



MINUTES

RETIREMENT BOARD MEETING MINUTES

SECOND MONTHLY MEETING

August 22, 2018
9:00 a.m.

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

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

Absent: Jerry Telles

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

Outside Professional Support:

Susan Hastings
Ed Hoffman
Paul Angelo
John Monroe
Harvey Leiderman

Representing:

Laughlin, Falbo, Levy & Moresi
Verus Investments
Segal Consulting
Segal Consulting
Reed Smith LLP

1. Pledge of Allegiance

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

2. Accept comments from the public

No member of the public offered comment.

3. Approval of Minutes

It was M/S/C to approve the minutes from the July 25 and August 8, 2018 meetings. (Yes: Andersen, Holcombe, Kroll, Kwon, MacDonald, Phillips, Rodrigues, Smithey and Watts)

Gordon was present for subsequent discussion and voting.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957 and 54956.9(d)(1).

The Board moved into open session.

4. It was M/S/C to continue the item to September 26, 2018. (Yes: Andersen, Gordon, Holcombe, Kroll, MacDonald, Phillips, Rodrigues, Smithey and Watts)

Pigeon was present for subsequent discussion and voting.

5. MacDonald recused himself from Item 5a. and was not present for any discussion related to the item.
 - a. There was no reportable action related to Contra Costa County Deputy Sheriffs Association, et al., v. Board of Retirement of CCCERA, et al., Supreme Court of the State of California, Case No. S247095;
 - b. There was no reportable action related to Wilmot v. CCCERA, et al., Court of Appeal, Case No. A15200;
 - c. There was no reportable action related to Nowicki v. CCCERA, et al., Contra Costa County Superior Court, Case No. C17-01266;
 - d. There was no reportable action related to Batis v. CCCERA, et al., Contra Costa County Superior Court, Case No. N18-0553.

Pigeon was no longer present for subsequent discussion and voting.

6. **Consider and take possible action regarding non-service connected disability retirement allowance of deceased member James Ozment**

Hoppe reported James Ozment was an active Tier 3 member who passed away with a Member Election Form for Non-Service Connected Disability Retirement in the Event of Death During Active Membership on file. Based on that election, CCCERA filed a non-service connected disability on his behalf. The Board's Medical Advisor analyzed Mr. Ozment's medical records and concluded Ozment met the Tier 3 eligibility requirements for a non-service connected disability. Hoppe recommended a non-service connected disability retirement be granted and the member's beneficiary be granted Optional Settlement 2 allowance benefits pursuant to Government Code Section 31762.

It was M/S/C to 1) Find that the member was permanently unable to engage in any substantial gainful employment and grant a non-service connected disability retirement, effective February 16, 2018; and 2) Grant the member's beneficiary (member's spouse) benefits pursuant to Government Code Section 31762 (Optional Settlement 2 allowance for the life of the named beneficiary). (Yes: Andersen, Gordon, Holcombe, Kroll, MacDonald, Phillips, Rodrigues, Smithey and Watts)

7. **Review of total portfolio performance for the period ending June 30, 2018**

- a. Presentation from Verus

Hoffman reviewed the second quarter summary highlighting the changes that have taken place since March 31, 2018. He also reviewed what drove the market including the impact of tariffs on global trade.

Pigeon was present for subsequent discussion and voting.

He reviewed the labor market, consumer spending and personal savings, GDP growth expectations, and emerging markets growth. He also reviewed domestic and international equities, emerging market equities, currency, and index returns.

He reviewed CCCERA's investment fund performance for the period ending June 30, 2018 noting the ending market value of the total fund portfolio is \$8,404,526,351. He reviewed the total fund executive summary net of fees and the total fund performance summary gross of fees. He also reviewed investment fund fees and noted fees have been trending down.

b. Presentation from staff

Price reviewed the functional aspects of the plan and noted that if the three functional sub-portfolios are working as expected then the total fund is working as expected. He stated the metrics we focus on are unique for each program.

He reported the Liquidity program is meeting its expectations. The Growth sub-portfolio, which is the largest and most complex, is also meeting its expectations. However, the Growth sub-portfolio performance versus the benchmark ACWI is below expectations over the trailing five year period. Private credit is still being built out and risk parity still needs to be funded. The Risk Diversifying portfolio is meeting most expectations, however trailing real returns are falling below target.

Price reported CCCERA's Total Fund in aggregate is performing in line with expectations, having a higher return and a lower level of volatility compared to the Simple Target Index. He reported the value investing style pursued by Pyrford has been deeply out of favor relative to the growth index and Allianz High Yield Fixed Income and Private Equity had a difficult past year.

8. Review of portfolio rebalancing report

Price reported \$292 million was received in employer pre-payments in late July and \$370 million was taken out of U.S. Equities and used for rebalancing purposes. He noted \$500 million of the proceeds were used to refresh the liquidity program for the new 4th year of benefit payments and the remainder was used to fund Parametric Defensive Equity. He stated the Growth allocation is under target because the risk parity managers have not yet been funded.

9. Presentation from staff and Invesco regarding a potential commitment to Invesco Real Estate

Price reported staff is recommending that the Board make a capital commitment of \$75 million to Invesco U.S. Value-Add Real Estate Fund V. He stated there is a 5% target allocation (approx. \$500 million) available to commit to the value-add real estate segment of our portfolio. Price reported that overall we have been satisfied with the Invesco Real Estate team and the results of Funds I-IV.

Invesco Real Estate – Max Swango, Jay Hurley, Greg Kraus

Swango introduced the team and provided a brief biography for himself, Hurley and Kraus. He gave an overview of the firm and performance noting they are one of the most active real estate investors. He also gave a brief history of their relationship with.

Kraus reviewed the strategies of the Fund and the investments held and allocated in the portfolio. He noted they are confident in being able to deploy the capital for the investments outlined in Fund V.

Hurley reviewed their investment philosophy, valuation creation, and risk mitigation used in designing a cyclically-durable approach for value-added investments. He also reviewed the terms and timeline for Fund V.

Swango reviewed the fees and noted CCCERA's investment staff successfully negotiated a lower fee break. He also reviewed the commitments in progress for the Fund noting the final close is in December 2018.

Hurley reported they have made 7 commitments to Fund V and they anticipate making a total of 20 individual investments at full deployment. He reviewed the sector allocation percentages for multi-family housing, office, industrial, and retail properties.

10. Consider and take possible action regarding a commitment to Invesco Real Estate

It was M/S/C to commit \$75 million to Invesco U.S. Value-Add Real Estate Fund V subject to satisfactory due diligence and legal review and authorize the CEO to execute the necessary contracts. (Yes: Andersen, Gordon, Holcombe, Kroll, MacDonald, Phillips, Pigeon, Smithey, and Watts)

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

12. Consider and take possible action to revise Attachment B of the Board of Retirement Resolution 2018-1 providing health plan monthly premium subsidies for unrepresented employees of CCCERA effective January 1, 2019

It was M/S/C to revise Attachment B of the Board of Retirement Resolution 2018-1 providing health plan monthly premium subsidies for unrepresented employees of CCCERA effective January 1, 2019. (Yes: Andersen, Gordon, Holcombe, Kroll, MacDonald, Phillips, Pigeon, Smithey and Watts)

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

11. Presentation from Segal regarding the December 31, 2017 Valuation Report - Paul Angelo and John Monroe

Angelo presented the 2017 actuarial valuation report and the rates effective 7/1/19. He reported the ratio of the valuation value of assets to the actuarial accrued liability increased from 86.5% to 88.5% while the ratio of the market value of assets to the actuarial accrued liability increased from 84.6% to 90.8%. The unfunded actuarial accrued liability (UAAL) decreased from \$1.2 billion to \$1.1 billion.

He reported the average employer contribution rate decreased from 38.08% of payroll to 36.07% of payroll and the average member contribution rate decreased from 12.08% of payroll to 12.03% of payroll.

Andersen was no longer present for subsequent discussion and voting.

It was the consensus of the Board to move to Item 13.

13. Consider authorizing the attendance of Board:

- a. It was M/S/C to authorize the attendance of all appropriate Board members at the SACRS Fall Conference, November 13-16, 2018, Indian Wells, CA. (Yes: Gordon, Holcombe, Kroll, Kwon, MacDonald, Phillips, Pigeon, Smithey and Watts)

14. Miscellaneous

(a) Staff Report –

Strohl reported the annual benefit statements will be mailed to members on Thursday, August 23, 2018; and, staff is meeting with the property manager to see if the construction will impact future Board meetings and if so she will schedule the meetings offsite.

Dunn gave an update on the Subledger Decommissioning Project.

(b) Outside Professionals' Report -

Leiderman recognized the Board and staff as being very fortunate for having someone of the caliber and capability of Karen Levy as General Counsel for the past 10 years. Levy thanked him/everyone and stated it has been an honor and a privilege working with everyone.

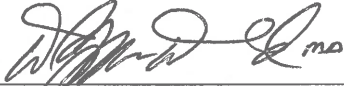
(c) Trustees' comments –

None

It was M/S/C to adjourn the meeting. (Yes: Gordon, Holcombe, Kroll, Kwon, MacDonald, Phillips, Pigeon, Smithey and Watts)



Todd Smithey, Chairman



David MacDonald, Secretary