

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF RETIREMENT
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CALIFORNIA

REGULAR MEETING
Monday, March 20, 2017
9:00 a.m.

AGENDA

The Orange County Board of Retirement welcomes you to this meeting. This agenda contains a brief general description of each item to be considered. The Board of Retirement encourages your participation. The public, plan members, beneficiaries, and/or representatives may speak to any subject matter contained in the agenda at the time the item is addressed. Except as otherwise provided by law, no action shall be taken on any item not appearing in the following agenda. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Board prior to the Board's discussion on the item by filling out the Public Comment Form located in the back of the room. Members of the public may also comment during the Public Comment period at the end of Open Session. When addressing the Board, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

Pledge of Allegiance

Swearing in of OCERS Board Member by Hugh Nguyen, Orange County Clerk Recorder

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Board Member or a member of the public requests separate action on a specific item.

BENEFITS

C-1 MATERIAL DISTRIBUTED

Application Notices
Death Notices

March 20, 2017
March 20, 2017

Recommendation: Receive and file.

ADMINISTRATION

C-2 [BOARD MEETINGS AND COMMITTEE MEETINGS](#)

Regular Board Meeting Minutes	February 7, 2017
Governance Committee Minutes	February 8, 2017
Audit Committee Minutes	February 28, 2017

Recommendation: Authorize meetings and approve minutes.

C-3 [CEO FUTURE AGENDAS AND 2017 OCERS BOARD WORK PLAN](#)

Recommendation: Receive and file.

C-4 [4th QUARTER UNAUDITED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2016](#)

Recommendation: Receive and file.

C-5 [4th QUARTER 2016 BUDGET VS PRELIMINARY ACTUALS REPORT](#)

Recommendation: Receive and file.

C-6 [BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN UPDATE](#)

Recommendation: Receive and file.

C-7 [GOVERNANCE COMMITTEE OUTCOMES FROM FEBRUARY 8, 2017 MEETING](#)

Recommendation: The Governance Committee recommends that the Board of Retirement adopt:

- (1) Revisions to the OCERS Securities Litigation Policy; and
- (2) The OCERS Board Policy on Membership Eligibility Requirements, with an effective date of January 1, 2018.

C-8 [AUDIT COMMITTEE OUTCOMES FROM FEBRUARY 28, 2017 MEETING](#)

Recommendation: The Audit Committee recommends that the Board of Retirement approve the Audit Committee recommendations for:

A. **AUDIT COMMITTEE ORIENTATION**

Recommendation: Receive and file the *Audit Committee Orientation*.

Following discussion, a motion was made by Mr. Eley and seconded by Mr. Packard to receive and file the *Audit Committee Orientation*. The motion passed unanimously.

B. CONSIDERATION OF INTERNAL AUDIT CHARTER AND AUDIT COMMITTEE CHARTER

Recommendation: Take appropriate action.

Following discussion, a motion was made by Mr. Eley and seconded by Ms. Freidenrich to receive and file with the direction to Internal Audit to bring back a red line version of the Internal Audit Charter and Audit Committee Charter to the next Audit Committee meeting. The motion passed unanimously.

C. REVIEW OF THE CHIEF INVESTMENT OFFICER (CIO) POSITION

Recommendation: Receive and file the report *Review of the CIO Position*.

Following discussion, a motion was made by Mr. Eley and seconded by Mr. Gilbert to receive and file the report *Review of the CIO Position* with staff direction to revise the report for presentation to the Investment Committee. The motion passed unanimously.

D. RFP FOR AN ACTUARIAL FIRM TO PERFORM AN AUDIT OF OCERS' CONSULTING ACTUARY

Recommendation: Approve the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary.

Following discussion, a motion was made by Mr. Eley and seconded by Ms. Freidenrich to approve the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary with direction to make discussed changes. The motion passed unanimously.

E. REVIEW OF 2016 AUDIT PLAN

Recommendation: Receive and file the *2016 Audit Plan*.

Following discussion, a motion was made by Ms. Freidenrich and seconded by Mr. Eley to receive and file the 2016 Audit Plan. The motion passed unanimously.

F. CONSIDERATION OF 2017 RISK ASSESSMENT AND 2017 AUDIT PLAN

Recommendation: Approve the *2017 Risk Assessment and 2017 Audit Plan*.

Following discussion, a motion was made by Mr. Eley and seconded by Ms. Freidenrich to approve the 2017 Risk Assessment and 2017 Audit Plan. The motion passed unanimously.

G. OVERVIEW OF AUDIT COMMITTEE OVERSIGHT OF OCERS' SECURITY

Recommendation: Receive and file.

Following discussion, a motion was made by Ms. Freidenrich and seconded by Mr. Eley to receive and file the 2016 Audit Plan. The motion passed unanimously.

C-9 [CEM GLOBAL PENSION ADMINISTRATION CONFERENCE](#)

Recommendation: Approve Steve Delaney’s attendance and related expenses including overnight accommodations for the CEM Global Pension Administration Conference, May 8-11, 2017, at the Westin Chicago River North, Chicago, Illinois.

C-10 [SERVICE PROVIDER PERFORMANCE REVIEW - ReedSmith](#)

Recommendation: Direct staff to begin the performance review process for ReedSmith as directed by OCERS Procurement & Contracting policy.

C-11 [BOARD COMMUNICATION](#)

Recommendation: Receive and file.

* * * * * **END OF CONSENT AGENDA** * * * * *

INDIVIDUAL ITEMS AGENDA

I-1 **INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

I-2 [2017 STAR COLA FINAL APPROVAL](#)

Presentation by Suzanne Jenike, Assistant Chief Executive Officer, External Operations, OCERS

Recommendation: Approve payment of STAR COLA for the period April 1, 2017 through March 31, 2018.

I-3 [2017 STATE OF OCERS ANNUAL REPORT](#)

Presentation by Steve Delaney, Chief Executive Officer, OCERS

Recommendation: Receive and file.

I-4 [OCERS VISION AND VALUES](#)

Presentation by Steve Delaney, Chief Executive Officer, OCERS

Recommendation: Approval of a Vision and Values statement.

I-5 [2016 BUDGET AMENDMENT](#)

Presentation by Tracy Bowman, Director of Finance, OCERS

Recommendation: Approve an amendment to OCERS’ Administrative and Investment Budget for 2016 in the amount of \$28.0 million, increasing the 2016 investment budget from \$41,666,661 to \$69,666,661 and the overall amended budget from \$59,559,303 to \$87,559,303.

I-6 [OCERS BOARD PERFORMANCE SELF-REVIEW](#)

Presentation by David Ball, Chair, OCERS Board or Retirement

Recommendation: Request the Governance Committee review the current policy directive that the OCERS Board of Retirement annually “review the performance of the Board.”

I-7 [SACRS BOARD OF DIRECTORS ELECTIONS 2017-2018 – RECOMMENDED SLATE AND OPPORTUNITY TO SUBMIT WRITE-IN CANDIDATES](#)

Recommendation: Determine whether to submit write-in candidates to be included on the SACRS Nominating Committee’s final ballot for the SACRS Board of Directors 2017-2018 Election. If the Board does not wish to submit any write-in candidates, then receive and file.

***** END OF INDIVIDUAL ITEMS AGENDA *****

DISABILITY APPLICATIONS/MEMBER APPEALS AGENDA

11:00 A.M.

NOTE: WHEN CONSIDERING DISABILITY RETIREMENT APPLICATIONS, THE BOARD MAY FIND IT NECESSARY TO DISCUSS MATTERS RELATING TO THE EVALUATION OF THE WORK PERFORMANCE OF AN EMPLOYEE WHO HAS APPLIED FOR DISABILITY RETIREMENT, OR DISCUSS COMPLAINTS OR CHARGES MADE AGAINST SUCH EMPLOYEE. IF THIS OCCURS, THE BOARD MAY ADJOURN TO A CLOSED SESSION TO DISCUSS SUCH MATTERS PURSUANT TO GOVERNMENT CODE SECTION 54957, UNLESS THE EMPLOYEE REQUESTS THAT THE DISCUSSION BE IN PUBLIC.

D-1: Louann R. Clark

Deputy Sheriff II, Orange County Sheriff’s Department

Date of employee filed application for service and non-service connected disability retirement: 02/18/2016

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF DECEMBER 9, 2016. (SAFETY MEMBER) (D-1)

D-2: Ronnie Epperson

Deputy Sheriff II, Orange County Sheriff’s Department

Date of employee filed application for service connected disability retirement: 01/12/2016

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF JANUARY 12, 2016. (SAFETY MEMBER) (D-2)

D-3: Albert Hart

Building Inspector IV, Orange County Public Works

Date of employee filed application for service connected disability retirement: 06/19/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF JUNE 19, 2015. (GENERAL MEMBER) (D-3)

D-4: Mitch Hawk

Equipment Operator, Orange County Public Works

Date of employer filed application for service and non-service connected disability retirement: 09/18/2014

Date of employee filed application for service and non-service connected disability retirement: 06/19/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF MAY 29, 2015. (GENERAL MEMBER) (D-4)

D-5: Judy Jackson

Deputy Sheriff II, Orange County Sheriff's Department

Date of employer filed application for service and non-service connected disability retirement: 11/12/2015

Date of employee filed application for service and non-service connected disability retirement: 01/19/2016

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF SEPTEMBER 30, 2016. (SAFETY MEMBER) (D-5)

D-6: Debra Morris

Correctional Services Technician, Orange County Sheriff's Department

Date of employee filed application for service and non-service connected disability retirement: 08/24/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF MARCH 18, 2016. (GENERAL MEMBER) (D-6)

D-7: Amelia Perez

Custodian, Orange County Public Works

Date of employee filed application for service and non-service connected disability retirement: 09/11/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF APRIL 20, 2016. (GENERAL MEMBER) (D-7)

D-8: Ana Portillo

Deputy Probation Counselor, Probation Department

Date of employee filed application for service connected disability retirement: 09/10/2014

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF JULY 8, 2005, THE DAY FOLLOWING THE LAST DAY OF REGULAR COMPENSATION AS A DEPUTY PROBATION COUNSELOR. AND TO FIND THE APPLICANT IS CAPABLE OF PERFORMING OTHER DUTIES IN THE SERVICE OF THE COUNTY OF ORANGE PURSUANT TO GOVERNMENT CODE SECTION 31725.65. AND TO GRANT A SUPPLEMENTAL DISABILITY RETIREMENT PAYMENT ALLOWANCE IN THE AMOUNT OF THE SALARY DIFFERENCE BETWEEN THE HIGHER AND LOWER PAYING POSITIONS EFFECTIVE JULY 8, 2005, THE DATE OF THE POSITION CHANGE UNTIL THE LAST DAY OF COMPENSATION, JANUARY 26, 2014. (SAFETY MEMBER) (D-8)

D-9: Billie Rowe

Coach Operator, Orange County Transportation Authority
Date of employer filed application for non-service connected disability retirement: 10/15/2014
Date of employee filed application for service and non-service connected disability retirement: 05/27/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF MAY 18, 2014. (GENERAL MEMBER) (D-9)

D-10: Joyce Simon

Financial Counselor II, Orange County Auditor Controller
Date of employee filed application for service and non-service connected disability retirement: 12/22/2014

STAFF RECOMMENDATION IS TO DENY SERVICE AND NON-SERVICE CONNECTED DISABILITY RETIREMENT DUE TO INSUFFICIENT EVIDENCE OF PERMANENT INCAPACITY. (GENERAL MEMBER) (D-10)

D-11: Martha Aragon (deceased)

Coach Operator, Orange County Transportation Authority

STAFF RECOMMENDATION IS TO GRANT SURVIVOR BENEFITS PURSUANT TO GOVERNMENT CODE SECTION 31787 (OPTIONAL DEATH ALLOWANCE). (GENERAL MEMBER) (D-11)

D-12: Larry Colgan

Fire Captain, Orange County Fire Authority
Date of employee filed application for service connected disability retirement: 08/22/2012

STAFF RECOMMENDATION IS TO ADOPT THE FINDINGS AND RECOMMENDATIONS OF THE HEARING OFFICER AND GRANT APPLICANT'S APPLICATION FOR SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF FEBRUARY 22, 2013. (SAFETY MEMBER) (D-12)

CLOSED SESSION ITEMS

- E-1 CONFERENCE REGARDING LITIGATION THAT HAS BEEN INITIATED
(GOVERNMENT CODE SECTION 54956.9(d)(1)) O.C. Department of Education v. OCERS, CA**

Superior Court, Orange County, (Case No. 30-2016-00836897)
Adjourn pursuant to Government Code Section 54956.9(d)(1).

Recommendation: Take appropriate action.

**E-2 CONFERENCE REGARDING LITIGATION THAT HAS BEEN INITIATED
(GOVERNMENT CODE SECTION 54956.9(d)(1)) Fereshteh Shafiee v. OCERS, CA Superior Court,
Orange County (Case No. 30-2017-00902840-CU-WM-CJC)**
Adjourn pursuant to Government Code section 54956.9(d)(1).

Recommendation: Take appropriate action.

PUBLIC COMMENTS: At this time members of the public may address the Board of Retirement regarding any items within the subject matter jurisdiction of the Board, provided that no action may be taken on non-agendized items unless authorized by law.

BOARD MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

**ADJOURNMENT: (IN MEMORY OF THE ACTIVE MEMBERS, RETIRED MEMBERS, AND SURVIVING
SPOUSES WHO PASSED AWAY THIS PAST MONTH)**

NOTICE OF NEXT MEETINGS

INVESTMENT COMMITTEE MEETING

March 28, 2017

9:00 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

2223 E. WELLINGTON AVENUE, SUITE 100

SANTA ANA, CA 92701

MANAGER MONITORING SUBCOMMITTEE MEETING

April 6, 2017

9:00 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

2223 E. WELLINGTON AVENUE, SUITE 100

SANTA ANA, CA 92701

REGULAR BOARD MEETING
April 17, 2017
9:00 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at adminsupport@ocers.org or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

C-1

*Orange County Employees Retirement System
Retirement Board Meeting
March 20, 2017
Application Notices*

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
Abbott, Beth	Superior Court	1/6/2017
Aquilar, Maria	Health Care Agency	1/6/2017
Alario, Jeffrey	Fire Authority (OCFA)	12/16/2016
Alexander, Richard	Health Care Agency	8/5/2016
Amposta, Helen	Health Care Agency	1/6/2017
Baitx, Kevin	Health Care Agency	12/30/2016
Bavaro, Christine	Health Care Agency	1/6/2017
Carter, LaTanya	Probation	1/20/2017
Chapman, Jeffrey	Sheriff's Department	1/20/2017
Clinkscales, Janet	OC Human Resources	1/6/2017
Corsiglia, David	Sheriff's Department	1/6/2017
Crosthwaite, Joyce	LAFCO	12/31/2016
Cruz, Finia	Health Care Agency	1/6/2017
DeLa Cruz, Rosalie	OC Public Works	1/20/2017
Denison, Matthew	John Wayne Airport	1/16/2017
Fitch, Thomas	OC Community Resources	12/9/2016
Franz, Robert	County Executive Office (CEO)	12/25/2016
Fuentez, Vincent	OC Public Works	1/6/2017
Gilbert, Kathleen	Health Care Agency	1/6/2017
Girgis, Nahed	Health Care Agency	1/6/2017
Goodwin, Daniel	Fire Authority (OCFA)	12/30/2016
Goodwin, Russell	OC Waste and Recycling	1/20/2017
Griffith, Wade	OC Waste and Recycling	1/6/2017
Hall, John	Probation	1/20/2017
Haro, Steven	Sheriff's Department	11/26/2016
Harpster, Brian	OC Community Resources	1/20/2017
Hartzler, Edith	Social Services Agency	1/14/2017
Hernandez, Eric	Sheriff's Department	12/22/2016
Holquin, David	Sheriff's Department	1/20/2017
Jansen, Timothy	Sheriff's Department	1/20/2017
Juarez, Socorro	Superior Court	1/6/2017
Kerr, Christopher	Sheriff's Department	1/6/2017
Kovacevich, Milan	Sheriff's Department	1/6/2017
Lumsdon, Steven	Probation	1/20/2017
Manchester, Michael	Social Services Agency	12/29/2016
McDonnell, Joseph	Sheriff's Department	1/20/2017
Mencias, Sylvia	OC Community Resources	1/20/2017
Nault, Felicia	Health Care Agency	12/31/2016
Nguyen, Allan	OCTA	1/6/2017
Nguyen, Binh	Social Services Agency	1/6/2017
Nguyen, Kim Hung	Auditor-Controller	1/20/2017
Nguyen, Tru	OCTA	12/25/2016
Overman, Elaine	Health Care Agency	1/6/2017
Papa, Glenda	Health Care Agency	1/6/2017
Pasco, Jean	County Executive Office (CEO)	1/6/2017
Pavlu, David	Sheriff's Department	1/20/2017
Perk, Steven	District Attorney	1/1/2017
Phillips, Karen	Superior Court	1/5/2017
Pike, Tim	OC Waste and Recycling	12/31/2016

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
Pintane, Marliiss	Superior Court	1/6/2017
Rawlings, Kelly	Sheriff's Department	1/16/2017
Ruybalid, Derick	Superior Court	1/19/2017
Sarmineto, Arnel	OC Public Works	1/7/2017
Schenk, Thomas	Fire Authority (OCFA)	12/29/2016
Seeley, Deborah	Health Care Agency	1/6/2017
Shaw, Thomas	Health Care Agency	1/6/2017
Tanakeyowma, Lilia	Board of Supervisors	12/30/2016
Toquchi, Jim	Public Defender	1/6/2017
Tran, Oanh	Social Services Agency	1/20/2017
Vargas, Rosa	Social Services Agency	12/28/2016
Vicente, Joseph	OCTA	1/7/2017
Vinciguerra, Eric	OC Public Works	1/3/2017
Weik, Dennis	Assessor	1/3/2017
Willis, Sharon	Superior Court	1/20/2017

*Orange County Employees Retirement
Retirement Board Meeting
March 20, 2017
Death Notices*

<i>Active Members</i>	<i>Agency/Employer</i>	<i>Date of Death</i>
Rose, Anthony	Health Care Agency	1/21/2017
Wick, Doris	Superior Court	2/3/2017

<i>Retired Members</i>	<i>Agency/Employer</i>	<i>Date of Death</i>
Booth, Vernon	Sheriff's Department	1/29/2017
Brown, Janice	Social Services Agency	2/5/2017
Bywaters, Nelson	Sheriff's Department	2/4/2017
Cole, Timothy	Probation	1/13/2017
Hatten, Erwin	Probation	7/1/2016
Honomichl, Donald	Sanitation District	1/24/2017
Marsh, Willard	OC Community Resources	1/25/2017
Mc Clain, Johnny	OCTA	2/4/2017
Mc Guire, Katherine	UCI	1/17/2017
Newcomb, Jimmy	OC Community Resources	1/20/2017
O'Neal, Ina	Health Care Agency	2/5/2017
Parker, Dorothy	Sheriff's Department	2/7/2017
Pell, Marjorie	Social Services Agency	12/31/2016
Penkoff, Stephen	Public Defender	1/30/2015
Pero, Joyce	Child Support Services	1/25/2017
Riddell, Beverley	Health Care Agency	1/26/2017
Sauvageau, Harvey	OC Community Resources	1/9/2017
Weiss, Peter	Social Services Agency	2/21/2017
Zale, Teresa	Social Services Agency	1/31/2017

<i>Surviving Spouses</i>		<i>Date of Death</i>
Bailey, Phyllis		12/23/2016

C-2

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF RETIREMENT
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CALIFORNIA**

**REGULAR MEETING
Tuesday, February 7, 2017
9:00 a.m.**

MINUTES

Chair Ball called the meeting to order at 9:00 a.m.

Attendance was as follows:

Present: David Ball, Chair; Chris Prevatt, Vice Chair; Eric Gilbert, Chuck Packard, Russell Baldwin, Tom Flanigan, Roger Hilton, Wayne Lindholm; Frank Eley and Shari Freidenrich

Also Present: Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO, Finance and Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; David James, Director of Internal Audit; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; Megan Cortez; Disability Coordinator; Cammy Danciu, Recording Secretary.

Guests: Harvey L. Leiderman, ReedSmith LLP

Mr. Hilton led the Pledge of Allegiance.

Mr. Packard arrived at 9:02 a.m.

Mr. Gilbert arrived at 9:12 a.m.

Chris Prevatt, Vice Chair, administered the Swearing in Ceremony of OCERS Board Members Mr. Ball and Mr. Packard.

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Board Member or a member of the public requests separate action on a specific item.

Ms. Freidenrich pulled item C-3 for discussion.

Following discussion, a **motion** was made by Mr. Eley, **seconded** by Mr. Hilton to move the remainder of the consent calendar. The motion carried **unanimously**.

C-1 MATERIAL DISTRIBUTED

Application Notices
Death Notices

February 7, 2017
February 7, 2017

Recommendation: Receive and file.

C-2 OPTION 4 RETIREMENT ELECTION – RICHARD ALEXANDER

Recommendation: Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

C-3 2017 STAR COLA COST POSTING

Recommendation: In accordance with Government Code Section 7507, call a public meeting for March 20, 2017, to consider the STAR COLA ad hoc adjustment to applicable retirement allowances.

ADMINISTRATION

C-4 BOARD MEETINGS AND COMMITTEE MEETINGS

Regular Board Meeting Minutes

January 17, 2017

Recommendation: Authorize meeting and approve minutes.

C-5 CEO FUTURE AGENDAS AND 2017 OCERS BOARD WORK PLAN

Recommendation: Receive and file.

C-6 GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

Recommendation: Receive and file.

C-7 SACRS BOARD OF DIRECTORS ELECTIONS 2017-2018

Recommendation: Receive and file.

C-8 BOARD COMMUNICATIONS

Recommendation: Receive and file.

******* END OF CONSENT AGENDA *******

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

As lead in, Mr. Prevatt read the following statement regarding RVK, OCERS Real Estate consultant:

“OCERS was informed yesterday that the entire real estate team led by Dan Krivinskas has departed RVK to launch a new real estate and real assets consulting firm called Alignium, LLC. Alignium is a SEC registered investment advisor. The departure of the team has resulted in a material breach of OCERS’ contract. Staff has been in discussions with RVK, Meketa, PCA and investment counsel, Tom Hickey to understand the impact and next course of action. Counsel is drafting a Breach of Contract letter to be sent to RVK shortly which should void the existing contract. In order to continue the oversight of the real estate portfolio, staff has also asked for real estate monitoring proposals from both Meketa and PCA which will be presented to the Investment Committee at the February 22nd meeting.”

Ms. Jenike then followed by providing a brief update regarding the health insurance administration change, as the County of Orange engages a new third party administrator, Secova.

Brenda Diedrich, Chief HR Officer for the County of Orange, discussed the change and transition that took place from Xerox to the Secova.

Mr. Eley stated that County staff should be the ones handling member complaints as OCERS staff have been inundated with member calls over the past few weeks.

Ms. Renee Catanzariti, Manager for the County of Orange Human Resource Services Department, stated that the County is working on improving their service delivery model this year and looking at what makes sense for the County going forward.

Mr. Prevatt stated that the complexity of the model isn’t something new and that it’s always been around. He suggests always looking at different models as they provide perspective when looking at performance reviews.

Mr. Packard stated that the County should meet with REAOC on a regular basis as there will be more retirees than active members going forward.

Ms. Diedrich stated that the County meets with REAOC twice a year to discuss various ways to make health care more affordable to retirees.

Mr. Eley asked Ms. Diedrich and Ms. Catanzariti to provide an email to Mr. Delaney with the steps the County is taking to resolve issues related to Secova.

INDIVIDUAL ITEMS AGENDA

I-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

C-3

Ms. Freidenrich suggested that OCERS follow the County of Orange example and whenever a government code is stated in an agenda, the government code itself should be added as an attachment.

Mr. Delaney stated that is a good suggestion and OCERS staff will do so in the future.

Following discussion, a **motion** was made by Ms. Freidenrich, **seconded** by Mr. Eley to approve the recommendation for item C-3 which states: in accordance with Government Code Section 7507, call a public meeting for March 20, 2017, to consider the STAR COLA ad hoc adjustment to applicable retirement allowances. The motion carried **unanimously**.

I-2 2017 COST OF LIVING ADJUSTMENT

Presentation by Suzanne Jenike, Assistant CEO External Operations, OCERS

Recommendation: Adjust all applicable benefit allowances, effective April 1, 2017, in accordance with Government Code Section 31870.1, resulting from the 1.89% change in CPI, as follows:

1. For benefit recipients who began receiving benefits on or before April 1, 1971 through April 1, 1982, increase applicable benefit allowances by 2%, and reduce COLA banks by 1% for a total benefit adjustment of 3%.
2. For benefit recipients who began receiving benefits or will begin receiving benefits between April 2, 1982 and April 1, 2017, increase applicable benefit allowances by 2% with no reduction in COLA banks.

Ms. Jenike presented the 2017 Cost of Living Adjustment materials.

There will be two categories of members affected by this 2% change in CPI as mentioned above in the recommendation.

Mr. Lindholm asked how much in actual dollar is involved in this 2% change.

Following discussion, a **motion** was made by Mr. Prevatt, **seconded** by Mr. Lindholm to adjust all applicable benefit allowances, effective April 1, 2017, in accordance with Government Code Section 31870.1, resulting from the 1.89% change in CPI. The motion carried **unanimously**.

The Board recessed for break at 9:51am

The Board reconvened from break at 10:00am

I-3 CEM BENCHMARKING REPORT

Presentation by Steve Delaney, Chief Executive Officer, OCERS, and Suzanne Jenike, Assistant CEO External Operations, OCERS

Recommendation: Receive and file.

Due to Mr. Delaney's laryngitis, Ms. Jenike presented highlights of the CEM Benchmarking Report.

Ms. Freidenrich said that the building cost shows at a higher level for OCERS and asked if the reason is because we own the building. She asked staff to look into it.

Mr. Hilton stated there should be a better way for CEM to measure performance in their report as OCERS shows performance levels that differ from what they truly are.

Mr. Prevatt said even if CEM doesn't change their reports, staff can present to the Board the actual charts and graphs to better represent where OCERS stands among its peers.

Following discussion, a **motion** was made by Mr. Eley, **seconded** by Mr. Packard to receive and file the CEM Benchmarking Report. The motion carried **unanimously**.

I-4 OCERS PLAN SPONSOR – AN ANNUAL REVIEW

Presentation by David James, Director of Internal Audit, OCERS, and Steve Delaney, Chief Executive Officer, OCERS

Recommendation: Receive and File OCERS' 2017 Plan Sponsor Review Report and OCERS' 2017 Plan Sponsor Presentation.

Mr. James presented the third annual plan sponsor review and presentation. At the request of the Board, Internal Audit obtained key financial information on OCERS' plan sponsors to provide the Board with information regarding plan sponsors' financial position to ascertain their capacity to meet their obligations to OCERS and the long-term viability of the OCERS' plan. The report update uses 2016 financial information from plan sponsors.

Both Ms. Freidenrich and Mr. Ball asked if the numbers and matrix presented in this report include the invoices paid by the sponsors.

David James answered yes, the numbers reflect the current invoices.

Mr. Stephen Wontrobaski, Mission Viejo, addressed the Board and expressed his concerns regarding OCFA.

Ms. Freidenrich asked staff to clarify why OC Superior Court's contribution level decreased this year.

Brenda Shott stated that OC Courts pays all required contributions based on their payroll.

Following discussion, a **motion** was made by Mr. Packard, **seconded** by Mr. Eley to receive and File OCERS' 2017 Plan Sponsor Review Report and OCERS' 2017 Plan Sponsor Presentation. The motion carried **unanimously**.

I-5 STRATEGIC PLAN QUARTERLY REVIEW

Presentation by Brenda Shott, Assistant CEO Internal Operations, OCERS

Recommendation: Approve recommended modifications to the 2017-2019 Strategic Plan.

Due to Mr. Delaney's laryngitis, Ms. Shott presented the Strategic Plan Quarterly Review.

Following discussion, a **motion** was made by Mr. Prevatt, **seconded** by Mr. Packard to approve recommended modifications to the 2017-2019 Strategic Plan. The motion carried **unanimously**.

I-6 FIDUCIARY INSURANCE POLICY

Presentation by Brenda Shott, Assistant CEO Internal Operations, OCERS

Recommendation: Authorize Staff to bind a one year fiduciary insurance policy with RLI Insurance Company with a coverage limit of \$5,000,000, self-insured retention of \$250,000 and an annual premium of \$75,100 which includes the Waiver of Recourse for all Trustees and Executive Management.

Ms. Shott presented the Fiduciary Insurance Policy.

While other CERL systems seem to be at the \$10 million level, the Alliant representatives, OCERS insurance broker, recommended OCERS begin with a \$5 million policy as OCERS had been self-insuring up to this point in time and \$5 million is a good entry point.

Following discussion, a **motion** was made by Mr. Hilton, **seconded** by Mr. Packard to approve recommended modifications to the 2017-2019 Strategic Plan. The motion carried **unanimously**.

I-7 ADDITION OF EXTRA HELP POSITION IN LEGAL DEPARTMENT

Presentation by Gina Ratto, Chief Legal Officer, OCERS

Recommendation:

- 1) Approve the addition of an Extra Help position, classified as a Deputy Chief Counsel in the Legal department.
- 2) Authorize the CEO to send the attached memorandum to the County of Orange to request the addition of an Extra Help position.

Ms. Ratto presented the addition of extra help position in the Legal Department.

Mr. Russell stated that he's hopeful Ms. Ratto has someone in mind.

Ms. Ratto said she does have someone in mind but does not want to disclose the name.

Following discussion, a **motion** was made by Mr. Baldwin, **seconded** by Mr. Eley to approve the addition of an Extra Help position, classified as a Deputy Chief Counsel in the Legal department and to authorize the CEO to send memorandum to the County of Orange to request the addition of an Extra Help position. The motion carried **unanimously**.

The Board recessed for break at 10:50am

The Board reconvened from break at 11:00am

***** END OF INDIVIDUAL ITEMS AGENDA *****

DISABILITY APPLICATIONS/MEMBER APPEALS AGENDA

11:00 A.M.

NOTE: WHEN CONSIDERING DISABILITY RETIREMENT APPLICATIONS, THE BOARD MAY FIND IT NECESSARY TO DISCUSS MATTERS RELATING TO THE EVALUATION OF THE WORK PERFORMANCE OF AN EMPLOYEE WHO HAS APPLIED FOR DISABILITY RETIREMENT, OR DISCUSS COMPLAINTS OR CHARGES MADE AGAINST SUCH EMPLOYEE. IF THIS OCCURS, THE BOARD MAY ADJOURN TO A CLOSED SESSION TO DISCUSS SUCH MATTERS PURSUANT TO GOVERNMENT CODE SECTION 54957, UNLESS THE EMPLOYEE REQUESTS THAT THE DISCUSSION BE IN PUBLIC.

Megan Cortez, Disability Coordinator, presented D-1 to the Board along with the staff recommendation.

D-1: CARLOS CAMMON

Deputy Sheriff II, Orange Sheriff's Department

Date of employer filed application for service and non-service connected disability retirement:
08/26/2015

Date of employee filed application for service and non-service connected disability retirement:
05/02/2016

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF THE DAY AFTER THE LAST DAY OF COMPENSATION. (SAFETY MEMBER) (D-1)

Following discussion, a **motion** was made by Mr. Hilton, **seconded** by Mr. Eley to grant service connected disability retirement with an effective date after the last day of compensation. The motion carried **9-0** with the voting was as follows:

AYES

Mr. Flanigan
Mr. Eley
Mr. Lindholm
Ms. Freidenrich
Mr. Hilton
Mr. Packard
Mr. Baldwin
Mr. Prevatt

NAYS

ABSTAIN

ABSENT

Chair Ball

Megan Cortez, Disability Coordinator, presented D-2 to the Board along with the staff recommendation.

D-2: JULIE GALLAGHER

Information Processing Technician, Orange County Social Services Agency

Date of employer filed application for service and non-service connected disability retirement:
09/23/2014

Date of employee filed application for service connected disability retirement: 01/22/2015

GRANT NON-SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF SEPTEMBER 23, 2014 AND DENY SERVICE CONNECTED DISABILITY RETIREMENT DUE TO INSUFFICIENT EVIDENCE OF JOB CAUSATION. (GENERAL MEMBER) (D-2)

Mr. Eley asked if there was a representative present for this case.

Mr. Ball stated that there were no speaking requests for this item.

Following discussion, a **motion** was made by Mr. Prevatt, **seconded** by Mr. Baldwin to grant non-service connected disability retirement with an effective date of September 23, 2014 and deny service connected disability retirement due to insufficient evidence of job causation. The motion carried **8-1** with the voting was as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Flanigan	Mr. Eley		
Mr. Lindholm			
Ms. Freidenrich			
Mr. Hilton			
Mr. Packard			
Mr. Baldwin			
Mr. Prevatt			
Chair Ball			

Megan Cortez, Disability Coordinator, presented D-3 to the Board along with the staff recommendation.

D-3: JEROME LARSON

Lieutenant, Orange Sheriff's Department

Date of employee filed application for service and non-service connected disability retirement:
03/18/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF MARCH 20, 2015. (SAFETY MEMBER) (D-3)

Following discussion, a **motion** was made by Mr. Hilton, **seconded** by Mr. Packard to grant service connected disability retirement with an effective date of March 20, 2015. The motion carried **9-0** with the voting was as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Flanigan			
Mr. Lindholm			
Mr. Eley			
Ms. Freidenrich			
Mr. Hilton			
Mr. Packard			

Mr. Baldwin
Mr. Prevatt
Chair Ball

Megan Cortez, Disability Coordinator, presented D-4 to the Board along with the staff recommendation.

D-4: NANNETTE LOFT

Deputy Sheriff II, Orange County Sheriff's Department

Date of employer filed application for service and non-service connected disability retirement:
05/14/2015

Date of employee filed application for service and non-service connected disability retirement:
06/10/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF DECEMBER 25, 2015. (SAFETY MEMBER) (D-4)

Following discussion, a **motion** was made by Mr. Hilton, **seconded** by Mr. Packard to grant service connected disability retirement with an effective date of March 20, 2015. The motion carried **9-0** with the voting was as follows:

AYES

NAYS

ABSTAIN

ABSENT

Mr. Flanigan
Mr. Lindholm
Mr. Eley
Ms. Freidenrich
Mr. Hilton
Mr. Packard
Mr. Baldwin
Mr. Prevatt
Chair Ball

D-5: DEBRA MORRIS

Correctional Services Technician, Orange County Sheriff's Department

Date of employee filed application for service and non-service connected disability retirement:
08/24/2015

STAFF RECOMMENDATION IS TO GRANT SERVICE CONNECTED DISABILITY RETIREMENT WITH AN EFFECTIVE DATE OF MARCH 18, 2016. (GENERAL MEMBER) (D-5)

D-5 was **PULLED** at the member's request.

D-6: JOYCE SIMON

Financial Counselor II, Orange County Auditor Controller

Date of employee filed application for service and non-service connected disability retirement:
12/22/2014

STAFF RECOMMENDATION IS TO DENY SERVICE AND NON-SERVICE CONNECTED DISABILITY RETIREMENT DUE TO INSUFFICIENT EVIDENCE OF PERMANENT INCAPACITY. (GENERAL MEMBER) (D-6)

D-6 was **PULLED** at the member's request.

***The adjourned for closed session at 11:20
The Board reconvened from break at 11:49am***

CLOSED SESSION ITEMS

**E-1 CONFERENCE REGARDING LITIGATION THAT HAS BEEN INITIATED
(GOVERNMENT CODE SECTION 54956.9(d)(1)) O.C. Department of Education v. OCERS, CA
Superior Court, Orange County, (Case No. 30-2016-00836897)
Adjourn pursuant to Government Code Section 54956.9(d)(1).**

Recommendation: Take appropriate action.

Mr. Lindholm recused himself at 11:37am.

No reportable action taken.

**E-2 CONFERENCE REGARDING LITIGATION THAT HAS BEEN INITIATED
(GOVERNMENT CODE SECTION 54956.9(d)(1))
Carlos Bustamante v. OCERS, CA Superior Court, Orange County (Case No. 30-2017-00898104-
CU-WM-CJC)
Adjourn pursuant to Government Code Section 54956.9(d)(1).**

Recommendation: Take appropriate action.

The Board voted unanimously to hire ReedSmith LLP to defend OCERS in the Bustamante case.

PUBLIC COMMENTS: At this time members of the public may address the Board of Retirement regarding any items within the subject matter jurisdiction of the Board, provided that no action may be taken on non-agendized items unless authorized by law.

Mr. Bob Phillips addressed the Board regarding his wife's 1099 form.

Mr. Ball stated that Mr. Phillips needs to discuss the rules and how taxes are allocated by the state with his CPA/tax advisors.

BOARD MEMBER COMMENTS: See attachment for Mr. Flanigan's comments regarding the vacant OCERS CIO position.

Mr. Lindholm returned at 12:00pm

COUNSEL COMMENTS

N/A

ADJOURNMENT: (IN MEMORY OF THE ACTIVE MEMBERS, RETIRED MEMBERS, AND SURVIVING SPOUSES WHO PASSED AWAY THIS PAST MONTH)

Active Members:

Torres, Joel
Wride, Brent

Retired Members:

Ashdale, Ronald
Barkan, Frieda
Barnett, Edward
Belasco, Scott
Brice, Evelyn
Burgess, Sarah
Buth, Marilyn
Crookshanks, William
Davis, William
Do, Dominic
Doran, Larry
Estrada, David
Gilbert, Gerald
Grossoehme, Lannon
Harris, James
Hua, Kimmy
Jennings, Lillian
Jones, Cleveland
Lockett, Gordon
Mossman, Mae Grace
Oliver, Mary
O'Loghlin, Carole
Pavloff, Fred
Pirtle, Elizabeth
Self, Sara
Simon, Walter
Stein, Judith
Stites, Harry
Wahlstedt, Arthur
Wong, Priscilla
Wright, Ionia
Zane, Wendy

Surviving Spouses:

Barton, Julianne
Findley, Helen
Fraser, Lorraine
Gloor, Henry
Himmelberg, Kathleen
Hitchcock, Evelyn
Klima, Margaret

Kondas, Michael
Little, Stanley
Lopez, Anita
Mestre, Donna
Parker, Corinne
Rapp, Myron
Walters, Carrie

There being no further business to bring before the Board, the meeting adjourned at 12:05a.m.

Submitted by:

Approved by:

Steve Delaney
Secretary to the Board

David Ball
Chairman

Governance Committee Meeting
February 8, 2017

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CALIFORNIA 92701**

**GOVERNANCE COMMITTEE MEETING
February 8, 2017
9:00 a.m.**

MINUTES

The Chair called the meeting to order at 9:03 a.m. Attendance was as follows:

Present: Chris Prevatt, Chair; David Ball, Vice Chair; Thomas E. Flanigan; Roger Hilton

Staff: Steve Delaney, Chief Executive Officer; Suzanne Jenike, Assistant CEO, External Operations; Gina Ratto, Chief Legal Officer; Brenda Shott, Assistant CEO, Internal Operations; Brenda Vazquez, Recording Secretary; Anthony Beltran , Audio Visual Technician

Guest: Jeff Rieger, ReedSmith, Legal Counsel

A. PROPOSED REVISIONS TO OCERS SECURITIES LITIGATION POLICY

Presented by Gina M. Ratto, Chief Legal Officer

Recommendation: Approve and recommend that the Board adopt the revised *OCERS Securities Litigation Policy*.

Ms. Ratto presented to the Committee the proposed revisions to the *OCERS Securities Litigation Policy*.

A **motion** was made by Mr. Ball, **seconded** by Mr. Prevatt, to recommend the Board adopt the revised *OCERS Securities Litigation Policy* as presented.

During discussion, Mr. Hilton suggested that the Policy should specify the number (between two and five) of securities monitoring firms that OCERS will engage. Ms. Ratto agreed to include this change in the Policy.

The Committee then discussed limiting the authority of the Chief Executive Officer to approve settlements in securities litigation matters to situations where a decision on a proposed settlement must be made in a time frame that does not allow staff to bring the matter to the Board for approval.

Following discussion, an **amended motion** was made by Mr. Prevatt, **seconded** by Mr. Ball to approve and recommend that the Board adopt the revised *OCERS Securities Litigation Policy* with the revision to allow the Chief Executive Officer to approve and enter into a settlement on behalf of OCERS only in the event a decision on a settlement must be made in a time frame that does not allow staff to bring the proposed settlement to the Board for review and approval.

The **motion passed unanimously**.

B. OCERS POLICY ON MEMBERSHIP ELIGIBILITY REQUIREMENTS (EXTRA HELP AND TEMPORARY EMPLOYEES)

Presented by Presented by Suzanne Jenike, Assistant CEO and Jeff Rieger, ReedSmith

Recommendation: Approve and recommend that the Board adopt OCERS Board Policy on Membership Eligibility Requirements.

Mr. Rieger addressed the Committee and reviewed the background leading up to this presentation of the OCERS Board Policy on Membership Eligibility Requirements: Staff and Fiduciary Counsel provided draft language to the Governance Committee on August 17, 2016. At that meeting, the Committee directed staff to meet with a working group of employer and labor representatives to refine the language for the Policy. The working group met several times in 2016 and most recently on January 25, 2017. In addition, Staff received further input from the Governance Committee on September 22, 2016.

Staff and Fiduciary Counsel presented to the Committee the proposed Policy that they believe is acceptable to all parties who participated in the working group. Staff recommended an effective date of the Policy of January 1, 2018.

Following discussion, a **motion** was made by Mr. Prevatt, **seconded** by Mr. Ball to approve and recommend that the Board adopt the Policy with an effective date of January 1, 2018.

Mr. Hilton opened the floor for public comments.

John Latta, Orange County Professional Firefighters Association, addressed the Committee. He stated this Policy is a good middle point consensus. He urged the Board to support the Policy and believes it will help greatly when putting employees in bargaining units.

Nick Daftary, County of Orange County Counsel's office, addressed the Committee. He requested the Policy implementation date be July 1, 2018. He also requested that in item #6 there should be more flexibility in regards to being able to exclude an employee by giving notice of the reason to the Board for such exclusion.

Mr. Prevatt advised County Counsel that they had the option to come back to the Board for an extension if they felt they would not be able to meet the deadline date.

Heather Capps, County of Orange Superior Court, addressed the Committee. She asked that language be added under item #5 in regards to hiring an employee expected to work less than a year.

Following discussion, an **amended motion** was made by Mr. Prevatt, **seconded** by Mr. Ball to approve and recommend that the Board adopt *OCERS Board Policy on Membership Eligibility Requirements* with an effective date of January 1, 2018, and with the addition of a paragraph at the end of section 5 of the Policy to exclude from OCERS membership employees who are hired with an expectation that they will work less than a year.

The **motion passed unanimously.**

The meeting adjourned at 10:31 a.m.

Governance Committee Meeting

February 8, 2017

PUBLIC COMMENTS:

Incorporated in the minutes.

COMMITTEE MEMBER COMMENTS

Mr. Hilton thanked staff and all labor groups for their hard work on this policy.

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS:

Thanked Ms. Jenike for all the hard work in making the Policy possible.

COUNSEL COMMENTS:

Ms. Ratto discussed dates for the next Governance Committee meeting. The next Committee meeting was set for April 5, 2017 at 9:00 a.m.

Submitted by:

Steve Delaney
Secretary to the Board

Approved by:

Chris Prevatt, Chair

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

**BOARD OF RETIREMENT
2223 WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

**AUDIT COMMITTEE MEETING
February 28, 2017
1:00 p.m.**

MINUTES

The Chair called the meeting to order at 1:05 p.m. and read the opening statement for the record. Attendance was as follows:

Present: Charles Packard, Chair; Frank Eley, Vice Chair; Eric Gilbert; Shari Freidenrich

Staff: Brenda Shott, Assistant CEO; Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Gina Ratto, Chief Legal Officer; David James, Director of Internal Audit; Mark Adviento, Internal Auditor; Anthony Beltran, Audio/Visual Technician; Brenda Vazquez, Recording Secretary

A. AUDIT COMMITTEE ORIENTATION

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file the *Audit Committee Orientation*.

Mr. James presented the Audit Committee Orientation covering the Investment Committee Charter, Internal Audit Charter, Hotline Policy, and past audit outcomes.

During discussion, Mr. Packard suggested OCERS should pursue a Service Level Agreement with plan sponsors for providing accurate information to OCERS through the transmittal process. Mr. Packard also asked staff to provide plan sponsors with documentation on how to properly report payroll transmittal information to OCERS. Mr. Packard directed that Internal Audit staff to follow up on audit recommendations with plan sponsors.

Following discussion, a **motion** was made by Mr. Eley and **seconded** by Mr. Packard to receive and file the *Audit Committee Orientation*.

The **motion passed unanimously.**

B. CONSIDERATION OF INTERNAL AUDIT CHARTER AND AUDIT COMMITTEE CHARTER

Presentation by David James, Director of Internal Audit

Recommendation: Take appropriate action.

Mr. James presented the Internal Audit Charter and Audit Committee Charter that are up for review. Internal Audit did not recommend changes to the charters that were last updated in July 2015.

The Committee suggested changes to both the Internal Audit Charter and Audit Committee Charter. Ms. Freidenrich also recommended that the CEO consider having a CPA on the Audit Committee.

Following discussion, Ms. Shott suggested Internal Audit bring back to the next Audit Committee meeting a red line version reflecting all changes requested by Ms. Freidenrich and the Committee members.

After discussion, a **motion** was made by Mr. Eley and **seconded** by Ms. Freidenrich to receive and file with the direction to Internal Audit to bring back a red line version of the Internal Audit Charter and Audit Committee Charter to the next Audit Committee meeting.

The **motion passed unanimously.**

C. REVIEW OF THE CHIEF INVESTMENT OFFICER (CIO) POSITION

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file the report *Review of the CIO Position*.

Internal Audit completed an independent review of the CIO position and its responsibilities. Internal Audit recommends that the Investment Committee and management consider changes to the CIO Charter and Investment Policy Statement. Internal Audit also recommends improvements to reporting of the CIO's investment activities to the Investment Committee. Internal Audit also recommends improved communications between the CIO, Investments' staff, and the Investments Committee.

The Committee suggested edits to the report. The Committee directed Mr. James to review the revised report with the Audit Committee Chair and that the revised report be presented at the Investment Committee meeting on March 28, 2017.

Following discussion, a **motion** was made by Mr. Eley and **seconded** by Mr. Gilbert to receive and file the report *Review of the CIO Position* with staff direction to revise the report for presentation to the Investment Committee.

The **motion passed unanimously.**

Break – 3:04 p.m.

Reconvened – 3:15 pm.

D. RFP FOR AN ACTUARIAL FIRM TO PERFORM AN AUDIT OF OCERS' CONSULTING ACTUARY

Presentation by David James, Director of Internal Audit

Recommendation: Approve the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary.

Mr. James presented the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary. A timeline of the audit was presented, with the RFP dated to be posted on March 1, 2017.

The Committee directed changes to the RFP before distribution, with inclusion of rating criteria.

Following discussion, a **motion** was made by Mr. Eley and **seconded** by Ms. Freidenrich to approve the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary with direction to make discussed changes.

The **motion passed unanimously.**

E. REVIEW OF 2016 AUDIT PLAN

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file the *2016 Audit Plan*.

Mr. James gave a summary of Audits processed in 2016 with staff hours used and audit outcomes.

Following discussion, a **motion** was made by Ms. Freidenrich and **seconded** by Mr. Eley to receive and file the *2016 Audit Plan*.

F. CONSIDERATION OF 2017 RISK ASSESSMENT AND 2017 AUDIT PLAN

Presentation by David James, Director of Internal Audit

Recommendation: Approve the *2017 Risk Assessment and 2017 Audit Plan*.

Internal Audit completed the annual risk assessment process and the 2017 Audit Plan. Mr. James presented an Internal Audit Risk Assessment matrix to help understand the risk areas.

Ms. Freidenrich suggested that in the future Internal Audit spend less audit time on employer audits and more on high risk areas identified by the risk assessment.

Following discussion, a **motion** was made by Mr. Eley and **seconded** by Ms. Freidenrich to approve the *2017 Risk Assessment and 2017 Audit Plan*

The **motion passed unanimously.**

G. OVERVIEW OF AUDIT COMMITTEE OVERSIGHT OF OCERS' SECURITY

Presentation by Brenda Shott, Assistant CEO, Internal Ops; and Gina Ratto, Chief Legal Officer

Recommendation: Receive and file.

Ms. Shott introduced the Overview of Audit Committee Oversight of OCERS' Security. Ms. Shott advised the Committee that moving forward, security updates would be presented to the Audit Committee.

Following discussion, a **motion** was made by Ms. Freidenrich and **seconded** by Mr. Eley to receive and file the *2016 Audit Plan*.

Audit Committee Meeting
February 28, 2017

The **motion passed unanimously.**

Meeting adjourned at 3:58 p.m.

PUBLIC COMMENTS:

None

COMMITTEE MEMBERS COMMENTS:

Ms. Freidenrich asked the Chief Legal Officer to review the Audit committee activities and provide feedback on best practices.

Mr. Eley asked that the Records Retention Policy be amended to allow for documents in special circumstances to be retained past the policy timeframes to ensure evidence is preserved.

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS:

None

Submitted by:

Approved by:

Steve Delaney
Secretary to the Committee

Charles Packard
Committee Chair

C-3

Memorandum

DATE: March 20, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: CEO FUTURE AGENDAS AND 2017 OCERS BOARD WORK PLAN

Recommendation

Receive and file.

AGENDA TOPICS FOR THE OCERS BOARD OF RETIREMENT

APRIL

Annual Brown Act Training
Conflict of Interest Training
SACRS Board Election

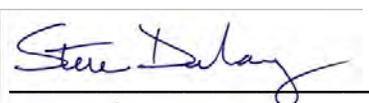
MAY

Review Budget to Actuals Financial Report
Preliminary December 31, 2016 Actuarial Valuation
Member Services Annual Report
Disability Benefits Overview

JUNE

Strategic Planning Workshop – Proposed Agenda
2017 – 2019 Strategic Plan – Quarterly Review
Approve December 31, 2016 Actuarial Valuation
2017 Annual Business Plan – Mid-Year Review
2016 Audited Financial Statements And Comprehensive Annual Financial Report

Submitted by:



Steve Delaney
Chief Executive Officer

OCERS RETIREMENT BOARD - 2017 Work Plan

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep (Offsite)	Oct	Nov	Dec
System Oversight		STAR COLA Posting (I)	Approve 2017 STAR COLA (A)		Review Budget to Actuals Financial Report (I)	Mid-Year Review of 2017 Business Plan Progress (I)	Approve Early Payment Rates for Fiscal Year 2017-18 (A)	Review Budget to Actuals Financial Report (I)	Strategic Planning Workshop (I)	Overview of 2017 Administrative Budget and Investment (Workshop) (I)	Review Budget to Actuals Financial Report (I)	CEO Compensation (A)
		Approve 2017 COLA (A)	Quarterly 2016-2018 Strategic Plan Review (A)		Receive Preliminary December 31, 2016 Actuarial Valuation & Funded Status of OCERS (A)	Approve December 31, 2016 Actuarial Valuation & Funded Status of OCERS (A)	Actuarial Experience Study (A)	Receive OCERS by the Numbers (I)		Approve 2017-2019 Strategic Plan (A)	Approve 2018 Administrative (Operating) Budget (A)	
			Review 2017 Administrative (Operating) Budget (A)			Approve 2016 CAFR (A)		Receive Evolution of the UAAL (I)		Approve 2017 Business Plan (A)	Annual CEO Performance Review (A)	
						Quarterly 2016-2018 Strategic Plan Review (A)		Quarterly CEO Performance Review (A)				
						Approve Financial Statements (A)						
Board Governance	Board Self-Review Process 2017 (I)	Board Self-Review Delivered (A)		Brown Act Training (I)							Adopt 2017 Board Meeting Calendar (A)	Adopt Annual Work Plan for 2017 (A)
				Conflict of Interest Training (I)								Vice-Chair Election (A)
												Appointment of Committee Members & Committee Chairs / Vice Chairs (A)
Regulation / Policies			Quarterly CEO Performance Review (I)			Quarterly CEO Performance Review (I)	Membership Policy (A)	Review Staff Retention Program (I)		Membership Policy (A)		
Compliance		State of OCERS (A)		Form 700 and OCERS Annual Disclosure Due (A)		Receive Financial Audit (I)					Overview of 2017 Training Courses (I)	

(A) = Action (I) = Information

C-4

Memorandum

DATE: March 7, 2017
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: **FOURTH QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016**

Recommendation

Receive and file.

Background/Discussion

The attached Financial Statements reflect the unaudited activity for the year ended December 31, 2016. These reports are preliminary and do not reflect potential year-end adjustments that may result from the upcoming year-end audit. The final Comprehensive Annual Financial Report (CAFR), the official financial statements of OCERS, will be made available on our website, <http://www.ocers.org/finance/finance.htm> after the anticipated completion of the audit at the end of June 2017.

Summary

Fiduciary Net Position

As of December 31, 2016, the net position restricted for pension and other postemployment benefits is \$13.1 billion, an increase of \$1.2 billion from December 31, 2015, or 9.9 percent in comparison to the same period ending December 31, 2015. The change is a result of an increase in total assets of \$1.4 billion offset by an increase in total liabilities of \$172.5 million as described below:

The \$1.4 billion increase in total assets is attributed to an increase of \$1.1 billion in total investments at fair value, an increase in total cash and short-term investments of \$158.8 million and an increase in total receivables by \$88.6 million.

The increase in total investments at fair value can be attributed to higher year-to-date total fund returns from 0.1 percent at December 31, 2015 to 8.5 percent at December 31, 2016. The largest volume increases were in the domestic equity securities, international equity securities and diversified credit categories which saw increases of \$322.9 million, \$230.5 million and \$455.9 million, respectively. Domestic equity securities returns have improved from a 0.6 percent return to a 13.1 percent return. International equity securities increased primarily due to the rebalancing of global equity securities into international equity funds and investment returns of 2.2 percent. Diversified credit has improved from a 1.4 percent return to an 11.4 percent return. All investment categories are seeing positive returns year-to-date.

The increase in cash and short-term investments of \$158.8 million is primarily caused by an increase in cash and cash equivalents, which is up by \$98.2 million at December 31, 2016 due to the timing of contributions and other receipts near year-end, and a \$60.6 million increase in the value of securities lending collateral due to a post-election market rally and low energy prices within the corporate bond fund which increased the demand for securities lending. The increase in total receivables was due to an increase in securities sales of \$37.5 million at December 31, 2016 based on the timing of sales and an increase of \$55.5 million in other receivables relating to year-end investment redemptions. Foreign currency forward contracts reported a net liability balance of \$75,000 at December 31, 2016 compared to an asset of \$6.2 million at December 31, 2015. The value of the foreign currency forward contracts is heavily dependent on investment manager strategy and the international market which continuously fluctuates and directly impacts the fair market values due to changes in the foreign currency exchange rates.

Capital assets decreased by \$2.3 million from December 31, 2015 to December 31, 2016. In 2016, the Pension Administration System Solution (PASS) Project, V3, is fully operational and depreciable. Depreciation expense related to capital assets through December is \$2.3 million with \$2.2 million of the expense related to V3.

The increase of \$172.5 million in total liabilities as of December 31, 2016 compared to December 31, 2015 is primarily due to more activity relating to pending securities purchased, which increased by \$110 million compared to the prior year, obligations under the securities lending program which increased by \$60.6 million is directly related to the increase in securities lending collateral as previously discussed, and retiree payroll payable which increased by \$3 million. Increases in retiree payroll payable are expected as the number of participants in the plan and retiree benefit costs continue to rise. The increase in liabilities was offset by a decrease in unearned contributions of \$4.6 million primarily due to the prior year balance including the early receipt of a prepayment contribution related to the FY 2016-17 prepayment program.

Statement of Changes in Fiduciary Net Position

Total additions to fiduciary net position as of December 31, 2016 increased \$1.1 billion or 129.6 percent compared to December 31, 2015. The increase is comprised of an increase in net investment income of \$1.1 billion and an increase in total contributions of \$10.6 million as described below:

The increase in net investment income can be attributed to higher appreciation in the fair value of investments, which has increased by \$1.1 billion, and greater returns on the underlying investments. At December 31, 2016 the preliminary return is 8.5 percent compared to the return on investments for the fourth quarter in 2015 of 0.1 percent. Overall market performance as of December 31, 2016 has significantly improved compared to December 31, 2015 as all of the investment categories are experiencing positive returns. The total domestic equity category (the largest category), which represents approximately 17 percent of the investment portfolio has a preliminary year-to-date return of 13.1 percent at December 31, 2016, versus a return of 0.6 percent year-to-date return at December 31, 2015. The total diversified credit category represents approximately 12 percent of the investment portfolio and has preliminary returns of 11.4 percent at December 31, 2016 compared to 1.4 percent at December 31, 2015. Other investment income increases include interest income and real estate income. Investment fees and expenses increased by \$26.9 million at December 31, 2016 primarily due to a \$23.6 million increase in total investment management fees caused by reporting an additional 20 investment

managers with “at-source” identifiable management fees that were previously netted against investment returns.

The increase in total contributions is mainly due to a \$9 million increase in employee contributions attributed to higher salaries and slightly higher average employee contribution rates that went into effect on July 1, 2016.

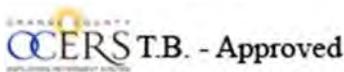
Total deductions from fiduciary net position increased by \$47.1 million or 6.5 percent compared to the previous year, primarily due to the continued and anticipated growth in member pension benefit payments, both in the total number of retirees and an increase in the average benefit received. Administrative expenses have increased by \$4.3 million which can be attributed to the following: increases in depreciation expense of \$2.2 million now being incurred due to the completion of the V3 project, increases in professional services and consulting related to V3 post go-live consulting and V3 data conversion audit of about \$1 million and an increase in legal services of about \$0.3 million related to pending litigation costs and legal services rendered during the vacancy of the Chief Legal Officer position; and personnel costs of \$0.6 million due to the adoption of the 2015-2018 MOU between the County and the OCEA resulting in salary increases for OCERS’ County-represented staff.

Other Supporting Schedules

In addition to the basic financial statements for the year ended December 31, 2016, the following supporting schedules are provided for additional information pertaining to OCERS:

- Total Fund Reserves
- Schedule of Contributions
- Schedule of Investment Expenses
- Schedule of Administrative Expenses
- Administrative Expense Compared to Actuarial Accrued Liability (21 basis points test).

Submitted by:



Tracy Bowman
Director of Finance



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Unaudited Financial Statements

For the Year Ended December 31, 2016

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Unaudited Financial Statements
For the Year Ended December 31, 2016

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Statement of Fiduciary Net Position (Unaudited)
As of December 31, 2016
(with summarized comparative amounts as of December 31, 2015)
(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund- County	Health Care Fund- OCFA	OPEB 115 Agency Fund	Total Fund	Comparative Totals 2015
ASSETS						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 456,120	\$ 8,192	\$ 1,296	\$ 288	\$ 465,896	\$ 367,681
Securities Lending Collateral	<u>165,454</u>	<u>2,972</u>	<u>470</u>	<u>-</u>	<u>168,896</u>	<u>108,296</u>
Total Cash and Short-Term Investments	621,574	11,164	1,766	288	634,792	475,977
Receivables						
Investment Income	15,880	285	45	-	16,210	15,835
Securities Sales	85,263	1,531	242	-	87,036	49,554
Contributions	19,206	-	-	-	19,206	17,730
Foreign Currency Forward Contracts (Net)	-	-	-	-	-	6,170
Other Receivables	<u>56,019</u>	<u>1,006</u>	<u>159</u>	<u>-</u>	<u>57,184</u>	<u>1,709</u>
Total Receivables	176,368	2,822	446	-	179,636	90,998
Investments at Fair Value						
Domestic Equity Securities	2,271,293	40,795	6,455	6,479	2,325,022	2,002,135
International Equity Securities	1,329,218	23,874	3,778	2,495	1,359,365	1,128,864
Global Equity Securities	411,276	7,387	1,169	-	419,832	576,945
Domestic Fixed Income	1,669,698	29,989	4,745	5,432	1,709,864	1,469,570
Real Estate	1,092,897	19,630	3,106	-	1,115,633	1,131,770
Diversified Credit	1,647,062	29,583	4,681	-	1,681,326	1,225,464
Emerging Markets Equity	762,192	13,690	2,166	-	778,048	718,540
Emerging Markets Debt	381,565	6,853	1,084	-	389,502	331,118
Real Return	924,417	16,603	2,627	-	943,647	891,015
Absolute Return	1,411,230	25,347	4,011	-	1,440,588	1,675,015
Private Equity	<u>709,924</u>	<u>12,751</u>	<u>2,018</u>	<u>-</u>	<u>724,693</u>	<u>631,478</u>
Total Investments at Fair Value	12,610,772	226,502	35,840	14,406	12,887,520	11,781,914
Capital Assets, Net	<u>22,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,620</u>	<u>24,935</u>
Total Assets	<u>13,431,334</u>	<u>240,488</u>	<u>38,052</u>	<u>14,694</u>	<u>13,724,568</u>	<u>12,373,824</u>
LIABILITIES						
Obligations Under Securities Lending Program	165,454	2,972	470	-	168,896	108,296
Securities Purchased	157,866	2,835	449	-	161,150	51,531
Unearned Contributions	222,524	-	-	-	222,524	227,166
Foreign Currency Forward Contracts (Net)	74	1	-	-	75	-
Retiree Payroll Payable	59,257	2,511	234	-	62,002	59,015
Other	20,418	367	58	-	20,843	17,729
Due to Employers	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,694</u>	<u>14,694</u>	<u>13,993</u>
Total Liabilities	<u>625,593</u>	<u>8,686</u>	<u>1,211</u>	<u>14,694</u>	<u>650,184</u>	<u>477,730</u>
Net Position Restricted for Pension and Other Postemployment Benefits						
	<u>\$ 12,805,741</u>	<u>\$ 231,802</u>	<u>\$ 36,841</u>	<u>\$ -</u>	<u>\$ 13,074,384</u>	<u>\$ 11,896,094</u>

Statement of Changes in Fiduciary Net Position (Unaudited)
For the Year Ended December 31, 2016
(with summarized comparative amounts for the Year Ended December 31, 2015)
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>Total Fund</u>	<u>Comparative Totals 2015</u>
ADDITIONS					
Contributions					
Employer	\$ 567,196	\$ 42,411	\$ 2,414	\$ 612,021	\$ 610,479
Employee	<u>258,297</u>	<u>-</u>	<u>-</u>	<u>258,297</u>	<u>249,271</u>
Total Contributions	825,493	42,411	2,414	870,318	859,750
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	917,659	14,409	2,451	934,519	(133,255)
Interest	115,001	2,066	329	117,396	54,805
Dividends	40,104	721	115	40,940	50,535
Real Estate Income	26,898	483	77	27,458	24,074
Alternative Investments	36,041	648	103	36,792	45,725
Other Investment Income	1,277	23	4	1,304	1,049
Securities Lending Income					
Gross Earnings	1,857	33	5	1,895	1,342
Less: Borrower Rebates and Bank Charges	<u>(654)</u>	<u>(12)</u>	<u>(2)</u>	<u>(668)</u>	<u>(291)</u>
Net Securities Lending Income	<u>1,203</u>	<u>21</u>	<u>3</u>	<u>1,227</u>	<u>1,051</u>
Total Investment Income	1,138,183	18,371	3,082	1,159,636	43,984
Investment Fees and Expenses	<u>(80,810)</u>	<u>(1,452)</u>	<u>(231)</u>	<u>(82,493)</u>	<u>(55,633)</u>
Net Investment Income/(Loss)	<u>1,057,373</u>	<u>16,919</u>	<u>2,851</u>	<u>1,077,143</u>	<u>(11,649)</u>
Total Additions	<u>1,882,866</u>	<u>59,330</u>	<u>5,265</u>	<u>1,947,461</u>	<u>848,101</u>
DEDUCTIONS					
Participant Benefits	703,862	30,818	3,867	738,547	697,137
Death Benefits	341	-	-	341	524
Member Withdrawals and Refunds	13,369	-	-	13,369	11,857
Administrative Expenses	<u>16,870</u>	<u>22</u>	<u>22</u>	<u>16,914</u>	<u>12,565</u>
Total Deductions	<u>734,442</u>	<u>30,840</u>	<u>3,889</u>	<u>769,171</u>	<u>722,083</u>
Net Increase	<u>1,148,424</u>	<u>28,490</u>	<u>1,376</u>	<u>1,178,290</u>	<u>126,018</u>
Net Position Restricted For Pension and Other Postemployment Benefits, Beginning of Year	<u>11,657,317</u>	<u>203,312</u>	<u>35,465</u>	<u>11,896,094</u>	<u>11,770,076</u>
Ending Net Position Restricted For Pension and Other Postemployment Benefits	<u>\$ 12,805,741</u>	<u>\$ 231,802</u>	<u>\$ 36,841</u>	<u>\$ 13,074,384</u>	<u>\$ 11,896,094</u>

Total Fund Reserves
 For the Year Ended December 31, 2016
 (with summarized comparative amounts for the Year Ended December 31, 2015)
 (Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
Pension Reserve	\$ 8,121,743	\$ 7,609,074
Employee Contribution Reserve	2,893,408	2,691,259
Employer Contribution Reserve	2,085,832	1,912,724
Annuity Reserve	1,263,380	1,119,597
Health Care Reserve	268,643	238,776
County Investment Account (POB Proceeds) Reserve	117,723	108,789
OCSD UAAL Deferred Reserve	34,067	-
Contra Account	<u>(1,710,412)</u>	<u>(1,784,125)</u>
Net Position - Total Fund	<u>\$ 13,074,384</u>	<u>\$ 11,896,094</u>

Schedule of Contributions
For the Year Ended December 31, 2016
(with summarized comparative amounts for the Year Ended December 31, 2015)
(Dollars in Thousands)

	<u>2016</u>		<u>2015</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Pension Trust Fund Contributions				
County of Orange	\$ 204,697	\$ 406,442	\$ 196,801	\$ 388,688
Orange County Fire Authority	18,309	70,161 ²	16,760	82,735
Sanitation District	7,328	48,880 ²	7,467	62,894
Superior Court	15,933	31,521	16,183	31,854
Transportation Authority	9,069	24,584	9,155	25,056
San Juan Capistrano	809	2,264	784	2,352
OCERS	896	1,975	928	1,990
Public Law Library	168	1,816 ²	177	346
Transportation Corridor Agencies	724	1,799	631	1,507
UCI	2	1,315 ³	16	62
Children & Family Commission	102	310	125	365
OCIHSS	99	190	85	178
Cemetery District	122	160	117	153
LAFCO	39	132	31	105
Vector Control ¹	-	-	11	314
Contributions Before Prepaid Discount	258,297	591,549	249,271	598,599
Prepaid Employer Contribution Discount	-	(24,353)	-	(27,301)
Total Pension Trust Fund Contributions	<u>258,297</u>	<u>567,196</u>	<u>249,271</u>	<u>571,298</u>
Health Care Fund - County Contributions	<u>-</u>	<u>42,411</u>	<u>-</u>	<u>36,557</u>
Health Care Fund - OCFA Contributions	<u>-</u>	<u>2,414</u>	<u>-</u>	<u>2,624</u>
Total Contributions	<u>\$ 258,297</u>	<u>\$ 612,021</u>	<u>\$ 249,271</u>	<u>\$ 610,479</u>

¹ No longer an active plan sponsor. OCERS received service credit purchases in 2015.

² Unfunded actuarial accrued liability payments were made in 2016 of \$5.1 million, \$39.1 million and \$1.5 million for the Orange County Fire Authority, the Sanitation District and the Public Law Library, respectively.

³ Unfunded actuarial accrued liability payments have been made in accordance with a separate 20-year level dollar payment schedule to include liabilities for employee benefits related to past service credit.

Schedule of Investment Expenses
For the Year Ended December 31, 2016
(with summarized comparative amounts for the Year Ended December 31, 2015)
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
Investment Management Fees*		
Absolute Return	\$ 13,126	\$ 8,371
Diversified Credit	11,074	1,414
Real Estate	10,885	9,407
Real Return	7,269	4,192
Emerging Markets Equity	5,451	3,522
International Equity Securities	4,705	5,375
Private Equity	3,935	1,243
Domestic Fixed Income	3,817	3,278
Global Equity Securities	1,046	1,564
Domestic Equity Securities	829	870
Emerging Markets Debt	660	-
Total Investment Management Fees	<u>62,797</u>	<u>39,236</u>
Foreign Income Tax and Other Fund Expenses	<u>15,891</u>	<u>12,883</u>
Other Investment Expenses (Expenses Not Subject to the Statutory Limit)		
Consulting/Research Fees	1,517	1,207
Investment Department Expenses	1,465	1,347
Legal Costs	493	635
Custodian Services	300	300
Investment Service Providers	30	25
Total Other Investment Expenses	<u>3,805</u>	<u>3,514</u>
Security Lending Activity		
Security Lending Fees	366	257
Rebate Fees	302	34
Total Security Lending Activity	<u>668</u>	<u>291</u>
Total Investment Expenses	<u>\$ 83,161</u>	<u>\$ 55,924</u>

* Does not include undisclosed fees deducted at source.

Schedule of Administrative Expenses
For the Year Ended December 31, 2016
(with summarized comparative amounts for the Year Ended December 31, 2015)
(Dollars in Thousands)

	2016	2015
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 9,408	\$ 8,812
Board Members' Allowance	15	13
Total Personnel Services	9,423	8,825
Office Operating Expenses		
Professional Services	2,314	1,201
Depreciation/Amortization	2,314	143
Operating Expenses	1,327	1,031
Rent/Leased Real Property	660	624
Total Office Operating Expenses	6,615	2,999
Total Expenses Subject to the Statutory Limit	16,038	11,824
Expenses Not Subject to the Statutory Limit		
Actuarial Fees	394	373
Information Technology Consulting	357	233
Equipment / Software	81	91
Total Expenses Not Subject to the Statutory Limit	832	697
Total Pension Fund Administrative Expenses	16,870	12,521
Health Care Fund - County Administrative Expenses	22	22
Health Care Fund - OCFA Administrative Expenses	22	22
Total Administrative Expenses	\$ 16,914	\$ 12,565

Administrative Expense Compared to Actuarial Accrued Liability

For the Year Ended December 31, 2016

(Dollars in Thousands)

2016 Administrative Expense Compared to Actuarial Accrued Liability	
Projected Actuarial Accrued Liability (AAL) as of December 31, 2016	\$ 17,967,005
Maximum Allowed For Administrative Expense (AAL * 0.21%)	37,731
Actual Administrative Expense ¹	<u>16,038</u>
Excess of Allowed Over Actual Expense	<u>21,693</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability	0.09%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of prior year	0.07%
 ¹ Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 16,870
Less administrative expense not considered per CERL section 31596.1	<u>(832)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 16,038</u>

C-5

Memorandum

DATE: March 8, 2017
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: **FOURTH QUARTER 2016 BUDGET VS PRELIMINARY ACTUALS REPORT**

Recommendation

Receive and file.

Highlights

Fourth Quarter Target: 100% Used /0% Remaining

	Actuals to Date	Annual Amended Budget	Amended Budget \$ Remaining	Amended Budget % Remaining
Administrative Budget				
Personnel Costs	\$9,422,667	\$10,116,279	\$693,612	6.9%
Services and Supplies	4,737,351	5,678,363	941,012	16.6%
Capital Expenditures	51,293	2,098,000	2,046,707	97.6%
Administrative Total	<u>\$14,211,311</u>	<u>\$17,892,642</u>	<u>\$3,681,331</u>	<u>20.6%</u>
Investment Budget				
Personnel Costs	\$1,401,974	\$1,384,807	(\$17,167)	-1.2%
Services and Supplies	63,209	177,725	114,516	64.4%
Professional Services	65,533,047	40,104,129	(25,428,918)	-63.4%
Investment Total	<u>\$66,998,230</u>	<u>\$41,666,661</u>	<u>(\$25,331,569)</u>	<u>-60.8%</u>
Grand Total				
Personnel Costs	\$10,824,641	\$11,501,086	\$676,445	5.9%
Services and Supplies	4,800,560	5,856,088	1,055,528	18.0%
Capital Expenditures-Administrative	51,293	2,098,000	2,046,707	97.6%
Professional Services-Investments	65,533,047	40,104,129	(25,428,918)	-63.4%
Grand Total	<u>\$81,209,541</u>	<u>\$59,559,303</u>	<u>(\$21,650,238)</u>	<u>-36.4%</u>

Background/Discussion

The Board of Retirement approved OCERS' Administrative and Investment Budgets for Fiscal Year 2016 (FY16) on November 16, 2015, in the amount of \$59,090,303; \$17,423,642 for administration and \$41,666,661 for investment related activities. At the May 16, 2016 Regular Board Meeting, the Board approved a budget amendment of \$469,000 to change the V3 pension system configuration for calculating a member's Final Average Salary (FAS) used in retirement benefit calculations and estimates as directed by the Board at the

Regular Board meeting held on February 16, 2016. The budget amendment increased budget categories of personnel costs by \$156,000 and services and supplies by \$313,000, resulting in an amended 2016 administrative budget of \$17,892,642 and an overall amended 2016 budget of \$59,559,303.

OCERS' budgeting authority is regulated by California Government Code Sections 31580.2 and 31596.1, including a provision that OCERS' budget for administrative expenses (which excludes investment related costs and expenditures for computer software, hardware and related technology consulting services) is limited to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system (commonly referred to as the 21 basis point test). The approved FY16 amended administrative budget represents 8.25 basis points of the projected actuarial accrued liability. The amended budget also meets OCERS' Board policy limitation of 18 basis points of the projected actuarial value of total assets and represents 14.54 basis points of these assets for FY16.

The Chief Executive Officer, or the Assistant CEO, has the authority to transfer funds within the three broad categories of the budget: 1) Salaries and Benefits, 2) Services and Supplies, and 3) Capital Projects. Funds may not be moved from one category to another without approval from the Board of Retirement.

Administrative Summary

For the year ended December 31, 2016, preliminary actual administrative expenses were \$14,211,311 or 79.4% of the \$17,892,642 amended administrative budget and below budget by approximately \$3.7 million. A summary of all administrative expenses (excluding investments) and explanations of significant variances are provided below:

**Summary of all Administrative Expenses (excluding Investments)
For the Year Ended December 31, 2016**

	Actuals to Date	Annual Amended Budget	% of Amended Budget Used	Amended Budget vs. Actuals (Over)/Under
Personnel Costs	\$9,422,667	\$10,116,279	93.1%	\$693,612
Services and Supplies				
Bldg. Prop. Mgmt./Maintenance	586,513	705,000	83.2%	118,487
Equipment Lease	73,117	98,000	74.6%	24,883
Equipment Maintenance	578,706	668,543	86.6%	89,837
Equipment/Software Expenses	80,734	179,750	44.9%	99,016
Legal Services	677,118	360,000	188.1%	(317,118)
Meetings & Mileage	22,777	57,550	39.6%	34,773
Membership/Periodicals	128,617	138,870	92.6%	10,253
Office Supplies	46,873	42,000	111.6%	(4,873)
Postage	138,064	144,000	95.9%	5,936
Printing	95,551	95,000	100.6%	(551)
Professional Services	1,992,975	2,666,900	74.7%	673,925
Telephone	83,982	90,000	93.3%	6,018
Training	232,324	432,750	53.7%	200,426
Services and Supplies	4,737,351	5,678,363	83.4%	941,012
Administrative Expense-Sub Total	14,160,018	15,794,642	89.7%	1,634,624
Capital Expenditures*	51,293	2,098,000	2.4%	2,046,707
Administrative Expense Total	\$14,211,311	\$17,892,642	79.4%	\$3,681,331

*Capital expenditures represent purchases of assets to be amortized in future periods.

Personnel Costs - Administrative

Personnel Costs incurred as of year-end were approximately \$9.4 million or 93.1% of the annual amended budget for this category. These expenses are slightly below budget due to several positions that were vacant in the Legal, Finance, and IT departments, including Chief Legal Officer, which was filled during the fourth quarter, as well as Accounting Technician, Accountant Auditor, Senior IT Applications Developer, and two IT Application Developers. The savings from the open positions were offset by unbudgeted salary increases for OCERS' County-represented staff as included in the MOU between the County and OCEA.

Services and Supplies - Administrative

Total expenditures for services and supplies were approximately \$4.7 million or 83.4% of the annual amended budget for this category. The variance of \$941,012 in this category is primarily due to the following:

- Building Property Mgmt./Maintenance costs utilized 83.2% of the annual amended budget and were lower than the amended budget by \$118,487. This is mainly due to proceeds received from OCERS Headquarters' property manager in the amount of approximately \$94,470 for reimbursement of funding that exceeded the property management established reserves for maintenance of the building.

- Equipment Lease is at 74.6% of the annual amended budget and lower than the amended budget by \$24,883. This is attributable to lease negotiations for new copiers that were placed into service in June 2016 at a lower price than the previous contract.
- Equipment Maintenance costs are at 86.6% of the annual amended budget and are lower than the amended budget by \$89,837. This is primarily due to budgeted costs left unused at year-end, including telephone and various hardware support.
- Equipment/Software expense utilized 44.9% of the annual amended budget and is lower than the amended budget by \$99,016. This is primarily due to budgeted costs coming in less than expected or left unused at year-end for miscellaneous IT software and equipment, including an anti-spam solution, log aggregation and monitoring solution, and postponement of laptop security and location services to FY17.
- Legal Services are at 188.1% of the annual amended budget and are higher than the amended budget by \$317,118. This is primarily due to legal services related to personnel issues and data security, pending litigation costs, regulation and policy discussion with Plan Sponsors, as well as legal services rendered to cover for the Chief Legal Officer vacancy. As the total amount expended under the Services and Supplies category remains under budget, an amendment is not required to cover the Legal Services budget shortage. The CEO or Assistant CEO has the authority to move budget dollars within the Services and Supplies category to cover the shortage and as of year-end, there were sufficient dollars available in other Services and Supplies line items to offset this shortage.
- Meetings & Mileage expense is at 39.6% of the annual amended budget and is lower than the amended budget by \$34,773. This is primarily due to budgeted costs coming in less than expected or unused at year-end, including manager and Board member visits to Southern California Retirement Systems, legislative meetings, and travel for plan sponsor audits.
- Memberships/Periodical expense is at 92.6% of the annual amended budget and lower than the amended budget by \$10,253. This is mainly due to budgeted costs coming in less than expected or unused at year-end.
- Office Supplies utilized 111.6% of the annual amended budget and is higher than the amended budget by \$4,873. This is mainly due to costs of office supplies coming in higher than budget. As the total amount expended under the Services and Supplies category remains under budget, an amendment is not required to cover the Office Supplies budget shortage. The CEO or Assistant CEO has the authority to move budget dollars within the Services and Supplies category to cover the shortage and as of year-end, there were sufficient dollars available in other Services and Supplies line items to offset this shortage.
- Postage is at 95.9% of the annual amended budget and lower than the amended budget by \$5,936. This is attributable to the use of postage on an as-needed basis.
- Printing expense is at 100.6% of the annual amended budget and slightly higher than the amended budget by \$551. This expense is within the annual target for this category.
- Professional Services utilized 74.7% of the annual amended budget. Expenses are lower than the amended budget by \$673,925 primarily due to budgeted costs coming in less than expected for various IT-related software consulting, internet access fees, administrative hearing and writ of mandate process fees, financial audit costs, board election costs, as well as costs used on an as-needed-basis, such as CEO contingency.

- Telephone expense is at 93.3% of the annual amended budget and lower than the amended budget by \$6,018. This is due to budgeted costs coming in less than expected.
- Training has utilized 53.7% of the annual amended budget and is lower than the amended budget by \$200,426. This is primarily due to costs coming in less than budget for various training, including SACRS and CALAPRS conferences, annual subscription to IT online training, and tuition reimbursement. The expenses in this category are well under budget due to strain on staff resources and volume of workload, which was addressed in the FY17 Staffing Plan.

Capital Expenditures - Administrative

Capital Expenditures as of year-end are \$51,293 or 2.4% of the annual budget for this category. The variance of approximately \$2 million is primarily due to budgeted costs for the Business Continuity/Disaster Recovery Planning project which are not anticipated to occur until 2017 and are being carried over to the FY17 budget.

Investment Summary

For the year ended December 31, 2016, preliminary actual investment expenses are approximately \$67 million or 160.8% of the \$41,666,661 annual investment budget and over budget by approximately \$25.3 million. A summary of all investment expenses and explanations of significant variances are provided below:

Summary of all Investment Expenses For the Year Ended December 31, 2016

	<u>Actuals to Date</u>	<u>Annual Budget</u>	<u>% of Budget Used</u>	<u>Budget vs. Actuals (Over)/Under</u>
Personnel Costs	\$1,401,974	\$1,384,807	101.2%	(\$17,167)
Services and Supplies				
Due Diligence	6,683	52,890	12.6%	46,207
Equipment/Software Expenses	25,080	25,000	100.3%	(80)
Meetings & Mileage	8,753	9,000	97.3%	247
Membership/Periodicals	4,893	26,705	18.3%	21,812
Training	17,800	64,130	27.8%	46,330
Services and Supplies	63,209	177,725	35.6%	114,516
Investment Expense-Sub Total	1,465,183	1,562,532	93.8%	97,349
Professional Services*	65,533,047	40,104,129	163.4%	(25,428,918)
Investment Expense Total	\$66,998,230	\$41,666,661	160.8%	(\$25,331,569)

*Professional services excludes unbudgeted professional service actual expenses of foreign income tax / other and security lending fees totaling approximately \$15.9 million and \$667,000, respectively.

Personnel Costs - Investments

Personnel costs are approximately \$1.4 million or 101.2% of the annual budget for this category. The expenses are slightly higher than budget due to the allocation of Salary Adjustment Pool costs being budgeted under Administrative Services. Excluding these costs, the expenses would be slightly below budget by approximately \$19,397 or 98.6% of the annual budget and within the annual target. The CEO or Assistant CEO has the authority to move budget dollars within the Personnel Cost category to cover the shortage and as of year-end, there were sufficient dollars available in administrative Personnel Costs to offset this shortage.

Services and Supplies - Investments

Services and Supplies expenditures are \$63,209 or 35.6% of the annual budget for this category. This is primarily due to expenses coming in less than budgeted for training and tuition reimbursement expenses, including those for the Education Forum, as well as incurring less due diligence travel than planned.

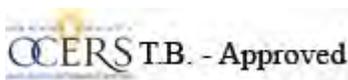
Professional Services - Investments

Professional services, which consist primarily of investment management fees, are approximately \$65.5 million or 163.4% of the annual budget and higher than budget by approximately \$25.4 million. The variance relates to additional investment fees of approximately \$25.5 million coming in higher than estimated. The higher investment management fees are primarily a result of an increase in the number of investment managers' reporting non-cash investment fees on their client statements, including an additional 20 investment managers whose fees were previously netted against investment returns. The proposed budget amendment of \$28 million being presented at the March 2017 Board meeting will cover these now-identifiable at-source investment management fees that have been incurred in 2016, as well as any potential post-closing year-end adjustments to true-up accrued investment management fees.

Conclusion:

As of year-end, the amended Administrative and Investment budgets, based on preliminary actuals, were below and in excess of their annual amended budgets at 79.4% and 160.8%, respectively. The Investment budget exceeded the annual budget primarily due to higher than expected investment management fees being reported by certain investment managers. A budget amendment is being proposed at the March 2017 Board meeting to address the overrun. In addition, actual Administrative expenses were within the 21 basis point test and 18 basis point test as budgeted.

Submitted by:



Tracy Bowman
Director of Finance

C-6

Memorandum

DATE: March 6, 2017
TO: Members of the Board of Retirement
FROM: Jenny Sadoski, Director of Information Technology
SUBJECT: BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN UPDATE

Recommendation

Receive and file.

Update

Since the update provided to the Board at the January 17th regular Board meeting, we have procured the remaining hardware and software required for the data center colocation project. As of the date of this report, the hardware, software, support and training identified in Table 1 have been purchased and OCERS has received an invoice in the amount of \$654,276.88. This cost represents a savings of over \$20,000 from the original estimated expenses of \$675,000 as identified in Table 2 on page 3 of this report. While we do not anticipate cost overruns, this savings will be added to the contingency to offset future overruns, should we incur any.

Table 1: Procured Items and Expenses through March 3, 2017

Procured Item	Expense
Storage Area Network Hardware and Software	\$ 172,989.50
Servers	\$ 41,186.44
Network Switches	\$ 73,834.66
Networking transceivers and miscellaneous cabling	\$ 12,014.81
Global and Local Traffic Managers	\$ 169,721.14
Virtualization Licensing and Support	\$ 48,460.03
Network Security Appliances	\$ 63,527.61
Network Security Appliance Training	\$ 4,080.69
Disaster Recovery and Replication Software	\$ 65,162.00
Shipping costs	\$ 3,300.00
Total	\$ 654,276.88

In parallel with these procurements, OCERS IT staff worked closely with our technology partner, Sidepath, to create the request for proposal (RFP) which will be used to select a vendor to provide the local and out-of-state colocation facilities in which we will house our data center equipment and business continuity (BC) and disaster recovery (DR) equipment and the wide area network (WAN) services through which we will connect the three sites in question (OCERS headquarters, local data center, out-of-state data center). This RFP was released to the

public on February 6 and closed on March 3. The OCERS and Sidepath teams are now in the RFP evaluation period with a vendor scheduled to be selected on March 24.

IT staff continues to further investigate options regarding our enterprise phone system. Sidepath provides expertise in this field as well and is assisting us in reviewing options and analysing costs. We will meet with appropriate stakeholders within OCERS to ensure that a selected option will align with both organizational goals and with time and resource constraints.

Background

At the September 2014 Strategic Planning meeting, OCERS' Board of Retirement directed staff to hire a business continuity consulting firm to provide professional services to assist in the development of a new BC/DR plan. The cost for the professional services was budgeted as part of the OCERS 2015 budget which was reviewed at the OCERS 2014 Budget Workshop and approved at the November 17, 2014 regular Board meeting. The total project was budgeted at \$2.3 million. During the 2014 Strategic Planning meeting, staff also received feedback from Board members to avoid the use of public cloud architecture for its core business application.

At the April 15, 2015 regular Board meeting, OCERS staff presented to the Board the results of the business continuity consulting services RFP. The Board approved staff's recommendation to acquire the services of Avalution Consulting for a cost of \$102,500 and procurement of the Catalyst online software solution at an annual cost of \$3,000. The Avalution project team began work in June 2015, conducting the business impact analysis and developing OCERS' business continuity and disaster recovery plan with staff, including a crisis management plan.

OCERS staff presented the methodology, deliverables and recommendations from Avalution Consulting to the Board at the October 19, 2015 regular Board meeting. Avalution's recommendations, based on industry best practices, were:

1. Identify Alternate Workspace

- Identify solution that can support all personnel required for response and recovery from a disruption.

2. Develop and Implement Disaster Recovery Capabilities

- Identify a suitable alternate location for the data center as well as develop and implement disaster recovery procedures to recover and relocate its network systems.

3. Develop and Implement a Crisis Management Structure

- Establish a crisis management team to lead the response to a disruption event.
- Implement and document strategies to address a loss of employees who perform critical activities and implement succession planning for critical personnel.
- Implement and validate (test) work from home or alternate location capabilities.
- Communicate and train OCERS staff on business continuity planning and procedures.

4. Develop and Document Manual Workarounds

- Document manual workarounds and alternate process procedures and make documents available by storing in Catalyst business continuity software.

At the October 19, 2015 Board meeting, staff presented to the Board the following next steps for the project:

- Develop annual BC/DR testing and maintenance schedule.
- Pursue and implement options for alternate workspaces for OCERS staff in case of disruption of service.

- Draft and implement redundant and high availability solutions for OCERS data center and pursue out of state co-location of OCERS data center.
- Establish communications systems including new Voice-over-IP phone system, to support member communications, reporting, and crisis management.
- Investigate cost and feasibility of building improvement options such power generators and new data center equipment (UPS, HVAC).

In June 2016, OCERS released a RFP for IT BC/DR implementation services which received four responses and culminated in the selection in July 2016 of Sidepath as our technology partner for this initiative.

At the 2016 budget workshop held on October 22, 2015, staff included \$2 million in the proposed budget for the continuation of the BC/DR project. The project budget was approved by the Board as part of the 2016 Administrative Budget at the November 16, 2015 regular Board meeting.

Staff then provided an update to the Board on the progress of the BC/DR project as described above as a consent item at the August 15, 2016 Board meeting.

At the October 17, 2016 regular Board meeting, staff presented the plan to move forward with the primary and secondary data center relocation, including detailed discussion on potential options. Staff recommended a hybrid (public/private) cloud architecture for the data center.

At the November 14, 2016 regular Board meeting, the Board approved staff's recommendation to establish a hybrid (private/public) cloud infrastructure solution, relocate the primary OCERS data center to a local, professionally-managed facility, establish a secondary site out-of-state and implement a public cloud-based telephony system in order to enhance OCERS' business continuity and disaster recovery capabilities at a cost not to exceed the 2017 budgeted amount of \$1.235 million. At that meeting, the Board requested bi-monthly status updates to be included in the consent agenda.

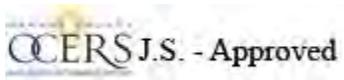
On November 21, 2016, OCERS issued a purchase order to our technology partner, Sidepath, to allow them to begin procurement of the hardware, software and support required for the project. The bill of materials for this procurement was subject to a competitive bid process for which we received three responses.

OCERS has defined a budget of \$1.235 million in 2017 to proceed with a hybrid cloud solution which includes the costs shown in Table 2.

Table 2: Approved 2017 Purchase Costs and Actuals-to-Date

Description	Estimated Expenses	Actual Expenses
Hardware and Software	\$ 671,000.00	\$ 650,196.19
Professional Services	\$ 80,000.00	\$ -
Staff Training	\$ 4,000.00	\$ 4,080.69
Public Cloud-based Telephony System	\$ 250,000.00	\$ -
Initial Setup and First Year Recurring Costs	\$ 140,000.00	\$ -
Contingency	\$ 90,000.00	\$ -
Total	\$ 1,235,000.00	\$ 654,276.88

Submitted by:



Jenny Sadoski
OCERS Director of Information Technology

C-7

Memorandum

DATE: March 20, 2017
TO: Members of the Board of Retirement
FROM: Gina M. Ratto, Chief Legal Officer
SUBJECT: GOVERNANCE COMMITTEE OUTCOMES FROM FEBRUARY 8, 2017 MEETING

Recommendation

The Governance Committee recommends that the Board of Retirement adopt:

- (1) Revisions to the OCERS Securities Litigation Policy; and
- (2) The OCERS Board Policy on Membership Eligibility Requirements, with an effective date of January 1, 2018.

Background/Discussion

The OCERS Securities Litigation Policy

The Board of Retirement adopted the *OCERS Securities Litigation Policy* (Policy) on December 15, 2003. The Policy was last revised on May 20, 2013; and additional revisions were presented to the Board, pursuant to the Board's regular three-year review schedule, in December 2016. At its December 2016 meeting, the Board directed staff to present the Policy to the Governance Committee for discussion.

The Governance Committee met on February 8, 2017, and approved the following revisions to the Policy:

- The Policy was revised to specify that OCERS will engage two to five securities monitoring firms to assist the Legal department in monitoring and reporting on new securities litigation case filings. The contracts with these firms will be for terms not exceeding six years, and an RFP will be conducted before the expiration of the six year term. (See paragraphs 2 and 6 under "Monitoring and Reporting.")
- In order to assist the Board and staff in determining when OCERS should take an active role in securities litigation cases and in light of the increase in international securities litigation, Legal department will vet cases and bring meritorious cases to the Board with an explanation of anticipated risks and rewards of the litigation. (See addition of subsection 7. A. ix under section titled, "Staff Analysis Regarding OCERS' Direct Participation.")
- The Policy requires that proposed settlements in cases in which OCERS has taken a direct role will be presented to the Board at its next regular meeting for consideration and action. However, in the event a decision on a settlement must be made in a time frame that does not allow staff to bring the proposed settlement to the Board for review and approval, the Governance Committee approved an addition to the Policy to allow the Chief Executive Officer, after consultation with the Board Chair and Vice Chair, to approve and enter into a settlement on behalf of OCERS. Such settlements will be reported to the Board

at its next regular meeting. (See addition of a new section titled, "Settlements" and paragraphs 11 and 12 thereunder.)

The Governance Committee recommends that the Board adopt the revisions to the Policy as presented.

The OCERS Board Policy on Membership Eligibility Requirements

Last year, the Board determined that it should provide clarification regarding the proper designation of "extra help" employees for purposes of administering OCERS' regulations and delegated this task to the Governance Committee. Staff and fiduciary counsel provided draft policy language to the Governance Committee on August 17, 2016. At that meeting, the Governance Committee directed staff to meet with a working group of employer and labor representatives to refine the language for the policy. The working group met several times and staff received further input from the Governance Committee on September 22, 2016.

On February 8, 2017, staff and fiduciary counsel presented a proposed policy to the Governance Committee for approval. The Governance Committee approved the new policy as presented with an effective date of January 1, 2018, and with the addition of a paragraph at the end of section 5 of the policy that reads:

Note: Per section 4(a), all employees hired with the expectation that they will work less than one year are properly excluded from OCERS membership for that year, regardless of how their position may be designated. If such employees ultimately work more than one year, they should be enrolled in OCERS membership if they work more than 1,040 hours per year (if not "extra help") or more than 1,600 hours per year (if "extra help").

The Governance Committee recommends that the Board adopt the Policy on Membership Eligibility Requirements as presented, with an effective date of January 1, 2018.

Attachments

Submitted by:



Gina M. Ratto
Chief Legal Officer

Purpose and Background

1. The Securities Litigation Policy was implemented to assist the Board of Retirement and OCERS staff in identifying and tracking securities litigation cases in which OCERS may have an interest. ~~Staff~~ The Legal department will track and analyze litigation ~~to and~~ advise the Board regarding direct involvement by OCERS and inform the Board of recovered funds. The Securities Litigation Policy assists the Board in its duty to protect trust funds and provide benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system (Cal. Const. Art. XVI, § 17).

Monitoring and Reporting

2. ~~The~~ Legal department will monitor and prepare reports listing new securities litigation case filings in which OCERS has identified losses, ~~new case filings in which there are no identified losses,~~ and case settlements on a monthly basis. OCERS will engage two to five firms specializing in securities litigation monitoring to assist the Legal department with these responsibilities.
- ~~2.3.~~ The reports will identify the name of the security, the class period, OCERS' identified losses, and the claims filing deadlines.

Information on case filings and settlements will be obtained from:

- a. Internet sites;
 - b. Print and electronic publications;
 - c. Firms specializing in securities litigation monitoring;
 - d. Custodian Bank;
 - e. Any other reliable source of information.
- ~~3.4.~~ The Legal department will provide the reports to the Investment division staff at the beginning of each month.
 5. The reports will also include a list of new cases in which OCERS' estimated losses exceed \$1,000,000.00 as identified by OCERS' securities litigation monitoring firms. This list will include a brief analysis of the merits of the litigation.
 - ~~4.6.~~ The contracts with securities monitoring firms will be for terms not exceeding six years. Prior to the expiration of the six year term, the Chief Executive Officer or his or her designee will conduct an RFP.

OCERS Board Policy Securities Litigation Policy

Staff Analysis Regarding OCERS' Direct Participation

~~5-7.~~ For claims under \$1,000,000.00, OCERS will not consider taking an active role in the litigation unless OCERS cannot recover without active participation. The factors used in determining whether OCERS should take an active role in securities litigation cases are listed below under subsection A. If a loss over \$1,000,000.00 is incurred closely preceding or closely following the published claims period, staff will proceed as set forth below under subsection B. If ~~staff~~ the Legal Department determines that direct participation is warranted under subsection A or a request should be made to revise the claims period under subsection B, ~~staff~~ the Legal department will prepare an appropriate analysis of the case for presentation to the Board. Other cases will be monitored under subsection C.

A. Factors to consider for losses incurred during the claims period:

- i. The size of the loss;
- ii. The identity of the lead plaintiff and other parties, if known;
- iii. The merits of the case, both from a legal perspective and a business perspective;
- iv. The likely degree of recovery versus the time and costs involved in pursuing the matter actively;
- v. Impact on the portfolio from potential trading restrictions arising from acquisition of inside information in litigation;
- vi. Effectiveness of potential alternatives for recovering the value of the claim, such as filing a claim and monitoring;
- vii. The effectiveness and availability of potential witnesses and ability for the investment staff and fund managers to respond to requested discovery;
- viii. Whether active involvement of OCERS would add value to the potential resolution or management of the case.

~~viii.~~ix. The forum and choice of law for the case. Active participation in foreign securities actions will be examined on a case-by-case basis, and the Legal department will present meritorious foreign cases to the Board to determine whether the potential recovery in such cases is sufficient to warrant participation and whether the funding arrangement is sufficient to protect OCERS from adverse cost claims.

B. If a loss in excess of \$1,000,000.00 is identified closely preceding or following the claims period at issue in a case, ~~the~~ Legal staff department will seek advice regarding adjustment of the claims period from retained securities litigation firms. If warranted, ~~staff~~ the Legal department will prepare a recommendation to the Board to request that the claims period be expanded to include OCERS' loss, based upon the length of time preceding or following the claims period and the size of the loss. The Legal department will contact the plaintiffs if a decision is made to request an expansion of the claims period.

C. If a loss is suffered by OCERS, but the claim does not warrant active participation in the litigation, as determined pursuant to subsection ~~5-7~~ A or B above, ~~the~~ Legal staff department

OCERS Board Policy Securities Litigation Policy

will monitor the case and coordinate with the Custodian Bank to ensure that a claim is filed on any settlement within the necessary claims period. The Legal staff department will track claims filed by the Custodian Bank and provide a summary report of claims filed and funds recovered to the Board semi-annually.

OCERS Direct Participation

8. If further action is required as a result of the analysis performed pursuant to paragraph 5-7 A or B above, ~~General Counsel~~the Chief Legal Officer and the Chief Investment Officer shall inform the Chief Executive Officer of their analysis. The ~~General Counsel~~Chief Legal Officer, Chief Investment Officer and Chief Executive Officer will jointly determine what recommendation to present to the Board of Retirement. If necessary, a Special Board meeting may be scheduled to discuss whether and to what extent OCERS will actively participate in litigation.

9. Securities Litigation law firms on OCERS' pre-approved panel are to be used for preparation of in-depth damages analyses and/or for representation in litigation. Other firms may be used for representation in litigation when firms on the OCERS' pre-approved panel are not involved in the litigation. Final approval of firms will rest with the Board of Retirement. The determination of which cases warrant an in-depth damages analysis will be made by ~~staff~~the Legal department in accordance with this policy. The determination of which cases will proceed to litigation on OCERS' behalf will be made by the Board in accordance with this policy.

10. In cases where a filing deadline will pass prior to the date of the next available Board meeting, ~~the OCERS'~~ Legal ~~staff~~department may, upon approval by the Chief Executive Officer, authorize filing of a case or lead plaintiff petition. Such filing shall be provisional and subject to ratification by the Board at the next available Board meeting.

Settlements

11. When a settlement is presented in a case in which OCERS has taken a direct role, the Legal department will provide the Chief Executive Officer and the Chief Investment Officer with an analysis of the settlement terms, including the total amount of the proposed recovery, proposed costs and fees paid to attorneys, the percentage of recovery of OCERS' identified losses, analysis from the firm representing OCERS in the case, and any other relevant information pertaining to the settlement.

12. The proposed settlement and the Legal department's analysis will be presented to the Board at its next regular meeting for consideration and action. In the event a decision on the settlement is required from OCERS before the Board's next regular meeting, the Chief Executive Officer will consult with the Board Chair and Vice Chair regarding the merits of the settlement, and based on input received from them, the Chief Executive Officer may authorize the settlement without action by the Board. Settlements authorized by the Chief Executive Officer in accordance with this paragraph will be reported to the Board at its next regular meeting.

OCERS Board Policy Securities Litigation Policy

Policy History

13. The Board adopted this policy on December 15, 2003. The Board amended this policy on December 20, 2004; ~~The Board~~ reviewed this policy with no changes on March 24, 2008; ~~and The Board~~ amended this policy on August 24, 2009; ~~The Board amended this policy on~~ May 20, 2013 and March 20, 2017.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



5/20/2013/20/2017

Steve Delaney
Secretary of the Board

Date

Purpose and Background

1. The Securities Litigation Policy was implemented to assist the Board of Retirement and OCERS staff in identifying and tracking securities litigation cases in which OCERS may have an interest. The Legal department will track and analyze litigation and advise the Board regarding direct involvement by OCERS and inform the Board of recovered funds. The Securities Litigation Policy assists the Board in its duty to protect trust funds and benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system (Cal. Const. Art. XVI, § 17).

Monitoring and Reporting

2. The Legal department will monitor and prepare reports listing new securities litigation case filings in which OCERS has identified losses and case settlements on a monthly basis. OCERS will engage two to five firms specializing in securities litigation monitoring to assist the Legal department with these responsibilities.
3. The reports will identify the name of the security, the class period, OCERS' identified losses, and the claims filing deadlines.

Information on case filings and settlements will be obtained from:

- a. Internet sites;
 - b. Print and electronic publications;
 - c. Firms specializing in securities litigation monitoring;
 - d. Custodian Bank;
 - e. Any other reliable source of information.
4. The Legal department will provide the reports to the Investment division staff at the beginning of each month.
 5. The reports will also include a list of new cases in which OCERS' estimated losses exceed \$1,000,000.00 as identified by OCERS' securities litigation monitoring firms. This list will include a brief analysis of the merits of the litigation.
 6. The contracts with securities monitoring firms will be for terms not exceeding six years. Prior to the expiration of the six year term, the Chief Executive Officer or his or her designee will conduct an RFP.

OCERS Board Policy Securities Litigation Policy

Staff Analysis Regarding OCERS' Direct Participation

7. For claims under \$1,000,000.00, OCERS will not consider taking an active role in the litigation unless OCERS cannot recover without active participation. The factors used in determining whether OCERS should take an active role in securities litigation cases are listed below under subsection A. If a loss over \$1,000,000.00 is incurred closely preceding or closely following the published claims period, staff will proceed as set forth below under subsection B. If the Legal Department determines that direct participation is warranted under subsection A or a request should be made to revise the claims period under subsection B, the Legal department will prepare an appropriate analysis of the case for presentation to the Board. Other cases will be monitored under subsection C.

A. Factors to consider for losses incurred during the claims period:

- i. The size of the loss;
- ii. The identity of the lead plaintiff and other parties, if known;
- iii. The merits of the case, both from a legal perspective and a business perspective;
- iv. The likely degree of recovery versus the time and costs involved in pursuing the matter actively;
- v. Impact on the portfolio from potential trading restrictions arising from acquisition of inside information in litigation;
- vi. Effectiveness of potential alternatives for recovering the value of the claim, such as filing a claim and monitoring;
- vii. The effectiveness and availability of potential witnesses and ability for the investment staff and fund managers to respond to requested discovery;
- viii. Whether active involvement of OCERS would add value to the potential resolution or management of the case.
- ix. The forum and choice of law for the case. Active participation in foreign securities actions will be examined on a case-by-case basis, and the Legal department will present meritorious foreign cases to the Board to determine whether the potential recovery in such cases is sufficient to warrant participation and whether the funding arrangement is sufficient to protect OCERS from adverse cost claims.

B. If a loss in excess of \$1,000,000.00 is identified closely preceding or following the claims period at issue in a case, the Legal department will seek advice regarding adjustment of the claims period from retained securities litigation firms. If warranted, the Legal department will prepare a recommendation to the Board to request that the claims period be expanded to include OCERS' loss, based upon the length of time preceding or following the claims period and the size of the loss. The Legal department will contact the plaintiffs if a decision is made to request an expansion of the claims period.

C. If a loss is suffered by OCERS, but the claim does not warrant active participation in the litigation, as determined pursuant to subsection 7 A or B above, the Legal department will

OCERS Board Policy

Securities Litigation Policy

monitor the case and coordinate with the Custodian Bank to ensure that a claim is filed on any settlement within the necessary claims period. The Legal department will track claims filed by the Custodian Bank and provide a summary report of claims filed and funds recovered to the Board semi-annually.

OCERS Direct Participation

8. If further action is required as a result of the analysis performed pursuant to paragraph 7 A or B above, the Chief Legal Officer and the Chief Investment Officer shall inform the Chief Executive Officer of their analysis. The Chief Legal Officer, Chief Investment Officer and Chief Executive Officer will jointly determine what recommendation to present to the Board of Retirement. If necessary, a Special Board meeting may be scheduled to discuss whether and to what extent OCERS will actively participate in litigation.
9. Securities Litigation law firms on OCERS' pre-approved panel are to be used for preparation of in-depth damages analyses and/or for representation in litigation. Other firms may be used for representation in litigation when firms on the OCERS' pre-approved panel are not involved in the litigation. Final approval of firms will rest with the Board of Retirement. The determination of which cases warrant an in-depth damages analysis will be made by the Legal department in accordance with this policy. The determination of which cases will proceed to litigation on OCERS' behalf will be made by the Board in accordance with this policy.
10. In cases where a filing deadline will pass prior to the date of the next available Board meeting, the Legal department may, upon approval by the Chief Executive Officer, authorize filing of a case or lead plaintiff petition. Such filing shall be provisional and subject to ratification by the Board at the next available Board meeting.

Settlements

11. When a settlement is presented in a case in which OCERS has taken a direct role, the Legal department will provide the Chief Executive Officer and the Chief Investment Officer with an analysis of the settlement terms, including the total amount of the proposed recovery, proposed costs and fees paid to attorneys, the percentage of recovery of OCERS' identified losses, analysis from the firm representing OCERS in the case, and any other relevant information pertaining to the settlement.
12. The proposed settlement and the Legal department's analysis will be presented to the Board at its next regular meeting for consideration and action. In the event a decision on the settlement is required from OCERS before the Board's next regular meeting, the Chief Executive Officer will consult with the Board Chair and Vice Chair regarding the merits of the settlement, and based on input received from them, the Chief Executive Officer may authorize the settlement without action by the Board. Settlements authorized by the Chief Executive Officer in accordance with this paragraph will be reported to the Board at its next regular meeting.



OCERS Board Policy

Securities Litigation Policy

Policy History

13. The Board adopted this policy on December 15, 2003. The Board amended this policy on December 20, 2004; reviewed this policy with no changes on March 24, 2008; and amended this policy on August 24, 2009, May 20, 2013 and March 20, 2017.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

A handwritten signature in blue ink that reads "Steve Delaney" is enclosed in a rectangular box.

3/20/2017

Steve Delaney
Secretary of the Board

Date

Membership Eligibility Requirements

Purpose and Background

1. The Orange County Employees Retirement System (OCERS, System or Plan) is charged with administering a defined benefit pension plan for eligible employees of the County and Districts who participate in the Plan (each a Participating Employer). The purpose of this Policy regarding Membership Eligibility Requirements (Policy) is to clarify the rules that the System will use as a basis for determining the eligibility of persons to be members of the System.

Policy Objectives

2. All persons eligible to be members of the System who have not executed a lawful waiver of membership (e.g., elected officials and members entering employment after age 60) must be enrolled in the System. Conversely, persons ineligible for membership in the System must be excluded from membership. The objective of this Policy is to clarify existing law (Government Code sections 31550, et. seq.) and OCERS' regulations with respect to the persons who are eligible for membership in OCERS.

Roles and Responsibilities

3. Each Participating Employer is responsible for determining, in accordance with this Policy, which of the Participating Employer's employees are eligible for membership in OCERS and is responsible for enrolling those eligible employees into OCERS membership.

Policy Guidelines

4. The following employees of a Participating Employer are eligible to participate and shall be enrolled in the Plan:

Any employee of the Participating Employer who is:

- a. Hired with the expectation of employment for more than one year and at least 1,040 hours per year, or who is actually employed for more than one year and at least 1,040 hours per year for at least one of those years; and
- b. Not expressly excluded from membership under Paragraph 5 below.

5. The following employees of a Participating Employer are ineligible to participate and shall not be enrolled in the Plan:

Any employee of the Participating Employer who:

- a. Is a retired member who satisfies the requirements of Government Code section 7522.56 to serve a Participating Employer without reinstatement from retirement; or
- b. Has executed a lawful waiver of membership (e.g., elected officials and members entering employment after age 60); or
- c. Is hired with the expectation of employment for less than 1,600 hours per year, is actually employed for less than 1,600 hours in every year, and is classified as "extra help" by the Participating Employer because he or she works in a position that:

Membership Eligibility Requirements

- i. Requires professional or highly technical skills for more than one year;
- ii. Is designated “intern” for more than one year (entry level and consistent with the Participating Employer’s salary resolution or comparable classification scheme);
- iii. Is designated “seasonal” for more than one year (works in less than seven calendar months per year); or
- iv. Is designated “intermittent” for more than one year (works on an irregular, as-needed basis).

Note: Per section 4(a), all employees hired with the expectation that they will work less than one year are properly excluded from OCERS membership for that year, regardless of how their position may be designated. If such employees ultimately work more than one year, they should be enrolled in OCERS membership if they work more than 1,040 hours per year (if not “extra help”) or more than 1,600 hours per year (if “extra help”).

6. The Board may grant exceptions to the requirements of Paragraphs 4 and 5 if the Board determines that doing so is consistent with the intent of this Policy and is fair to all parties. For example:
 - a. The Board may consider an employee’s preference not to be enrolled as a member of OCERS, even though that preference alone does not justify exclusion from OCERS membership; and
 - b. The Board may consider whether an employee’s work hours exceeded the relevant maximum due to administrative oversight.
7. When a Participating Employer fails to comply with the requirements of Paragraphs 4 and 5, and the Board does not grant an exception under Paragraph 6, the Board will exercise its discretion to determine an appropriate correction procedure based on the facts of each case.
8. For purposes of Paragraphs 4 and 5, the term “year” refers to a fiscal year or a calendar year, whichever is used by the Participating Employer for employment purposes.
9. A Participating Employer that temporarily employs an individual who (i) previously was the employee of a labor supplier with which the Participating Employer contracted, and (ii) would otherwise be excluded from OCERS membership under this Policy, will be permitted to exclude the individual from OCERS membership for a period of up to one year. The Board will consider requests for exceptions from the requirements of this paragraph based on the facts of each case, but will not extend the one-year period for excluding the employee from OCERS membership by more than one additional year.
10. The Board shall periodically audit, pursuant to Government Code section 31543, each Participating Employer’s payroll practices to assure compliance with this Policy.

Membership Eligibility Requirements

Policy Review

11. The Board will review this Policy at least every three (3) years to ensure that it remains relevant and appropriate.

Policy History

12. This Policy was adopted by the Board of Retirement on March 20, 2017, with an effective date of January 1, 2018.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney
Secretary of the Board

Date

C-8

Memorandum

DATE: March 7, 2017
TO: Members of the Board of Retirement
FROM: David James, CPA, Director of Internal Audit
SUBJECT: **AUDIT COMMITTEE OUTCOMES FROM FEBRUARY 28, 2017 MEETING**

Recommendation

Approve the Audit Committee recommendations for Items A, B, C, D, E, F, and G as recommended by the Audit Committee on February 28, 2017.

Background/Discussion

ITEM A: AUDIT COMMITTEE ORIENTATION

Director of Internal Audit, David James, presented the Audit Committee Orientation covering the Investment Committee Charter, Internal Audit Charter, Hotline Policy, and past audit outcomes. Committee Chair Chuck Packard indicated that OCERS should pursue a Service Level Agreement with plan sponsors for providing accurate information to OCERS through the transmittal process. Mr. Packard indicated that OCERS' staff should ensure documentation is provided to plan sponsors on how to properly report payroll transmittal information to OCERS. Mr. Packard also directed that Internal Audit follow up on audit recommendations with plan sponsors.

Recommendation: The Committee voted to receive and file the Audit Committee Orientation.

ITEM B: CONSIDERATION OF INTERNAL AUDIT CHARTER AND AUDIT COMMITTEE CHARTER

The Director of Internal Audit presented the Investment Committee Charter and Internal Audit Charter. Committee members indicated desired changes in the charters. Internal Audit will present redline versions of the charters to the Audit Committee at the next meeting on March 29, 2017.

Recommendation: The Committee voted to receive and file with staff direction to provide redline versions of the charters with the Committee's amendments before the next Audit Committee meeting.

ITEM C: REVIEW OF THE CHIEF INVESTMENT OFFICER (CIO) POSITION

The Director of Internal Audit presented the report *Review of the CIO Position*. Internal Audit recommends that the Investment Committee and management consider changes to the CIO Charter and Investment Policy Statement. Internal Audit also recommends improvements to reporting of the CIO's investment activities to the Investment Committee. Internal Audit also recommends improved communications between the CIO, Investments' staff, and the Investments Committee. The Audit Committee suggested edits to the report. The Audit Committee directed that the Director of Internal Audit review the revised report with the Audit Committee Chair and that the revised report be presented at the Investment Committee meeting on March 28, 2017.



Memorandum

Recommendation: The Committee voted to receive and file the report *Review of the CIO Position* with staff direction to revise the report for presentation to the Investment Committee.

ITEM D: RFP FOR AN ACTUARIAL FIRM TO PERFORM AN AUDIT OF OCERS' CONSULTING ACTUARY

The Director of Internal Audit presented the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary. A timeline of the audit was presented, with the RFP to be posted on March 1, 2017. The Committee directed changes to the RFP before distribution, with inclusion of rating criteria.

Recommendation: The Committee voted to approve the RFP for an actuarial firm to perform an audit of OCERS' consulting actuary with staff direction to make discussed changes and post the RFP as scheduled.

ITEM E: REVIEW OF 2016 AUDIT PLAN

The Director of Internal Audit presented the 2016 Audit Plan with staff hours used and audit outcomes.

Recommendation: The Committee voted to receive and file the 2016 Audit Plan.

ITEM F: CONSIDERATION OF 2017 RISK ASSESSMENT AND 2017 AUDIT PLAN

The Director of Internal Audit presented the 2017 Risk Assessment and 2017 Audit Plan with estimated staff hours. Committee member Shari Freidenrich suggested that in future Internal Audit spend less audit time on employer audits and more on high risk areas identified by the risk assessment.

Recommendation: The Committee voted to approve the 2017 Risk Assessment and 2017 Audit Plan.

ITEM G: OVERVIEW OF AUDIT COMMITTEE OVERSIGHT OF OCERS' SECURITY

Brenda Shott, the Assistant CEO, Finance & Internal Operations, presented regarding security updates to be regularly presented to the Audit Committee.

Recommendation: The Committee voted to receive and file.

Audit Committee member Shari Freidenrich asked that OCERS' Chief Legal Officer review Audit Committee activities and provide feedback on best practices.

Audit Committee member Frank Eley asked that the Document Retention Policy be amended to allow for documents to be retained past the policy timeframes if a critical event occurs to ensure evidence is preserved.



Memorandum

Submitted by:



David James, CPA
Director of Internal Audit

C-9

Memorandum

DATE: March 20, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: CEM GLOBAL PENSION ADMINISTRATION CONFERENCE

Recommendation

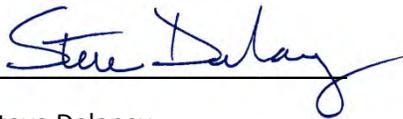
Approve Steve Delaney's attendance and related expenses including overnight accommodations for the CEM Global Pension Administration Conference, May 8-11, 2017, at the Westin Chicago River North, Chicago, Illinois.

Background/Discussion

CEM is a unique and rapidly growing global benchmarking company that specializes in benchmarking cost and performance of investments and administration, making 'apples-to-apples' comparisons and providing insights into best practices. To do this, CEM focuses on understanding businesses, obtaining standardized performance metrics, and explaining results relative to a custom peer group.

The CEM Global Pension Administration Conference is not a pre-approved educational event as identified in the OCERS Board's Education & Travel policy. Approval of conference related expenses therefore requires OCERS Board action. The cost for Mr. Delaney's attendance includes lodging (\$736) and airfare (\$439) for an approximate total of \$1,175 (the conference fee is covered by OCERS membership).

Submitted by:



Steve Delaney
Chief Executive Officer

CEM Global Pension Administration Conference

AGENDA

Co-hosted by:



May 8-11, 2017

Westin Chicago River North
320 North Dearborn Street
Chicago, Illinois



Monday, May 8

11:00 a.m. - 4:00 p.m.

Registration

Hotel Location

Lower Level
Grand Court

1:30 p.m. - 4:00 p.m.

Optional Fun Tours

Lobby

5:00 p.m. - 6:00 p.m.

Meet-and-Greet Reception

Astor Ballroom

Tuesday, May 9

9:15 a.m.

Illinois Municipal Retirement Fund Tour

Buses depart promptly at 9:15 a.m.

Lobby

10:15 a.m. - 11:00 a.m.

Group 1 (Presentation A), Group 2 (Presentation B),
Group 3 (Presentation C), Group 4 (Tour)

11:00 a.m. - 11:45 a.m.

Group 1 (Presentation B), Group 2 (Presentation C),
Group 3 (Tour), Group 4 (Presentation A)

12:00 p.m. - 1:00 p.m.

Lunch at Drake Hotel

1:15 p.m. - 2:00 p.m.

Group 1 (Presentation C), Group 2 (Tour),
Group 3 (Presentation A), Group 4 (Presentation B),

2:00 p.m. - 2:45 p.m.

Group 1 (Tour), Group 2 (Presentation A),
Group 3 (Presentation B), Group 4 (Presentation C)

Presentation A

Fostering and Maintaining an Engaged Workforce

Cara Bannon, *Human Resources Manager, IMRF*

IMRF considers employee engagement as a key component in their Strategic Plan. This session provides an opportunity for attendees to learn how IMRF defines employee engagement, why it is important, and how they measure it. The session will provide an opportunity for the group to share experiences regarding their own employee engagement programs.

Presentation B

The Evolution of Excellence

Kathy Goerd, *Performance Excellence Manager, IMRF*

IMRF has a strong history of promoting Continuous Process Improvement (CPI). Over the years, even the CPI approach itself has been subjected to cycles of improvement. This session provides an opportunity for attendees to learn IMRF's history of CPI, why CPI matters, and an introduction to the Baldrige Criteria. We will also discuss the Identify/ Analyze/ Prioritize/ Implement (IAPI) tool, and how it is applied to a wide range of improvement opportunities.

Presentation C

Branding Tactics: Educating Stakeholders, Influencing Perception & Leveraging Media

John Krupa, *Communications Manager, IMRF*

The State of Illinois struggles with chronically underfunded public pension plans. IMRF is not funded by the State, and is well-funded. To ensure that IMRF "gets their story out", they established a strong Branding Program, including a pro-active media outreach approach. This session provides an opportunity for attendees to learn about IMRF's five branding techniques: Media Relations, Branding Campaigns, IMRF 101, Public Workshops, and Public Relations Partnerships.

3:00 p.m.

Groups return to hotel

5:40 p.m. - 9:45 p.m.	Reception and Dinner - Shedd Aquarium	Lobby
	Join us at the largest indoor aquarium in the world! Combining a diverse, global animal collection surrounded by eye-popping architecture with 21st century advances in animal care, environments and interpretation - excellence and innovation are Shedd traditions. <i>Buses depart promptly at 5:40</i>	
Wednesday, May 10		
7:30 a.m. - 8:30 a.m.	Continental Breakfast	Lower Level Grand Ballroom C
8:30 a.m. - 8:45 a.m.	Conference Welcome Rogier Slingerland , <i>Principal, CEM Benchmarking Inc.</i>	Lower Level Grand Ballroom A & B
8:45 a.m. - 9:15 a.m.	You Can Make A Difference Louis Kosiba , <i>Executive Director, IMRF</i> The City of Chicago has a colorful history, the State of Illinois has an interesting public pension landscape, and IMRF has a proud legacy of excellence. Louis will touch upon each of these topics. He will discuss the role of their Mission/Vision/Values as the basis of everything that IMRF does.	
9:15 a.m. - 9:30 a.m.	Data 101 - Why data quality should matter to you! Leon Schwartz , <i>VP Client Relations, ICON Integration and Design</i>	
9:30 a.m. - 10:00 a.m.	Member Engagement Efforts at CalSTRS Alisa Dobbins, PhD , <i>Research Manager, CalSTRS</i> Andrew Roth , <i>Benefits & Services Executive Officer, CalSTRS</i> CalSTRS will present the results of five years of member engagement research and survey data. What does engagement mean? How is it measured? Why is it relevant to retirement systems? They will provide tangible examples of actions CalSTRS has taken to engage their members with a recent emphasis on reaching members under 40. They will close by sharing early results from the member engagement consortium that includes participants from a wide range of retirement systems.	
10:00 a.m. - 10:30 a.m.	Morning Coffee Break	Lower Level Grand Ballroom C
10:30 a.m. - 12:00 p.m.	First round of breakout sessions 1 Data 101 - Why data quality should matter to you! Leon Schwartz , <i>VP Client Relations, ICON Integration and Design</i> In the past data was typically treated as a purely technical resource and issue. However, today savvy pension executives understand that high quality data effectively utilized is a strategic resource. Hear about the types of projects and ongoing efforts specifically related to data management and data quality that pension systems are doing and the benefits achieved such as risk reduction, increased member service, increased efficiency, and increased trust.	Lower Level Jackson Park
	2 Get Smart – Using BI for Greater Insight Into Your Business Gary Russell , <i>Deputy Executive Director, Member Benefits, Ohio STRS</i> As CEM states – What gets measured gets managed. In this session, Gary will demonstrate how STRS Ohio is using Microsoft Power BI to pull data from numerous sources to provide a dashboard for call center management to drive greater efficiency and premier customer service. Gary will also show how STRS Ohio is using Power BI to gain insight about membership demographic data trends.	Lower Level Promenade Ballroom A

3 "Because that's how we've always done it"

Louis Gittens, *Head of Reporting, LACERA*

Derwin Brown, *Chief Quality Reporting, LACERA*

"Because that's how we've always done it." Overcoming the challenges of the past by updating, documenting, and auditing integral processes. How LACERA's Process Management Group and Quality Assurance & Metrics Division collaborate to educate staff and maximize accuracy.

Lower Level
Promenade
Ballroom B

4 Financial Awareness Through Animation

Rebecca Merrill, *Director of Strategic Initiatives, TRS of Texas*

Caasi Lamb, *Director of Special Projects, TRS of Texas*

TRS of Texas recently completed the release of a new financial awareness video series aimed at helping members learn even more about retirement self-sufficiency. The series of short animated whiteboard videos features a diverse cast of characters in various job positions and career stages. This session will cover the evolution of the series, promotional efforts and lessons learned along the way.

Lower Level
Promenade
Ballroom C

12:00 p.m. - 1:00 p.m.

Lunch

Lower Level
Grand Ballroom C

1:00 p.m. - 2:00 p.m.

Covering the Next Billion: The pinBox Digital Micro Pensions Journey

Parul Khanna, *Co-Founder, Director, PinBox*

pinBox Solutions - a Singapore-based global fintech enterprise founded to advance digital microPension inclusion and coverage in developing countries. Parul will discuss some real-life examples of how pinBox is using modern technology to create a replicable, digital micro-pension model and a secure and affordable single-window mechanism by which low income, unbanked individuals are able to accumulate micro-savings for their old age in an affordable, secure and well-regulated environment.

Lower Level
Grand Ballroom A & B

2:00 p.m. - 3:00 p.m.

Neuromarketing: a scientific exploration of pension and the brain

Joyce Vonken, *Advisor Marketing and Communication, APG*

Behavioral economics, and -marketing research shows that about 95% of our decisions are taken automatically and subconsciously, based on our emotions and associations. Time to find out what emotions people link to pensions and pension choices! APG conducted two neuromarketing studies to find out how people feel about frequently communicated pension concepts, and how they feel about pension choices.

5:00 p.m. - 9:00 p.m.

Join us for dinner in "The Windy City"!

Celebrity chefs? Check. World-renowned restaurants? Check. Ethnic dining from around the globe? Check. Chicago's dining scene is unparalleled! From deep dish pizza to lavish cuisine, one thing is for certain in Chicago: bring your appetite!

Individual groups will begin departing the hotel promptly at 6:00 p.m.

Lower Level
Grand Court

Thursday, May 11

7:00 a.m. - 8:00 a.m.

Continental breakfast

Lower Level
Grand Ballroom C

8:00 a.m. - 8:30 a.m.

Acknowledgements, Awards and Announcements!

Brenda Yuyitung, *Production Manager, CEM Benchmarking*

John Simmonds, *Principal, CEM Benchmarking*

Lower Level
Grand Ballroom A & B

8:30 a.m. - 9:00 a.m.

CEM Research – Social Media, So What?

Paul Martiniello, *Director, CEM Benchmarking*

Our previous research has confirmed that use of social media platforms by pension administrators have and continue to become an increasingly relevant tool for communication and engagement with members. We continue striving to provide some insights as to the “so what” question. Is the use of social media meeting the expectations of pension administrators?

9:00 a.m. - 9:45 a.m.

How Data Science is Transforming the Pension Industry

Darrell Ludowyke, *Chief Executive Officer, Emprics*

This presentation will showcase how data science and analytics has helped pension funds to better understand, engage and retain members in the highly competitive Australian pension market. It will provide practical examples and case studies on harnessing all the data at your disposal, augmenting it with external data such as Social, News and Consumer Sentiment to better understand your customers, predict their behaviour and provide great service. It will also discuss the use of advanced techniques such as machine learning to supercharge areas like data quality, fraud detection and customer journey analytics.

9:45 a.m. - 10:15 a.m.

Implementing a Nationwide Method of Data Exchange: Benefits and Pitfalls

Theo Vlot, *Program Manager, PGGM*

Many employers have to exchange data with various pension funds and make use of administrative offices and/or specific payroll software. This is complicated and costly for all players in the pension sector. The benefit for all of unifying the data exchange is obvious, but how do you achieve this? PFZW took up this challenge and this presentation takes you on the journey of the first Uniform Pension Declaration implementation covering more than 1,1 million participants, 23.000 employers, 3500 administrative offices and 40 payroll software providers.

10:15 a.m. - 10:45 a.m.

Morning coffee break

Lower Level
Grand Ballroom C

10:45 a.m. - 12:00 p.m.

Second round of breakout sessions

1 Data 101 - Why data quality should matter to you!

Leon Schwartz, *VP Client Relations, ICON Integration and Design*

In the past data was typically treated as a purely technical resource and issue. However, today savvy pension executives understand that high quality data effectively utilized is a strategic resource. Hear about the types of projects and ongoing efforts specifically related to data management and data quality that pension systems are doing and the benefits achieved such as risk reduction, increased member service, increased efficiency, and increased trust.

Lower Level
Jackson Park

2 Get Smart – Using BI for Greater Insight Into Your Business

Gary Russell, *Deputy Executive Director, Member Benefits, Ohio STRS*

As CEM states – What gets measured gets managed. In this session, Gary will demonstrate how STRS Ohio is using Microsoft Power BI to pull data from numerous sources to provide a dashboard for call center management to drive greater efficiency and premier customer service. Gary will also show how STRS Ohio is using Power BI to gain insight about membership demographic data trends.

Lower Level
Promenade
Ballroom A

3 "Because that's how we've always done it"

Louis Gittens, *Head of Reporting, LACERA*

Derwin Brown, *Chief Quality Reporting, LACERA*

"Because that's how we've always done it." Overcoming the challenges of the past by updating, documenting, and auditing integral processes. How LACERA's Process Management Group and Quality Assurance & Metrics Division collaborate to educate staff and maximize accuracy.

Lower Level
Promenade
Ballroom B

4 Financial Awareness Through Animation

Rebecca Merrill, *Director of Strategic Initiatives, TRS of Texas*

Caasi Lamb, *Director of Special Projects, TRS of Texas*

TRS of Texas recently completed the release of a new financial awareness video series aimed at helping members learn even more about retirement self-sufficiency. The series of short animated whiteboard videos features a diverse cast of characters in various job positions and career stages. This session will cover the evolution of the series, promotional efforts and lessons learned along the way.

Lower Level
Promenade
Ballroom C

12:00 p.m. - 1:00 p.m.

Lunch

Lower Level
Grand Ballroom C

C-10

Memorandum

DATE: March 10, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: **SERVICE PROVIDER PERFORMANCE REVIEW - ReedSmith**

Recommendation

Direct staff to begin the performance review process for ReedSmith as directed by OCERS Procurement & Contracting policy.

Background/Discussion

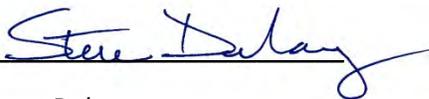
The Procurement & Contracting Policy (Section 19) specifies that "Named Service Providers" will be reviewed every two years: *"The following Named Service Providers will be subject to regular monitoring and also undergo performance reviews by the full Board or a committee of the Board at least biennially: consulting actuary; investment-related consultants; fiduciary counsel; and the financial auditor. Criteria for review may include, without limitation, performance, staff satisfaction, competitiveness of fees, quality of reporting, and accuracy of assumptions and forecasts."*

ReedSmith's most recent contract as the OCERS' Board's fiduciary counsel became effective April 1, 2015. Per policy it is time to begin the performance review process.

To assist in this process, we now have Jim Doezie onboard as our Contracts, Risk and Performance Administrator. Mr. Doezie will manually distribute and track all service provider performance reviews, whether agency or Board specific.

Attached you will find the proposed questionnaire that we will use in collecting Trustee input. This same questionnaire will also be provided to key staff who have working relations with fiduciary counsel. If the Board approves the start of this process, Mr. Doezie will then forward the questionnaire to each of you individually. Trustee and staff responses will then be returned to Mr. Doezie for compilation, and I will share a summary report with the Board Chair and Vice-Chair. Working with the Board Chair, I would then arrange for time to review the results directly with our fiduciary counsel.

Submitted by:



Steve Delaney
Chief Executive Officer

ReedSmith Performance Review Questionnaire

Date Completed: _____

Name: _____

Instructions: Please select one entry-box for each question. You may make comments in the “Notes” section under each question if desired.

1. On-time Delivery

1.1 Did ReedSmith meet the general performance expectations?

- Never
- Sometimes
- Usually
- Always
- No Comment

Notes:

1.2 Did ReedSmith provide timely support/responses to inquiries?

- Never Timely (Usually late)
- Usually Timely
- Always Timely
- No Comment

Notes:

1.3 Are improvements required in order to continue business with ReedSmith?

- No
- Yes
- N/A
- No Comment

Notes:

2. Service / Support

2.1 How reliable is ReedSmith in following through on their support commitments?

- Unreliable
- Somewhat Reliable
- Very Reliable
- No Comment

Notes:

2.2 How responsive is ReedSmith to information requests, issues, or problems?

- Not Responsive
- Somewhat Responsive
- Very Responsive
- No Comment

Notes:

2.3 Are the ReedSmith support personnel well trained and knowledgeable?

- Not Knowledgeable
- Somewhat Knowledgeable
- Very Knowledgeable
- No Comment

Notes:

2.4 Was escalation required during the last two years to get attention on service not being delivered?

- No
- Yes
- No Comment

Notes:

2.5 How effective is ReedSmith in guiding the Board and staff members through decisions?

- Not Effective
- Somewhat Effective
- Usually Effective
- Always Effective
- No Comment

Notes:

3. Quality

3.1 Has their support consistently met quality control standards?

- Never
- Rarely
- Usually
- Always
- No Comment

Notes:

3.2 How well did the services provided by ReedSmith match the original contracted expectations?

- Did not meet original specifications
- Somewhat met original specifications
- Fully met original specifications
- Exceeded original specifications
- No Comment

Notes:

3.3 How do you rate the ease of interaction with the ReedSmith?

- Difficult
- Average
- Easy to work with
- No Comment

Notes:

3.4 Should OCERS look into replacing ReedSmith?

- No
- Yes
- No Comment

Notes:

4. Cost

4.1 Does the ReedSmith pricing/billing meet our expectations?

- Not at all
- Somewhat
- Met expectations
- Exceeded expectations
- No Comment

Notes:

4.2 Have there been any cost overruns exceeding 10% of the contracted amounts during the past two years?

- No
- Yes
- No Comment

Notes:

4.3 Were there increases in price during the last two years?

No

Yes

No Comment

Notes:

5. General

5.1 What is your overall performance rating for ReedSmith?

A

B

C

D

F

No Comment

Notes:

5.2 Any additional comments, observations, or recommendations regarding ReedSmith?

No Comment

Notes:

C-11

Memorandum

DATE: March 20, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: BOARD COMMUNICATION

Recommendation

Receive and file.

Background/Discussion

To ensure that the public has free and open access to those items that could have bearing on the decisions of the Trustees of the Board of Retirement, the OCERS Board has directed that all written communications to the entire Board during the interim between regular Board meetings be included in a monthly communications summary.

News Links

The various news and informational articles that have been shared with the full Board are being provided to you here by web link address. By providing the links in this publicly available report, we comply with both the Brown Act public meeting requirements, as well as avoid any copyright issues.

The following news and informational links were received by OCERS staff for distribution to the entire Board:

From Tom Flanigan

- **Cairn Capital Snap Shots - 27th January 2017**

Dismal

Consensus economic forecasts for the US have barely budged meaningfully for a long time, and the range of high/low guesses have just followed the data. Throughout the course of the last 12 months, the consensus guess for US real GDP growth has gone from 2.3% down to 2.1% and is now ticking back up to 2.3%. Given everything that has happened, that is being sold to us by the new POTUS as well as discounted by bonds and equities, shouldn't we see more excitement from the dismal science? No wonder the economic surprise indices are so much higher than estimates – economists are comatose! Either that or markets are just overbought.

Streaks

The S&P has gone 72 days without a 1%+ sell off and VIX has spent 53 days under 15. Both represent the longest stretch since summer '14. All the volatility is and has been elsewhere – FX, rates and commodity volatility is still high relative to summer '14. Some of this volatility is present in

European yields where real yields are heading back to bund tantrum levels and the periphery remains under pressure. This relative volatility has allocation flow and performance implications.

Waterbed (not water board)

I first and last presented my Waterbed Asset Allocation Flow Theory (WAAFT) in early 2011 when markets were in complacent mood. Simply, it says that global investment capital can flow into one of five major asset chambers (equity, bond, credit, EM, commodity) and assumes cash is constant. Very rarely are all chambers equally filled at the same time. Indeed, when some chambers (i.e., bonds, commodities, EM) continue to empty, there are only two others chambers for that capital to flow into. If that is the case, even while problems are leading to outflows in certain assets which seem to point to deep fundamental problems that may become contagious, one or two chambers continue to fill up because they are more attractive but also because of a lack of alternatives. The waterbed becomes uneven and unstable (one could argue certain chambers filled up too much and subsequently burst in 08). This liquidity sloshing analogy describes commodities and EM versus DM equities and credit in early/mid 2008. It also describes what we continue to see now where there is an aversion to bonds as well as China/EM and by extension commodities where the only two chambers of choice left are equities and credit. This also ties in with the volatility comment above. It's very basic I know but it can explain why some asset classes (perhaps by extension, geographies and sectors) defy the gravitational pull of problems in other asset classes and continue to overshoot regardless.

Beer mat CLO

I threw out a vague warning on US CLOs last week based on some beer mat maths so I should explain myself a bit better. Simply, rising structural leverage married to rising defaults is bad news in a world of lower equity IRRs. Comparing European with US CLO equity cannot just be a simple case of comparing yield (the same is true for rated tranches). US prime CLO equity IRRs may be 14% but what about the underlying risk? Assume structural leverage = 100/equity tranche size, then US structural leverage (SL) = 11.4x (Europe c. 9x). Assume also the US default rate is 4% with recoveries c. 60% giving an expected loss (EL) of 1.6%. Multiply SL by EL to get a leveraged expected loss (LEL) of 18.2% compared to a primary equity IRR of 14%. Not good. How does Europe stack up with lower SL and lower EL? An IRR of 12% versus LEL of just 7%. Much better.

Solid

To back up the benign European default backdrop, MS analysis of Q4'16 data highlights lower net leverage of 2.9x and cash to debt ratio higher by 6% Y/Y. Interest coverage ratios are lower but manageable, concluding that European HY and loan fundamentals remain solid.

Alternative truth

Here's an alternative truth: The Donald didn't write his speech, he can't have done. Apparently some of it could be found in the Bee Movie (2007) script and didn't contain any of the usual catchphrases that Ladbrokes were giving odds on. Disappointing. Nevertheless, recent words and actions tell us that American domestic carnage is being traded in for some overseas carnage via hard lines on trade and security. Lots of posturing and tough words from the new sheriff in town but very much in line with stereotypical deal-making start points. Blaming the lack of a big beautiful wall being built because Mexico refuses to pay for it is a decent Machiavellian example.

Trainspotting 2

The sequel to Trainspotting (1996, Danny Boyle) is on wide release tonight and much awaited by those inclined to take another look at how our four junkie Neds (non-educated delinquents) from Edinburgh's darker side are faring 20 years later. There was a quote in that film I referred to when talking about "the Methadone Method" of monetary policy in early 2009 (aka QE) and the similarity of addiction to debt in economic and financial market terms*. In sympathy with the judge, the viewer is supposed to be highly sceptical of the drug addicted defendant's final statement. Like economies and markets that remain heavily reliant on monetary methadone (and now seemingly a fiscal "hit" too) many years later I suspect our four anti-heroes will still be heavily reliant upon whatever new or old vice works for them.

** Judge: "Mr. Renton, I understand that you have entered into a program of rehabilitation in an attempt to wean yourself away from heroin. The suspension of your sentence is conditional on your continued cooperation with this program. Should you stand guilty before me again, I shall not hesitate to impose a custodial sentence."*

Defendant: "Thank you, Your Honour. With God's help, I'll conquer this terrible affliction".

- **U.S. Debt Load To Increase 75% in Next 10 Years**
https://edelsonwave.com/real-wealth/u-s-debt-load-to-increase-75-in-next-10-years-83989?utm_source=MAM&utm_medium=email&utm_campaign=MAM3695a
- **U.S. Debt Load To Increase 75% in Next 10 Years**
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- **Investors Flee Mutual Funds for Stocks, ETFs**
<https://www.moneyandmarkets.com/investors-flee-mutual-funds-for-stocks-etfs-84857?t=MAM126463&em=tefco4u%40msn.com&campid=95399>

From Russell Baldwin

- **How to Cut Infrastructure Costs in Half**
<http://www.truth-out.org/news/item/39275-how-to-cut-infrastructure-costs-in-half>
- **No. 864: Labor Detail and Revisions, Construction Spending and Consumer Liquidity**
<http://www.shadowstats.com?p=1203&display=pdf>

From Chuck Packard

- **Aberdeen Asset Management, Standard Life in \$13.5 Billion Merger Talks**
<https://www.wsj.com/articles/aberdeen-asset-management-standard-life-in-13-5-billion-merger-talks-1488650873?mod=djemalertMARKET>

From Shari Freidenrich

- **CalPERS's sees 5.8 percent return with new allocation; below 7 percent goal**
<http://www.cnbc.com/2017/02/08/calperss-sees-58-percent-return-with-new-allocation-below-7-percent-goal.html>

From David Ball

- **Portfolio Management**
<http://seekingalpha.com/article/4048863-market-volatility-bulletin-contango-way>

+++++

From Catherine Fairley

What the County Is Doing To Resolve Transition Issues

Working to:

1. Identify and correct the core deficiencies
2. Resolve individual participant issues
3. Ascertain what is still needed to restore a higher level of customer service and response times

The County has implemented, or is in the process of implementing the following strategies:

- Met with OCERS and REAOC to get feedback and strategize on solutions and needs
- Daily management huddle calls with Secova to prioritize and problem solve key issues for each day and track progress of solutions
- Daily Calls with Secova Call Center Manager to work through and resolve individual participant issues one by one
- Changes to the Benefits Center and County telephone call option messaging to allow participants with urgent issues to get priority routing
- Expanded Capacity of County 6282 Benefits Message Line to allow more messages
- Sent letter to all retirees with issues to advise them of County resources and phone number to support them
- CEO Devoted additional staffing to support auditing of OCERS Pension File and project management staff to support County distribution and processing for new retirees
- Secova has added a new Vice President Management resource to oversee call center and issue resolution
- Secova issued checks for retirees whose February pension check was found to be in error
- Developed new call intake form to allow participant messages to be routed directly to the individual(s) who are subject matter experts on the issue being reported, resulting in more efficient resolution and participant return calls

- HRS Devoted additional staffing to call intake and call backs, participant research
- Direct County contact with health plans to facilitate faster resolution of coverage issues
- Secova project team resource onsite at County to assist County team in identifying and resolving issues
- To allow Secova to focus more resources on the issues and deficiencies impacting current participants, Employee Benefits is now temporarily supporting the enrollment process for *new* retirees and Medicare Age ins using forms and County access to system
- Direct County access to make urgent enrollment updates directly in Benefits Center system

Current Status:

- Implemented but still training new staff and getting systems access, and new tracking processes in place.
- Still need to contact retirees who were under deducted and offer payment plans, get authorization, etc.

From Steve Delaney

- **OCFA and CITY OF IRVINE**
<http://unionwatch.org/orange-county-fire-authoritys-hefty-overtime-bill-bad-deal-irvine-taxpayers/>
- **Irvine takes step to leave Orange County Fire Authority**
<http://www.ocregister.com/articles/irvine-742237-city-ocfa.html>
- **Kate Brown, governor of her own state of denial: Editorial Agenda 2017**
http://www.oregonlive.com/opinion/index.ssf/2017/02/kate_brown_governor_of_her_own.html

To the members of the OCERS Board of Retirement,

I am writing to inform you that the Orange County Board of Supervisors today appointed a new Trustee to the OCERS Board of Retirement, Mr. Shawn Dewane.

The appointment was part of the consent agenda of today's meeting of the Board of Supervisors, listed as follows:

BOARD APPOINTMENTS

1. **Chairwoman Steel** – Board of Retirement, OCERS – Appoint Shawn Dewane, Costa Mesa, for term ending 12/31/19.

The item was passed unanimously by the Board of Supervisors with no comment (nor was there any public comment).

I spoke briefly with Mr. Dewane after the meeting, and he does plan to attend next week's Investment Committee meeting (Wednesday, February 22).

Because Mr. Dewane cannot take up his duties until he is sworn in, Chair Ball has approved calling a special meeting of the OCERS Board of Retirement, at 9:00 a.m. on Wednesday, February 22. We will open that meeting, have Mr. Dewane sworn in, and the Board meeting will then be closed. The Investment Committee meeting will immediately follow as scheduled.

I did just speak with Mr. Flanigan by telephone, who was aware of Mr. Dewane's likely appointment. I shared with Mr. Flanigan that we are preparing a plaque to thank him for his many years of faithful service to our OCERS members, and while Mr. Flanigan is traveling over the next few days, I have asked that he inform me if he will be able to attend some future meeting so we can present the plaque and our thanks in person, and he is thinking that over and will be back in touch shortly.

Welcome aboard Mr. Dewane.

To the members of the OCERS Board of Retirement,

In working to welcome Mr. Shawn Dewane to the OCERS Board of Retirement, we have determined it best to follow our normal meeting processes, therefore we will not hold a special OCERS Board meeting to swear in Mr. Dewane on February 22, but will instead agendize that event for the Board's administrative meeting of Monday, March 20.

I spoke with Mr. Flanigan by phone to see if he will be able to continue with us through next week's Investment Committee meeting – he is unsure at this time, but will attempt to attend if possible.

Steve Delaney

Other Items: (See Attached)

1. Monthly summary of OCERS staff activity, starting with an overview of key customer service as well as highlights and updates for the month of January.

Submitted by:



Steve Delaney
Chief Executive Officer

Memorandum

DATE: March 3, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: **OCERS ACTIVITIES AND UPDATES – JANUARY 2017**

The following is my regular monthly summary of OCERS staff activity, starting with an overview of key customer service statistics as well as activity highlights followed by updates for the month of JANUARY 2017.

CUSTOMER SERVICE

The top three questions in the month of January as received by OCERS' counseling staff:

What happened to my payment? Health care deductions seem wrong. [The Secova issue]

Every January healthcare and tax rates change, so we're used to call influx. As we have subsequently reported to the OCERS Board, this year we had higher than average calls due to the transition to a new healthcare vendor for the County of Orange retirees. Beginning with the 1/1/2017 OCERS payment, the new vendor, Secova, submitted files late to OCERS and the data therein was less than accurate. Member Services staff guided upset payees through the process of resolving major issues. Some being large premium deductions when the payee was never enrolled in healthcare, dropping dependents, lack of coverage and inability to purchase prescriptions and go to the doctor. Secova was overwhelmed and didn't understand program needs of the County so communication spilled to OCERS staff. OCERS staff partnered with the County and Secova on issue resolution and provided feedback such as wrong phone number on flyers, website links outdated, Secova website referred users to OCERS, inaccurate file data, incorrect file processing protocol, etc. Not all errors were caught, and many repeated on the payees February payment.

MEMBER SERVICE STATS FOR JANUARY 2017

Member Approval 98%

Unplanned Recalcs 2

Retirement Apps Received

<i>Jan 2017</i>	151
<i>Dec 2016</i>	62
<i>Nov 2016</i>	64
<i>Oct 2016</i>	53
<i>Sept 2016</i>	45
<i>Aug 2016</i>	61
<i>July 2016</i>	62
<i>June 2016</i>	65
<i>May 2016</i>	51
<i>April 2016</i>	61
<i>Mar 2016</i>	61
<i>Feb 2016</i>	95
<i>Jan 2016</i>	98
<i>Dec 2015</i>	76

When are the 1099-R tax forms going to be mailed?

The 2016 1099-R tax forms that reports pension income and taxability were mailed to all payees on January 31, 2017. In addition, the forms were posted online in the member self-service portal on January 25, 2017. Payees were able to view and print copies of the form which can also be used to file their personal tax returns.

What is the COLA percentage this year?

Although the Board won't formally adopted COLA granting until the February Board meeting, many payees and even more importantly, employees considering retirement want to know about the Cost of Living adjustment to make their important life decision. We were aware that Segal calculated the CPI of 1.89% rounded up to 2% for 2017. COLA is effective 4/1/17 and paid on the 5/1/17 benefit payment as we pay one month in arrears. Members with a COLA bank of at least 2% or more will receive the full 3% as governed by the plan. This applies to retirees and their survivors with retirement effective dates on or before 4/1/1982..

ACTIVITIES

RETIREMENTS RUNNING AHEAD OF NORM

As noted in the running tabulation of retirements on Page One of this report, we are ahead of the norm in the number of retirement applications that have been received. As of February 8, the total received from January 1 forward came from the following agencies:

SHERIFF - 28
SSA - 18
OCPW - 17
HCA - 16
SUPERIOR COURT - 15
OCCR - 11
DISTRICT ATTORNEY - 6
PROBATION - 11
CEO OFFICE - 5
ASSESSOR - 4
PUBLIC DEFENDER - 3
CHILD SUPPORT SERVICES - 2
TREASURER/TAX COLLECTOR - 2
JWA - 2
COUNTY COUNSEL - 1
HRD - 1
BOARD OF SUPS - 1
AUDITOR-CONTROLLER - 1
OCFA - 10
OCTA - 7

Update 2/24/17:

Catherine Fairley, Manager of Member Services reports: “Busy time of year is here for the Member Services department. As reported in the January 2017 Board communication report, we received 151 retirement applications in January. As of today (Feb 24), we have received 92 retirement applications in February. The impact of retirements doesn’t include other key areas such as death processing (*108 deceased this year*) withdrawals, service purchase contracts, transmittals and reciprocity. The high work volume, plus several major projects such as the lobby remodel, actuarial extract processing, Secova healthcare transition, AOCDS pay item issue review and new V3 builds necessitated that Member Services staff work overtime most days of the week, every weekend this year as well as working on both holidays, Lincoln’s birthday and President’s day.”

PHONE STATS

The CEM Benchmarking study as recently reviewed by the OCERS Board demonstrates how important it is to be able to track our phone traffic, and adjust our approach to improve customer service. Though we do not yet have a Call Center that would facilitate such activity, it is a goal. In the meantime Ms. Fairley provided the following note on phone stats as best we can track over the past several years:

PHONE STATS:

YEARS	QUEUE CALLS	DIRECT TO EXTENSION CALLS	TOTAL CALLS TO MS (Queue + Direct)	
January 1, 2015	1230	2286	3516	
January 1, 2016	1377	2863	4240	<i>V3 goes live</i>
January 1, 2017	1438	3491	4929	<i>Secova transition</i>

As we can’t identify call categories, these numbers includes all calls. As we went live with V3 last January, our call volume was very high due to that – then looking back at 2015 we could compare to see the increase.

UPDATES

January Staffing Summary

The New Year brought an increase in the OCERS’ headcount to keep pace with the agency’s heavy workloads. The agency increased their headcount by four (4) positions. With the approved additions, the Administrative staff did not waste any time getting the ball rolling on recruiting for the current vacancies.

OCERS invited 25 Accounting Technician applicants to interview for the five (5) openings in the Finance and Member Services departments. The interviews were a great success and the hiring managers were able to fill all five vacancies. Of the five, two are internal promotions while three are employees from the private sector. The two promotions created two new vacancies in the Member Services Department, one Office Technician and one Retirement Benefits Technician. The Admin department also completed interviews and made an offer for the Accountant/Auditor I position. The candidate selected is an employee transitioning from the City of Torrance and the Finance department is excited about filling this vacancy. With the addition of the Accountant/Auditor I position, the Finance department will be fully staffed.

OCERS officially opened the Chief Investment Officer recruitment on January 31st and has received a wave of applicants interested in the position. This recruitment will remain open until it is filled. The Deputy Chief Counsel recruitment also opened this month with the first review of applications taking place on February 17th.

As of January 31, 2016, the agency had a total of three (3) employees leave OCERS employment (3 voluntary resignations). The current annual turnover rate is rounded to 4%. This is calculated by dividing the number of employees that left the agency by the number of employees on payroll. OCERS has 79 budgeted positions and 68 employees on payroll, which includes 27 OCERS Direct and 52 County positions.

Please find the details of our most recent recruitment activity below:

Position Type	Position Title	Department	Comments
OCERS	Chief Investment Officer	Investments	Open, First review of applications March 3, 2017
OCERS	Deputy Chief Counsel	Legal	Open, First review of applications February 17, 2017
OCERS	Member Services Manager	Member Services	New position 01/01/2017 (pending open date)
County	Five (5) Accounting Technicians	(3) Member Services (2) Finance	Filled with 2 internal promotions and 3 external applicants, 1 scheduled to start in February and 2 in March

County	Accountant Auditor II	Finance	Filled. Scheduled to start February 17, 2017
County	Sr. IT Applications Developer	Information Technology	Interviews scheduled February 7, 2017
County	Office Technician	Member Services	Interviews February 10, 2017
County	Retirement Benefits Supervisor- Internal Only	Member Services	New position (scheduled open date, February 7, 2017)
County	Retirement Benefits Technician	Member Services	(pending open date)
County	(2) Sr. Retirement Specialist	Member Services	New position 01/01/2017 (pending open date)
County	IT Business Analyst	Information Technology	New position 01/01/2017 (pending open date)

As a reminder you will see this memo included with the BOARD COMMUNICATIONS document as part of the consent agenda for the March 20 meeting of the OCERS Board of Retirement.

What the County Is Doing To Resolve Transition Issues

Working to:

1. Identify and correct the core deficiencies
2. Resolve individual participant issues
3. Ascertain what is still needed to restore a higher level of customer service and response times

The County has implemented, or is in the process of implementing the following strategies:

- Met with OCERS and REAOC to get feedback and strategize on solutions and needs
- Daily management huddle calls with Secova to prioritize and problem solve key issues for each day and track progress of solutions
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Current Status:

- Implemented but still training new staff and getting systems access, and new tracking processes in place.
- Still need to contact retirees who were under deducted and offer payment plans, get authorization, etc.

I-2

Memorandum

DATE: February 15, 2017
TO: Members of the Board of Retirement
FROM: Suzanne Jenike, Assistant CEO, External Operations
SUBJECT: 2017 STAR COLA FINAL APPROVAL

Recommendation

Approve payment of STAR COLA for the period April 1, 2017 through March 31, 2018.

Background/Discussion

STAR COLA stands for Supplemental Targeted Adjustment for Retirees, Cost of Living Adjustment. The purpose is to restore purchasing power for retirees who have lost more than 20% of their purchasing power since retirement. The STAR COLA brings those individuals back to 80% of purchasing power. It applies to those who have been retired the longest – currently, those members who retired on or before April 1, 1980.

The projected cost for the period April 1, 2016 through March 31, 2017 is \$568,505. The breakdown between plan sponsors with STAR COLA recipients is as follows:

County	\$562,465 (295 recipients)
UCI (closed to new participants)	\$ 2,982 (5 recipients)
Orange County Sanitation District	\$ <u>3,058</u> (4 recipients)
Total	\$568,505 (304 total)

The STAR COLA provides a much needed cushion to the oldest retirees, whose benefit has been most diminished by inflation. In accordance with California Government Code Section 7507, the Board has already disclosed the financial impact of continuing the STAR COLA at the February 7, 2017, Board meeting.

Staff will send letters to each affected sponsor after the Board takes action advising of the outcome, and if approved, of the cost to each sponsor.

Based on the significant impact discontinuation of STAR COLA would have on the individuals who receive it and the relatively small impact payment would have on contribution rates it is staff's recommendation to approve the STAR COLA for April 1, 2017 through March 31, 2018 in the amount of \$568,505.

Submitted by:



SJ Approved

Suzanne Jenike
Assistant CEO, External Operations

CALIFORNIA GOVERNMENT CODE

§7507. Definitions; actuarial impact upon future annual costs prior to authorizing increases in benefits; public meetings; application

(a) For the purpose of this section:

(1) "Actuary" means an actuary who is an associate or fellow of the Society of Actuaries.

(2) "Future annual costs" includes, but is not limited to, annual dollar changes, or the total dollar changes involved when available, as well as normal cost and any change in accrued liability.

(b) (1) Except as provided in paragraph (2), the Legislature and local legislative bodies, including community college district governing boards, when considering changes in retirement benefits or other postemployment benefits, shall secure the services of an actuary to provide a statement of the actuarial impact upon future annual costs, including normal cost and any additional accrued liability, before authorizing changes in public retirement plan benefits or other postemployment benefits.

(2) The requirements of this subdivision do not apply to:

(A) An annual increase in a premium that does not exceed 3 percent under a contract of insurance.

(B) A change in postemployment benefits, other than pension benefits, mandated by the state or federal government or made by an insurance carrier in connection with the renewal of a contract of insurance.

(c) (1) (A) With regard to local legislative bodies, including community college district governing boards, the future costs of changes in retirement benefits or other postemployment benefits, as determined by the actuary, shall be made public at a public meeting at least two weeks prior to the adoption of any changes in public retirement plan benefits or other postemployment benefits. If the future costs of the changes exceed one-half of 1 percent of the future annual costs, as defined in paragraph (2) of subdivision (a), of the existing benefits for the legislative body, an actuary shall be present to provide information as needed at the public meeting at which the adoption of a benefit change shall be considered. The adoption of any benefit to which this section applies shall not be placed on a consent calendar.

(B) The requirements of this paragraph do not apply to:

(i) An annual increase in a premium that does not exceed 3 percent under a contract of insurance.

(ii) A change in postemployment benefits, other than pension benefits, mandated by the state or federal government or made by an insurance carrier in connection with the renewal of a contract of insurance.

(2) With regard to the Legislature, the future costs as determined by the actuary shall be made public at the policy and fiscal committee hearings to consider the adoption of any changes in public retirement plan benefits or other postemployment benefits. The adoption of any benefit to which this section applies shall not be placed on a consent calendar.

(d) Upon the adoption of any benefit change to which this section applies, the person with the responsibilities of a chief executive officer in an entity providing the benefit, however that person is denominated, shall acknowledge in writing that he or she understands the current and future cost of the benefit as determined by the actuary. For the adoption of benefit changes by the state, this person shall be the Director of Human Resources.

(e) The requirements of this section do not apply to a school district or a county office of education, which shall instead comply with requirements regarding public notice of, and future cost determination for, benefit changes that have been enacted to regulate these entities. These requirements include, but are not limited to, those enacted by Chapter 1213 of the Statutes of 1991 and by Chapter 52 of the Statutes of 2004.

(Added by Stats. 2008, Ch. 371 (SB 1123), Sec. 3)

(Amended by Gov. Reorg. Plan No. 1 of 2011, Sec. 45, effective September 9, 2011, operative July 1, 2012)

(Amended by Stats. 2012, Ch. 665 (SB 1308), Sec. 41)



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Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary
ayeung@segalco.com

VIA EMAIL AND USPS

January 31, 2017

Mr. Steve J. Delaney
Chief Executive Officer
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

**Re: Orange County Employees Retirement System
STAR COLA Payment Projections**

Dear Steve:

As requested by the System, we have projected the cost of continuing the STAR COLA benefit over the next ten years.

BACKGROUND

The Retirement Board grants a STAR COLA benefit to maintain a minimum of 80% of a retiree's or beneficiary's purchasing power. The STAR COLA benefit is calculated by first taking the balance in a member's COLA bank that is in excess of 20% and multiplying that times the member's benefit.

The 1937 Act allows the Board either to advance fund the STAR COLA benefit subject to the availability of excess earnings above 1% of OCERS' assets or to grant this benefit on an annual basis. We understand that the Board's current policy is to grant this benefit on an annual basis.

RESULTS AND ANALYSIS

On April 1, 2017, only those members who retired on or before April 1, 1980 have COLA banks in excess of 20% and hence are eligible to receive the STAR COLA.

The attached Exhibit A shows a ten-year projection of the STAR COLA benefits, expressed as a percentage of the benefit payable effective April 1 of the next ten years. In Exhibit B, we show the annual benefit payment based on who is eligible for the STAR COLA benefit as of April 1, 2017 (i.e., members who retired on or before April 1, 1980) and those who may become eligible after April 1, 2017. In Exhibit C, we have included a schedule that provides the breakdown of the anticipated STAR COLA benefits from April 2017 to March 2018 based on members who retired from each employer.

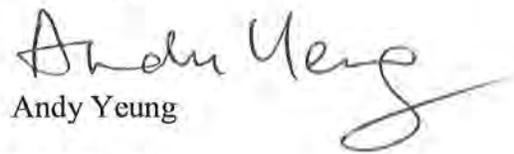
Our projections are based on the following assumptions provided below.

1. The existing 80% purchasing power cap will remain unchanged.
2. In adjusting the purchasing power banks after April 1, 2017, we have used the assumed annual inflation rate of 3.00% previously adopted by the Board for the December 31, 2015 valuation that will carry over unchanged for the December 31, 2016 valuation. As OCERS provides a maximum annual COLA of 3.0%, the COLA banks will not change in the future under the 3.00% inflation assumption (see attached Exhibit A) and thus no other additional members will be expected to become eligible. We assume that future STAR COLA benefits, adjusted to reflect inflation for the prior calendar year, will be paid commencing April 1 of the subsequent year.
3. Our projections were based on the latest membership data used in the valuation as of December 31, 2015, but updated through January 27, 2017 to exclude those members who have passed away since the prior valuation. For conservatism, we assumed no deaths would have occurred among retirees and beneficiaries from January 27, 2017 to April 1, 2017. Effective April 1, 2017, we applied the life expectancies previously adopted by the Board for the December 31, 2015 valuation that will again carry over unchanged for the December 31, 2016 valuation in projecting members who will be entitled to payments in the ten-year period.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,


Andy Yeung

MYM/gxk
Enclosures

cc: Suzanne Jenike
Brenda Shott

EXHIBIT A – TEN-YEAR PROJECTION OF STAR COLA BENEFITS

(Expressed as a Percent of the Benefit Payable Effective April 1 of the Year Indicated)

Date of Retirement	April 1, 2017	April 1, 2018	April 1, 2019	April 1, 2020	April 1, 2021	April 1, 2022	April 1, 2023	April 1, 2024	April 1, 2025	April 1, 2026
On or Before 04/01/1972	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%
04/02/1972 to 04/01/1973	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%
04/02/1973 to 04/01/1974	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%
04/02/1974 to 04/01/1975	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%
04/02/1975 to 04/01/1976	20.50%	20.50%	20.50%	20.50%	20.50%	20.50%	20.50%	20.50%	20.50%	20.50%
04/02/1976 to 04/01/1977	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
04/02/1977 to 04/01/1978	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%
04/02/1978 to 04/01/1979	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
04/02/1979 to 04/01/1980	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

Based on the ten-year projection, members who retired after April 1, 1980 are not eligible for STAR COLA.

EXHIBIT B – PROJECTED BENEFIT PAYMENTS

The expected benefit payments for the current and new STAR COLA recipients for the next ten years, commencing April 1, 2017, are provided in the following table:

	Benefit Payments		(1) + (2)
	(1) Eligible for STAR COLA as of April 1, 2017	(2) Not Yet Eligible for STAR COLA as of April 1, 2017	
1. April 1, 2017 – March 31, 2018	\$568,505	\$0	\$568,505
2. April 1, 2018 – March 31, 2019	539,914	0	539,914
3. April 1, 2019 – March 31, 2020	508,485	0	508,485
4. April 1, 2020 – March 31, 2021	477,370	0	477,370
5. April 1, 2021 – March 31, 2022	444,153	0	444,153
6. April 1, 2022 – March 31, 2023	409,355	0	409,355
7. April 1, 2023 – March 31, 2024	379,178	0	379,178
8. April 1, 2024 – March 31, 2025	350,432	0	350,432
9. April 1, 2025 – March 31, 2026	323,237	0	323,237
10. April 1, 2026 – March 31, 2027	<u>297,648</u>	<u>0</u>	<u>297,648</u>
Total Benefit Payments	<u>\$4,298,277</u>	<u>\$0</u>	<u>\$4,298,277</u>
Discounted Benefit Payments ⁽¹⁾	<u>\$3,215,576</u>	<u>\$0</u>	<u>\$3,215,576</u>

⁽¹⁾ At 7.25% annual investment return assumption.

EXHIBIT C – PROJECTED BENEFIT PAYMENTS BY EMPLOYER

The expected benefit payments for the current STAR COLA recipients from April 1, 2017 to March 31, 2018 broken down by employer, are provided in the following table:

April 1, 2017 - March 31, 2018	Orange County	U.C.I. (Bi-weekly)	Sanitation District	Total
	\$562,465	\$2,982	\$3,058	\$568,505

I-3

Memorandum

DATE: March 10, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: **2017 STATE OF OCERS ANNUAL REPORT**

Recommendation

Receive and file.

Background/Discussion

There are a number of informational directives outlined in Board policy, such as annually updating the Plan Sponsor Review report, report on the agency's succession planning efforts, the quality of Member services and other similar directives. Last year I tried to pull all of that together for the first time in a massive one-day report to the Board entitled "The Current State of OCERS". Though well received, there were suggestions that it was just too much material to encompass in a single presentation.

In 2017 we have taken a multiple step approach. Last month the Board received the annual Plan Sponsor Review report as a stand-alone review by our Chief Internal Auditor, Mr. David James. Additionally, you received the first CEM Benchmarking study under our new program parameters, which provided important feedback to the Board on the status of our plan's costs and services compared to industry peers.

In the month of May you will be receiving a stand-alone review of the quality of Member Services that will be shared by our Member Services Director, Ms. Catherine Fairley.

On March 20 I will review the attached PowerPoint presentation report covering the remaining topics first reviewed in the 2016 State of OCERS report, focusing especially on many of the financial and investment related tasks cared for by this agency, as well as other topics that call for regular reporting to the full Board.

Submitted by:



Steve Delaney
Chief Executive Officer

The Current State of OCERS – An Annual Report



March 20, 2017

The Current State of OCERS

This is the second annual report to the Board.



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The Current State of OCERS

AGENDA

- Introduction – This is the second annual report
- Stats, stats and more stats
- The Unfunded Actuarial Accrued Liability
- The Investment Department
- OCERS Staff – Direct and County
- OCERS Plan Sponsors – An annual review
- Benchmarking for Success
- OCERS Board Policy Compliance
- Succession Planning
- What's Next in 2017 and Beyond....



The Current State of OCERS



***With more than \$13 billion
in assets, OCERS is ranked 135 (P&I)***

The Current State of OCERS

Some numbers.....

The Current State of OCERS

Total Membership (as of Dec. 2015)

42,427

2014	41,418
2013	40,486
2012	39,618

The Current State of OCERS

Retirees (as of Dec. 2015)

15,810

2014	15,169
2013	14,505
2012	13,947

The Current State of OCERS

Benefit Payroll for Calendar Year 2015

\$675,963,000

2014	\$630,678,000
2013	\$586,284,000
2012	\$541,154,000

The Current State of OCERS

Total Contributions (as of Dec. 2015)

Member Contributions: \$249,271,000

Employer Contributions: \$571,298,000

\$820,569,000

The Current State of OCERS

Contribution History

(Amounts in Thousands)

Year End	Actuarially Determined Employer Contributions	Actual Employer Contributions	Member Contributions
2012	406,521	406,521	191,215
2013	426,020	427,095	209,301
2014	476,320	625,520	232,656
2015	502,886	571,298	249,271

The Current State of OCERS

Cash Flow - POSITIVE

(Amounts in Thousands)

Year End	Total Employer and Employee REQUIRED Contributions	Total Benefit Payroll	Amount of Positive Cash Flow
2012	597,736	541,154	56,582
2013	635,321	586,284	49,037
2014	708,976	630,678	78,298
2015	752,157	675,963	76,194

The Current State of OCERS

The Promise (as of Dec. 2015)

\$17,050,000,000

2014	\$16,413,000,000
2013	\$15,785,000,000
2012	\$15,144,000,000

The Current State of OCERS

Fund Assets (as of Dec. 2015)

\$12,228,009,000

2014	\$11,450,911,000
2013	\$10,417,125,000
2012	\$9,469,208,000

The Current State of OCERS

Unfunded Actuarially Accrued Liability (as of Dec. 2015)

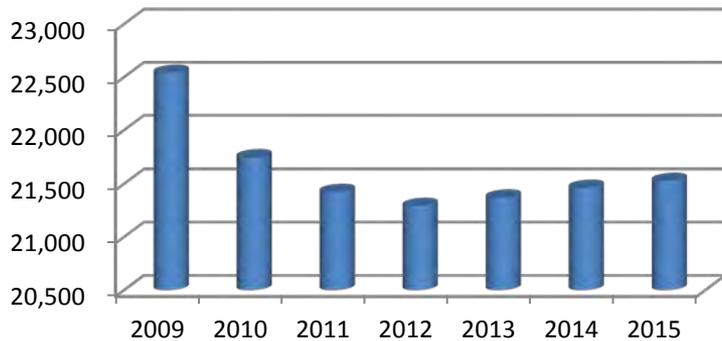
\$4,822,000,000

2014	\$4,963,000,000
2013	\$5,367,000,000
2012	\$5,675,000,000

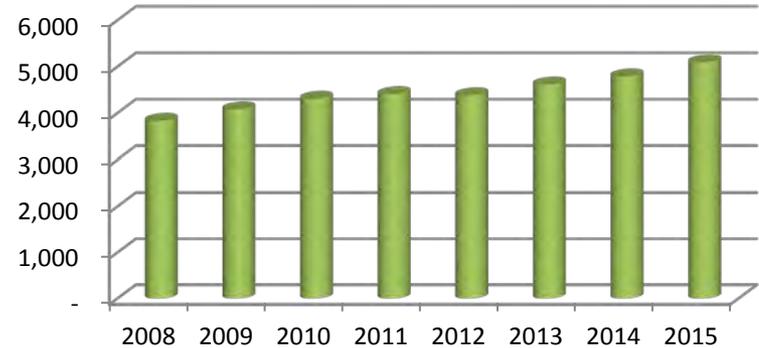
The Current State of OCERS

MEMBERSHIP as of December 2015

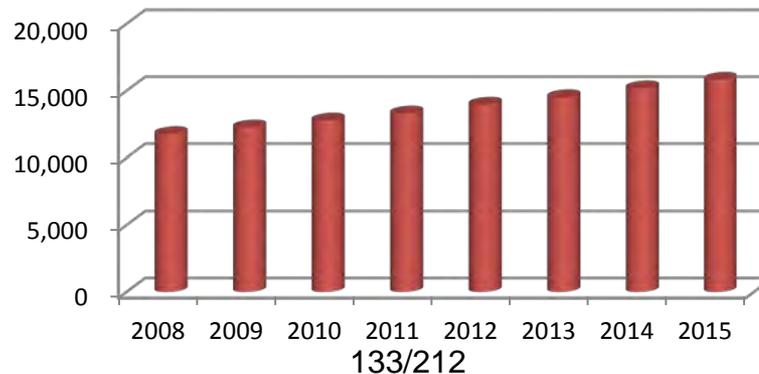
Active



Deferred



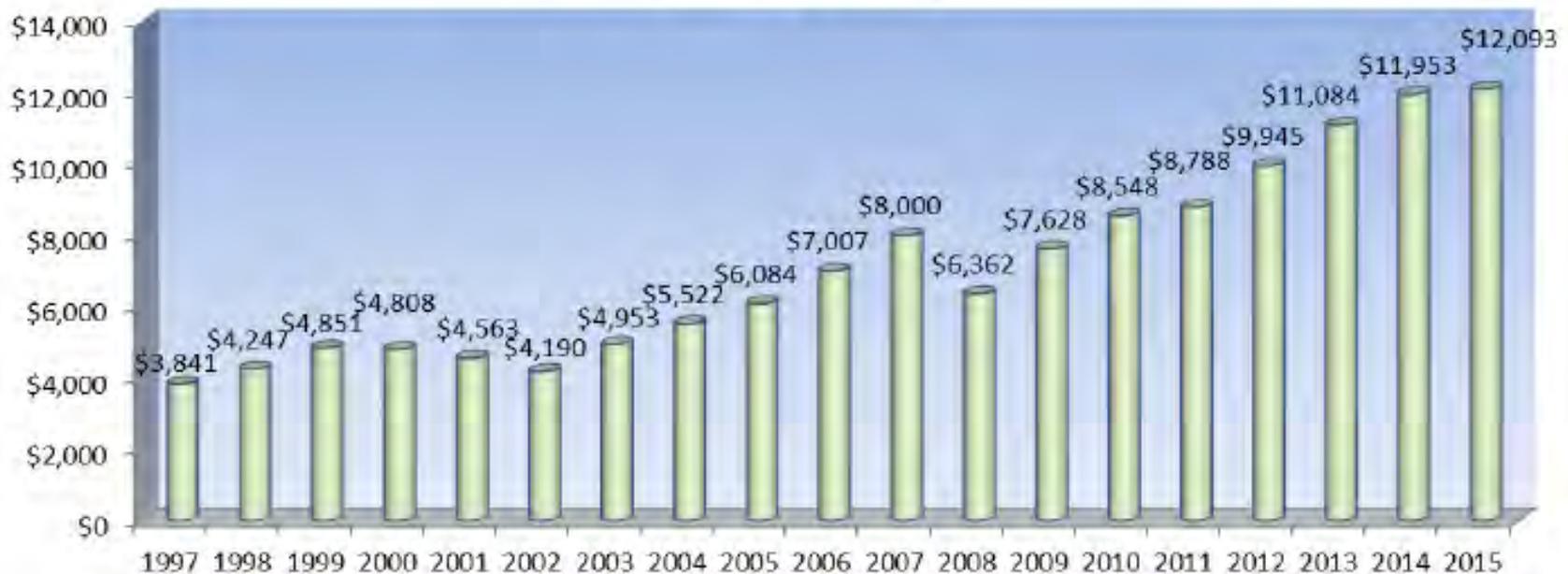
Payee



The Current State of OCERS

Long Term Plan - **OCERS NET ASSET GROWTH**

Growth of System Net Investments at Fair Value
(Dollars in Millions)



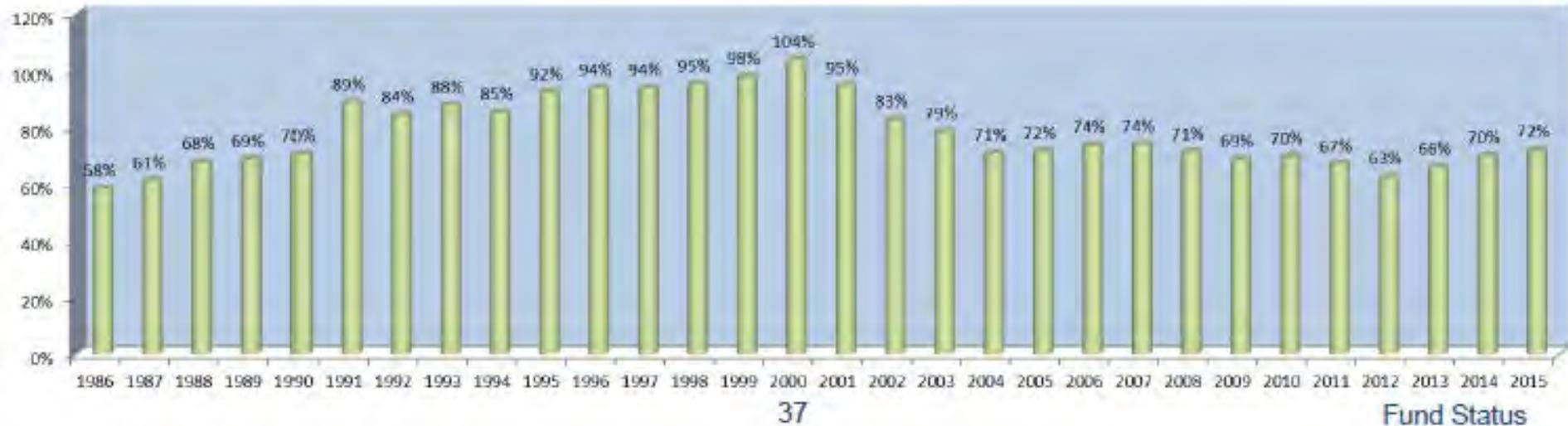
The Current State of OCERS

Long Term Plan - **OCERS FUND RETURNS**



The Current State of OCERS

The Funded Ratio



(Valuation value)

The Current State of OCERS

THE PROMISE

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Projected Covered Payroll (c)	UAAL as a Percentage of Projected Covered Payroll [(b) - (a)] / (c)
2006	\$6,466,085,000	\$8,765,045,000	\$2,298,960,000	73.77%	\$1,322,952,000	173.78%
2007	7,288,900,000	9,838,686,000	2,549,786,000	74.08%	1,457,159,000	174.98%
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%
2010	8,672,592,000	12,425,873,000	3,753,281,000	69.79%	1,579,239,000	237.66%
2011	9,064,355,000	13,522,978,000	4,458,623,000	67.03%	1,619,474,000	275.31%
2012	9,469,208,000	15,144,888,000	5,675,680,000	62.52%	1,609,600,000	352.55%
2013	10,417,125,000	15,785,042,000	5,367,917,000	65.99%	1,604,496,000	334.55%
2014	11,449,911,000	16,413,124,000	4,963,213,000	69.76%	1,648,160,000	301.14%
2015	12,228,009,000	17,050,357,000	4,822,348,000	71.72%	1,633,112,000	295.29%

The Current State of OCERS

FUNDING THE PROMISE

(Amounts in Thousands)

Years Ended December 31	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Additions										
Employer Contributions	\$ 277,368	\$ 401,037	\$ 433,911	\$ 377,976	\$ 372,437	\$ 387,585	\$ 406,805	\$ 427,095	\$ 625,520	\$ 571,298
Employee Contributions	137,582	159,476	172,291	171,928	177,929	183,820	191,215	209,301	232,656	249,271
Investment Income/ (Loss)	828,147	763,117	(1,627,177)	1,073,912	885,569	46,669	1,001,650	1,149,160	495,223	(12,931)
Net Securities Lending	1,317	3,452	6,145	3,989	1,849	1,703	2,007	1,454	1,435	1,030
Commission Recapture - Net/Other	736	1,773	1,249	2,161	1,124	2,084	1,113	2,033	2,537	1,028
Total Additions	\$ 1,245,150	\$ 1,328,855	\$ (1,013,581)	\$ 1,629,966	\$ 1,438,908	\$ 621,861	\$ 1,602,790	\$ 1,789,043	\$ 1,357,371	\$ 809,696
Deductions										
Benefits	\$ 318,666	\$ 353,861	\$ 419,502	\$ 461,530	\$ 459,383	\$ 493,749	\$ 541,154	\$ 586,284	\$ 630,678	\$ 675,963
Administrative Expenses	17,145	10,381	11,006	10,947	12,368	12,828	14,209	11,705	11,905	12,521
Total Deductions	\$ 335,811	\$ 364,242	\$ 430,508	\$ 472,477	\$ 471,751	\$ 506,577	\$ 555,363	\$ 597,989	\$ 642,583	\$ 688,484
Changes in Fiduciary Net Position	\$ 909,339	\$ 964,613	\$ (1,444,089)	\$ 1,157,489	\$ 967,157	\$ 115,284	\$ 1,047,427	\$ 1,191,054	\$ 714,788	\$ 121,212

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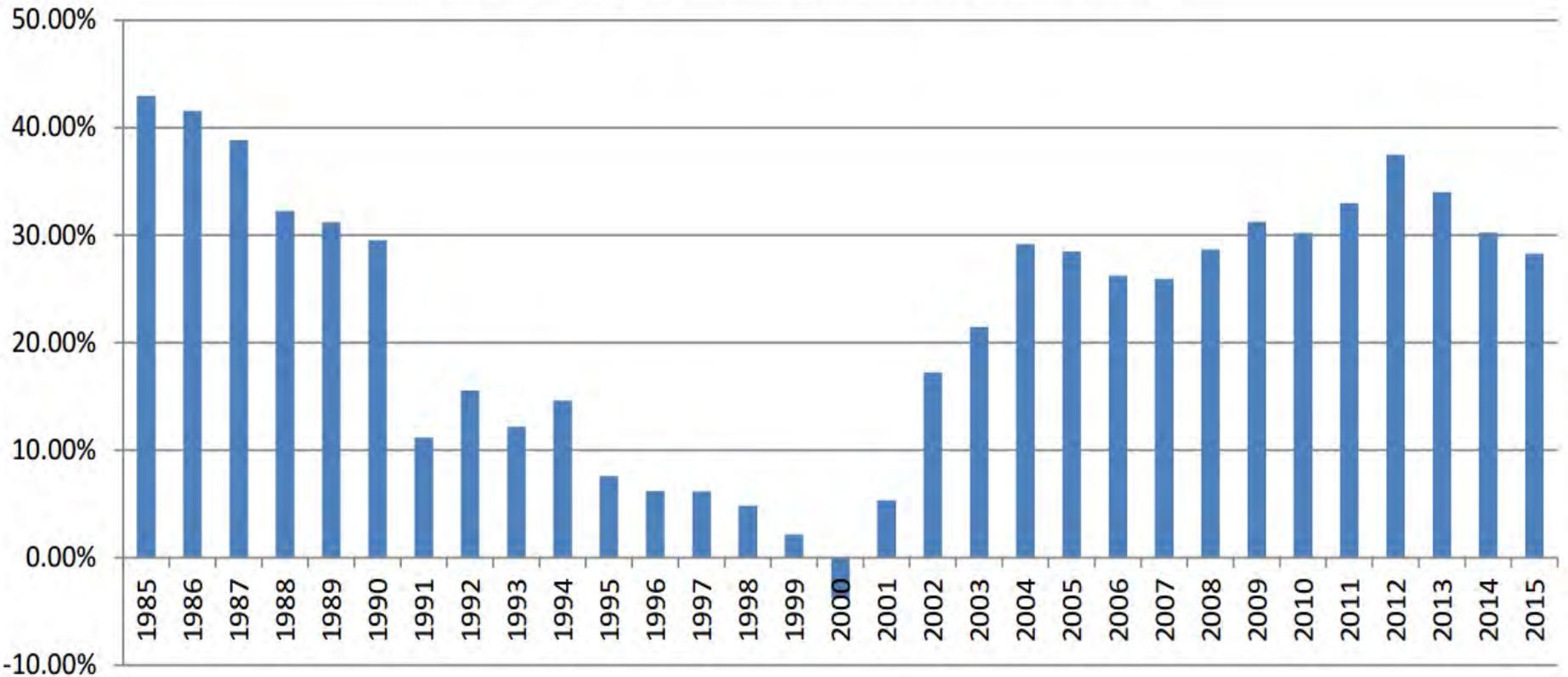
The Current State of OCERS

The Unfunded Actuarially Accrued Liability



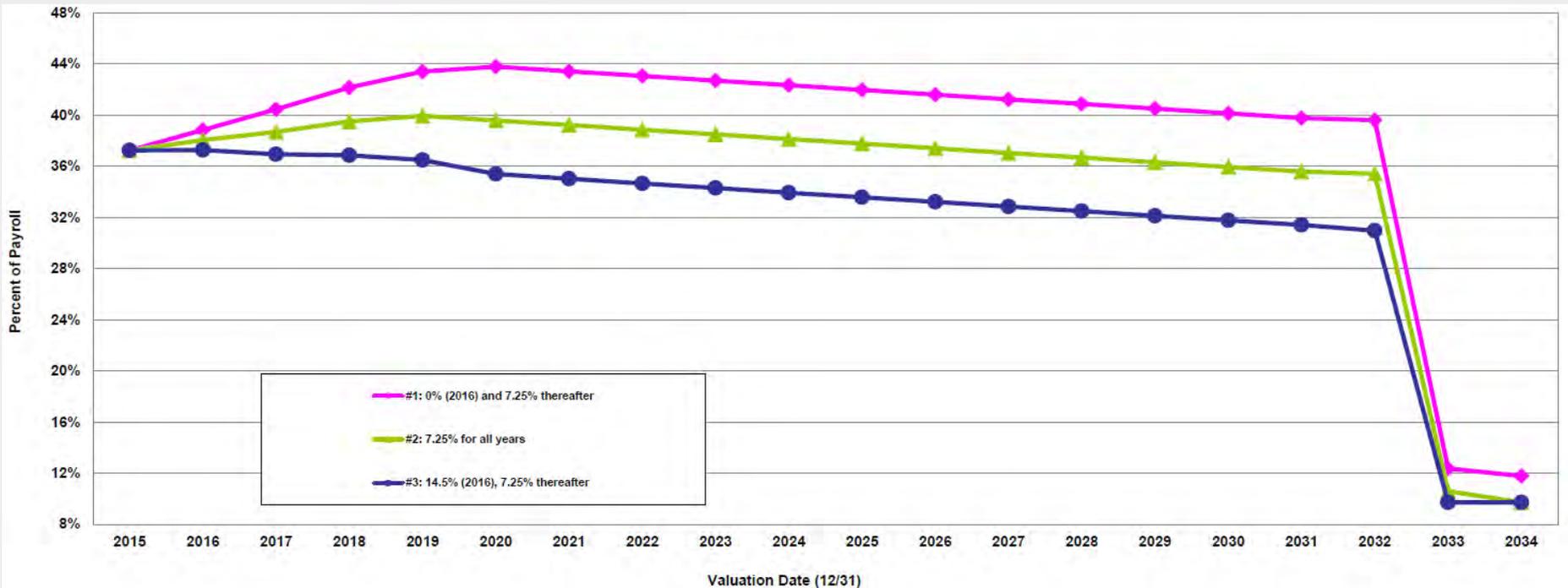
The Current State of OCERS

OCERS HISTORY
UAAL as a % of Total Actuarial Accrued Liability



The Current State of OCERS

AGGREGATE CONTRIBUTION RATES — Into the future

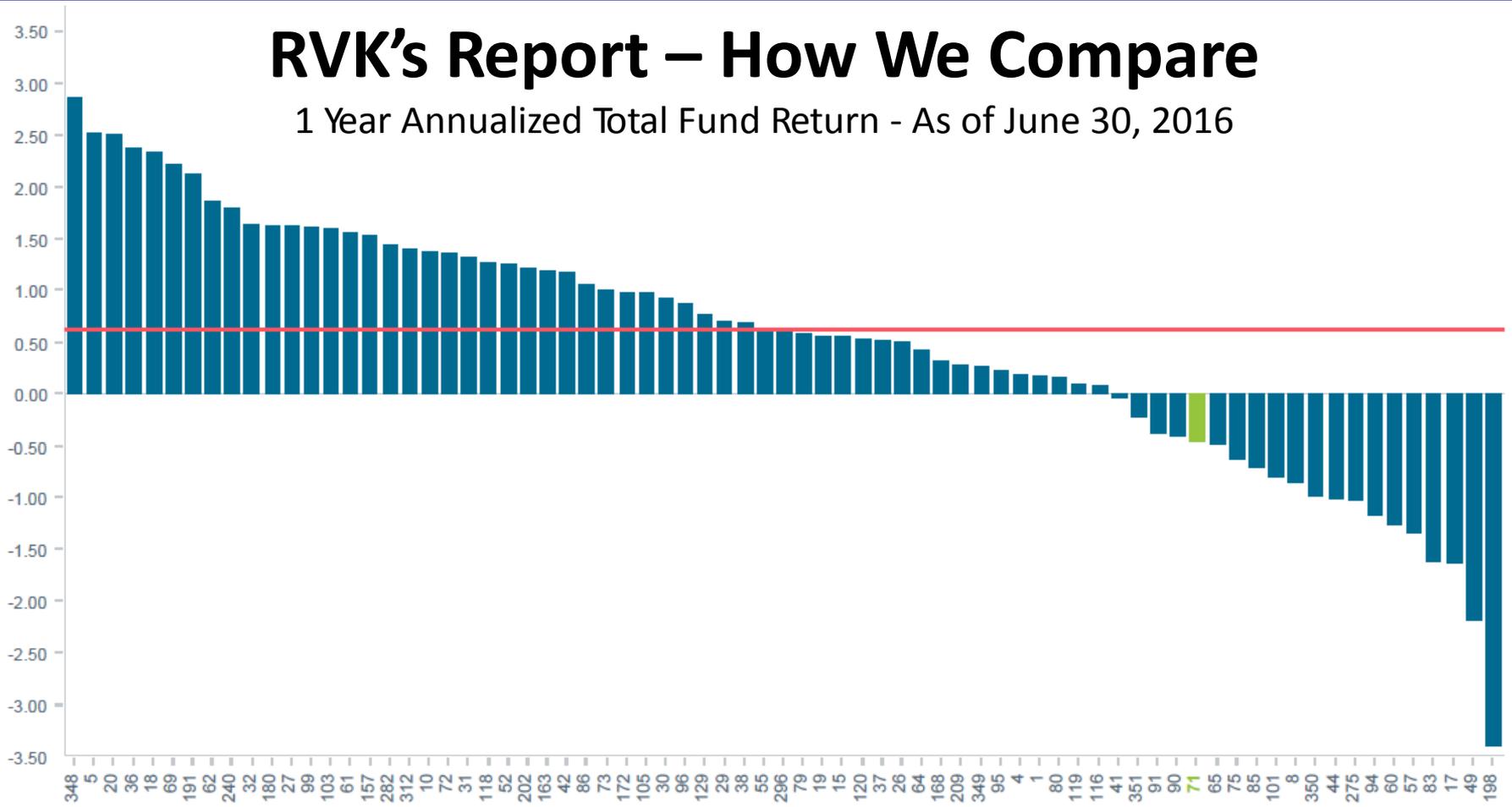


Segal Letter

The Current State of OCERS

RVK's Report – How We Compare

1 Year Annualized Total Fund Return - As of June 30, 2016



— Universe Median: 0.62

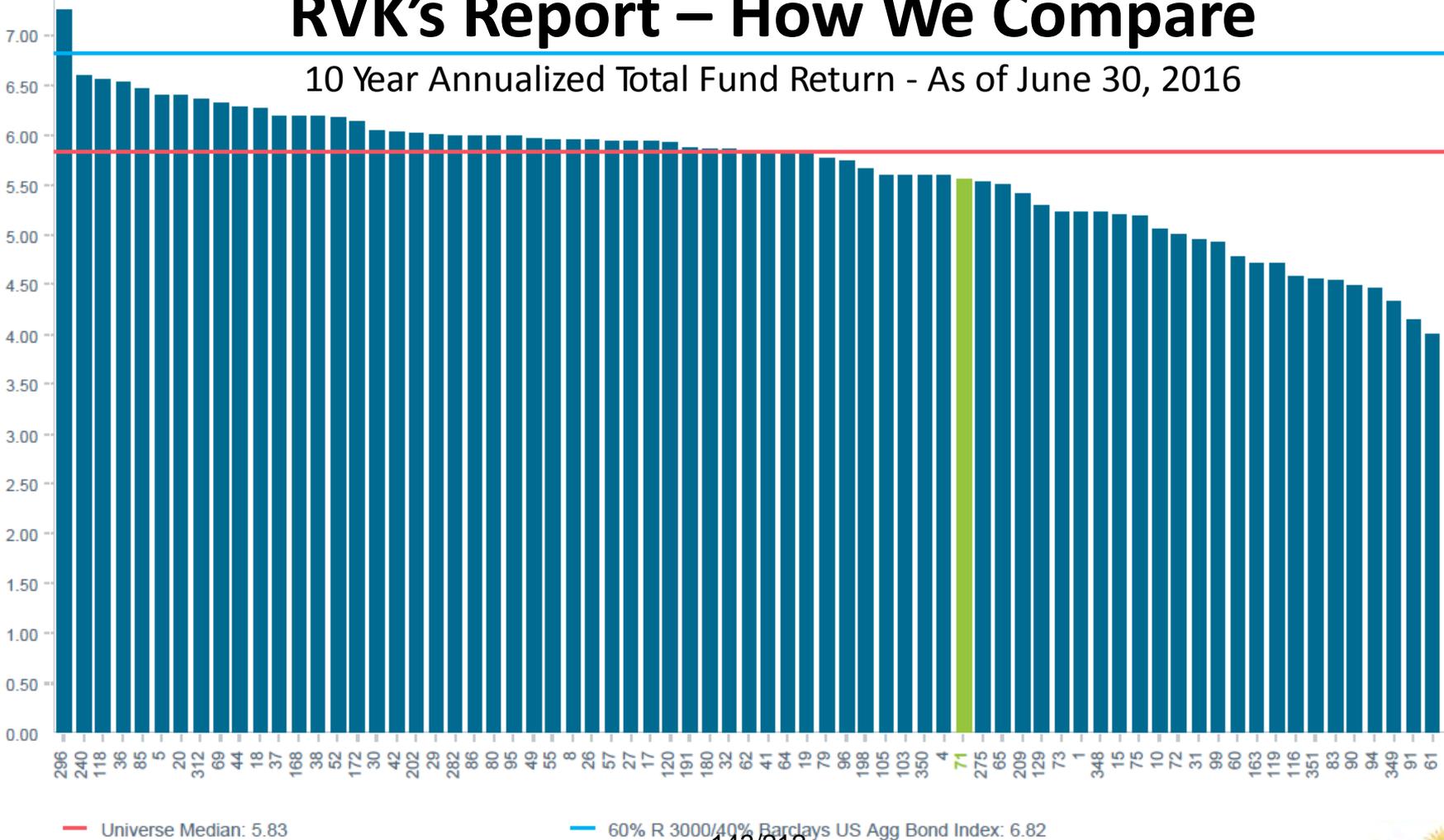
— 60% R 3000/40% Barclays US Agg Bond Index: 3.92

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The Current State of OCERS

RVK's Report – How We Compare

10 Year Annualized Total Fund Return - As of June 30, 2016



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The Current State of OCERS

THE OCERS INVESTMENT PROGRAM

- Triennial Asset Allocation underway.
- Search for new Chief Investment Officer also underway.
- Implementation of the newly adopted asset allocation

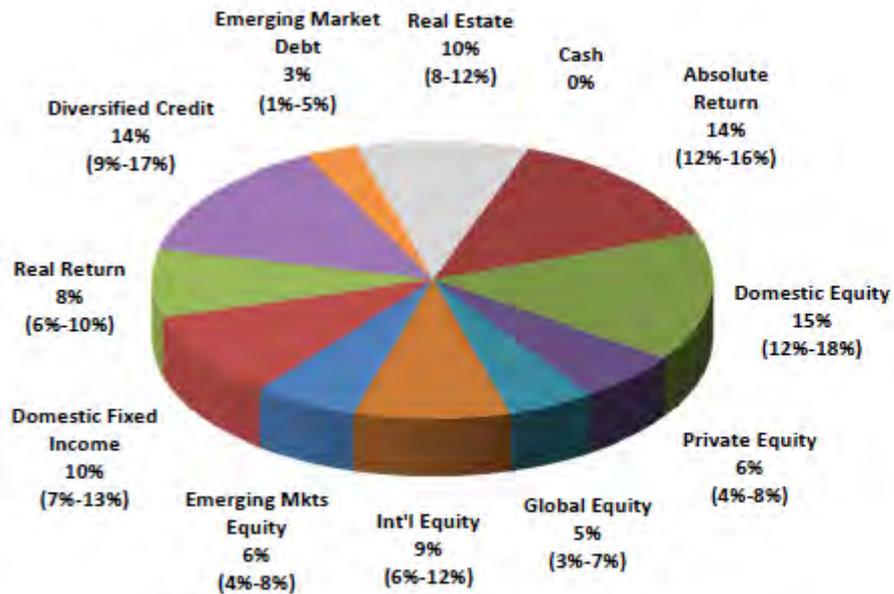


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The Current State of OCERS

Looking for Returns

Prior Allocation



New Allocation



The Current State of OCERS

What Worked in 2016

- 2016 net of fee return of 8.5% was in excess of actuarial assumed rate of return and OCERS' portfolio was placed in the 30th percentile in the Public Fund DB Universe
- Calendar returns were helped by double digit returns in the domestic equity (small cap), diversified credit strategies, as energy, high yield, and bank loan returns were strong, real return strategies, as energy and multi-strategies had a strong year

The Current State of OCERS

What Didn't Work in 2016

- International Developed equities struggled
- Hedge funds and absolute return strategies were challenged

The Current State of OCERS

Looking forward – in 2017

- Impact of reduced financial regulation, increased spending on infrastructure, healthcare and tax reform
- Continued changing economic status of global players
- Uneven economics globally
- Administration policies and impact on inflation

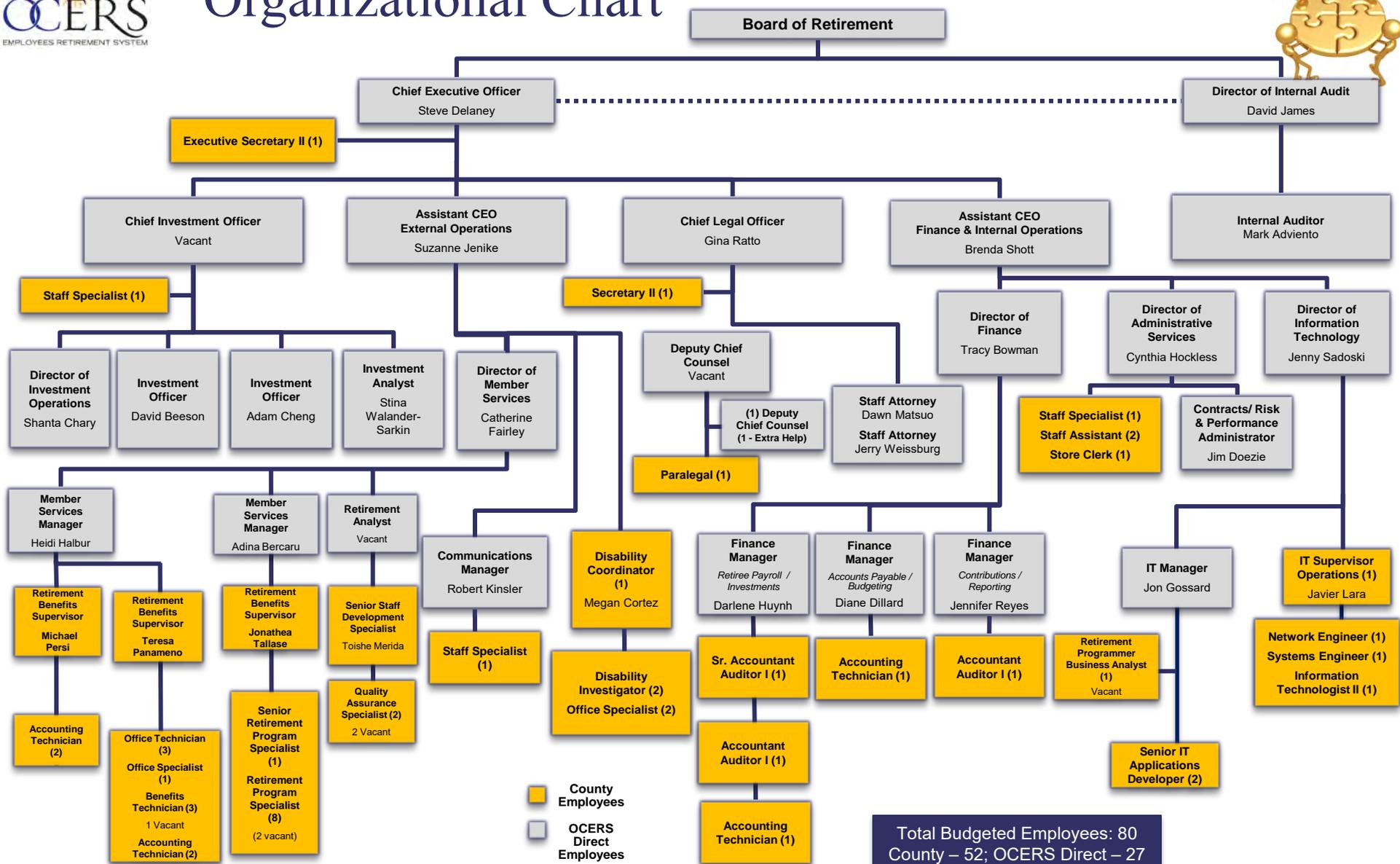
The Current State of OCERS

OCERS STAFF – Direct and County



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Organizational Chart



County Employees
 OCERS Direct Employees

Total Budgeted Employees: 80
 County – 52; OCERS Direct – 27
 OCERS Direct Extra Help -1

Staffing Summary as of December 31, 2016

Budgeted Positions	75
Employees on Staff	68
Vacancies	7
Recruitments Conducted	15
New Hires (New as OCERS direct or County)	7
Employees Transferred In (County Employees)	4
Third Party Employees:	18
V3 Contractors (Linea/ViTech)	4
Independent Contractors (Contract with OCERS)	6
Temporary (Staffing Agency)	8
Employees Promoted (within Agency)	2

Staffing Summary as of December 31, 2016

Employee Separations		12
Voluntary	8	
Terminations	3	
Probationary Release	1	
Employees Transferred Out (County Employees)		5
Employee Turnover		17.65%
	12/68 x100	
	Separations/Employees on Staff x 100	

The Current State of OCERS

OCERS PLAN SPONSORS – An annual review



Reviewed with Board on
February 7, 2017 by
OCERS' Director of
Internal Audit

The Current State of OCERS

BENCHMARKING FOR SUCCESS as of January 2017

- Member surveys – 98% positive response (SP Benchmark #1)
- Benefit recalculations – less than 5% are unplanned (SP Benchmark #2)
- Seminar evaluations – 99% positive
- Appeals – less than 1% of benefit calculations are appealed



The Current State of OCERS

OCERS BOARD POLICY COMPLIANCE

- 47 OCERS Board Policies
- 10 OCERS Board Charters
- 1 OCERS Board By Law
- 5 OCERS Administrative Procedures (OAPs)
- Numerous Departmental Policies and Procedures



The Current State of OCERS

OCERS BOARD POLICY COMPLIANCE

- 47 OCERS Board Policies
- Policy Owners are now assigned.
- In 2017 Individual Manager Performance Reviews will include discussion of their policy oversight activities in prior year.

The Current State of OCERS

“The Board of Retirement will annually – Review the quality of member services.”

- Section 20(e) OCERS Board of Retirement Charter



= May 2017

The Current State of OCERS

SUCCESSION PLANNING

“The Board of Retirement will from time to time as determined to be in the best interests of OCERS: Ensure that appropriate succession plans are in place to provide continuity in the OCERS management”

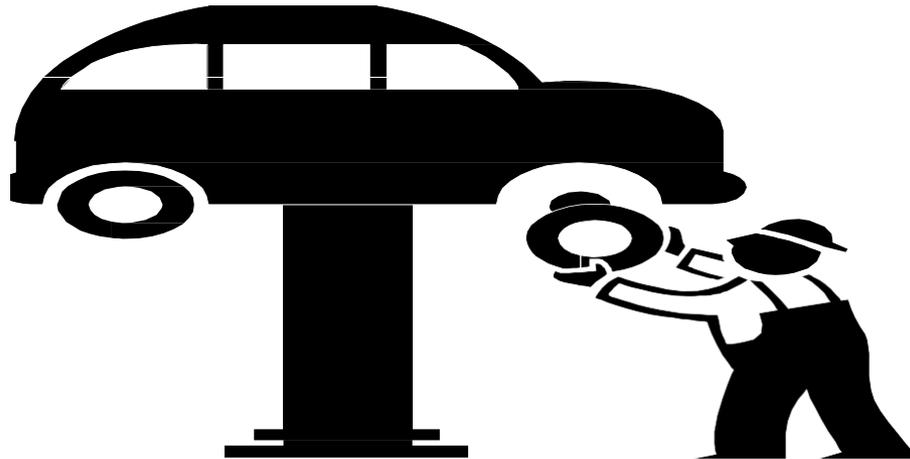
- Section 10(b) OCERS Board of Retirement Charter

The Current State of OCERS

SUCCESSION PLANNING

– It's not just about replacing people

Replacement planning is part of a Disaster Recovery approach...



...and it is an important first step in providing the foundation for succession planning as well.

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The Current State of OCERS

SUCCESSION PLANNING

– It's about growing people

- Succession planning is the long term development of staff and skill sets that will serve the agency



The Current State of OCERS

SUCCESSION PLANNING

– Laying the Foundation

First steps:

- Determine critical positions
- Identify expected vacancies
- Identify competencies, skills needed for each of those positions
- Assess where current staff stands in meeting those long-term needs



The Current State of OCERS



Succession Planning

– **Becoming a learning organization**

What follows:

- Provide education opportunities that meet identified needs
- Continue to encourage learning as an OCERS cultural norm
- Go beyond the books – provide developmental opportunities

The Current State of OCERS



Class of 2016

163/212
45

March 2017

The Current State of OCERS

SUCCESSION PLANNING

– Keeping it moving forward

Administrative tasks:

- Ensure the organization has accounted for the flow of responsibilities
- Capture and document the knowledge of departing staff
- Revisit progress each year with Human Resources

The Current State of OCERS

Challenges in 2017 and Beyond...

➤ **FUNDING LEVEL**



The Current State of OCERS

Challenges in 2017 and Beyond...

➤ CYBER SECURITY



The Current State of OCERS

Challenges in 2017 and Beyond...

➤ V3 and APPLICATION TO OCERS' BUSINESS

New technology means better insight to existing data and the demand for accuracy.



The Current State of OCERS

Challenges in 2017 and Beyond...



➤ **THE JANUARY PRE-PAYMENT CASH FLOW CHALLENGE**

The Current State of OCERS

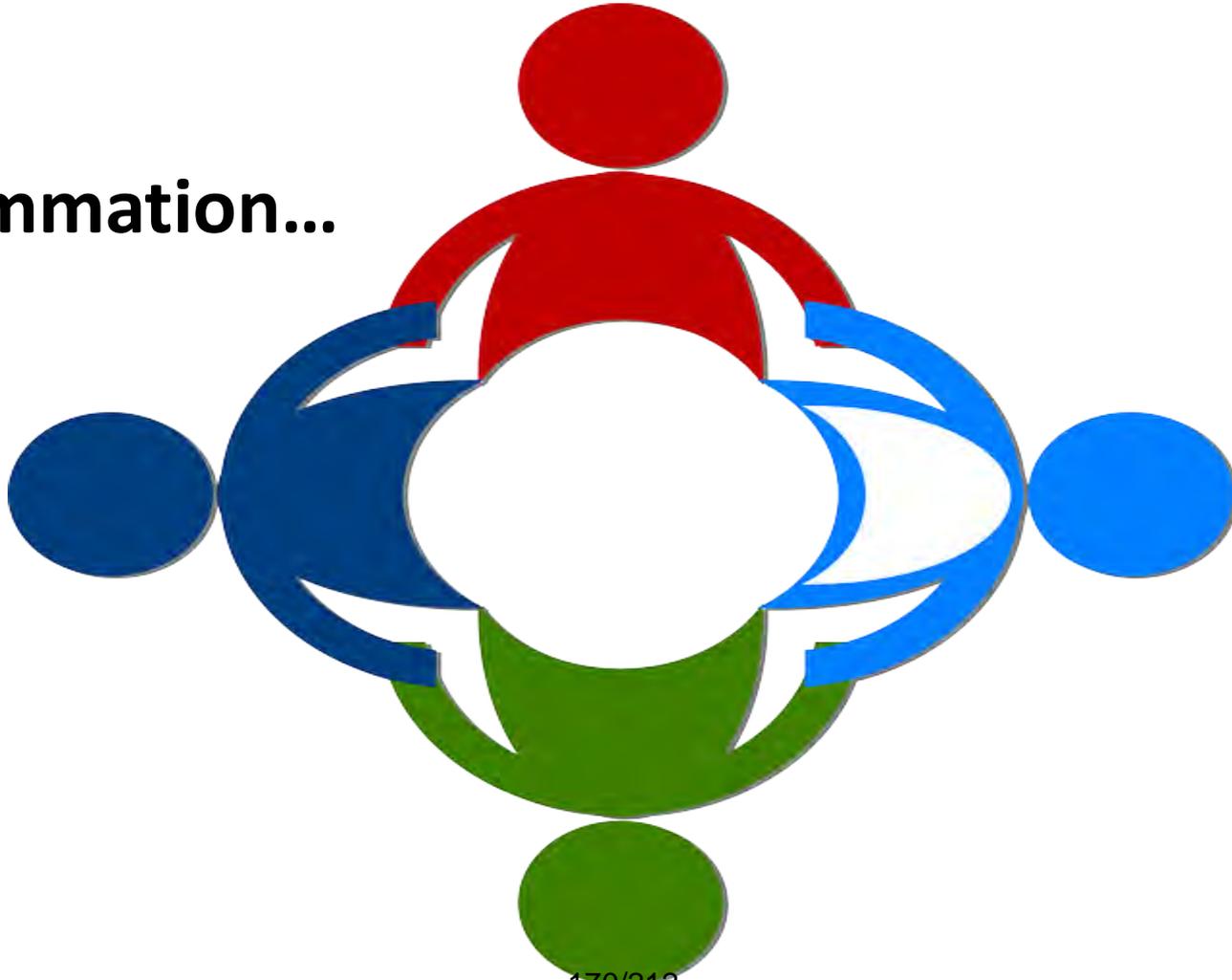
Challenges in 2017 and Beyond...

➤ Maintaining Contract Cities Engagement



The Current State of OCERS

In summation...



I-4

Memorandum

DATE: March 14, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: **OCERS VISION AND VALUES**

Recommendation

Take appropriate action.

Background/Discussion

In November 2015 the OCERS Board of Retirement adopted a new Mission Statement for the agency.

Moving from a prior statement that had been more a directive for agency actions and less a statement of purpose:

The role of the Orange County Employees Retirement System is to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence. In carrying out that role, the Board of Retirement and staff are committed to act for the exclusive benefit of the plan and its participants, manage assets of the plan prudently, and administer benefits with impartiality.

The Board at that November meeting approved the following as OCERS new Mission Statement:

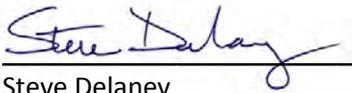
We provide secure retirement and disability benefits with the highest standards of excellence

At the OCERS Board's September 2016 Strategic Planning Workshop, assisted by Tom Iannucci of Cortex, the Board then took up discussion of the next step in this journey, and discussed what our system Vision and Values statements might look like.

Collecting thoughts and comments from the Board, it was determined that staff would return in 2017 for further consideration and possible adoption of a Vision and Values statement to guide the agency. To assist in the Board's deliberations, I met with various groups of OCERS staff members to obtain their input, and share that feedback in the PowerPoint presentation that follows.

The attached PowerPoint will share staff input, remind us of what other systems have crafted for a Vision and Values statement, and offer a suggestion for OCERS' first ever Vision and Values statement.

Submitted by:

A handwritten signature in blue ink that reads "Steve Delaney". The signature is written in a cursive style and is positioned above a horizontal line.

Steve Delaney
Chief Executive Officer

Orange County Employees Retirement System

Vision
Mission
& Values

Steve Delaney
March 20, 2017

Mission, Vision and Values

- ❑ A Mission statement answers the pivotal question “What is OCERS business?”
- ❑ A Vision statement should answer the basic question “What do we wish to become?”
- ❑ A declaration that informs the members and staff of this agency’s top priorities and outlines its core beliefs.

Prior OCERS Board Suggestions

- Quality Service
- Prudent manner
- Reasonable cost
- In a prudent cost effective manner
- Prudently and efficiently
- professional and courteous service

OCERS Staff Input

- VISION
 - Satisfied customers
 - Unified team
 - Timely Services (w/follow up)
 - Service with highest standard of excellence
- VALUES
 - Dependable – Our word means something
 - Accuracy
 - Integrity
 - Teamwork
 - Respectful



It's all about our members

“Why the Customer Is King”

Jeff Bezos and Warren Buffett speaking separately at different events commented on how important the customer was to their businesses.

<https://www.yahoo.com/finance/news/jeff-bezos-jamie-dimon-warren-buffett-on-business-success-164836050.html>

It's all about our members

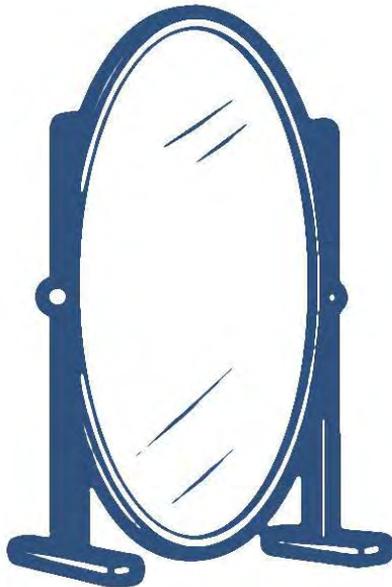
“The core of the company is **customer obsession** as opposed to competitor obsession. Customers are always dissatisfied and they always want more. So they pull you along. If you're trying to serve them, they pull you along.”

Jeff Bezos

It's all about our members

“Tomorrow morning when you look in the mirror after you've gotten up, just write – or just put it in lipstick or whatever you want – ‘delight my customer’ not ‘satisfy my customer’.

Warren Buffett



Mission | Vision | Values | Key Goals

Mission

DRS provides information, tools, expertise and services that ensure our members receive the retirement benefits they earn while in public service.

Vision

- Satisfied customers
- Valued team members

Values

- Customer Focus
- Team Member Engagement
- Valued Relationships
- Performance Excellence
- Resource Stewardship

Key Goals

Elated Customers — At DRS, we are "one team." Regardless of what our specific duties may be, we are all dedicated to one purpose: to serve our customers. We strive to be **Respectful, Responsive and Right** (accurate) in pursuit of 100 percent customer satisfaction. From their first day in public service to retirement and beyond, **we want all of our customers to be elated with their experience with DRS.**

Vigilant Resource Steward — DRS consistently seeks to improve the way it does business to make the best possible use of available resources in support of customer service and satisfaction. Innovation and empowerment are woven into a DRS culture that encourages team members to submit their ideas for improving processes, eliminating waste and strengthening services.

Best Practice Leader — Washington has been a national leader in designing and maintaining pension plans that are sustainable and provide reasonable retirement benefits to our valued public employees. DRS is proud to be part of this tradition, and places high value on innovative, visionary approaches.

Reliable Partner — DRS works with a number of organizations in the administration and governance of Washington's public pension and savings plans. Recognizing the enormous importance of a positive reputation with these partners, DRS strives to be supportive, collaborative, and transparent as we work together to manage the state's retirement systems.

Engaged Team Members — All DRS team members are fully engaged and supported in meeting (and exceeding) customer expectations. All DRS leaders are focused on providing coaching, mentoring, resources and support that team members need to be successful in meeting customer needs.

Washington State Department of Retirement Services

MISSION

Securing the financial future and sustaining the trust of California's educators.

VISION

Your Reward—A Secure Retirement

Our Reward—Getting You There

CalSTRS (Teachers)

CORE VALUES

The CalSTRS core values are a set of attitudes, beliefs and behaviors that define CalSTRS and its employees.

Customer Service

We never compromise on quality as we strive to meet or exceed the expectations of our customers.

Accountability

We operate with transparency and accept responsibility for our actions.

Leadership

We model best practices in our industry and innovate to achieve higher standards.

Strength

We ensure the strength of our system by embracing a diversity of ideas and people.

Trust

We conduct ourselves with integrity, acting ethically in every endeavor.

Respect

We respect the needs of our members, co-workers and others, treating everyone with fairness, honesty and courtesy.

Stewardship

We recognize our fiduciary responsibility as the foundation for all decision-making.

Mission Statement



MISSION STATEMENT

The mission of the Georgia Firefighters' Pension Fund is to provide a supplemental pension benefit to Georgia's firefighters and their beneficiaries through prudent stewardship of the assets held in trust.

VISION STATEMENT

The vision of the Georgia Firefighters' Pension Fund is to uphold a tradition of excellence in service, fiduciary responsibility, and accountability through a dedicated and compassionate workforce that employs progressive technology and promotes professionalism.

CORE VALUES

INTEGRITY – We will always act with honesty and integrity, not compromising the truth.

ACCOUNTABILITY – To the firefighters of the State of Georgia, our fund members and their families for performance, dedication, and ethical practices in the administration of the Fund.

PROFESSIONALISM – We will always conduct ourselves in a professional manner, demonstrated by our speech, actions and compassion.

SERVICE – We will always ensure excellent customer service in a courteous manner.

STEWARDSHIP – As stewards of the Georgia Firefighters' Pension Fund, we will strive to enhance and increase the value of the fund for current members and for generations to come.

*Georgia Firefighters
Pension Fund*

LACERA VISION

Excellence—Our members deserve the best.

Therefore, we choose to be the best. We choose excellence through innovation. We choose to become unparalleled experts in retirement law, pension administration, and benefit solutions. We choose to be preeminent masters of portfolio management.

Commitment—we are the best.

We will work together to provide the best service. We will continually strengthen our commitment to effective teamwork by contributing our individual strengths, learning new methods and skills, and anticipating the demands of the future.

Trust—our members place trust in LACERA.

Everyday, we will earn this trust by placing their interest first, by giving them easy-to-understand answers, by solving their problems quickly, and by safeguarding and maximizing their investment assets.

Service—Our members deserve the best.

We pledge to improve our member service until 100 percent of our members making inquiries receive courteous, professional, accurate answers with just one call. We have the ability to achieve this if each one of us reaches deep into our strengths and lends a hand. Our strengths are individual; collectively they are unstoppable.



Because members deserve the best,
LACERA will be the best.

LACERA VALUES

Professionalism

We take the initiative to develop our skills to get the job done. We are accountable for providing quality service to our members that is efficient and accurate.

Respect

Our members and coworkers deserve to be treated with courtesy, patience, and empathy. When we listen to and support each other, we create a nurturing work environment that promotes fairness and trust.

Open Communications

Our frank and straightforward expression of ideas fosters a common understanding of purpose — quality service to our members. We create a healthy work environment by sharing information, listening to each others' ideas, and giving constructive feedback.

Fairness

Our employees are entitled to a clear explanation of performance expectations. Performance evaluations are timely, honest, and impartial; personal improvement plans are reasonable and constructive; and we provide opportunities for professional development and promotion.

Integrity

We inspire confidence by our high standards for member services and sound investment practices. We are reliable, ethical, and honest. Loyalty to LACERA means loyalty to members. Integrity guides all of our work relationships.

Teamwork

We are committed to teamwork and we openly share information and ideas. Working together to reach common goals is the essence of success.



Achieving our MISSION through
shared VALUES and a collective VISION.

185/212

MISSION, VISION, AND VALUES

MISSION STATEMENT

To provide quality benefits and services that meet the needs of our clients and others we are committed to serve, through our efficient and responsive workforce.

VISION STATEMENT

- **WE** will achieve customer satisfaction through equitable, effective, responsive service, and clear and accessible communications that meet the needs of our clients.
- **WE** will encourage and support an accomplished workforce that is knowledgeable, flexible, technically proficient and committed to excellence.
- **WE** will be committed to working with executive and legislative agencies and governing boards to improve the design and implementation of benefits programs.
- **WE** will support technologies that simplify procedures and improve services, manage our resources in a responsible and creative manner, and hold contracted service providers to high standards.
- **WE** will work with participating employers to enhance their role in the administration of benefits for their employees through integrated technology that allows them to access and process benefit information directly.

VALUES STATEMENT

- **WE** are customer-focused, recognizing each client individually.
- **WE** acknowledge as our greatest asset our knowledgeable, hard working, and dedicated staff.
- **WE** are financially responsible in the administration, oversight and delivery of our programs.
- **WE** are committed to providing quality, timely, accurate, efficient, and cost effective benefits services.
- **WE** are committed to creating and developing a quality work environment using state-of-the-art technologies, and processes that foster continuous improvement of our organization through teamwork, motivation, and communication among staff.

*New Jersey State
Public Pension*

Mission, Vision & Values

Our Mission

Outstanding service and retirement security for our members – today and tomorrow.

Our Vision

Striving to be the world's leading pension plan.

Our Values

- Humility: We temper our accomplishments.
- Integrity: We do the right thing.
- Partnership: We are stronger together.
- Performance: We are driven to succeed.
- Innovation: We have the courage to forge new paths.

*Ontario Teachers
Pension Fund*

Mission Statement and Core Values

We are dedicated to providing the highest level of retirement services and managing system resources in an effective and prudent manner.

In fulfilling our mission as a retirement system, we are committed to:

- The highest levels of professionalism and fiduciary responsibility
- Acting with integrity
- Competent, courteous and respectful service to all
- Open and fair processes
- Safeguarding confidential information
- Cost-effective operations
- Stable funding and minimal contribution volatility
- Effective communication and helpful education
- Maintaining a highly competent and committed staff
- Continuous improvement
- Planning strategically for the future

*Sacramento County Employees
Retirement System*

Some Staff Suggestions (1)

- **Respect**
- **Efficiency**
- **Thoroughness**
- **Integrity**
- **Reliability**
- **Effectiveness** or **Elation** 😊
- **Mindfulness**
- **Economy**
- **Nurturing**
- **Transparency**

Some Staff Suggestions (2)

“Service is our Foundation” can really express how meaningful customer service is for an organization. Total Customer Care, or TCC for short, seems like a great catch phrase as:



I thought this was interesting enough to share. I hope you find it of value.

A suggestion for OCERS (1)

Vision:

Achieving excellence in pension and benefit service



A suggestion for OCERS (2)

Values:

Integrity – We will always act with honesty and integrity, not compromising the truth.

Professionalism – We will always conduct ourselves in a professional manner, demonstrated by our speech, actions and compassion.

Service – We are member focused, recognizing each member as an individual

Stewardship – As stewards we will strive to enhance and increase the value of the fund for current members and for generations to come.

Innovation - We have the courage to forge new paths

I-5



Memorandum

DATE: March 7, 2017
TO: Members, Board of Retirement
FROM: Brenda Shott, Assistant CEO, Finance & Internal Operations
 Tracy Bowman, Director of Finance
SUBJECT: 2016 BUDGET AMENDMENT

Recommendation

Approve an amendment to OCERS' Administrative and Investment Budget for 2016 in the amount of \$28.0 million, increasing the 2016 investment budget from \$41,666,661 to \$69,666,661 and the overall amended budget from \$59,559,303 to \$87,559,303.

Background/Discussion

The investment budget includes investment management fees that are paid directly by OCERS, as well as non-cash investment fees that are reported by investment managers on their client statements. In accordance with generally accepted accounting principles (GAAP), OCERS records both the fees paid directly and the fees reported on the investment manager statements as an investment expenses on the financial statements and as such they must also be included in the annual investment budget. All other investment management fees that are incurred but not reported on the statements are netted with the portfolio returns and therefore do not get reported as part of the annual budget.

Investment management fees are typically budgeted based on direct billings and an estimate of the non-cash investment fees that have been historically reported. Due to the greater demand for transparency, a growing number of investment managers continue to report fee-related information on their client statements. This includes three new investment managers that were not included in the 2016 budget estimate, but reported fees totalling \$5.9 million as follows (rounded to nearest 1,000):

Beach Point Opportunity Credit	\$4,206,000
Jamestown	975,000
BlackRock PEP Energy	750,000
Total	\$5,931,000

In addition, during the year Internal Audit performed an audit of OCERS' private equity managers Abbott Capital and Pantheon which was presented at the April 4, 2016 Audit Committee meeting and to the full Board on April 18, 2016. One of the recommendations from the audit of the private equity managers was that all fees disclosed by the investment managers in their statements should be consistently recorded as investment expenses by the custodian and in OCERS financial statements in accordance with GAAP, instead of being netted against returns as has occurred with some of the investment managers in the past. Finance agreed with the recommendation and has since identified 20 investment managers (including Abbott Capital and Pantheon) who are disclosing management fees on their statements, but which State Street, OCERS' custodian bank, continues to net against

Memorandum

returns in their monthly reporting packages. Staff has been working with State Street on the consistency of their reporting and has directed them to capture all non-cash investment management fees that appear on manager statements in their custodial reports starting in 2017. In the meantime, to address Internal Audit's recommendation, an adjustment for the year ended December 31, 2016 was made to reclass investment management fees totalling \$20.2 million for the investment managers who are disclosing management fees on their statements, but which State Street had netted against investments returns in their monthly reporting packages (see attachment A for detailed list).

As a result of reclassing these fees from investment returns to investment management fees and recording non-cash fees reported by new investment managers that were not included in the 2016 budget estimate, recorded fees have exceeded budgeted fees by \$25.5 million. Staff is proposing a budget amendment for this amount plus an additional 10% contingency for any potential additional fees that may be disclosed on year-end audit confirmations received from investment managers who report on a lag basis, for a total budget amendment of \$28.0 million.

The approval of this budget amendment will increase the 2016 investment budget from \$41,666,661 to \$69,666,661 and the overall amended budget from \$59,559,303 to \$87,559,303. The proposed amended budget will have no impact on the state mandated 21 basis point test for administrative expenses as the investment budget is excluded from this calculation and will remain at 8.25 basis points of the projected actuarial accrued liability. The proposed amended budget will also still meet OCERS' Budget Approval Policy limitation of 18 basis points of the projected actuarial value of total assets, remaining at 14.54 basis points.

A comprehensive, detailed report of all 2016 investment fees, including at-source fees not disclosed in the financials or reflected in the budget as well as those discussed above, will be presented to the Investment Committee in the summer of 2017.

Submitted by:



Tracy Bowman
Director of Finance

Approved by:



Brenda Shott
Assistant CEO, Finance & Internal Operations

Attachment A

Below is a list of investment managers who reported non-cash investment fees, but which State Street had netted against investments returns in their monthly reporting packages (rounded to the nearest 1,000):

Morgan Stanley	\$3,157,000
Abbott Capital	2,503,000
Tennenbaum Capital Partners	2,101,000
PIMCO DISCO II	2,046,000
AEW Core Property Trust	1,430,000
ASB Capital Management	1,263,000
Alphadyne	1,116,000
OCH ZIFF	921,000
PIMCO GCOF	870,000
Archer Capital Management	760,000
Pictet Asset Management	660,000
Tennenbaum Energy Opp. Fund	646,000
Gotham	535,000
Ionic Capital Management	497,000
Perry Capital	333,000
Hayfin	305,000
Bluebay Direct Lending	303,000
True North	279,000
Pantheon	262,000
Crescent Capital	200,000
Total	\$20,187,000

I-6

Memorandum

DATE: March 9, 2017
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: OCERS BOARD PERFORMANCE SELF-REVIEW

Recommendation

Request the Governance Committee review the current policy directive that the OCERS Board of Retirement annually “review the performance of the Board.”

Background/Discussion

The OCERS Board charter states that “The Board of Retirement will annually: Review the performance of the Board.” (Sec 20.f)

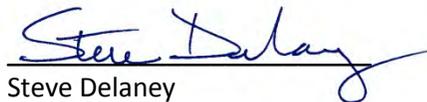
In turn, the *Board Performance Review* policy calls for the OCERS Board of Retirement to annually “engage in self-review and discussion for the purposes of continuously improving its own effectiveness as a fiduciary body.”

While the Board was provided with the policy and accompanying self-review questionnaire as part of the January 17, 2017 board materials, Board Chair Ball has only received three responses to-date, and that despite a number of subsequent reminders.

With three responses clearly being insufficient to allow the Board Chair to provide an instructive and meaningful report to the full Board, he has asked that we not proceed with this item at this time.

Chair Ball requests instead that the Governance Committee take up the issue of the Board’s self-review process, and return to the full Board with recommendations that would improve participation in the process.

Submitted by:



Steve Delaney
Chief Executive Officer

Attachment – OCERS Board Charter; Board Performance Review policy

Introduction

1. The Board of Retirement of OCERS is committed to carrying out its policy and oversight role in accordance with the highest standards of fiduciary practice. The Board recognizes the need to clearly delineate the responsibilities of the various decision-making bodies involved in the governance and management of OCERS. Accordingly, the Board has established this charter, which sets out its duties and responsibilities in governing the System.

Duties and Responsibilities

Board Members

2. Under the California Constitution and the County Employees' Retirement Law of 1937, members of the Board of Retirement have plenary authority and fiduciary responsibility for investment of moneys and administration of the retirement system, and must discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, members of the system and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. Members function together as a nine-member Board (with one alternate), exercising their collective judgment.
3. In carrying out their duties, Members must act "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims."
4. In order to prudently discharge their responsibilities, each Board Member is expected to participate in the activities of the Board and its committees, and to commit the time and effort necessary to knowledgably, effectively and efficiently administer the affairs of the retirement system.
5. Each Board Member shall:
 - a. Be familiar and comply with OCERS' governing laws, rules, regulations, charters and policies.
 - b. Endeavor to attend all regular meetings of the Board and committees on which the Member serves. The Board and Investment Committee meet regularly once each month, subject to adjustment from time to time. Regular meetings are expected to last most of the day. Other committee meetings generally are less frequent, and last between two and four hours.
 - c. Be prepared in advance for informed discussion at each meeting. Preparation for regular Board and Investment Committee meetings can require between one and eight hours.
 - d. Take advantage of educational opportunities in areas necessary for OCERS' prudent administration, including but not limited to investments, benefit administration, fiduciary duties, ethics and conflicts of interest, open meetings and sound governance. In-house programs and outside conferences and seminars are available for this purpose. The time commitment for Board Member education is usually five days per year. Some travel may be required.

6. If a Board member is unwilling or incapable of committing to and discharging the foregoing duties and responsibilities, the Member should consider resigning from the Board for the benefit of the system and the Board.

Governance

7. The Board of Retirement will:
 - a. Approve, and amend as necessary, the mission statement of OCERS;
 - b. Adopt regulations or By-Laws, consistent with the County Employees Retirement Law of 1937, Government Code, Title 3, Division 4, Part 3, Chapter 3 and 3.9, Government Code Sections 31450 - 31899.10 as amended, and other applicable law;
 - c. Adopt, and amend as necessary, policies to ensure appropriate governance practices; reviewing each on a triennial basis.
 - d. Adopt and amend as necessary, charters describing the roles and responsibilities of the Board, the committees of the Board, the Chief Executive Officer, the Managing Director of Investments, the Chair, the Vice Chair, and the Committee Chairs;
 - e. During the last regularly scheduled meeting of the full Board for each calendar year elect a Vice Chair for a term beginning on the first day of the following calendar year, and fill vacancies as necessary. The person holding the office of Vice Chair as of the last day of the calendar year shall automatically succeed to the office of Chair effective the first day of the following calendar year as provided for in the OCERS By-Laws;
 - f. Establish committees of the Board as provided for in OCERS By-Laws;
 - g. Initiate, support, oppose or take a neutral position regarding legislative proposals affecting OCERS; and
 - h. Authorize and or approve any actions concerning claims, disputes, demands or legal proceedings that may affect the functions, investments, and benefits or funding of OCERS and the Board.

Investments and Funding

8. The Board has exclusive control of the investments of the Fund. The assets of OCERS are trust funds and, as such, the Board will manage the Fund (Gov. Code § 31595):
 - a. Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering OCERS;
 - b. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and
 - c. By diversifying the investments of OCERS so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

9. The Board will conduct a study of the relationship between the assets and liabilities of OCERS not less than every three years.
10. The Board will approve an Investment Policy Statement including investment objectives, and will review and confirm or amend such policy at least every three years and following the completion of any asset/liability study of OCERS.
11. The Board will approve broad investment strategies for achieving the investment objectives of OCERS, which will include at a minimum:
 - a. Investment structure;
 - b. Guidelines concerning growth versus value capitalization strategies; and
 - c. Guidelines concerning amounts to be invested passively in each asset class.

Benefits Administration

12. The Board of Retirement will, from time to time as determined to be in the best interest of OCERS:
 - a. Adopt Board policies necessary to promote effective administration of member benefits;
 - b. Approve all qualified members who apply for service retirement; (Gov. Code § 31670)
 - c. Determine the merits of applications for disability benefits, making necessary determinations of service connection and permanency of injury; (Gov. Code § 31720)
 - d. Act on member appeals of decisions made by OCERS staff;
 - e. Annually approve cost-of-living adjustments (Gov. Code § 31870);
 - f. Determine eligibility of safety members when in doubt; and
 - g. Periodically review approved disabilities as appropriate.

Operations

13. The Board of Retirement will:
 - a. Adopt a business and strategic plan and any updates thereto;
 - b. Adopt an annual Operating Budget within the statutory limit and any changes;
 - c. Ensure that all required contributions to the Fund are collected in a timely manner;
 - d. Ensure that all required distributions from the Fund are made in a timely manner;
 - e. Establish OCERS principal business offices;
 - f. Approve leasehold or purchase agreements in connection with OCERS principal business offices; and
 - g. Approve operational control policies to ensure efficient delivery of member services.

Financial, Actuarial and Accounting

14. The Board of Retirement will:
- a. Ensure that appropriate accounting, actuarial and internal financial control policies are established;
 - b. Approve the annual actuarial valuation and the actuarial assumptions contained therein, upon the advice of the actuary and other experts as required, and transmit to the Orange County Board of Supervisors a recommendation to implement such changes in the contribution rates of the county and districts, and members, as are necessary; (Gov. Code §§31453 - 31454.6)
 - c. Approve the annual financial statements;
 - d. Ensure a financial audit is conducted at least annually; (Gov. Code § 31593)
 - e. Ensure an actuarial experience study is conducted at least every three years; and
 - f. Ensure an actuarial audit is conducted at least every five years.

Human Resources

15. The Board of Retirement will from time to time as determined to be in the best interests of OCERS:
- a. Approve a human resources and compensation policy; and
 - b. Ensure that appropriate succession plans are in place to provide continuity in OCERS management.

Communications

16. The Board of Retirement will:
- a. Ensure effective communications with all significant interest groups;
 - b. Ensure that an Annual Financial Report is issued to members;
 - c. Ensure that Member Statements are available on OCERS' website and that OCERS will make paper copies available upon request; and
 - d. Conduct internal and external communications in accordance with the Board Member Communications Policy adopted the Board.

Key Appointments

17. The Board of Retirement will, from time to time, appoint staff and service providers to assist the Board in carrying out its responsibilities, including:
- a. The CEO; (Gov. Code § 31522.5)
 - b. The actuary;
 - c. The actuarial auditor;

- d. The financial auditor;
- e. The custodian;
- f. Legal counsel retained to represent and advise the Board; (Gov. Code § 31529.5)
- g. Investment consultants retained to advise the Board;
- h. Investment managers;
- i. Human resource consultants retained to assist the Board with Issues pertaining to the CEO; and
- j. Other service providers the Board may choose to retain.

Monitoring and Reporting

- 18. The Board of Retirement will ensure that appropriate monitoring and reporting practices are established within OCERS.
- 19. As a general rule, the Board will comply with all Board policies. Should the Board take an action contrary to one of its policies, it will state in the Board minutes the reasons for doing so. At such time, the Board will also request that a review of the policy be undertaken.
- 20. The Board of Retirement will annually:
 - a. Review the CEO's job performance;
 - b. Review the funded status of OCERS;
 - c. Review OCERS's internal financial and operating controls;
 - d. Review the investment performance of the Fund and the performance of the investment managers of the Fund;
 - e. Review the quality of member services; and
 - f. Review the performance of the Board.
- 21. The Board will review the actuarial experience of OCERS not less than every three years.
- 22. The Board will review the results of an actuarial audit of OCERS at least every five years.
- 23. The Board will review progress toward the implementation of OCERS business plan on a semi-annual basis.
- 24. The Board will review Board policies every three years or as set out in each policy.
- 25. The Board will review the OCERS Operating Budget on a quarterly basis.
- 26. With the assistance of the CEO, the Board (or a committee of the Board) will review, at least biennially, the performance of its advisors including the actuary, the financial auditor, the investment consultants, and fiduciary counsel.
- 27. The Board will provide for appropriate monitoring of compliance with applicable laws and regulations.

Charter Review

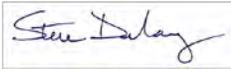
28. The Governance Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.

Charter History

29. This Charter was adopted by the Board of Retirement on November 18, 2002 and amended on August 22, 2011, January 21, 2014, and January 20, 2015, and July 20, 2015.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this charter.



7/20/15

Steve Delaney
Secretary of the Board

Date

Objectives

1. The objectives of this policy are to provide a process whereby the Board of Retirement may engage in self-review and discussion for the purposes of continuously improving its own effectiveness as a fiduciary body.

Principles

2. Review of the Board of Retirement's performance is performed most effectively by the Board members themselves.
3. All Board members should participate in the review process.
4. The scope of the review process and any resulting actions should be strictly limited to the operations and decision-making practices of the Board itself. Issues pertaining to the operations of the Retirement System will fall within the scope of other Board policies, such as the Planning Policy and the Chief Executive Officer Performance Evaluation Policy.

Guidelines

Roles and Responsibilities

5. The Board of Retirement will be responsible for the implementation of these procedures.
6. The Chair and Vice Chair will be responsible for coordinating and assisting in the review process.

Procedures

7. In preparation for the review, in January of each year, the Chair will ensure that the Board Performance Review Questionnaire is distributed to each Board member. Board members will complete the questionnaire and return it to either the Chair or to a designated third party within the time frame specified by the Chair.
8. The Board review will be placed on the agenda for the February Board meeting. The Chair will distribute to Board members both comments and observations from the completed surveys to facilitate discussion at the meeting.
9. The Board may employ the services of a third party to assist in the Board's discussion of the performance review.
10. The Board of Retirement discussions and any resulting actions will be recorded in the minutes of the February Board meeting.

Policy Review

11. The Board of Retirement will review this policy at least once every three years to ensure that it remains relevant and appropriate.

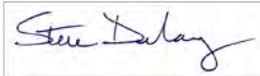
OCERS Board Policy
Board Performance Review

Policy History

- 12. The Board of Retirement adopted this policy on February 19, 2002.
- 13. The policy was amended April 16, 2007, May 26, 2009, January 21, 2014, July 20, 2015, and November 14, 2016.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



11/14/16

Steve Delaney
Secretary of the Board

Date

Board Performance Review Questionnaire

1. What does the Board do well?

2. What does the Board not do well?

3. How might Board meeting time be better managed?

Other suggestions or comments that might lead to improved performance by the Board.

4. Audit and Governance Committee Chairs: Please (a) provide a recap of your committee's activities during the year and (b) comment on your committee's effectiveness.

Name (optional)

Date

I-7

Memorandum

DATE: March 20, 2017
TO: Members of the Board of Retirement
FROM: Gina M. Ratto, Chief Legal Officer
SUBJECT: **SACRS BOARD OF DIRECTORS ELECTIONS 2017-2018 – RECOMMENDED SLATE AND OPPORTUNITY TO SUBMIT WRITE-IN CANDIDATES**

Recommendation

Determine whether to submit write-in candidates to be included on the SACRS Nominating Committee's final ballot for the SACRS Board of Directors 2017-2018 Election. If the Board does not wish to submit any write-in candidates, then receive and file.

Background/Discussion

The SACRS Board of Directors election process for 2017-2018 commenced in January. The timeline for the election process is set forth in the attached memorandum from the SACRS Nominating Committee.

The SACRS Nominating Committee has recommended the following slate for the 2017-2018 election:

President	Dan McAllister, San Diego CERA
Vice President	Gabe Rodrigues, Contra Costa CERA
Treasurer	(Nominee has withdrawn – See attached memorandum dated March 6, 2017)
Secretary	Kathryn Cavness, Mendocino CERA

There is currently no nominee for the Treasurer's position.

The OCERS Board may now submit a write-in candidate for the Treasurer's position or for any other office and have those candidates included in the Nominating Committee's final ballot. The deadline for submitting one or more write-in candidates is March 25, 2017.

After the Nominating Committee receives write-in candidates from the '37 Act County Boards, and on or before April 1, 2017, the Nominating Committee will prepare and submit the final ballot to each County administrator. At its April meeting, the OCERS Board will determine which candidates to vote for at the election to take place at the SACRS business meeting on May 19, 2017.

Attachments

Submitted by:



Gina M. Ratto
Chief Legal Officer

February 23, 2017

To: SACRS Trustees & SACRS Administrators/CEO's
 From: Yves Chery, SACRS Immediate Past President, Nominating Committee Chair
 SACRS Nominating Committee
 Re: SACRS Board of Director Elections, Recommended Ballot
 2017-2018 BOD Elections

SACRS BOD 2017-2018 election process began January 2017. Please review the following timeline and distribute the recommended ballot to your Board of Trustees, per the bylaws:

DEADLINE	DESCRIPTION
February 1, 2017	Nominating Committee receives nominations from SACRS membership
March 1, 2017	Nominating Committee submits its recommended ballot to each 1937 Act Board
March 25, 2017	Nominating Committee receives nominations from any 1937 Act Board
April 1, 2017	Nominating Committee submits final ballot to each 1937 Act Board – ballot consists of recommended ballot plus anybody else who is nominated but not recommended by the Nominating Committee
May 19, 2017	Conduct elections during the SACRS Business Meeting (At end of the May 2017 conference)
May 19, 2017	Board of Directors take office for 1 year

Per SACRS Bylaws, Article VI ~ Section 2 – Election, Qualification and Term of Office

“The officers of SACRS shall be regular members of SACRS. The officers shall be elected by majority vote of the quorum of delegates and alternate delegates present at the first meeting in each calendar year and shall hold office for one (1) year and until a successor is elected.”

Per SACRS Bylaws, Article VI ~Section 4 - Officer Elections

“...The Board of any regular member County Retirement System may submit write-in candidates to be included in the Nominating Committee’s final ballot provided the Nominating Committee receives those write-in candidates prior to March 25th. The Nominating Committee will report a final ballot to each regular member County Retirement System prior to April 1.

The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee’s recommended ballot and final ballot to each trustee and placing the election of SACRS Officers on his or her Board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee...”

Below is the recommended ballot, as in the past, a voting delegate may entertain a motion to vote by individual officer positions or by complete ballot. Please be sure to authorize your voting delegate to vote either way.

The elections will be held at the SACRS Spring Conference May 16-19, 2017, at the Napa Valley Marriott in Napa, CA. Elections will be held during the Annual Business meeting on Friday, May 19, 2017.

Please distribute the recommended ballot to all standing/eligible board members for approval and authorization for your voting delegate. As stated above, Administrators are required to send acknowledgement of completion to our office at sulema@sacrs.org.

SACRS Nominating Committee recommended ballot for SACRS BOD 2017-2018 elections:

President	Dan McAllister, San Diego CERA
Vice President	Gabe Rodrigues, Contra Costa CERA
Treasurer	Larry Walker, San Bernardino CERA
Secretary	Kathryn Cavness, Mendocino CERA

If you have any questions, please contact me directly at ychery2013@gmail.com .
Thank you for your prompt attention to this timely matter.

Sincerely,

Yves Chery

Yves Chery, Los Angeles CERA Trustee
SACRS Nominating Committee Chair

CC: SACRS Board of Directors
SACRS Nominating Committee Members
Sulema H. Peterson, SACRS Administrator

March 6, 2017

To: All 37 Act Systems
From: Yves Chery, Chair SACRS Nominating Committee
Re: Withdrawal of Treasurer Candidate for SACRS BOD

On Friday, March 3, 2017, Larry Walker, the Nominating Committee's nominee for the position of Treasurer of SACRS for 2017-2018 withdrew his name for consideration from the upcoming elections.

This development in the election process necessitated the Nominating Committee, with guidance from SACRS' legal counsel, to inform you of this matter to ensure that the election process remains fair, transparent and consistent with our bylaws.

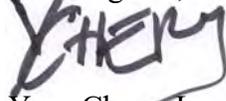
Therefore, the Treasurer's position is now open. Interested candidates should submit their letter of interest and brief bio to the Nominating Committee prior to March 25, 2017.

Additionally, in accordance with our bylaws, the Boards of the regular members may also submit a write-in candidate for the Treasurer's position (or any other office). All submissions must be made prior to March 25, 2017.

The Nominating Committee will report a final slate to all 37 Act Systems prior to April 1, 2017. The elections will be held at the SACRS Spring Conference during the Annual Business meeting on Friday, May 19, 2017 at the Napa Valley Marriott in Napa, California.

If you have any questions, please contact me directly at (818) 989-4435 or ychery2013@gmail.com. Thank you for your prompt attention to this important matter.

Best Regards,



Yves Chery, Los Angeles CERA Trustee
SACRS Nominating Committee Chair

CC: SACRS Board of Directors
SACRS Nominating Committee Members
Sulema H. Peterson, SACRS Administrator