SONOMA COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

BOARD MINUTES

Thursday, December 19, 2013
8:31 a.m.

Presiding: Chair Kiergan Pegg presided.

Present: Trustees Bill Adams, Al Alys, Dianne Edwards, Greg Jahn, John Pels, David Sundstrom and Brian Williams (left at 9:57 a.m.).

Also Present: Retirement Administrators Gary Bei and Julie Wyne, Assistant Retirement Administrator Kelly Jenkins, Senior Investment Officer James Failor, Accounting Manager Cathy Austin, Legal Counsel Neil Baker, Deputy County Counsel IV Jeff Berk, Benefits Coordinator Elizabeth Anderson, Investment Analyst Steve Marsh, Information Systems Manager Diane Ginn, Sr. Retirement Benefits Specialist Jackie Purter, Assistant County Administrator Chris Thomas, Michael Wright of The Results Group, SCARE Representative Carl Jackson, Michael Gossman and Administrative Aide Phyllis Reason.

Absent: Donna Beels and David Rabbitt.

I. CONSENT CALENDAR

A. Membership
(As of November 30, 2013)
Active = 3,799   Deferred/Transfer = 515   Retirees = 4,376
New Members = 51   Withdrawals (7) = $141,378
Funds on Deposit/Deferred Members with less than 5 Years (399) = $5,933,316

B. Service Retirements

<table>
<thead>
<tr>
<th>Name</th>
<th>Effective Date</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helen Bauer-McMahon</td>
<td>11/14/13</td>
<td>Deferred</td>
</tr>
<tr>
<td>David Caldwell</td>
<td>11/15/13</td>
<td>Deferred</td>
</tr>
<tr>
<td>Elden McFarland</td>
<td>11/26/13</td>
<td>Human Services</td>
</tr>
<tr>
<td>Steven O’Rourke</td>
<td>11/26/13</td>
<td>Health Services</td>
</tr>
<tr>
<td>Mary McNamara</td>
<td>11/30/13</td>
<td>Deferred</td>
</tr>
<tr>
<td>Melinda Silva</td>
<td>12/01/13</td>
<td>Deferred</td>
</tr>
<tr>
<td>Robin Rothrock</td>
<td>12/03/13</td>
<td>ACTTC</td>
</tr>
<tr>
<td>Gregory Quacchia</td>
<td>12/10/13</td>
<td>Sheriff</td>
</tr>
<tr>
<td>Mark Ruddick</td>
<td>12/10/13</td>
<td>Health Services</td>
</tr>
<tr>
<td>Sheri Sullivan</td>
<td>12/10/13</td>
<td>Child Support Services</td>
</tr>
</tbody>
</table>
Kerry Zontek 12/10/13 Child Support Services
Meredith Marino 12/15/13 Deferred

Total = 12

C. Deferred/Transfer

<table>
<thead>
<tr>
<th>Name</th>
<th>Effective Date</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don Folsom</td>
<td>10/10/13</td>
<td>PRMD</td>
</tr>
<tr>
<td>Eric Hergenreder</td>
<td>10/04/13</td>
<td>DA</td>
</tr>
<tr>
<td>Katie Krshul</td>
<td>09/15/13</td>
<td>Human Services</td>
</tr>
<tr>
<td>Nancy Loomis</td>
<td>10/01/13</td>
<td>PRMD</td>
</tr>
<tr>
<td>Kevin Ruybal</td>
<td>10/12/13</td>
<td>PRMD</td>
</tr>
<tr>
<td>James Stewart</td>
<td>10/16/13</td>
<td>Courts</td>
</tr>
<tr>
<td>Danielle Niemi</td>
<td>09/15/13</td>
<td>Human Services</td>
</tr>
</tbody>
</table>

Total = 7

D. Active/Deferred/Transfer Death

None

E. Thirty Years Service

None

F. Purchase of Service
(Period from 11/01/13 - 11/30/13)

<table>
<thead>
<tr>
<th>Totals</th>
<th>Service Prior</th>
<th>LWOP</th>
<th>Public Service</th>
<th>Redeposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years (safety)</td>
<td>1.62</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Years (general)</td>
<td>7.92</td>
<td>.33</td>
<td>.40</td>
<td>-0-</td>
</tr>
<tr>
<td>Cost</td>
<td>$44,825</td>
<td>$3,667</td>
<td>$2,204</td>
<td>-0-</td>
</tr>
</tbody>
</table>

G. Services
(Paid from 10/01/13 – 10/31/13)

County Counsel
Legal Fees – August to September 2013 $ 395
Investment Legal Fees – August to September 2013 $ 13,447

The Segal Company
Actuarial Study Fees $ 2,750

Alliance Resource Consulting
Consulting Fees and Recruitment Expenses $ 4,653

Neil Baker
Legal Fees – January to February 2013 $ 46,688

Motion to approve the Consent Calendar.

Ayes 7  Noes 0  Abstain 0  Absent 2

II. MINUTES APPROVAL

Approval of November 21, 2013 Retirement Board Meeting Minutes.

Motion to approve the November 21, 2013 meeting minutes as written.

Ayes 7  Noes 0  Abstain 0  Absent 2

III. PRESENTATION

Recognition of Trustees Completing Service on the Retirement Board. The Board recognized Al Alys and Kiergan Pegg for their dedicated service to SCERA and its members and beneficiaries.

IV. REGULAR CALENDAR

A. Administrative-Benefits Committee Report

The next meeting of the Administrative Benefits Committee is on January 9, 2014. No report will be given.

B. Audit Committee Report

Committee Chair David Sundstrom will report on the December 4, 2013 Audit Committee Meeting.

Committee Chair Sundstrom reported Brown Armstrong briefed the Committee on the upcoming audit and statements. The payroll testing completed by LRS was successful and staff and LRS will begin the migration of the check generation process in January.

C. Disability Committee Report

There were no open session topics from the December 11, 2013 Disability Committee Meeting. As such, no report will be given.

D. Financial Statements and Summary
Investment Performance Summary for November 2013

Senior Investment Officer Jim Failor commented on November 2013 performance. He began by discussing Federal Reserve Chairman Ben Bernanke’s announcement the prior day that the “Fed” would begin tapering in January by reducing their bond purchase program from $85 to $75 billion per month. The Chairman emphasized there is no preset glide path for further reductions but they will occur as the economy continues to improve. The Federal Funds Rate, which is highly influential over short-term lending rates, is expected to remain near zero for some time and well beyond the end of the bond purchasing program. The increasing influence of the Fed over recent years was also discussed. In reviewing November performance it was noted that the market’s anticipation of Fed policy, along with modestly improving economic data, drove the market higher for the month. The President nominated Janet Yellen as the next Fed Chair to take the helm in February, third quarter GDP growth was announced at 2.8%, retail sales rose and manufacturing activity was above expectations. On the other hand, unemployment did tick-up to 7.3% in November. The net effect of all this was a strong 2.9% return on the Russell 3000 Index for the month. Mr. Failor went on to discuss the performance of various market segments within and outside the US. In November Europe was up 2%, Japan was down 3% and Emerging Markets were down 1.5%. With investor confidence up non-Treasury sectors outperformed government debt and the yield curve rose in the intermediate to long-end resulting in a steepened curve.

In this environment, the Plan’s portfolio delivered a healthy 1.5% return for November which was 43 basis points (bps) over the Fund’s target policy return. The Plan is now up 18.8% year-to-date (YTD) and 251 bps over the target policy. Over 1, 3, 5, 10 and 20 years the Plan is now up 20.5%, 12.9%, 14.0%, 7.5%, and 8.0%, respectively. Mention was made of the large increase in the 5-year return over the last couple of months as large down months from 2008 roll-off of the 5 year return. Over the last three months the 5-year return increased from 8.3% to 12.3% and then 14.0% in November. Mr. Failor went on to discuss returns by manager and by asset class on an absolute and a benchmark-relative basis. In general the Plan’s active managers, and especially the equity managers, have performed quite well versus their benchmarks over recent periods. The only strategy to significantly underperform in November was the Guggenheim Bank Loan Fund which is a new fund and is not yet fully invested. Notable outperformers included Reams, Dodge & Cox, Systematic, Arrowstreet and Templeton. Reasons for relative performance were discussed. In discussing the Plan’s asset allocation as of November 30th the impact of Clifton’s cash overlay program was discussed and comment was made that the resulting asset allocation was quite close to its policy targets. It was also noted that the Plan will receive $8 million from the UBS Trumbull Property Fund redemption on January 2nd and will invest an additional $19 million in the UBS AgriVest Farmland Fund on the same day. This is the remainder of the Plan’s commitment to the Farmland Fund and will bring the total exposure to farmland near its 5% policy weight.

E. Ad Hoc Committee on Strategic Planning
A report on the December 16 Ad Hoc Committee Meeting will be given.

Retirement Administrator Gary Bei reported Bill Adams was elected the Committee Chair. Committee Chair Adams reported the Committee decided to extend the timeline in developing the SCERA Strategic Plan for approximately 10 months and would report to the Board every other month starting in February 2014. In addition to the Trustees the Committee will also include the input from the SCERA staff. Currently, the Committee is gathering information for the next meeting, to be held Thursday, January 23, 2014.

F. Administrator’s Report

1. Strategic Planning Next Steps Discussion. Michael Wright of The Results Group will participate in the discussion.

Michael Wright of The Results Group provided the Board with an overview of the Strategic Planning process. Mr. Wright explained the 4 Phases of the process and defined the planning process and roles. He also explained the first phase (Phase 1 – Readiness) has been completed and the next step in the process will be to conduct internal and external scan. This process will span the next couple of months. As the Strategic Plan develops it will link with the Business Plan. Mr. Wright also explained the Strategic Plan is a short document, approximately 8-10 pages, which focuses on goals and strategies. The Business Plan is where the specific details are outlined. The Trustees discussed the importance of communicating the culture of the Board for incoming Trustees and SCERA staff, as well as establishing deliverables into the process to keep things on track. Retirement Administrator Julie Wyne added the process is also very helpful as she learns the role of the Retirement Administrator and is pleased the staff will be involved in the process. Mr. Wright explained that after the process is completed the Strategic Plan will be brought full circle back to the 2014 Planning Session and stressed the importance of engaging the full Board. Trustee Sundstrom remarked this was perfect timing with the many changes to the Board and staff.

2. Retirement Board Election/Appointment – Second Trustee Representing Active General Members Election Results (Michael Gossman received a majority of votes based on the Official Vote Count from the Registrar of Voters). Appointment of the Fifth Trustee is expected at the January 7, 2014 Board of Supervisors meeting. Swearing-in of new Trustees is planned for the January 8, 2014 Investment Committee meeting, the first meeting of the Retirement Board in 2014.

Mr. Bei reported Michael Gossman received the majority vote in the General election. Mr. Gossman is scheduled to attend an all day orientation with SCERA staff on December 18. Assistant County Administrator Chris Thomas explained to the Board that the Board of Supervisors is still in process in selecting the appointment to replace Al Alys but the Board of Supervisors is trying to keep the January 7, 2014 Board of Supervisors schedule.
3. Retirement Board Resolution #120 Honoring Kiergan Pegg’s Service on the Retirement Board.

Motion to approve Retirement Board Resolution #120 Honoring Kiergan Pegg for his service on the Retirement Board.

Ayes 7  Noes 0  Abstain 0  Absent 2

4. January Committee Meeting Schedule for Administrative-Benefits and Disability.

Mr. Bei reported the next Administrative-Benefits Committee, scheduled for January 9, 2014, should have a quorum. Committee Chair Brian Williams will be at training but the meeting will continue. The Segal Company will be presenting at the January meeting and GASB training will follow.

The January Disability Committee meeting was cancelled but there is a potential issue that may require the Committee to meet. Mr. Bei asked the Committee members to continue to hold the date on their calendars and will update the Committee as soon as SCERA staff confirms the status of the meeting.

5. Board Transitions and Committee Coverage in Early 2014.

Mr. Bei reported the only potential issue is the January 9, 2014 Administrative-Benefits Committee. If the Board decides, it can add a temporary member to make a quorum. The Board decided to leave the Committee as is because at this time there is not a quorum issue.

6. SCERA Tax Determination Letter and Voluntary Compliance Program Filing with the IRS – Update.

Mr. Bei reported Hanson Bridgett is expecting the SCERA Tax Determination Letter any day. SCERA may wish to consider a later cycle filing for an updated Tax Determination Letter after the PEPRA and CERL legislative clarifications have been enacted. The Board concurred.

7. Retirement Administrator Involvement on SACRS Legislative Committee.

Retirement Administrator Julie Wyne requested the Board consider her request to remain on the SACRS Legislative Committee as she is a voting member. The Committee meets once a month with no meetings in November or December. There will be occasional conference calls. Ms. Wyne reported she was able to fulfill her duties at OCERS while working on the SACRS Legislative Committee. The Board unanimously supports Ms. Wyne’s request.
to continue her role on the SACRS Legislative Committee and feels it will benefit SCERA.

8. Form 700 Disclosure Requirements.

Assistant Retirement Administrator Kelly Jenkins reported to the Board the filing deadline for the Form 700 is March 1, 2014. Leaving members and new members have 30 days to report their status. The forms are filed at the SCERA offices and not the Board of Supervisors/County Administrator’s office. Copies of the current Form 700 are available for the Trustees to review if they find it helpful.

9. SCERA Staff Update.

Mr. Bei reported Sr. Office Assistant Rosalind Girard has accepted a transfer to PRMD. Ms. Girard has been with SCERA for 4.5 years starting as the receptionist but now does much more to support the office. Mr. Bei reported HR is expecting to have a recruitment list on December 20 and also expect to start interviewing shortly after receiving the list.

10. Trustee/Staff Training & Conferences

a. Public Funds Summit to be held January 7 to 9, 2014 at the Phoenician Hotel, Scottsdale, AZ. The Board approved attendance by two Trustees at the October meeting. Trustees Adams and Williams plan to attend. The estimated cost of attending the conference is estimated at $1000 per attendee.

b. CALAPRS Advanced Principles of Pension Management to be held January 22 to 24, 2014 at the UCLA Anderson School of Business in Los Angeles, CA. Applications are due December 18, 2013. Please notify Phyllis Reason if you plan to attend.

c. CALAPRS General Assembly 2014 to be held March 1 to 4, 2014 at Westin Mission Hills Resort and Spa, Rancho Mirage, CA. Please notify Phyllis Reason if you plan to attend.

d. SACRS Spring Conference 2014 to be held May 13 to 16, 2014 at the Sheraton Grand Sacramento, Sacramento, CA. Please notify Phyllis Reason if you plan to attend.

Break from 9:46 to 9:58 a.m.

G. Executive Session (9:58 to 10:02 a.m.)

1. LITIGATION:
Subrogation Action related to Kirby Reed per Government Code Section 54956.(9).

2. DISABILITY COMMITTEE:

Steve Parker, filed 06/12/13 for a service connected disability.

Recommendation is to deny a service connected disability.

Motion to deny a service connected disability.

APPROVED as per the following:

Ayes 7  Noes 0  Abstain 0  Absent 2

H. Report on Executive Session

County Counsel IV Jeff Berk reported the Board voted unanimously to approve settling the Reed subrogation matter for $12,000 and voted unanimously to deny the Parker application for service-connected disability retirement.

I. Communications

Resolution of the Board of Supervisors honoring Al Alys for his dedication and insightful guidance for over 35 years as an appointed Retirement Board Trustee.

J. General Discussion Matters

Opportunity to advise the Board of new matters and for the Board members to ask questions for clarification, provide information to staff, request staff to report back on a matter or to direct staff to place a matter on a subsequent agenda.

Mr. Bei expressed that the culture of the Board is the people who want to do the right thing for the members. That is Kiergan Pegg and Al Alys, who have added value and demonstrate truth, honesty and integrity. Al Alys and Kiergan Pegg are good examples of this culture.

V. PUBLIC COMMENT

Opportunity for public comment on non-agenda items within the jurisdiction of the Retirement Board.

VI. NEXT MEETINGS

ADMINISTRATIVE/BENEFITS
COMMITTEE: Thursday, January 9, 2014 at 8:30 A.M. in the SCERA Board Room located at 433 Aviation Boulevard, Suite 100 in Santa Rosa, CA.

AUDIT COMMITTEE: Wednesday, May 21, 2014 at 1:00 P.M. in the SCERA Board Room located at 433 Aviation Boulevard, Suite 100, Santa Rosa, CA. The presentations scheduled for this meeting include a review of SCERA Financial Audit results for the year ended December 31, 2013.

DISABILITY COMMITTEE: Wednesday, January 8, 2013 at approximately 11:00 A.M. (immediately following the Investment Committee Meeting) in the SCERA Board Room located at 433 Aviation Boulevard, Suite 100 in Santa Rosa, CA.

INVESTMENT COMMITTEE: Wednesday, January 8, 2013 at 8:30 A.M. in the SCERA Board Room located at 433 Aviation Boulevard, Suite 100, Santa Rosa, CA. The presentations scheduled for this meeting include Templeton.

RETIREMENT BOARD: Thursday, January 16, 2013 at 8:30 A.M. Regular monthly Retirement Board meeting in the SCERA Board Room located at 433 Aviation Boulevard, Suite 100, in Santa Rosa, CA.

VII. ADJOURNMENT

The meeting was adjourned at 10:10 a.m. to the Retirement Board meeting on Thursday, January 16, 2014 at 8:30 a.m. in the SCERA Board Room located at 433 Aviation Boulevard, Suite 100, Santa Rosa, CA.

Respectfully Submitted,

JULIE WYNE
SECRETARY/RETIREMENT ADMINISTRATOR

By Phyllis Reason