market values between individual managers and the custodial bank. Any discrepancy is researched and resolved and documented for future reference.

10. *Investment managers fee and expense monitoring*

StanCERA staff shall be responsible for monitoring investment manager fees and expenses. Each quarter, staff will reconcile all fee invoices submitted by the non-alternative investment managers by reproducing the total. In the event there are discrepancies, staff will work with the investment manager and custodial bank to reconcile. It is acknowledged that there may be small discrepancies in the derivation of the assets under management used to calculate the quarterly fee. These are mainly attributable to trades not settled just prior to quarter closing. Additionally, regarding performance based fee schedules, differences can occur due to manager return and benchmark calculations. In these instances, StanCERA staff will work with the manager and custodial bank to determine the reasons for the differences.

Regarding alternative investments, by regular correspondence with the managers and monitoring of the contract, StanCERA staff will monitor fees and expenses. If there are significant discrepancies in the calculation of the fees and expenses, staff will work with the manager to understand the calculation to the highest level of detail possible. When applicable, staff may utilize other consultants to assist.

As laid out in "Manager Assessment and Monitoring", managers are expected to charge StanCERA investment management fees no greater than the fees charged for other clients with a similar investment style, objective, account type, size and service level. Should a manager enter into a more favorable fee schedule with a similar client, the manager is expected to modify StanCERA's fee schedule to reflect the more favorable terms. The Organization should not view fees and expenses in isolation, but in the context of the value the manager is providing to the fund. If a manager is persistently at or just below the benchmark after fees and expenses, efforts should be made to acquire a lower fee schedule.

If possible, StanCERA shall endeavor to maintain overall investment fees and expenses at or below the average of similarly situated public pension plans. It is acknowledged that this comparison can be difficult, since the allocation to alternative investments and inputs to the derivation of fees and expenses from other Funds may not be similar (StanCERA chooses to report fees and expenses that include custodial and consultancy fees).

11. *Asset allocation and/or asset liability studies*

Asset allocation is driven by the following principles:

a) To enhance the ability of the Fund to preserve capital while maintaining its ability to pay member benefits in a timely and efficient manner
b) To optimally diversify the portfolio in such a way that offers the highest return for a level of risk that the Board of Retirement deems acceptable
c) To provide short-term liquidity that efficiently funds benefit shortfalls (benefits plus fund expenses less contributions) for six years and allows the Board of Retirement the ability to make tactical moves in the event market conditions change

Asset allocation and asset liability studies will be performed at least triennially. In the interim, StanCERA staff and the General Investment Consultant will, at least annually, decide if capital market expectations and/or expected liability streams have materially changed. If it is decided that conditions have changed enough to warrant a potential reformulation of the asset allocation, then staff will request approval from the Board of Retirement to initiate a new study. All asset liability studies will be the responsibility of the General Investment Consultant with assistance from StanCERA staff and the StanCERA actuary.

Tactical moves are defined as those that attempt to systematically exploit inefficiencies or imbalances in the capital markets. Generally, these inefficiencies or imbalances are short-term in nature and may not persist. Short-term moves are expected to eventually correct themselves and as such, an accompanying asset allocation study is not necessary. However, in the event of a rise in the general level of interest rates and/or inflation (see Annual FFP Review), a strategical move into longer duration assets will be brought to the Board of Retirement for consideration.

StanCERA staff will work with plan sponsors at least annually to determine whether there is any anticipation of significant changes in expected payroll, retirements or prospective changes in benefits. Changes of these types can affect expected liability streams and as a consequence, the way StanCERA views its asset allocation.

12. *Selecting investment strategies*

Investment strategy selection shall be conducted in accordance with the Plan's asset allocation and the direction provided by the Board. In order to effectively implement the desired asset allocation, the General Investment Consultant shall propose an approach to identify qualified managers and investment strategies. The process may include conducting a request for information (RFI), a request for proposal (RFP), and/or utilizing the Investment Consultant's manager research capabilities such as a recommended list of managers.

If an RFI or RFP is to be conducted, Staff and the General Investment Consultant shall develop a scoring system by which each submission will be evaluated. Those submissions receiving the highest scores will be considered qualified to proceed to the next step of the selection process.

Whether the qualified candidate list is identified through the RFI/RFP process or from the Investment Consultant's list, the investment consultant will then develop an analysis of the qualified candidates. This analysis will be presented to the Board for discussion.

With the Board's approval, Staff and the investment consultant, shall conduct in-depth due diligence. Board members may elect to participate in this process as desired. The due-diligence should evaluate the investment manager and the specific strategy to understand the investment philosophy; process; organization; compliance, operations, and business continuity processes; performance track record; and fees. The investment consultant and Staff will make a final recommendation to the Board as to which strategies should be selected and the amounts that should be allocated.

13. *Review of IPS, Processes and Directives*

    Review of the Investment Policy Statement, Procedures and Directives shall be performed no less than triennially, following the Asset Liability Study or whenever the Board or staff feels it necessary.

14. Placeholder

Stanislaus County Employees' Retirement Association
832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Investment Directive #1, Asset Allocation Table with Ranges

II. ITEM NUMBER: 7.b

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Approve Directive #1

V. EXECUTIVE SUMMARY: The Schedule of Directives document contain certain policies that can change in the future based on the way StanCERA invests its assets. It is an integral part of the overall investment governance structure and is maintained outside the Investment Policy itself. Since these directives are policy in nature, they need to be approved by the Board of Retirement. Staff will be bringing these directives to the Board of Retirement over the next few months as needed.

Directive #1, Asset Allocation Table with Ranges (Attachment 1), contain StanCERA's first phase of the asset allocation process. This allocation will change over time and eventually phase in to the long-term allocation approved by the Board in 2016. Any interim phase between the initial and ultimate will be brought to the Board for approval.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective I: Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

____
Rick Santos, Executive Director

Attachment 1 - Phase 1, StanCERA Asset Allocation Targets and Ranges*

		Allocation		
	Policy	Min.	Target	Max.
Domestic Equity	**38.2**	**10.0**	**17.1**	**25.0**
US Large	30.5	10.0	13.7	20.0
US Small	7.7	0.0	3.4	5.0
International Equity	**18.0**	**15.0**	**22.9**	**33.0**
International Developed	14.4	15.0	18.3	23.0
Emerging Markets	3.6	0.0	4.6	10.0
Fixed Income	**29.8**	**20.0**	**29.4**	**39.0**
Core Fixed Income	29.8	5.0	8.4	12.0
US Treasury	0.0	0.0	3.0	6.0
Short-Term Gov't/Credit	0.0	15.0	18.0	21.0
Real Assets	**6.5**	**5.0**	**10.0**	**16.0**
Core Real Estate	6.5	5.0	8.3	11.0
Value-Add Real Estate	0.0	0.0	1.3	5.0
Infrastructure		0.0	0.4	3.0
Alternatives	**7.5**	**9.0**	**19.6**	**29.0**
Risk Parity	0.0	9.0	14.0	19.0
Private Equity	0.0	0.0	0.0	0.0
Private Credit	7.5	0.0	5.6	10.0
Cash	0.0	0.0	1.0	1.5
Total Allocation	100.0	N/A	100.0	N/A

*** Approved on 1/24/2017**

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January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Emerging Manager Policy

II. ITEM NUMBER: 7.c

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Repeal the Emerging Manager Policy

V. ANALYSIS: On December 10, 2008 the Board of Retirement adopted the Emerging Manager Policy. (Attachment 1) This policy set the framework for the development and administration of StanCERA's Emerging Manager program. At that time StanCERA's standard institutional investment manager search process did not include managers with less than $2 billion under management. With the rewrite and review of the Investment Policy Statement, this individual policy is no longer applicable.

VI. RISK: Having a one comprehensive Investment Policy Statement will assist in the future administration of the system.

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

Stanislaus County Employees'
Retirement Association

StanCERA

EMERGING INVESTMENT MANAGER POLICY

December 10, 2008

StanCERA EMERGING INVESTMENT MANAGER POLICY

TABLE OF CONTENTS

I. SCOPE

This Emerging Investment Manager Policy ("EM Policy") governs the Emerging Investment Manager Program ("EM Program") of the Stanislaus County Employees' Retirement Association ("StanCERA") and shall apply to any asset class of StanCERA's Trust Fund ("Fund"). The EM Policy is subject to all provisions of applicable law and the applicable limitations and requirements of StanCERA's Statement of Investment Policy. The StanCERA Board ("Board") reserves the right to amend, supplement or rescind this EM Policy at any time.

II. PURPOSE

The purpose of this EM Policy is to establish a framework for the development and administration of StanCERA's EM Program, consistent with the Board's fiduciary responsibilities in investment of the Fund.

III. LEGAL AUTHORITY

This EM Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the Fund.

IV. DEFINITION OF EMERGING INVESTMENT MANAGERS

For purpose of this EM Policy, StanCERA defines emerging investment managers ("EMs") – also known as portfolio managers - as investment managers who generally have total assets under management of less than $2 billion, and, in addition, may have more limited time in business and/or a more limited track record in the specific products under consideration than would ordinarily be required in StanCERA's standard institutional investment manager search process.

V. EMERGING INVESTMENT MANAGER PROGRAM

StanCERA's EM Program is an investment program, developed and managed in accordance with this EM Policy. The EM Program is designed to identify investment firms with the potential to add value to StanCERA's investment portfolio that would not be identified in StanCERA's standard institutional investment manager search process. Studies have shown that some smaller investment firms may be able to generate superior performance due to increased market flexibility associated with smaller asset bases. StanCERA plans to utilize Manager-of-Managers ("MOMs") for the EM Program. The allocations to the EM Program will be determined by the Board in consultation with the Investment Consultant.

VI. STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM

The strategic objective of the EM Program is to add incremental value to the Fund through the hiring of the most talented EMs to manage StanCERA's assets.

The primary goals of the EM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund return performance through the EM Program; and 3) further diversify the Fund's overall investment program, so as to enhance risk-adjusted returns of the Fund.

StanCERA may consider an EM investment when the Investment Consultant, after due diligence and investigation, have determined that:

1) The risk and return characteristics of the EM investment are no less favorable than comparable non-EM opportunities available; and
2) The EM investment is in compliance with this Policy.

VII. STANDARDS FOR EMERGING INVESTMENT MANAGERS

All investment managers selected through the EM Program shall comply with and be subject to any and all performance-related and other standards, requirements, and expectations set forth in StanCERA's Statement of Investment Policy, other than requirements regarding criteria for inclusion in StanCERA's standard institutional investment managers search process.

All investment managers selected through the EM Program shall also comply with and be subject to any and all other StanCERA Board policies, procedures and guidelines that pertain to investment managers, including without limitation, obligations regarding disclosure by investment managers of actual or potential conflicts of interest, as well as any and all other obligations imposed on StanCERA's investment managers by State and Federal law.

Agreements (contracts) with MOMs shall contain the general legal language used in other StanCERA investment management agreements (contracts) along with specific language related to the investment manager's asset allocation, performance and fees. Dollar amounts for various insurance requirements may be adjusted in light of proportionately smaller asset allocations but may not be less than a minimum amount that is deemed prudent to protect StanCERA's interests.

VIII. ROLES AND RESPONSIBILITES

The delineation of roles and responsibilities is important for the effective administration of StanCERA's EM Program. The duties and responsibilities of the Board, Staff, Investment Consultant, counsel to StanCERA's Retirement Board ("Fiduciary Counsel") and EMs/MOMs in relation to the EM Program are stated below:

A. Board

The Board shall be responsible for approving the EM Policy that governs the EM Program and approving the implementation of the EM Program at StanCERA. The Board, with input from the Investment Consultant, shall review this EM Policy annually to determine whether modifications are necessary. The Board shall be responsible for the retention and termination of MOMs. The Board shall receive notice of the MOMs' retention and termination of EMs. The Board also has the authority to retain or terminate EMs following appropriate due diligence and recommendation by its Investment Consultant.

B. Investment Consultant

The Investment Consultant hired by the Board is a fiduciary to StanCERA and its Board. The Investment Consultant shall independently and continuously monitor and analyze the effectiveness of StanCERA's EM Program and make related recommendations in order to serve the best interests of the plan participants. The Investment Consultant shall also assist Staff in crafting the EM Policy and implementing the EM Program. In addition, The Investment Consultant shall be responsible for:

1. Ongoing monitoring of the performance of StanCERA's EMs and MOMs;
2. Monitoring EMs' and MOMs' compliance with a) their respective investment guidelines as set forth in their contract; b) this EM Policy; and c) applicable requirements of StanCERA's Statement of Investment Policy;
3. Conducting MOM searches and searches related to EMs (with Board approval) and assist staff in contract negotiations;
4. Submitting performance evaluation reports and conducting comprehensive reviews of the EMs and MOMs quarterly to the Board in conjunction with the regular quarterly performance report and review;
5. Making recommendations for retention or termination of MOMs;
6. Making recommendations for retention or termination of EMs if the Investment Consultant has information for such action and a MOM has not taken action deemed prudent;
7. Attending meetings as needed; and
8. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

C. Staff

Staff shall be responsible for accounting for and monitoring of the EM Program. Staff's responsibilities shall include, but not be limited to the following:

1. Developing and maintaining specific procedures to insure compliance with the approved EM Policy;
2. Developing and recommending changes to the EM Policy in consultation with the Investment Consultant and Counsel;
3. Assuring that the implementation of the EM Policy and management of the EM Program is in accordance with Board directives;
4. Assisting Fiduciary Counsel in contract negotiations with MOMs.

D. Fiduciary Counsel

Fiduciary Counsel is a fiduciary to StanCERA and its Board. Fiduciary Counsel shall provide legal, but not investment, advice to the Board and Staff regarding all aspects of StanCERA's EM Policy. Fiduciary Counsel shall also provide legal, but not investment, advice on StanCERA's EM Program upon request. Fiduciary Counsel shall prepare investment management agreements (contracts) in consultation with the Investment Consultant and Staff.

E. Emerging Investment Managers

EMs are fiduciaries and shall prudently manage StanCERA's assets in the best interest of StanCERA and its members. EMs shall abide by all of StanCERA's policies and procedures, and fully comply with applicable law. EMs shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of StanCERA's Statement of Investment Policy. EMs shall be responsible for all aspects of portfolio management as set forth in their respective contracts with StanCERA. EMs shall also:

1. Communicate with MOMs as needed regarding investment strategy and investment results;
2. Cooperate fully with Staff, Investment Consultant, StanCERA's custodian, StanCERA approved auditors, governmental regulators and MOMs concerning requests for information;
3. Submit reports to MOMs, Staff and the Investment Consultant in accordance with their contract terms; and
4. Attend meetings as needed.

F. Manager-of-Managers

MOMs are fiduciaries and shall prudently manage StanCERA's assets in the best interest of StanCERA and its members. MOMs shall abide by all of StanCERA's policies and procedures, and fully comply with applicable law. MOMs are responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of StanCERA's Statement of Investment Policy. Within these parameters, MOMs shall also:

1. Maintain a comprehensive database of emerging investment managers and continuously conduct due diligence evaluation of prospective EMs;
2. Construct a diversified portfolio of EMs based on the objectives and benchmarks established by the MOM;
3. Have the authority to retain and terminate EMs based on the evaluation criteria established by the MOM;
4. Monitor and report on the performance of the individual EMs in the MOM portfolio and the MOM-managed portfolio itself; and
5. Attend meetings as needed.

IX. PERFORMANCE EVALUATION CRITERIA

The specific performance evaluation criteria for EMs and MOMs shall be established in the StanCERA Statement of Investment Policy.

X. MONITORING AND REPORTING

The Investment Consultant and Staff will closely monitor and analyze the EM Program to ensure compliance with the EM Program's strategic objective and goals. EMs and MOMs are required to submit all reports to the Investment Consultant and Staff in accordance with their respective contracts and applicable requirements set forth in the StanCERA Statement of Investment Policy.

The Investment Consultant will perform comprehensive evaluations of StanCERA's EM Program, the EMs and MOMs annually, and will report the findings to the Retirement Board.

XI. QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS AND StanCERA DUE DILIGENCE

StanCERA seeks to retain the most talented EMs to manage StanCERA's assets. Those EMs and MOMs that comply with Federal and State laws, StanCERA's Statement of Investment Policy, specific investment manager agreement (contract) and produce superior investment results (as measured and verified by the Investment Consultant) that meet the objectives and goals of the EM Program will be retained. All investment managers are subject to a comprehensive due diligence review process by StanCERA and its Investment Consultant.

XII. EFFECTIVE DATE

This Policy shall become effective upon adoption by the Board.

Historical Notes

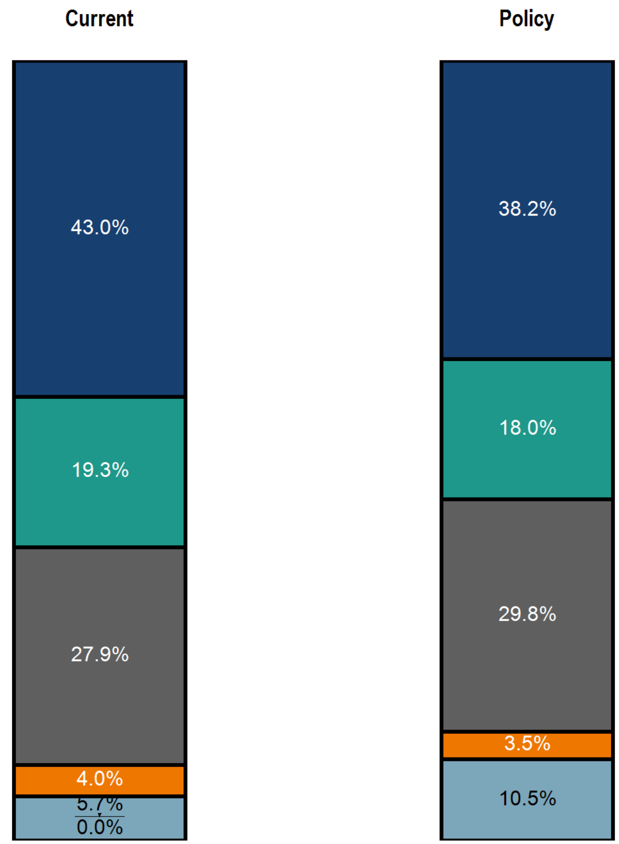
Approved by the Board of Retirement on December 10, 2008.

Total Fund
Flash Report (Net of Fees) - Preliminary

Period Ending: November 30, 2016

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	YTD
Total Fund	**1,835,640,614**	**100.0**	**1.6**	**4.8**	**6.2**
Policy Index			*1.0*	*2.6*	*6.6*
US Equity	**789,424,992**	**43.0**	**5.8**	**10.0**	**10.3**
US Equity Blended			*5.4*	*7.9*	*11.6*
Russell 3000			*4.5*	*6.7*	*10.6*
Mellon S&P 500	91,374,340	5.0	3.7	5.7	9.8
S&P 500			*3.7*	*5.7*	*9.8*
BlackRock Russell 1000 Growth	88,962,601	4.8	2.2	4.4	5.8
Russell 1000 Growth			*2.2*	*4.3*	*5.8*
Jackson Square	124,470,574	6.8	-1.5	2.7	-5.0
Russell 1000 Growth			*2.2*	*4.3*	*5.8*
BlackRock Russell 1000 Value	109,411,496	6.0	5.7	7.7	14.4
Russell 1000 Value			*5.7*	*7.7*	*14.5*
Dodge & Cox-Equity	191,634,436	10.4	9.4	18.7	19.8
Russell 1000 Value			*5.7*	*7.7*	*14.5*
Legato Capital	85,941,501	4.7	9.1	9.2	3.5
Russell 2000 Growth			*8.9*	*11.6*	*9.8*
Capital Prospects	97,630,046	5.3	11.6	17.2	22.0
Russell 2000 Value			*13.3*	*19.3*	*26.5*
International Equity	**354,658,310**	**19.3**	**-1.4**	**4.6**	**2.4**
MSCI ACWI ex USA Gross			*-2.3*	*3.0*	*2.4*
LSV Asset Mgt	178,726,092	9.7	-1.0	7.8	4.8
MSCI ACWI ex USA Gross			*-2.3*	*3.0*	*2.4*
Fidelity	175,932,217	9.6	-1.9	1.5	-0.1
MSCI ACWI ex USA Gross			*-2.3*	*3.0*	*2.4*
US Fixed Income	**512,478,144**	**27.9**	**-1.7**	**-0.5**	**4.7**
BBgBarc US Aggregate TR			*-2.4*	*-2.7*	*2.5*
Dodge & Cox-Fixed	398,266,561	21.7	-1.6	-0.2	5.1
BBgBarc US Aggregate TR			*-2.4*	*-2.7*	*2.5*
PIMCO	114,211,583	6.2	-2.0	-1.7	3.2
BBgBarc US Aggregate TR			*-2.4*	*-2.7*	*2.5*

	Current	%	Policy	%
Domestic Equity	$789,424,992	43.0%	$701,214,715	38.2%
International Equity	$354,658,310	19.3%	$330,415,311	18.0%
Domestic Fixed Income	$512,478,144	27.9%	$547,020,903	29.8%
Real Estate	$73,726,628	4.0%	$64,247,421	3.5%
Alternatives	$104,501,679	5.7%	$192,742,264	10.5%
Cash and Equivalents	$850,862	0.0%	--	--
Total	**$1,835,640,614**	**100.0%**	**$1,835,640,614**	**100.0%**

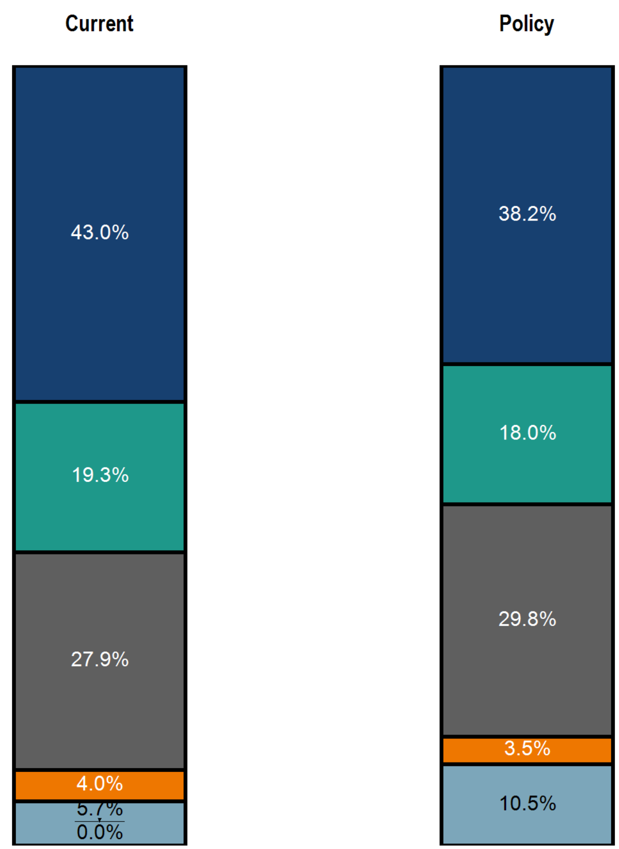


Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate TR, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. All data is preliminary.

Total Fund
Flash Report (Net of Fees) - Preliminary
Period Ending: November 30, 2016

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	YTD
Real Estate	**73,726,628**	**4.0**	**-0.5**	**-2.4**	**3.5**
DJ US Select RESI			*-1.4*	*-8.1*	*1.9*
Prime Property Fund	16,494,067	0.9	0.0	2.3	6.7
NCREIF-ODCE			*0.0*	*2.1*	*6.5*
American Strategic Value Realty	15,385,650	0.8	0.0	2.2	8.5
NCREIF Property Index			*0.0*	*1.8*	*6.1*
BlackRock US Real Estate	28,671,003	1.6	-1.4	-8.1	1.8
DJ US Select RESI TR USD			*-1.4*	*-8.1*	*1.9*
Greenfield Gap	13,175,908	0.7			
Direct Lending	**93,002,891**	**5.1**			
Medley Capital	24,956,834	1.4			
Raven Capital	18,898,914	1.0			
Raven Opportunity III	13,093,892	0.7			
White Oak Pinnacle	36,053,251	2.0			
Infrastructure	**11,498,788**	**0.6**			
MS Infrastructure Partners II	11,498,788	0.6			
Cash Account	850,862	0.0	0.5	0.6	1.3

	Current	%	Policy	%
Domestic Equity	$789,424,992	43.0%	$701,214,715	38.2%
International Equity	$354,658,310	19.3%	$330,415,311	18.0%
Domestic Fixed Income	$512,478,144	27.9%	$547,020,903	29.8%
Real Estate	$73,726,628	4.0%	$64,247,421	3.5%
Alternatives	$104,501,679	5.7%	$192,742,264	10.5%
Cash and Equivalents	$850,862	0.0%	--	--
Total	**$1,835,640,614**	**100.0%**	**$1,835,640,614**	**100.0%**



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate TR, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. Cash Account includes cash held at Northern Trust for all closed end funds. All data is preliminary.

Disclosures

This report is subject to the terms and conditions of the Consulting Agreement. The report may not be sold or otherwise provided, in whole or in part, to any other person or entity without written permission from Verus Advisory, Inc., (hereinafter Verus) or as required by law or any regulatory authority. The information presented does not constitute a recommendation by Verus and cannot be used for advertising or sales promotion purposes. This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities or any other financial instruments or products.

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The information presented may be deemed to contain forward-looking information. Examples of forward looking information include, but are not limited to, (a) projections of or statements regarding return on investment, future earnings, interest income, other income, growth prospects, capital structure and other financial terms, (b) statements of plans or objectives of management, (c) statements of future economic performance, and (d) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking information can be identified by the use of forward looking terminology such as believes, expects, may, will, should, anticipates, or the negative of any of the foregoing or other variations thereon comparable terminology, or by discussion of strategy. No assurance can be given that the future results described by the forward-looking information will be achieved. Such statements are subject to risks, uncertainties, and other factors which could cause the actual results to differ materially from future results expressed or implied by such forward looking information. The findings, rankings, and opinions expressed herein are the intellectual property of Verus and are subject to change without notice. The information presented does not claim to be all-inclusive, nor does it contain all information that clients may desire for their purposes. The information presented should be read in conjunction with any other material provided by Verus, investment managers, and custodians.

Verus will make every reasonable effort to obtain and include accurate market values. However, if managers or custodians are unable to provide the reporting period's market values prior to the report issuance, Verus may use the last reported market value or make estimates based on the manager's stated or estimated returns and other information available at the time. These estimates may differ materially from the actual value. Hedge fund market values presented in this report are provided by the fund manager or custodian. Market values presented for private equity investments reflect the last reported NAV by the custodian or manager net of capital calls and distributions as of the end of the reporting period. These values are estimates and may differ materially from the investments actual value. Private equity managers report performance using an internal rate of return (IRR), which differs from the time-weighted rate of return (TWRR) calculation done by Verus. It is inappropriate to compare IRR and TWRR to each other. IRR figures reported in the illiquid alternative pages are provided by the respective managers, and Verus has not made any attempts to verify these returns. Until a partnership is liquidated (typically over 10-12 years), the IRR is only an interim estimated return. The actual IRR performance of any LP is not known until the final liquidation.

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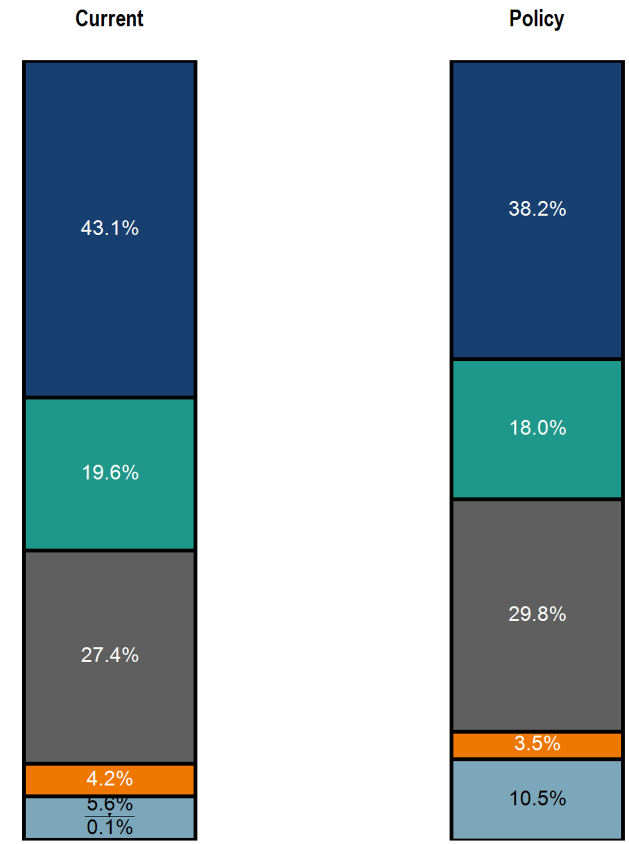
Total Fund
Flash Report (Net of Fees) - Preliminary
Period Ending: December 31, 2016

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	YTD
Total Fund	**1,859,276,731**	**100.0**	**1.4**	**6.3**	**7.7**
Policy Index			*1.5*	*4.2*	*8.2*
US Equity	**802,148,015**	**43.1**	**1.6**	**11.8**	**12.1**
US Equity Blended			*2.1*	*10.1*	*13.9*
Russell 3000			*2.0*	*8.8*	*12.7*
Mellon S&P 500	93,182,114	5.0	2.0	7.8	11.9
S&P 500			*2.0*	*7.8*	*12.0*
BlackRock Russell 1000 Growth	90,073,255	4.8	1.2	5.7	7.2
Russell 1000 Growth			*1.2*	*5.6*	*7.1*
Jackson Square	124,607,818	6.7	0.1	2.8	-4.9
Russell 1000 Growth			*1.2*	*5.6*	*7.1*
BlackRock Russell 1000 Value	112,129,891	6.0	2.5	10.4	17.3
Russell 1000 Value			*2.5*	*10.4*	*17.3*
Dodge & Cox-Equity	193,876,391	10.4	1.2	20.0	21.2
Russell 1000 Value			*2.5*	*10.4*	*17.3*
Legato Capital	87,158,467	4.7	1.3	10.6	4.8
Russell 2000 Growth			*1.4*	*13.1*	*11.3*
Capital Prospects	101,120,078	5.4	3.4	21.3	26.2
Russell 2000 Value			*4.1*	*24.2*	*31.7*
International Equity	**364,071,130**	**19.6**	**2.6**	**7.3**	**5.0**
MSCI ACWI ex USA Gross			*2.6*	*5.7*	*5.0*
LSV Asset Mgt	184,601,275	9.9	3.2	11.3	8.2
MSCI ACWI ex USA Gross			*2.6*	*5.7*	*5.0*
Fidelity	179,469,855	9.7	2.0	3.5	1.8
MSCI ACWI ex USA Gross			*2.6*	*5.7*	*5.0*
US Fixed Income	**509,200,188**	**27.4**	**0.5**	**0.0**	**5.2**
BBgBarc US Aggregate TR			*0.1*	*-2.5*	*2.6*
Dodge & Cox-Fixed	394,782,448	21.2	0.6	0.4	5.7
BBgBarc US Aggregate TR			*0.1*	*-2.5*	*2.6*
PIMCO	114,417,741	6.2	0.2	-1.6	3.4
BBgBarc US Aggregate TR			*0.1*	*-2.5*	*2.6*

	Current	%	Policy	%
Domestic Equity	$802,148,015	43.1%	$710,243,711	38.2%
International Equity	$364,071,130	19.6%	$334,669,812	18.0%
Domestic Fixed Income	$509,200,188	27.4%	$554,064,466	29.8%
Real Estate	$78,467,754	4.2%	$65,074,686	3.5%
Alternatives	$103,267,522	5.6%	$195,224,057	10.5%
Cash and Equivalents	$2,122,122	0.1%	--	--
Total	**$1,859,276,731**	**100.0%**	**$1,859,276,731**	**100.0%**



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate TR, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. All data is preliminary.

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	YTD
Real Estate	**78,467,754**	**4.2**	**2.3**	**-0.1**	**6.0**
DJ US Select RESI			*4.7*	*-3.7*	*6.6*
Prime Property Fund	16,890,251	0.9	2.4	4.7	9.2
NCREIF-ODCE			*0.0*	*2.1*	*6.5*
American Strategic Value Realty	18,385,650	1.0	0.0	2.2	8.5
NCREIF Property Index			*0.0*	*1.8*	*6.1*
BlackRock US Real Estate	30,015,945	1.6	4.7	-3.8	6.6
DJ US Select RESI TR USD			*4.7*	*-3.7*	*6.6*
Greenfield Gap	13,175,908	0.7			
Direct Lending	**91,768,734**	**4.9**			
Medley Capital	23,924,172	1.3			
Raven Capital	18,728,840	1.0			
Raven Opportunity III	13,062,471	0.7			
White Oak Pinnacle	36,053,251	1.9			
Infrastructure	**11,498,788**	**0.6**			
MS Infrastructure Partners II	11,498,788	0.6			
Cash Account	2,122,122	0.1	0.0	0.7	1.3

	Current	%	Policy	%
Domestic Equity	$802,148,015	43.1%	$710,243,711	38.2%
International Equity	$364,071,130	19.6%	$334,669,812	18.0%
Domestic Fixed Income	$509,200,188	27.4%	$554,064,466	29.8%
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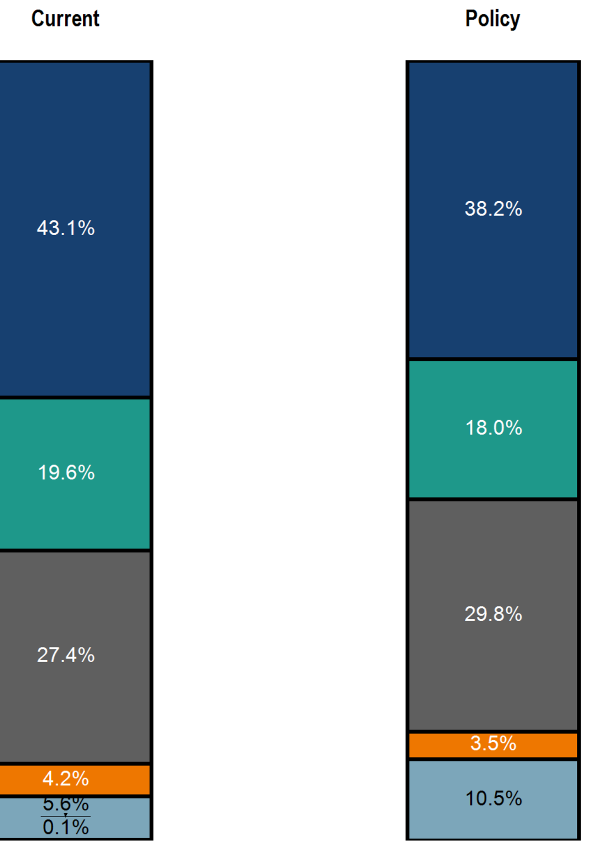

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Stanislaus County Employees' Retirement Association
832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Dawn Lea, Member and Employer Services Manager

I. SUBJECT: Legislative Update Government Code Section 75147, formerly known as Assembly Bill 2833

II. ITEM NUMBER: 9.a

III. ITEM TYPE: Information Only

IV. STAFF RECOMMENDATION: None

V. ANALYSIS: Assembly Bill 2833 became law on September 14, 2016. In an effort to increase transparency, this law mandates that every public investment fund must require specified disclosures regarding fees and expenses from each alternative investment vehicle in which it invests. The disclosed information must be presented in a report at a public meeting at least annually.

The information required will include:

a) The fees and expenses that the public investment fund pays directly to the alternative investment vehicle, the fund manager, or related parties.
b) The public investment fund's pro rata share of fees and expenses that are paid from the alternative investment vehicle to the fund manager or related parties. In lieu of having the alternative investment vehicle provide this information, the fund may calculate it using information contractually required to be provided by the alternative investment vehicle.
c) The public investment fund's pro rata share of carried interest distributed to the fund manager or related parties.
d) The public investment fund's pro rata share of aggregate fees and expenses paid by all of the portfolio companies held within the alternative investment vehicle to the fund manager or related parties.
e) Any additional information already required to be disclosed under the California Public Records Act (CPRA).

The public investment fund must also include the gross and net rate of return of each alternative investment vehicle since inception when presenting its report.
These requirements apply to all new contracts and to all existing contracts in which the fund makes a new capital commitment on or after January 1, 2017.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

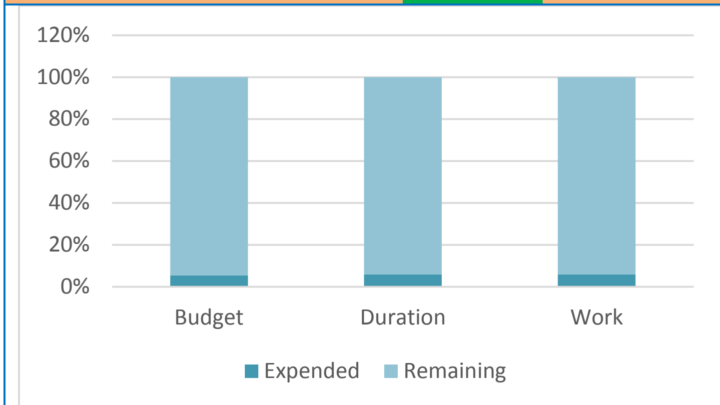
Dawn Lea, Member and Employer Services Manager

Rick Santos, Executive Director

PAS REQUIREMENTS PROJECT STATUS UPDATE

SPONSOR:	Rick Santos	**REPORT DATE:**	01/13/2017

Baseline 12/01/2016 STATUS



Risks & Issues:

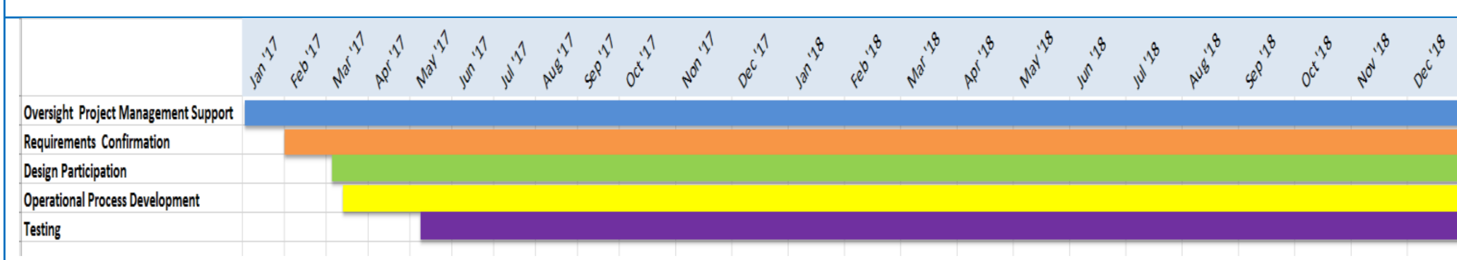
- In the process of being compiled.

Accomplishments:

- Updated Tegrit Project Schedule to incorporate tasks to be performed by StanCERA staff and the Linea business analyst
- Completed the Project Roadmap poster for the Project Kick-Off meeting
- Participated in the main Project Kick-Off meeting
- Participated in other project related meetings
- Compiled documents and forms identified during requirements gathering sessions and developed a matrix associating various workflow processes with the word documents
- Analyzed and listed typical member file contents
- Compiled a list of all existing StanCERA letter/form templates
- Initiated development of a Project Timeline poster
- Began initial work on developing high level process workflows associated with document triggers

Upcoming:

- Hold meetings with the StanCERA SME's to discuss matters pertaining to the following topics:
    - Document Inventory
    - Day-forward scanning options
    - Back file preparation
- Collaborate with the Tegrit PM to finalize the Project Schedule
- Collaborate with StanCERA and Tegrit PMs to identify the potential risks to the project and develop mitigation strategies
- Facilitate the Project Steering Committee meeting scheduled for 24th January, 2017



Stanislaus County Employees' Retirement Association
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January 24, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: 2017 Executive Director Goals

II. ITEM NUMBER: 9.c

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Accept the 2017 Executive Director Goals (Attachment 1) as Presented

V. ANALYSIS: Each year the Organization sets out to accomplish goals related to the ongoing administration of the System and the Strategic Plan. Each quarter throughout the year, the Executive Director reports out on the progress made. This item represents those goals and ongoing tasks that the Organization is setting out to accomplish this year.

The main theme this year will be focused on assuring successful implementation of the Pension Software System and enhancement of the investment governance process.

The 2017 Executive Director Goals (Attachment 1) contains the goals for 2017 and supporting documentation from the newly approved 2017-2019 Strategic Plan. Attachment 1 does not contain all action items the Organization wishes to accomplish during the 3-year period, but only those that are slated to be completed this year. The document is divided into ongoing and general administrative tasks (normally a part of the Organization's business each year) and those explicitly tied to the Strategic Plan. Given the nature of the changes the Organization will be implementing over the next few years, several strategic tasks are ongoing and don't necessarily have a resolution. These are noted in the attachment. During the year, staff will report out on the progress made on each goal and if applicable, when the task is completed.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

General and/or Ongoing Items

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts and Employee Groups
2. Facilitate transition of StanCERA's asset allocation
3. Continued progress on the System data clean-up project
4. Complete 2 Trustee Elections
5. Continued monitoring of StanCERA lawsuits
6. Director Professional Development
7. Facilitate RFP for General Legal Counsel
8. Oversee Information Technology Solutions Project
9. Oversee and complete day to day administrative functions
10. Training of Investment Officer
11. Re-organization of Investment Data and Reporting Tools
12. Biennial By-Law Review

Items Explicitly Tied to the 2017-2019 Strategic Plan

Strategic Objective #1

Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability

Strategic Plan Objective #1: Action Plan with Deliverables

1. Implementation of Functionally Focused Portfolio Concept
   - ✓ Creation of a spot curve derivation tool used to place a market value on StanCERA shortfalls and liabilities *(2017)*
   - ✓ Fund the Liquidity sub-portfolio by June 30th of each year *(ongoing)*
   - ✓ Creation of a balance sheet derivation tool used to track asset and shortfall values and measure additional surpluses or unfunded liabilities generated by the FFP process *(2017)*
   - ✓ Creation of contribution, benefit and expense projection software *(2017)*

2. Consult regularly with plan sponsors regarding salary and retirement projections
   - ✓ Meet with Stanislaus County officials each year *(ongoing)*
   - ✓ Meet with City of Ceres officials each year *(ongoing)*

3. Consult regularly with plan sponsors regarding pension contribution projections
   - ✓ Meet each year with all plan sponsors *(ongoing)*

4. Monitor and assess capital market expectations on a continual basis

- ✓ Maintain monthly monitoring and trends of the general level of interest rates and market value of StanCERA liabilities*(ongoing)*
- ✓ Report annually to the Board of Retirement a prospective analysis of the trend in the general level of interest rates and consider any changes in the FFP process *(ongoing)*
- ✓ Provide the Board, at least annually, a review of capital market conditions and assumptions on a forward looking basis for all major asset classes *(ongoing)*
- ✓ At least annually, recommend asset allocation changes (if applicable) to the Board of Retirement for consideration *(ongoing)*

5. Maintain awareness of the cash flow process
   - ✓ Work with alternative investment managers on contribution and distribution projections *(ongoing)*
   - ✓ Project and reconcile semi-annually, budget expenditures *(ongoing)*
   - ✓ Annual reconciliation of the FFP shortfall projections and source of cash flows *(ongoing)*

Strategic Objective # 2

Develop efficient and effective processes for the evaluation, monitoring, and disposition of StanCERA's active managers

Strategic Plan Objective #2: Action Plan with Deliverables

1. Maintain and improve the comprehensive internal investment governance process
   - ✓ Train internal investment staff on the general processes, procedures and the data collection process (*2017)*
   - ✓ Enhance the internal reporting format *(ongoing)*

2. Maintain a comprehensive internal investment data repository

3. Develop and maintain auxiliary performance reporting
   - ✓ Continue to develop and enhance auxiliary reporting with an eye towards simplicity *(ongoing)*
   - ✓ Enhance reporting format and aesthetics *(ongoing)*
   - ✓ Work with consultant to develop a valid benchmark for all alternative investments *(2017)*

4. Provide StanCERA staff opportunities to enhance their knowledge regarding the investment governance process
   - ✓ Develop study programs and reimbursement policies for the CFA and CAIA designations *(2017)*

- ✓ Provide opportunities for internal staff to attend seminars and conferences dedicated to alternative investments *(ongoing)*
- ✓ Provide opportunities for internal staff to attend seminars and conferences related to understanding investment contracts, ADV and SOC reports *(ongoing)*

Strategic Objective # 3

Continue to foster an organizational culture that values and promotes team work, education, awareness, accountability, and achievement.

Strategic Plan Objective #3: Action Plan with Deliverables

1. Train for succession planning to prepare for StanCERA's future and continue to cross-train staff to optimize efficacies for staffing level fluctuations.
   - ✓ Involve all staff in the design and implementation of new software. *(ongoing)*
   - ✓ Establish training plan for each classification with goals and milestones *(2017)*

2. Standardize communication and establish a formal peer-review process for internal and external documents and external communications.
   - ✓ All Board approved policies are updated to meet current communications standards. *(2017)*
   - ✓ Annual staff training on communication standards and implementation. *(ongoing)*
   - ✓ All standard forms are updated to meet current communication guidelines. *(2017)*
   - ✓ Formalize StanCERA's peer review philosophy *(2017)*

3. Develop and implement an educational policy and plan for staff.
   - ✓ Identify individual staff educational needs annually through the annual employee evaluation process. *(ongoing)*
   - ✓ Develop study programs and reimbursement policies for job related training and certification programs *(2017)*
   - ✓ Provide opportunities for internal staff to attend seminars and conferences dedicated to job specific training needs *(ongoing)*

4. Develop and implement a team-building action plan.
   - ✓ Hold a minimum one team building event offsite team building event annually *(ongoing)*
   - ✓ Institute a quarterly teambuilding event onsite *(2017)*
   - ✓ Institute monthly team meetings with supervisors *(2017)*

Strategic Objective # 4

Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

Strategic Plan Objective #4: Action Plan with Deliverables

1. Implementation of Electronic Member Filing Content Management System
   - ✓ Identify Subject Matter Expert to oversee implementation (2017)
   - ✓ Develop records retention guidelines for member records (2017)
   - ✓ Determine index scheme (2017)
   - ✓ Vendor completes back file conversion of member files (2017)

2. Enhance stakeholder education and communication opportunities
   - ✓ Formally meet with all plan sponsors, no less than annually (ongoing)

3. Substantial completion of Pension Software System implementation
   - ✓ Project initiation and startup (2017)
   - ✓ Infrastructure / Hardware / Software setup and hosting (2017)

4. Design and rollout of improved StanCERA website
   - ✓ Complete RFP Process for a Web Designer (2017)

5. Create an organizational structure that maximizes recruitment potential and encourages staff development for future leadership positions

   - ✓ Survey 37 act system to determine optimum staffing (2017)
   - ✓ Collaborate with County Personnel to block budget multiple retirement positons (2017)
   - ✓ Restructure organization chart (2017)