



MINUTES

RETIREMENT BOARD MEETING MINUTES

SECOND MONTHLY MEETING

April 26, 2017

9:00 a.m.

Retirement Board Conference Room

The Willows Office Park

1355 Willow Way, Suite 221

Concord, California

Present: Debora Allen, Candace Andersen, Scott Gordon, Jerry Holcombe, Louie Kroll, David MacDonald, John Phillips, Gabe Rodrigues, Todd Smithey, Jerry Telles and Russell Watts

Absent: William Pigeon

Staff: Gail Strohl, Chief Executive Officer; Timothy Price, Chief Investment Officer; Karen Levy, General Counsel; Wrally Dutkiewicz, Compliance Officer; Christina Dunn, Administrative/HR Manager; Henry Gudino, Accounting Manager; and Tim Hoppe, Retirement Services Manager

Outside Professional Support:	Representing:
Ed Hoffman	Verus
Harvey Leiderman	Reed Smith LLP

1. **Pledge of Allegiance**

Holcombe led all in the *Pledge of Allegiance*.

2. **Accept comments from the public**

No member of the public offered comment.

Andersen was present for subsequent discussion and voting.

3. **Approve minutes from the March 8, 2017 meeting**

It was M/S/C to approve the minutes of the March 8, 2017 meeting with a correction to the last paragraph on page 3 deleting the first sentence and adding "The Board directed staff to:" at the beginning of the second sentence. (Yes: Andersen, Gordon, Holcombe, Kroll, Phillips, Rodrigues, Telles and Watts)

Allen was present for subsequent discussion and voting.

4. **Presentation of staff recommendation to retain StepStone Group for private markets advisory and investment management services**

Price reviewed the RFP process to search for a more cost effective and customized approach to implementing a private markets program compared to the current practice of using fund-of-funds. He stated a private markets advisor and manager would provide many of the services currently accessed by CCCERA via fund-of-funds at a lower cost to CCCERA and with a greater amount of control to both the Board and staff.

Smitley was present for subsequent discussion and voting.

Price reviewed private equity and private credit and who would be involved including general partners. Staff is proposing an advisory model for private equity which would provide oversight and research and will also recommend funds. The private credit side would establish a single investor partnership that would invest in a core of separately managed accounts, supplemented by funds and co-investments.

MacDonald was present for subsequent discussion and voting.

There was discussion on making joint decisions as opposed to having an advisor make the decisions and when the investment staff would be involved in the process and able to make changes. Price stated there are three goals; increased customization, lower fees, and transfer of market knowledge to CCCERA staff.

StepStone – Tom Keck, Jose Fernandez, Natalie Walker and Marcel Schindler

Keck introduced the group and reviewed their background noting this would be the team servicing CCCERA's account. He reviewed their philosophy stating it is built around people, processes and systems that could provide better risk adjusted returns in private markets for institutions like CCCERA. He stated they have a global team with 14 offices around the country, they are research focused and an active investor and they have \$28 billion in Assets under Management (AUM).

Fernandez reviewed their investment philosophy noting they want to provide a customized plan for CCCERA. He stated their focus on alignment of interest is the same for all strategies and they consider the managers environmental, social responsibility and corporate governance practices, as part of their due diligence. He also reviewed the investment team and investment committee noting they have a very strong back office team that includes legal and compliance.

Walker reported the team members are all sector experts. She reviewed their customized approach noting they have the ability work with clients in varying degrees. She stated they structure private equity and private debt differently noting they use a more active approach with private debt. She reviewed the customized private markets program they created for CCCERA stating their objective for private equity is a target net return greater than 15% and for private debt the target net return is greater than 10%.

Schindler reviewed how private debt would be managed and the different manager strategies. He reviewed private debt separately managed accounts noting the advantages are having a customized portfolio, increased flexibility, and lower fees. He also reviewed the implementation of private debt for CCCERA with allocation thresholds and noted the importance of market conditions at the beginning of the program.

Allen was no longer present for subsequent discussion and voting.

5. Consider and take possible action to retain StepStone for:

- a. Private equity advisory services to be implemented on a non-discretionary basis

Price recommended hiring StepStone on a non-discretionary basis and reviewed the implementation of the fees.

After a discussion on fees, it was M/S/C to retain StepStone to provide private equity oversight and implementation services on a non-discretionary basis at the annual fee of \$500,000 with a current target allocation to private equity of approximately \$900 million subject to legal review and successful due diligence and authorize the CEO to execute said contracts. (Yes: Anderson, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

- b. Private credit advisory and investment management services to be implemented on a discretionary basis

It was M/S/C retain StepStone to provide private credit oversight and implementation services on a discretionary basis in a "Fund of One" structure at the annual fee of \$1,500,000 plus 40 bps on any co-investments with a current target allocation to private credit of approximately \$1.2 billion subject to legal review and successful due diligence and authorize the CEO to execute said contracts. Yes: Anderson, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

6. **Educational presentation from Verus regarding potential investment strategies to be used in Diversifying sub-portfolio**

Hoffman introduced Glenn Cagan, a consultant who has been working with him and has been working on CCCERA's account for the past year.

Hoffman reported CCCERA's asset allocation prescribes a 9% allocation to risk diversifying strategies. He reviewed the desirable characteristics of the risk diversifying strategies including a low to negative correlation with the growth portfolio, a positive expected return in normal market environments, and a high degree of liquidity in periods of equity market stress. He also reviewed their return roles and diversification & volatility roles. He reviewed capital and risk allocations for the traditional and risk parity portfolios noting each asset class contributes to a different level of risk in the traditional approach and each asset class contributes the same level of risk in the risk parity approach.

Cagan reviewed the diversification of growth assets, liquidity, and expected returns for return enhancing, diversified core and risk diversifying strategies. He reviewed explicit leverage where you can borrow against the fund's balance sheet and implicit leverage which is generally obtained by investing in options, swaps, and futures. He also reviewed unique considerations in liquidity including methods for managing liquidity risk and unique considerations in shorting noting the challenges include higher costs and lower rebates.

Hoffman reviewed the decision making criteria to implement and oversee the risk diversifying allocation including governance considerations and operational due diligence. He also reviewed the advantages and disadvantages of a commingled fund-of-funds structure, a customized fund-of-one structure, and a specialty consultant.

Hoffman reported Verus and staff are seeking direction from the Board as to which strategies should or should not be included in modeling the asset allocation and present a final asset allocation at the May Board meeting for approval.

7. **Presentation from Chief Investment Officer on Liquidity sub-portfolio monthly report**

Price reported this is likely the last time the report will be a separate item on the agenda noting it will be moved to the consent calendar in May. He stated everything is operating as expected.

8. **Consider and take possible action to authorize Chief Executive Officer to extend the contract with Koff and Associates for a total compensation and classification study**

Strohl reported we are ready to complete the classification and compensation study and additional funding is required to complete the study.

It was M/S/C to authorize the Chief Executive Officer to extend the contract with Koff and Associates for a total compensation and classification study. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

9. **Appointment of ad hoc advisory committee to review the Chief Executive Officer compensation package**

Phillips reported it is time to review the CEO compensation package noting the contract is from 7/1/17-6/30/18. He would like to appoint an ad hoc advisory committee to evaluate the CEO's performance and review the compensation package.

It was M/S/C to appoint an ad hoc advisory committee consisting of Smithey as Chair, Gordon as Vice-Chair, and Phillips to review the Chief Executive Officer's compensation package. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

10. **Consider and take possible action to add meetings on June 14 and 28, 2017 and to cancel the meetings on June 7 and 21, 2017**

After a discussion, it was M/S/C to add a meeting on June 14, 2017 and cancel the June 7, 2017 meeting. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

11. **Conference Seminar Attendance**

- a. It was M/S/C to authorize the attendance of 1 Board member at the Trustees' Roundtable, CALAPRS, June 2, 2017, Burbank, CA. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)
- b. It was M/S/C to authorize the attendance of 1 Board member at the Certificate of Achievement in Public Plan Policy-Pension Part II, IFEBP, June 15, 2017, San Jose, CA. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)
- c. It was M/S/C to authorize the attendance of 4 Board members and 1 staff member at the Principals of Pension Management, CALAPRS, August 28-31, 2017, Malibu, CA. (Yes: Andersen, Gordon, Holcombe, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

12. **Miscellaneous**

(a) Staff Report –

Strohl reported at the March 8, 2017 meeting the Board gave direction to staff to come back with additional items on the lookback project and it will be coming back at a future Board meeting; she received a draft report from Milliman on CCCERA's Other Post Employment Benefits (OPEB) which will also be presented at a future Board meeting; and, hard copies of the 2017 CERL Lawbook are available and it is also on CCCERA's website.

(b) Outside Professionals' Report -

None

(c) Trustees' comments –

Smithey reported the Audit Committee met on April 12, 2017 and the external auditors Brown Armstrong gave a presentation on the scope of the 2016 audit; Icon Integration and Design, Inc. (ICON) gave a presentation on pension administration information management and reporting services and the committee voted 4/0 to approve recommending ICON to the full Board; Dutkiewicz gave a presentation on CCCERA's 2017 Compliance Activity Plan; and, Gudino gave an update on employer contribution payments and reporting. Strohl noted the ICON item will be on the next Board meeting agenda for approval.

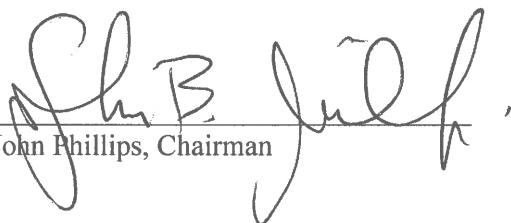
Andersen reported the Board of Supervisors received 9 eligible applicants to fill the upcoming CCCERA Board positions and the Internal Operations committee will be interviewing the applicants in May and the Board of Supervisors will be interviewing the recommended candidates in June.

Macdonald reported he attended the ARES EIF annual investor meeting and the DFA annual institutional symposium and felt they were both good conferences.

Phillips reported he, Strohl, Watts, Rodrigues and Youngman attended the Pension Bridge conference and he felt it was an interesting conference but very negative on the economy.

Telles reported he attended the CCCREA conference and felt it was a good conference.

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


John Phillips, Chairman


Scott Gordon, Secretary

