



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

AGENDA

BOARD OF RETIREMENT

832 12th Street Ste. 600, **Wesley W. Hall Board Room**
Modesto, CA 95354

December 13, 2016
1:30 p.m.

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 November 22, 2016 Meeting Minutes [View](#)
 - b. Monthly Staff Report [View](#)
 - c. Approval of the 2017 StanCERA Master Calendar [View](#)
 - d. Receipt of the 2017 Board of Retirement Standing Committee Assignments [View](#)
 - e. Accept the 2016 Continuing Education Record and the 2017 Education Opportunities [View](#)
 - 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

6. Investment Manager Annual Presentation

- a. None

7. Executive Director – Investment

- a. The Functionally Focused Portfolio Process [View](#)
- b. Discussion and Action Manager Quality Control Chart

8. Verus – Investment Consultant

None

9. Executive Director – Administrative

- a. Legal/Legislation Update
- b. Information Technology Solutions (ITS) Project Update
- c. Discussion and Action for Request for Media Training [View](#)

10. Closed Session

- 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)

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

12. Adjournment



BOARD OF RETIREMENT MINUTES

November 22, 2016

1. Call Meeting to Order

Meeting called to order 1:00 p.m. by Trustee Gharat, Vice Chair

2. Roll Call

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

Trustees Absent: Donna Riley

Alternate Trustee Absent 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

3. Announcements

4. Public Comment

5. Consent Items

- a. Approval of the October 25, 2016 Meeting Minutes
- b. Monthly Staff Report
- c. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 - 1. Brassesco, Linda – DA – Effective 11-24-16
 - 2. Cancimilla, Tommy Jr. – GSA – Effective 10-27-16
 - 3. Chavez, Gloria – CSA – Effective 10-04-16
 - 4. Fisher, Angela - HSA – Effective 11-30-16
 - 5. Graves, Patricia – CSA – Effective 11-04-16
 - 6. Harper, Susan – Sheriff – Effective 11-01-16
 - 7. Hinojos, Patricia – CSA – Effective 10-31-16
 - 8. Stokman, Anne – HSA – Effective 10-06-16
 - 9. Williams, Farren – Ceres – Effective 11-04-16

** Indicates Safety Personnel*

5. Consent Items (Cont.)

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

1. Chamorro, Angelica – Assessor – Effective 01-01-16
2. Linderman, Kathleen– HSA – Effective 09-23-16
3. Men, Jean – Courts – Effective 09-24-16
4. Moths, Richard – Courts – Effective 10-08-16
5. Ochoa, Sylvia – CSA – Effective 10-29-16
6. Torres, Gabriela – DA – Effective 10-04-16
7. Williams, Jennifer – Sheriff – Effective 04-30-16

* Indicates Safety Personnel

e. Approval of Death Benefit - **Sections 31781, 31781.1, and 31781.3**

1. Wallace, Dennis, Deceased November 13, 2016, Active Member*

* *Indicates Safety Personnel*

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

1. Petty, Heather - DCSS, Non-Service Connected, Effective 05-12-16

1:31 p.m Trustee Dhillon arrived

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

Motion carried unanimously

6. Investment Manager Annual Presentation

a. Greenfield Partners, LLC

Dean Sotter gave an update on the fund. Dean noted that in the office space most of the return is coming from the yield component and not capital appreciation. He expects that the drawdown to be complete in Fund VII in 6 to 9 months and 80% of that will come in the first half of 2017.

b. White Oak Global Advisors, LLC

Landy Pheloung and Barbara McKee gave the Board an update on the White Oak Pinnacle Fund. The presentation focused mostly the performance and allocation of the fund and projected fund flow over the next 3 years.

7. Executive Director – Investment

a. 2016 Quarter 3 Auxiliary Investment Report

Director gave an update on the quarter 3 auxiliary investment report. Included this quarter are two new reports: A cash flow analysis on the mature direct lending investments (J Curve) and value added for the alternative investments. Director noted that there are still issues to overcome with respect to the benchmark being used to gauge the direct lending investments and will work with Verus to resolve.

Item 8 was heard out of order. Item 8.b, 8.a, 8.c is the order presented by Verus

8. Verus – Investment Consultant

a. Flash Report October 30, 2016 (HEARD OUT OF ORDER)

October Portfolio Return:	3.1%
October U.S. Equity:	4.0%
October International Equity:	6.1%
October Fixed Income:	1.2%
October Real Estate:	-2.00%

b. Investment Performance 2016 Quarter 3 Review (HEARD OUT OF ORDER)

Qtr Ytd	4.5%	Fixed Income	1.5%
U.S. Equity	6.4%	Real Estate	0.4%
INT. Equity	7.3%	Direct Lending	0.00%

c. Discussion and Action Regarding Search for US Treasury Mandate

Motion was made by Trustee O'Neal and seconded by Trustee Sharpe to:

1. Select a passive strategy and
2. Authorize Staff to negotiate and execute a contract with Northern Trust (75% Intermediate / 25% Long); and
3. Coordinate funding the selected investment strategy with the Phase 1 rebalancing as outlined in the implementation plan presented at the July Board meeting.

Motion carried unanimously

9. Executive Director - Administrative

a. Legal/Legislation Update

Nothing to report

b. Information Technology Solutions (ITS) Project Update

Kathy Herman updated the Board regarding the continued contract negotiations.

10. Committee Reports and Recommendations for Action

STANDING COMMITTEES

a. Internal Governance Committee

i. Discussion and Action to Accept the Internal Governance Committees' Recommendation Regarding:

- The June 30, 2016 and 2015 Comprehensive Annual Financial Report (CAFR) and Independent Auditor Report
- New and Amended Policies.

Placement Agent Policy
Mass Media Policy
Stale Dated Checks and Unclaimed Benefits Policy
Records Retention Policy

10. Committee Reports and Recommendations for Action (Cont.)

STANDING COMMITTEES

a. Internal Governance Committee

Motion was made by Trustee Sharpe and seconded by Trustee Grover to accept the June 30, 2016 and 2015 Comprehensive Annual Financial Report (CAFR), Independent Auditor Report and all policies as presented.

Motion carried unanimously

b. Strategic Planning Committee

- i. Discussion and Action Regarding the Strategic Planning Committee's recommendation to approve the 2017-2019 Strategic Plan [View](#)

Motion was made by Trustee Dhillon and seconded by Trustee DeMartini to accept the Strategic Planning Committee's recommendation to approve the 2017-2019 Strategic Plan as presented

Motion carried unanimously

11. Closed Session

Motion was made by Trustee Grover and seconded by Trustee O'Neal to move in to closed session at 3:45 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)
- c. Discussion and Action regarding the Executive Director's Annual Review
Public Employment Government Code Section 54954.5

Motion was made by Trustee O'Neal and seconded by Trustee Grover to move in to open session at 4:13 p.m.

Motion carried unanimously

Trustee Gharat reported Item 11.c.was discussed in closed session.

While in open session motion was made by Trustee O'Neal and seconded by Trustee Grover to accept the recommendation of The Executive Director Evaluation Committee and grant a 5% increase in salary to the Executive Director. This increase is reflected as \$88.55 hourly and \$184,184.00 annually.

Motion carried unanimously

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

Trustee DeMartini asked if staff could attempt to get out agenda items on Thursdays prior to the next week's board meeting.

Trustee Sharpe notified the Board that he would not be at the December meeting.

Trustee Gharat thanked staff for its quick turnaround on the processing of a member death benefit and relayed a message from Trustee Riley asking to agendize a topic for the 13th regarding interest in media training by the County.

13. Adjournment

Meeting adjourned at 4:17 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rick Santos", written over a horizontal line.

Rick Santos, Executive Director

APPROVED AS TO FORM:
Fred Silva, GENERAL LEGAL COUNSEL

By: 
Fred Silva, General Legal Counsel



December 13, 2016

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 \$3,552,602 were received through 10 different payroll batches. In addition, 7 contribution refunds and 7 death benefit payouts totaling \$159,457 were processed. The retiree payroll for December of \$9,282,087 was processed as scheduled. Staff continued to make preparations for the software project and began work on the remainder of the year end reports

b) *Member & Employer Services* – During the month of November 2016, Member and Employer Services Staff processed 50 new hires (3 Safety and 47 General), 22 terminations, 12 estimates and 2 buy backs. There were 38 individual counseling sessions.

StanCERA held interviews to fill a vacant Member and Employer Services Technician position. We are happy to report that Kathy Burbank has joined our team. Kathy has held positions with both the Parks Department and Health Services Agency. Kathy comes to us with many years of retail management experience.

Staff continues 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 completed its due diligence trip last week for the potential liquidity managers. The group interviewed six firms, four on the east coast and two on the west coast in 3 days. These interviews lasted between 2 and 3 hours each and gave the group a good indication whether the firms had the talent pool necessary to fulfill the mandate.

On a related issue, staff also completed the intended benchmarking process for the new mandate. This methodology will be explained to the Board in a separate item today.

The final step in the implementation of the Retirement Investment Officer Classification has been completed and is now a part of the County's classification schema. Staff will begin the formal recruitment process for the position before the end of the year. The position isn't anticipated to be filled until at least late March.

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

StanCERA's Board Meeting Master Calendar **2017**

2017 Calendar

Board Meetings are held every 4th Tuesday at 1:30p.m.

***Exception December's Board Meeting will be moved to 3rd Tuesday,
December 19th Due to the Holidays**

January, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	February, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	March, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	April, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
May, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	June, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	July, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	August, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
September, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	October, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	November, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	December, 2017 S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Investment Manager Presentations

January	None
February	Legato / Jackson Square Partners
March	PIMCO / LSV Asset Management
April	Morgan Stanley
May	Capital Prospects/ Raven
June	Fidelity
July	Medley
August	Dodge & Cox
September	American Reality / American Reality
October	White Oak Global Advisors, LLC /
November	Greenfield
December	None

StanCERA Committee Assignments | 2017

Standing Committees

Internal Governance Committee

Areas of Responsibility: *Audits, Bylaws Revisions, Policy Revisions, Board Member Education*

Donna Riley, Chair
Joan Clendenin
Sam Sharpe
Staff as needed

Due Diligence Committee

Jeff Grover, Chair
Michael O'Neal
Mike Lynch
Staff as needed

Ad-Hoc Committees

2015 Executive Director's Review Committee

Areas of Responsibility: *Assessment of the performance and compensation recommendation for the positions of Executive Director and Investment Officer*

Chair	Darin Gharat
Vice Chair	Michael Lynch
Past Chair	Donna Riley
Staff as needed	

2016 STANCERA CONTINUING EDUCATION RECORD

Board Member	Ethics Training Completed	3-Year Rolling Total Education Credits	2014 Total Education Credits	2015 Total Education Credits	2016 Total Education Credits	OPAL Public Funds Summit (Jan) 17.00	CALAPRS General Assembly (March) 8.	Ethics AB1234 Training 2	SACRS Spring Conference (May) 16	CALAPRS Trustee RT (June) 8	OPAL Investment Trends Summit (July) 17.00	CALAPRS Public Pension Investment Mngt Prgm (July) 26.50	CALAPRS Adv. Princ. Of Pension Mgmt (Aug) 26.50	CRCEA Fall Conference (October) 5	SACRS Fall Conference (November) 16
Gordon B. Ford	03/09/16	51.00	4.00	24.00	23.00			2.00						5.00	16.00
Jegan Raja - Alt					43.50	17.00						26.50			
Mandip Dhillon		Joined Board February 6, 2016			42.50		8.00			8.00		26.50			
Donna Riley	03/09/16	51.00	31.00	2.00	18.00			2.00							16.00
Darin Gharat		Joined Board July 1, 2016			16.00										16.00
Mike Lynch	05/14/13	14.00	14.00	0.00	0.00										
Jim DeMartini	03/09/16	37.00	33.00	2.00	2.00			2.00							
Sam Sharpe	08/12/16	44.50	0.00	16.00	28.50			2.00					26.50		
Michael O'Neal	05/10/16	169.00	64.00	49.00	56.00			2.00	16.00		17.00			5.00	16.00
Joan Clendenin	05/10/16	92.00	28.50	28.50	35.00	17.00		2.00	16.00						
Jeff Grover	01/08/15	78.00	30.00	30.00	18.00			2.00							16.00

* New Trustee 24 Hours required by completion of 2 years of service

StanCERA Bylaws:

Article 14.3 Educational Requirement

- A.) A Retirement Board member must attend at least two State Association of County Retirement System (SACRS) meetings during the members 3 year term;
- B.) The member must have 36 hours of continuing education during his/her term. SACRS conferences may be included in those hours;
- C.) The Internal Governance Committee will be responsible for monitoring the Retirement Board members educational hours earned and determining the allowable credit hours for all conferences or seminars attended.

Note:

- 1.) SACRS Maximum Credit - 16 (Per February 11, 1998 Board of Retirement Minutes).
- 2.) Ethics - AB 1234 requires that all members of a legislative body who receive compensation, salary, or stipend to, or reimburse the expenses of, must attend AB 1234 training every two years.
The term "legislative body includes commissions, committee, board, or other body of a local agency, whether permanent or temporary, decision making or advisory.
- 3.) Board of Retirement Continuing Education Record will be posted on StanCERA's Web site due to AB1519, Government Code Section 31522.8.
- 4.) Board terms listed on StanCERA's Web site.
- 5.) StanCERA's Web site: www.stancera.org

12/13/16
Item # 5.e



Approved Trustee Education Opportunities for 2017

January

Opal Public Funds Summit	09-11	Scottsdale, AZ
NCPERS Legislative Conference	29-31	Washington, DC

February

CALAPRS Trustees Roundtable	03	San Jose, CA
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March

CALAPRS General Assembly	4-7	Monterey, CA
CALAPRS Adv. Princ. of Pension Mgmt	29-31	UCLA Los Angeles, CA

April

CRCEA Spring Conference	24-26	Ventura, CA
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May

SACRS Spring Conference	16-19	Napa, CA
NCPERS Trustee Education Seminar	20-21	Hollywood, FL
NCPERS Accredited Fiduciary Program	20-21	Hollywood, FL
NCPERS Annual Conference	21-24	Hollywood, FL

June

CALAPRS Trustees Round Table	02	Burbank, CA
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July

SACRS Public Pension Investment Mgmt	24-26	UC Berkeley, CA
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August

CALAPRS Adv. Princ. of Pension Mgmt	28-31	Pepperdine University
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September

NCPERS Public Pension Funding Forum	10-12	Stanford Palo Alto, CA
OPAL Investment Trends Summit	10-12	Santa Barbara, CA

October

CRCEA Fall Conference	23-25	Alameda, CA
CALAPRS Trustees Round Table	27	San Jose, CA

November

SACRS – Fall Conference	14-17	Burlingame, CA
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December 13, 2016

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: The Functionally Focused Portfolio Process
- II. ITEM NUMBER: 7.a
- III. ITEM TYPE: Information Only
- IV. STAFF RECOMMENDATION: None
- V. ANALYSIS: Over the past few months, staff has been diving into the functionally focused portfolio process. This process attempts to insure 6 years of StanCERA benefit shortfalls. Benefit shortfalls can be defined as benefit payments plus expenses less contributions. Over the past couple weeks, staff went through the due diligence process looking for managers that can manage the investment part of the process. During this period, the process necessarily began to emerge naturally and staff now has a firm grasp on how it should be implemented and judged from a value perspective. Attachment 1 is a presentation detailing this vision for the process.
- 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

The Functionally Focused Portfolio Process

December 13, 2016

The Problem

- A shortfall exists in our current state
 - $\text{Benefits} + \text{Expenses} > \text{Contributions}$
- Need designated source of funds to close the gap
 - $\text{Benefits} + \text{Expenses} = \text{Contributions} + \text{Shortfall Payment}$
- $\text{Shortfall Payment} = \text{Benefit Payments} + \text{Expenses} - \text{Contributions}$

Projecting Shortfall Payments

<u>Monthly Cash Flow Type</u>	<u>Projection Reliability</u>
Benefit Payments	Excellent
Expenses	Fair
Contributions	Good

- Benefit payments are extremely predictable
- Expenses can be difficult to project over 6 years
- Contributions are a function of future payroll and future actuarial rates
- Process will always be reassessed each year

The Solution

● Knowing when and how much our shortfall payments are allow us to:

- Invest in a sub portfolio of high grade securities (bonds) that pay us the projected shortfall at just the right time
- Invest the rest of the portfolio in assets that can provide long-term risk premiums and an overall optimally diversified portfolio

The Solution - Advantages

- Not having to sell risky assets in a down market to make benefit payments
- Secure short-term benefit payments
- Minimize un-invested cash
- Forces staff to manage the monthly cash flow process efficiently
 - Must monitor and manage monthly expenses and revenue (contributions) to a high degree

Difficulties

- Shortfall payments can be difficult to project
- Staff estimates a need to keep roughly \$250,000 on hand at all times to cover projection errors

The Process

- Hire 2 managers to manage the \$330 million mandate
- Manager 1 receives the 6-year projected shortfall matrix each year

<u>Month</u>	<u>Shortfall</u>
1	\$1,500,000
2	1,625,000
:	:
72	2,300,000

- Manager 1 creates the portfolio that will throw off the shortfalls each month at the right time

The Process

- Manager 2 will manage the rest of the portfolio in such a way that bears some relationship to the benefit payments beyond year 6
- At the end of each year, staff will provide Manager 1 with the new 6th year shortfall +/- any projection error

Measuring Value in the Process

● Benchmark #1

- Will be the portfolio of fixed income investments that best matches StanCERA liabilities within the risk tolerances set by the Board
- Managers may stray from this benchmark if he/she believes they can add value to the process while maintaining the requirement to provide StanCERA the necessary shortfall payments

Measuring Value in the Process

● Benchmark #2

- Value will be measured using a balance sheet approach
- Asset and shortfall cash flows will both be valued using the U.S. Treasury Spot Curve and compared at the end of each year to determine whether any surplus or unfunded liability was created in the process
- U.S. Treasury Spot Curve is the most riskless interest rate curve, ideal for valuing certain, periodic cash flows

Measuring Value in the Process

Balance Sheet Reconciliation		
	<u>Assets</u>	<u>Shortfall</u>
Market Value at Time 0	\$77,860,083	\$77,860,083
Shortfall Payments to StanCERA	-\$11,410,395	-\$11,410,395
Return from Rolling Down the Curve	\$754,373	\$704,094
Return from Changes in Interest Rates	-\$1,683,081	-\$1,566,951
Return from Pure Yield	\$1,979,020	\$725,783
Less Fees	-\$87,216	\$0
Market Value at Time 1	\$67,500,000	\$66,312,614
Change in Surplus:		\$1,187,386
Total Return %	1.43%	0.50%

- Manager was able to add \$1.2 million relative to the riskless investment
- Assets grew greater than the shortfalls

Replenishing the Shortfalls

Rebalance of 6 - Year Cash Flow Bucket	
Market Value Shortfall Just Prior to Time 1	\$66,312,614
Increase Due to Projection Error	-\$19,189
Increase Due to New 6th Year Shortfall	<u>\$15,670,275</u>
Market Value Shortfall at Time 1	\$81,963,701
Market Value Assets Just Prior to Time 1	\$67,500,000
Plus New Cash Flow into Portfolio	\$15,651,087
Less Surplus	<u>-\$1,187,386</u>
Market Value Assets at Time 1	\$81,963,701

- StanCERA will give Manager 1 new required cash flows each year plus/minus any losses/surpluses
- Always start new year with zero surplus



December 13, 2016

Retirement Board Agenda Item

TO: Retirement Board

FROM: Dawn Lea, Member and Employer Services Manager

- I. SUBJECT: Legal Update
- II. ITEM NUMBER: 9.a.
- III. ITEM TYPE: Information Only
- IV. STAFF RECOMMENDATION: None
- V. ANALYSIS: In January 2013, Marin County Employees' Retirement Association (MCERA) began excluding standby pay, administrative response pay, call back pay, cash payments for waiving health insurance and other pay items for the calculation of the members' final compensation due to their interpretation of the California Public Employees' Pension Reform Act of 2013 (PEPRA). These changes were applied to existing (legacy) members.

The Marin Association of Public Employees' (MAPE), a group of current county employees and three other Marin unions filed suit against MCERA on January 18, 2013, contending that MCERA must continue to include the various elements of compensation it had historically included when calculating pension benefits and that changing them would unconstitutionally impair the vested rights of the employees.

The trial court concluded the application of the new formula to current employees did not amount to an unconstitutional impairment of the employees' contract.

On August 17, 2016, the appellate court upheld the earlier decision. The court found that *while a public employee does have a "vested right" to a pension, that right is only to a "reasonable" pension – not an immutable entitlement to the most optimal formula of calculating the pension. And the Legislature may, prior to the employee's retirement, alter the formula, thereby reducing the anticipated pension. So long as the Legislature's modifications do not deprive the employee of a "reasonable" pension, there is no constitutional violation.*

On November 22, 2016, the California Supreme Court agreed to review the labor unions' appeal. However, the court will not review further arguments in the case until a court of appeal resolves another pending pension dispute brought by employees of Contra Costa, Alameda and Merced counties that raises similar issues. The case currently pending with the court of appeals will be heard by a different panel of judges. That panel has not yet scheduled a hearing, so it could be months before the Marin case will be heard before the Supreme Court.

- 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

A handwritten signature in black ink, appearing to read "Dawn Lea".

Dawn Lea, Member and Employer Services Manager

A handwritten signature in black ink, appearing to read "Rick Santos".

Rick Santos, Executive Director



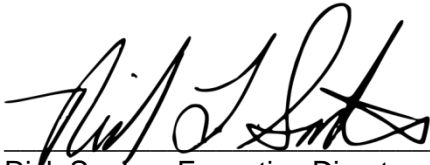
December 13, 2016

Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: Media Training
- II. ITEM NUMBER: 9.c.
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: Direct staff whether to proceed with a presentation by David Jones regarding media training.
- V. ANALYSIS: Last month, a request was made by Trustee Riley to evaluate the Board's interest in receiving media training. Should the Board desire training in this area, staff will contact David Jones of the Stanislaus County Chief Executive Office to request that he prepare a media training presentation similar to that which was given to the Board of Supervisors.
- VI. RISK: None
- VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA 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