



MINUTES

RETIREMENT BOARD MEETING MINUTES

SECOND MONTHLY MEETING

June 27, 2018

9:00 a.m.

Retirement Board Conference Room

The Willows Office Park

1355 Willow Way, Suite 221

Concord, California

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

Absent: Candace Andersen

Staff: Gail Strohl, Chief Executive Officer; Christina Dunn, Deputy Chief Executive Officer; Timothy Price, Chief Investment Officer; Alison Greene, Deputy General Counsel; Wrally Dutkiewicz, Compliance Officer; Anne Sommers, Administrative/HR Manager; Henry Gudino, Accounting Manager; and Colin Bishop, Member Services Manager

Outside Professional Support:

Ed Hoffman

Ian Toner

Andrew J. Paulden

Brooke Baird

Representing:

Verus Investments

Verus Investments

Brown Armstrong

Brown Armstrong

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 May 23, 2018 meeting. (Yes: Holcombe, Kwon, MacDonald, Phillips, Pigeon, Smithey, Telles and Watts)

Gordon was present for subsequent discussion and voting.

It was the consensus of the Board to move to Item 5.

5. Presentation from Brown Armstrong on the audit of the December 31, 2017 financial statements

Gudino introduced Andy Paulden and Brooke Baird from Brown Armstrong. Paulden reported that he and Baird are the key team members of the audit team noting he is a returning member of the audit team. Paulden reviewed the purpose of the audit and the Comprehensive Annual Financial Report (CAFR).

Baird reviewed the audit process and the significant audit areas including the critical dates and timeline, review of internal controls, online research, review of Retirement Board minutes and the prior year's CAFR. She reviewed the scope of the audit work which included conducting a risk assessment and making adjustments as necessary. She stated they also send out confirmation letters to all investment managers and analyze every line item to make sure the funds are categorized correctly.

Baird reported on other areas reviewed including employer and member contributions, benefit payments, and GASB 82 requirements which provides clarification for employer payroll.

Paulden reviewed the required audit reports noting there were no internal control weaknesses and they have issued the highest opinion on the financial statements. He reported the Prior Year Agreed Upon Conditions and Recommendations have all been completed. Strohl noted quarterly updates on the recommendations are provided at the Audit Committee meetings.

The following current year agreed upon conditions and recommendations which are opportunities for strengthening internal controls and operating efficiencies were discussed: 1) Incorrect Contribution Data in Participant Accounts; 2) File Organization; 3) Incorrect I29 Employer Data; 4) Segregation of Administrative Access to CCCERA's Multiview System; 5) Process of Removing Terminated Employees' Access to Active Directory, CPAS, and Multiview Documentation; 6) Password Requirements for the Multiview System; and 7) Lack of Review of Audits Completed by Third Party IT Service Providers.

Paulden thanked everyone at the organization for all their help.

6. Education session from Verus on risk parity

Price introduced Ed Hoffman and Ian Toner from Verus.

Hoffman reviewed the format of the education session. He reported CCCERA's asset allocation includes a 5% allocation to risk parity, which is part of the Growth sub-portfolio.

Toner reported risk parity strategies give exposure to several asset classes and seeks balanced exposure for consistent performance across market environments by targeting expected levels of risk. He reviewed the difference between a traditional portfolio and a risk parity portfolio noting risk parity uses leverage to increase the exposure to fixed income. He defined leverage and futures noting futures are the most efficient and effective way to gain a desired amount of exposure.

He reviewed scenarios comparing risk parity to an asset allocation which includes 60% stocks and 40% bonds. He also reviewed expected outcomes of adding risk parity to the portfolio.

Hoffman reported on the next steps.

Price reported once the work is updated staff will come to the Board with recommendations.

7. Consider and take possible action to adopt Board of Retirement Resolution No. 2018-2, Investment Asset Allocation Targets and Ranges

Price reported this Resolution will allow staff to resize the Liquidity program, reallocate risk parity to Growth, and fund Parametric Defensive Equity.

It was M/S/C to adopt Board of Retirement Resolution No. 2018-2, Investment Asset Allocation Targets and Ranges. (Yes: Gordon, Holcombe, Kwon, MacDonald, Phillips, Pigeon, Smithey, Telles and Watts)

8. Presentation of Annual Investment Funding Plan

Price reported that based on actuarial projections, approximately \$504mm is needed to top up the liquidity program to fund the projected benefit payments for the period July 2021 to June 2022. He stated employer pre-payments are estimated at \$290mm and the remaining \$214mm will come from domestic equity. He noted we are still overweight in domestic equity. A report will be provided to the Board once rebalancing takes place at the end of July.

9. Update from Chief Investment Officer on AE Industrial Partners Fund II and Siris Partners IV

Price provided an update on two private equity funds which \$35mm was committed to each fund, noting these funds were researched and underwritten with the assistance of the StepStone Group.

10. Presentation of 2017 CCCERA budget vs. actual expenses report

Gudino presented the 2017 CCCERA budget vs. actual expenses report noting the additional information can be found in the CAFR. He stated the actual expenses are well under the limits defined in Section 31580.2 of the California Government Code.

CLOSED SESSION

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

The Board moved into open session.

4. There was no reportable action related to Govt. Code Section 54956.9(d)(1).

11. Miscellaneous

- (a) Staff Report –

Price gave an update on Paulsen's Real Estate team noting they have completed their spinout to another company. The same team will be managing the funds and their new name, Crosslake Capital, will be seen in the 3rd quarter report.

Strohl reported the CAFR and PAFR are getting submitted to the GFOA this week; contribution rates are changing effective July 1 and a notice has been placed on our website and in the summer newsletter; and our vocational expert, Robert Cottle, notified us that he is terminating his contract with CCCERA because he is restructuring his business.

- (b) Outside Professionals' Report -

None

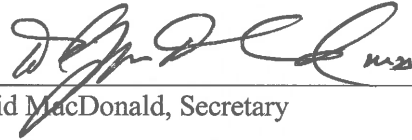
(c) Trustees' comments –

Smithey commented that the CAFR is an excellent looking document, the amount of work is tremendous, and he congratulated all of the staff that worked on it. Telles complimented the staff as well and stated a paper copy of the CAFR would be great to give to people if they ask for one.

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



Todd Smithey, Chairman



David MacDonald, Secretary