

# Pension Trust

1000 Mill Street  
San Luis Obispo, CA 93408  
(805) 781-5465 Phone  
(805) 781-5697 Fax  
www.SLOPensionTrust.org



## AGENDA

**Monday, April 23, 2018 9:30 AM**

### **PENSION TRUST BOARD OF TRUSTEES**

Room 161/162  
County Government Center  
San Luis Obispo, CA 93408

*Materials for the meeting may be found at  
<http://www.slocounty.ca.gov/Departments/Pension-Trust/Board-of-Trustees>*

## **PUBLIC COMMENT**

1. Public Comment: Members of the public wishing to address the Board on matters other than scheduled items may do so when recognized by the Chair. Presentations are limited to three minutes per individual.

## **ORGANIZATIONAL**

None

## **CONSENT**

2. Minutes of the Regular Meeting of March 26, 2018 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of March 2018 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of March 2018 (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through April 6, 2018 (Receive, Approve and File).
6. Resolution Modifying and Affirming Investment and Banking authority – Resolution 2018-01 (Recommend Approval).

7. Conflict of Interest Policy Review (Recommend Approval).

## **APPLICATIONS FOR DISABILITY RETIREMENT**

8. Application for Ordinary Disability Retirement (Case pending).

## **OLD BUSINESS**

None

## **NEW BUSINESS**

9. Administrative Budget for Fiscal Year 2018-2019 - Proposed – (Review, Discuss, and Direct Staff as necessary).
10. Board Educational Presentation – Fiduciary Responsibilities Refresher Briefing – Chris Waddell, General Counsel.

## **INVESTMENTS**

11. TAO Contingent Fund – Opportunistic – Recommendation Approval - (Recommend Approval).
12. Indemnification – Authorization pursuant to Section 16.02(j) of the Retirement Plan (Recommend approval).
13. Monthly Investment Report for March 2018 (Receive and File).
14. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

## **OPERATIONS**

15. Staff Reports
16. General Counsel Reports

17. Committee Reports:

- |                              |           |
|------------------------------|-----------|
| a. Audit Committee           | Report    |
| b. Personnel Committee       | No Report |
| c. PAS Replacement Committee | No Report |

18. Upcoming Board Topics (subject to change):

- a. May 21, 2018
  - i. Pension Trust FY18-19 Budget – approval
  - ii. 2017 Actuarial Audit – GRS comments and adjustments
  - iii. 2018 Actuarial Experience Study Report
  - iv. Actuarial Assumptions for 2018 Valuation
  - v. Quarterly Investment Report for 1Q18
  - vi. Investment presentations by Verus, Investment Consultant
  
- b. June 25, 2018
  - i. Audit Report – 2017 – Brown Armstrong
  - ii. CAFR – 2017
  - iii. 2018 Actuarial Valuation and Contribution Rates
  - iv. Prefunding Employer Contributions FY18-19
  
- c. July 23, 2018
  - i. Auditor Engagement 2018-2023
  - ii. Alternative Investment Fee Disclosures
  - iii. FPI – Recommendation on 1000 Mill St.

19. Trustee Comments

**REFERRED ITEMS**

None

**ADDED ITEMS**

None

**CLOSED SESSION**

None

**ADJOURNMENT**

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# Board of Trustees

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## MARCH 26, 2018 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES

**BOARD MEMBERS PRESENT:** Will Clemens, Vice President  
Gere Sibbach  
Jim Hamilton  
Jim Erb  
Jeff Hamm

**BOARD MEMBERS ABSENT:** Matt Janssen, President  
Guy Savage

**STAFF:** Carl Nelson  
Amy Burke

**COUNSEL:** Chris Waddell, Esq.

**CONSULTANTS:** Scott Whalen, Verus (via phone)

**OTHERS:** Jennifer Alderete, Pension Trust  
Michael Hobbs, Human Resources  
Dan Andoetoe, Retiree

The meeting was called to order by Vice President Clemens at 9:32 AM, who presided over same.

### **AGENDA ITEM NO. 1: PUBLIC COMMENT.**

None.

**ORGANIZATIONAL:**

None.

**CONSENT:**

**AGENDA ITEM NO. 2 - 5 CONSENT.**

Public comment: None

Upon the motion of Mr. Hamm, seconded by Mr. Sibbach, and unanimously passed with Trustee Clemens abstaining, the following action was taken:

- ITEM 2:** The Minutes of the Regular Meeting of February 26, 2018 were approved without correction.
- ITEM 3:** The Report of Deposits and Contributions for the Month of February 2018, was received and filed.
- ITEM 4:** The Report of Service Retirements, Disability and DROP Retirements for the month of February 2018, was received, approved and filed.
- ITEM 5:** The Report of Applications for participation in the Deferred Retirement Option Program received through March 9, 2018 was received, approved and filed.

**APPLICATIONS FOR DISABILITY RETIREMENT:**

**AGENDA ITEM NO. 6: APPLICATION FOR INDUSTRIAL DISABILITY RETIREMENT CASE NO. 2018-02.**

Public comment: None

Upon the motion of Mr. Erb, seconded by Mr. Hamm, and unanimously passed, the following action was taken:

- 1) Mr. Robert Lomeli was found to have become permanently disabled within the meaning of Retirement Plan Section 10.01 on August 4, 2017; and
- 2) Mr. Lomeli was found to be entitled to an Industrial Disability Retirement under Retirement Plan Section 10.04 effective the day following the last day of compensated benefits from his employer.

**OLD BUSINESS:** None.

**NEW BUSINESS:**

**AGENDA ITEM NO. 7: 2017 ACTUARIAL AUDIT – FINAL REPORT.**

The preliminary report on the 2017 Actuarial Audit was received by the Board of Trustees on January 22, 2018. The final report on the 2017 Actuarial Audit from Bartel Associates was presented and discussed by staff. The Board discussed the report and asked a variety of questions.

Public comment: None

Upon the motion of Mr. Erb, seconded by Mr. Clemens, and unanimously passed, the 2017 Actuarial Audit Final Report from Bartel Associates was received and filed.

**AGENDA ITEM NO. 8: EMPLOYER CONTRIBUTIONS PREFUNDING.**

Staff presented a recommendation that the SLOCPT as part of its annual consideration of San Luis Obispo County prefunding employer paid contributions, set the discount rate for such prefunding at the Earnings Assumption (currently 7.125%) less 1.50%, or 5.625%, consistent with capital market expectations. Such approval is based on the assumption that SLO County intends to prefund employer paid contributions for FY18-19. The Board discussed several alternative discount rates in light of market expectations.

Public comment: None

Upon the motion of Mr. Erb, seconded by Mr. Clemens, and unanimously passed, the Board of Trustees agreed to accept FY18-19 prefunding of employer paid pension contributions from San Luis Obispo County and the Air Pollution Control District at a discount rate of the Earnings Assumption of 7.125% less 1.125% for a net discount rate of 6.00%.

**INVESTMENTS:**

**AGENDA ITEM NO. 9: TAO CONTINGENT FUND – OPPORTUNISTIC – PRELIMINARY RECOMMENDTION.**

Mr. Scott Whalen, Investment Consultant from Verus and Staff recommended a preliminary approval and documents legal review for the TPG/TSSP TAO Contingent opportunistic private credit fund. The Board discussed the TAO Contingent Fund at length and asked questions of Mr. Whalen and Staff.

Public comment: None

Upon the motion of Mr. Hamm, seconded by Mr. Clemens, and unanimously passed, Staff was directed to pursue document review, including the incurring of legal costs, for the TAO Contingent Fund and to bring a final recommendation to the Board in April.

**AGENDA ITEM NO. 10: MONTHLY INVESTMENT REPORT FEBRUARY 2018.**

Public comment: None

Upon the motion of Mr. Sibbach, seconded by Mr. Hamm, and unanimously passed, the Investment Report for February 2018 was received and filed.

**AGENDA ITEM NO. 11: ASSET ALLOCATION.**

Staff reported that no action regarding investment asset allocations were necessary at this time.

**OPERATIONS:**

**AGENDA ITEM NO. 12: STAFF ORAL REPORTS.**

- A)** Staff presented a historical analysis of the growth and sources of the Unfunded Actuarial Accrued Liability prepared by the Plan's actuary, Gabriel Roeder Smith.
- B)** Staff reported on an internal audit of retiree data relative to COLA groups. Staff reported that four retirees out of 2,747 at year end were found in incorrect COLA groups stemming from pre 2004 retirements. One

underpayment and three overpayments were corrected with the effected retirees.

- C)** Staff reported on a Pension Trust presentation made March 12<sup>th</sup> to the San Luis Obispo County Retired Employees Association.
- D)** Staff reported that it had filled a newly created Retirement Technician position with an internal candidate.

**AGENDA ITEM NO. 13: GENERAL COUNSEL ORAL REPORTS.**

General Counsel provide a brief update on several pension cases with implications for Vested Rights that are currently or are expected to be heard by the California Supreme Court.

**AGENDA ITEM NO. 14: COMMITTEE REPORTS – AS NEEDED.**

- A)** AUDIT COMMITTEE: Nothing to report
- B)** PERSONNEL COMMITTEE: Nothing to report.
- C)** PENSION ADMINISTRATION SYSTEM ADMINISTRATION (PASR) COMMITTEE: Nothing to report.

**AGENDA ITEM NO. 15: UPCOMING BOARD TOPICS.**

The planned topics for the next three board meetings were included in the agenda summary. This is an information item, nothing further to report.

**AGENDA ITEM NO. 16: TRUSTEE COMMENTS.**

Nothing to report.

**REFERRED ITEMS:** None.

**ADDED ITEMS:** None.

**CLOSED SESSION:** None

**ADJOURNMENT.**

There being no further business, the meeting was adjourned at 11:00 AM. The next Regular Meeting was set for April 23, 2018, at 9:30 AM, in the Room 161/162, New County Government Center, San Luis Obispo, California 93408.

**Respectfully submitted,**

**Carl Nelson  
Executive Secretary**

**REPORT OF DEPOSITS AND CONTRIBUTIONS FOR THE MONTH OF  
MARCH 2018**

PP 5	3/2/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
						Employee Contributions	Employee Rate					
	<b>By Employer and Tier:</b>											
	County Tier 1	3,966,949.41	925,918.30	23.34%	452,719.20	338,702.24		19.95%	43.29%	1,537.50	504.83	1,719,382.07
	County Tier 2	949,873.70	225,989.72	23.79%	46,100.76	80,217.67		13.30%	37.09%	67.90	709.70	353,085.75
	County Tier 3	2,264,923.06	501,850.74	22.16%	263,539.91	-		11.64%	33.79%	-	832.64	766,223.29
	Superior Court Tier 1	269,221.27	67,229.42	24.97%	43,688.34	-		16.23%	41.20%	-	-	110,917.76
	Superior Court Tier 3	58,270.22	13,859.21	23.78%	6,389.02	-		10.96%	34.75%	-	114.54	20,362.77
	APCD Tier 1	69,421.38	18,172.86	26.18%	8,863.10	4,643.76		19.46%	45.63%	-	-	31,679.72
	APCD Tier 3	10,580.80	2,732.34	25.82%	1,205.13	-		11.39%	37.21%	-	-	3,937.47
	Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96		21.47%	44.45%	-	-	3,186.42
	Pension Trust Staff Tier 2	7,936.80	1,823.87	22.98%	210.33	737.33		11.94%	34.92%	-	-	2,771.53
	Pension Trust Staff Tier 3	8,789.33	1,976.73	22.49%	1,127.76	-		12.83%	35.32%	-	-	3,104.49
	LAFCO Tier 1	12,494.29	3,378.46	27.04%	677.19	1,448.97		17.02%	44.06%	-	-	5,504.62
		7,625,628.81	1,764,578.98	23.14%	825,393.87	426,415.93		16.42%	39.56%	1,605.40	2,161.71	\$ 3,020,155.89
PP 6	3/16/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
	<b>By Employer and Tier:</b>											
	County Tier 1	4,154,653.01	984,732.77	23.70%	485,652.02	351,655.19		20.15%	43.86%	1,512.50	504.83	1,824,057.31
	County Tier 2	1,024,672.92	249,799.47	24.38%	53,044.16	85,236.81		13.50%	37.87%	67.90	709.70	388,858.04
	County Tier 3	2,340,214.11	523,233.20	22.36%	274,860.03	-		11.75%	34.10%	-	832.64	798,925.87
	Superior Court Tier 1	267,583.05	66,832.44	24.98%	43,370.11	-		16.21%	41.18%	-	-	110,202.55
	Superior Court Tier 3	61,631.37	14,663.92	23.79%	6,701.16	-		10.87%	34.67%	-	114.54	21,479.62
	APCD Tier 1	69,421.38	15,284.91	22.02%	8,863.10	4,643.76		19.46%	41.47%	-	-	28,791.77
	APCD Tier 3	12,873.60	2,787.54	21.65%	1,415.86	-		11.00%	32.65%	-	-	4,203.40
	Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96		21.47%	44.45%	-	-	3,186.42
	Pension Trust Staff Tier 2	7,936.80	1,823.87	22.98%	210.33	737.33		11.94%	34.92%	-	-	2,771.53
	Pension Trust Staff Tier 3	8,789.33	1,976.73	22.49%	1,127.76	-		12.83%	35.32%	-	-	3,104.49
	LAFCO Tier 1	12,494.29	3,378.46	27.04%	677.19	1,448.97		17.02%	44.06%	-	-	5,504.62
		7,967,438.41	1,866,160.64	23.42%	876,794.85	444,388.02		16.58%	40.00%	1,580.40	2,161.71	\$ 3,191,085.62
PP 7	3/30/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
	<b>By Employer and Tier:</b>											
	County Tier 1	3,957,048.00	925,387.33	23.39%	452,886.12	337,411.56		19.97%	43.36%	1,512.50	504.83	1,717,702.34
	County Tier 2	946,280.55	225,536.02	23.83%	46,451.20	79,583.33		13.32%	37.15%	67.90	709.70	352,348.15
	County Tier 3	2,306,279.44	512,045.01	22.20%	268,531.13	-		11.64%	33.85%	-	832.64	781,408.78
	Superior Court Tier 1	267,238.75	66,912.28	25.04%	43,277.38	-		16.19%	41.23%	-	-	110,189.66
	Superior Court Tier 3	62,007.39	14,748.56	23.79%	6,736.58	-		10.86%	34.65%	-	114.54	21,599.68
	APCD Tier 1	69,554.60	15,313.77	22.02%	8,885.09	4,651.41		19.46%	41.48%	-	-	28,850.27
	APCD Tier 3	8,570.96	1,840.19	21.47%	995.50	-		11.61%	33.08%	-	-	2,835.69
	Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96		21.47%	44.45%	-	-	3,186.42
	Pension Trust Staff Tier 2	7,936.80	1,823.87	22.98%	210.33	737.33		11.94%	34.92%	-	-	2,771.53
	Pension Trust Staff Tier 3	8,495.72	1,910.70	22.49%	1,091.26	-		12.84%	35.33%	-	-	3,001.96
	LAFCO Tier 1	12,494.29	3,378.46	27.04%	677.19	1,448.97		17.02%	44.06%	-	-	5,504.62
		7,653,075.05	1,770,543.52	23.14%	830,614.91	424,498.56		16.40%	39.54%	1,580.40	2,161.71	\$ 3,029,399.10
<b>TOTAL FOR THE MONTH</b>		<b>23,246,142.27</b>	<b>5,401,283.14</b>	<b>23.24%</b>	<b>2,532,803.63</b>	<b>1,295,302.51</b>		<b>16.47%</b>	<b>39.70%</b>	<b>4,766.20</b>	<b>6,485.13</b>	<b>\$ 9,240,640.61</b>
<b>TOTAL YEAR TO DATE</b>		<b>53,503,305.50</b>	<b>12,302,400.37</b>	<b>22.99%</b>	<b>5,716,223.75</b>	<b>2,999,887.15</b>		<b>16.29%</b>	<b>39.28%</b>	<b>11,939.17</b>	<b>32,198.13</b>	<b>21,062,648.57</b>

**REPORT OF SERVICE & DISABILITY RETIREMENTS &  
DROP PARTICIPANTS FOR THE MONTH OF:**

**MARCH 2018**

<b>RETIREE NAME</b>	<b>DEPARTMENT</b>	<b>DATE</b>	<b>MONTHLY ALLOWANCE</b>
BURGESSON, ROBERT	SHERIFF-CORONER	03-09-2018	Awaiting calcs
GODWIN, BARBARA	AUDITOR-CONTRLR-TREAS-TAX-COLL / RECIPROCAL	03-30-2018	4011.70
HAGEN, JAMIE	GENERAL HOSPITAL / RESERVE	03-18-2018	953.32
HANAN, TERESA	SOCIAL SERVICES / RECIPROCAL	03-01-2018	Awaiting calcs
HEDGES, RAMONA (DROP)	PLANNING	03-01-2018	3509.05 3.15*
JOHNSON, DARRELL (DROP)	FACILITIES MANAGEMENT	03-01-2018	1982.53
PITTAWAY, SUSAN (DROP)	ITD	03-01-2018	4783.02 1702.00**
RAMIREZ, YOLANDA	PUBLIC WORKS ISF	03-31-2018	1436.86
SHIPMAN, DAVID (DROP)	ASSESSOR	03-01-2018	3045.77
WELCH-COSKO, JENNIFER (DROP)	AGRICULTURE COMMISSIONER	03-01-2018	5096.02 12.77*
<b>ADDENDUM:</b>			
OLSON, DEBBIE	SHERIFF-CORONER / ALTERNATE PAYEE	09-01-2017	Option selection
ACKER, STEPHANIE	DISTRICT ATTORNEY / RECIPROCAL	12-30-2017	Awaiting calcs
GINN, LAUNNIE	AGRICULTURE COMMISSIONER / RECIPROCAL	12-31-2017	52.06
HOWARD, STEPHEN	CHILD SUPPORT SERVICES / RECIPROCAL	01-26-2018	1098.62
FAHEY, DANA	PROBATION / RESERVE	02-01-2018	Awaiting calcs
FAHEY, SHIREEN	HEALTH / RESERVE	02-28-2018	400.11
HANAN, THOMAS	SOCIAL SERVICES	02-24-2018	1418.33 498.81**
OLIVIERI, DANIEL	MENTAL HEALTH / RECIPROCAL	02-11-2018	Awaiting calcs
PERRY, SUZANNE	LIBRARY	02-25-2018	1335.07
PRIOR, BRADLEY	PUBLIC HEALTH	02-14-2018	2970.19

\* Employee Additional Contribution Allowance (per Sections 5.07, 27.12, 28.12, 29.12, 30.12, and 31.12 of the Plan)

\*\* Social Security Coordinated Temporary Annuity (per Section 13.06 of the Plan)

## Board of Trustees

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Date: April 23, 2018  
To: Board of Trustees  
From: Carl Nelson – Executive Secretary

### **Agenda Item 5: Applications & Elections to Participate in the Deferred Retirement Option Program (DROP)**

#### **Recomendation:**

It is recommended that you receive and approve the Application & Election to Participate in DROP for the individuals listed below.

#### **Discussion:**

The San Luis Obispo County Pension Trust has received an Application & Election to Participate in DROP from the following members listed below:

**MAY 1, 2018**  
**MAY 1, 2018**  
**JUNE 1, 2018**

**Janie Barbosa, Public Health**  
**Michele Gorey, Morro Bay Library**  
**Charles Russell, Sheriff Department**

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Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

### **Agenda Item 6: Investment and Banking Authority**

#### **Recommendation:**

Staff recommends that the Board approve and adopt the attached Resolution 2018-01 and accompanying Incumbency Certificate designating authorized signers for various investment and banking relationships.

#### **Discussion:**

SLOCPT updates the designated authorized signers for various investment and banking relationships every six months so that recent documentation of such authorizations by the Board of Trustees is available if needed to execute documents of various sorts. These designations are necessary to the everyday operations of the SLOCPT. The Board last approved and adopted such documents at the regular meeting of October 23, 2017.

Resolution 2018-01 and its referenced Incumbency Certificate are attached. The approval of a resolution of this type is anticipated to be a routine item before the Board of Trustees biannually or whenever authorized signers are changed.

**SAN LUIS OBISPO COUNTY  
PENSION TRUST**

PRESENT: Matt Jansen, Will Clemens, Guy Savage,  
James Erb, Jeff Hamm, James Hamilton

ABSENT: Gere Sibbach

**RESOLUTION NO. 2018-01**

**A Resolution Affirming Investment and Banking Authority**

Whereas, the San Luis Obispo County Pension Trust conducts investment and banking activities as part of its normal course of business and finds it necessary to affirm and/or appoint which of its officers and employees are authorized signers for such activities.

**NOW, THEREFORE, BE IT RESOLVED AND ORDERED AS FOLLOWS:**

The attached San Luis Obispo County Pension Trust Investment and Banking Authority Incumbency Certificate dated April 23, 2018, is hereby approved.

Adopted: April 23, 2018

Approved as to Form and Legal Effect

\_\_\_\_\_  
Chris Waddell  
General Counsel

SIGNED: \_\_\_\_\_  
Matt Janssen  
President, Board of Trustees  
San Luis Obispo County Pension Trust

ATTEST: \_\_\_\_\_  
Carl Nelson, Executive Secretary

# Board of Trustees

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## Investment and Banking Authority Incumbency Certificate

Effective Date: April 23, 2018  
Date of Certification: April 23, 2018

The undersigned, being an officer of the Board of Trustees of the San Luis Obispo County Pension Trust ("SLOCPT"), organized under the laws of the State of California does hereby certify on behalf of the SLOCPT that the persons named below are officers or other designated staff members of the SLOCPT and that the title and signature at the right of said name, respectively, are the true title and genuine signature of said person and that the persons listed below are each an authorized signatory for the SLOCPT for **any and all investment and banking related matters**.

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Carl A. Nelson	Executive Secretary	_____
Amy Burke	Deputy Executive Secretary	_____
Lisa Winter	Retirement Program Specialist	_____
Anna Bastidos	Retirement Program Specialist	_____

Furthermore, the undersigned does certify that the SLOCPT's Board of Trustees as of the date noted above are:

Matt Janssen, President  
Will Clemens, Vice President  
Guy Savage  
James Hamilton

James Erb  
Jeff Hamm  
Gere Sibbach

Signed: \_\_\_\_\_  
Matt Janssen, President  
San Luis Obispo County Pension Trust  
Board of Trustees

Date: \_\_\_\_\_

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Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

### **Agenda Item 7: Conflict of Interest Policy Review**

#### **Recommendation:**

It is recommended by Staff that the Board of Trustees review and approve the attached Conflict of Interest Policy for the San Luis Obispo County Pension Trust (“SLOCPT”) in accordance with section V of said document.

#### **Background:**

The Political Reform Act requires every local government agency to review its conflict-of-interest code biennially. After review, each agency must submit to the County Clerk-Recorder a notice indicating whether or not an amendment is necessary. If an amendment is necessary the Agency must submit the updated document to County Counsel for review before officially submitting to the Board of Supervisors for adoption. Staff has determined an amendment to the code is not needed at this time.

If the Board of Trustees agrees with the recommendation, Staff will submit the “2018 Local Agency Biennial Notice” to the Clerk Recorder indicating that no amendment is required for this review cycle.

**SAN LUIS OBISPO COUNTY PENSION TRUST  
CONFLICT OF INTEREST CODE  
ADOPTED FEBRUARY 24, 2014  
EFFECTIVE MARCH 1, 2014**

**I. PURPOSE**

The Political Reform Act of 1974, Government Code Section 81000 et seq. (PRA) requires state and local government agencies to adopt and promulgate conflict of interest codes. The Pension Trust originally adopted a conflict of interest code that became effective on August 24, 1977. The purpose of this new code is to update the applicable obligations of Trustees, staff, and consultants to ensure present and future consistency with the requirements of the PRA as interpreted by the Fair Political Practices Commission (FPPC).

**II. POLICY OBJECTIVES**

The FPPC has adopted a regulation, Title 2, California Code of Regulations, section 18730, which contains the terms of a standardized conflict of interest code that is amended from time to time to conform with amendments to the PRA. Any local agency may incorporate the standard conflict of interest code, with the obligation that it supplements the provisions of such code with a designation of employees and other individuals who are obligated to submit disclosure statements pursuant to the PRA. The following policy seeks to comply with this statutory directive, and to promote the policy set forth in Government Code section 87100, which states that “No public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest.”

**III. INCORPORATION OF SECTION 18730**

The provisions of Title 2, California Code of Regulations, section 18730, and any amendments to it, duly adopted by the FPPC are hereby incorporated by reference and, along with the other provisions contained herein, including Exhibits A, B and C hereto, shall constitute the conflict of interest code of the Pension Trust.

**IV. POLICY GUIDELINES**

**1. MEMBERS OF THE BOARD OF TRUSTEES AND EXECUTIVE SECRETARY**

Members of the Board of Trustees and the Executive Secretary are separately obligated by Government Code section 87200 to file a Statement of Economic Interests (Form 700) because they are public officials with responsibility for managing public investments.

**2. CATEGORIES OF DISCLOSURE AND INDIVIDUALS SUBJECT TO DISCLOSURE**

The categories of disclosure required by this Code are described in Exhibit A. The individuals who must file Form 700s and the category of disclosure required for such individuals are described in Exhibit B. Form 700s are public records pursuant to Government Code section 81008.

**3. TIMING OF DISCLOSURES**

All individuals affected by this Code who have not previously filed Form 700s pursuant to policy or otherwise shall make an initial filing within 30 days of the effective date of this Code. Individuals appointed, promoted or transferred to designated positions shall file a Form 700 within 30 days thereafter. All affected individuals shall thereafter file a Form 700 annually prior to April 1 concerning the prior calendar year. All affected individuals shall file a “leaving office” Form 700 within 30 days of leaving a position for which a statement is required, unless assuming a similar position with the Pension Trust with the same or more inclusive filing requirements.

**4. LOCATION OF DISCLOSURES**

The San Luis Obispo County Clerk-Recorder is the designated filing officer pursuant to Section 82027 of the Political Reform Act of 2014. Accordingly, all required forms shall be filed with the County Clerk-Recorder using the online NetFile System or such other online system as the County Clerk-Recorder designates. If such filing is done by hardcopy, the original form shall be filed with the County Clerk-Recorder, and a copy of such form shall be filed with the Pension Trust.

**V. POLICY REVIEW**

The Board of Trustees shall review this Code prior to July 1 of each even numbered calendar year to ensure that its provisions remain relevant and appropriate.

**VI. AMENDMENT HISTORY**

The Board of Trustees adopted this Code on February 24, 2014, to be effective March 1, 2014. Amended July 28, 2014.

## **EXHIBIT A**

### **DISCLOSURE CATEGORIES**

#### Form 87200 Filers

Form 87200 filers shall complete all schedules for Form 700 and disclose all reportable sources of income, interests in real property, investments and business positions in business entities, if applicable, consistent with the instructions for the Form 700 on the FPPC website. ([www.fppc.ca.gov](http://www.fppc.ca.gov))

#### Category 1 Filers

Individuals designated in Category 1 on Exhibit B shall complete all schedules of Form 700 unless there are no reportable interests for a schedule. A “reportable interest” shall be any source of income, investment or business position, or interest in real property of a type in which the Pension Trust is authorized to invest in or contract with for services.

## **EXHIBIT B**

### **DESIGNATED POSITION CATEGORIES**

<u>Position</u>	<u>Disclosure Category</u>
Trustee	Form 87200 Filer
Executive Secretary	Form 87200 Filer
Deputy Executive Secretary	Category 1
Outside General Counsel	Category 1
Investment Consultants and Managers*	Category 1

\* The Executive Secretary may determine in writing that a particular Investment Consultant or Manager although a “designated position,” is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements described in this section. Such written determination shall include a description of the consultant’s duties and, based upon that description, a statement of the extent of disclosure requirements. Such determination shall be a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code.

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# Pension Trust

1000 Mill Street  
San Luis Obispo, CA 93408  
(805) 781-5465 Phone  
(805) 781-5697 Fax  
www.SLOPensionTrust.org



Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

## **Agenda Item 9: Administrative Budget for Fiscal Year 2018-2019**

### **Recommendation:**

It is recommended that the Board of Trustees (“BoT”) review and direct staff as necessary regarding the Proposed Administrative Budget for the Fiscal Year 2018-2019 (“FY18/19”) (Attachment A). A final draft of this budget, based on direction given to staff, will be presented for approval at the regular BoT meeting scheduled for May 21, 2018.

### **Discussion:**

The expense categories presented in the attached Proposed Administrative Budget for the FY18/19 have been updated based upon varied assumptions, prior year experiences and staff’s best estimates of future events. **Overall staff believes a 6.2% decrease in the total budgeted amount when compared to the Fiscal Year 2017-2018 budget is appropriate. This represents around a \$180,000 decrease compared to prior year from \$2.91 million to \$2.73 million.**

Staff’s basis for components of this change are further detailed in the sections bellow. This proposed amount represents 0.20% of the total unaudited Net Position of SLOCPT as of December 31, 2017.

- **Investment Expense (discretionary)** – Expense includes Investment Consultant (Verus) and Custodian Bank (JP Morgan) fees (does not include Investment Management fees) which are based on contracts and largely determined by quarterly market values of investment assets. Prediction is based on the unaudited market value of investment assets as of 12/31/2017, adding the assumption of a 6.00% investment return that was taken from Verus’ Capital Market Expectations report presented earlier

this year. The budget for investment consulting with Verus includes a proposed fee reduction from Verus that will be addressed with the Board at the May 2018 meeting.

- **Personnel Services** – (see Attachment B) Includes all expenses related to SLOCPT’s staff. Assumes the following: 1) 3% increase in salaries for FY18-19 to accommodate possible County adopted increases, 2) payroll tax rates will stay consistent with 2018 rates currently in place, 3) cafeteria benefit of \$11,700 annually per eligible employee (benchmarked to County positions in Bargain Units 7 & 11), 4) employer pension rate increase of 1.5% effective with the pay period that includes 12/31/2018, and 5) applicable salary increases and promotions for staff members determined to be eligible based on annual review cycles. **The \$120,100 decrease in budgeted expense is consistent with the previously Board approved staffing changes adopted in February 2018.**
  
- **Professional Services** –
  - Accounting & Auditing: Based on quoted price from 2013 engagement letter with Brown Armstrong (SLOCPT’s annual financial statement audit firm) and increased based on expectation of new 5 year engagement. The 2017 Audit is the last of the current 5 year engagement letter with Brown Armstrong. Staff will be discussing with the Board about continuing with the current auditor or issuing an RFP later in the year.
  - Actuarial: Based on 2018 engagement letter with Gabriel, Roeder, Smith (SLOCPT’s Actuary). Also includes estimate of expected costs relating to additional Actuarial services performed throughout the year. The decrease in expense is attributable to the lack of associated Actuarial Audit and Experience Study costs, that are expected, due to their biennium and lustrum nature respectively.
  - Legal: Based on General Counsel Retainer and legal consultation relating to investment contracts, taxes and disability hearings. Budgeted legal expenses have been reduced by \$25,000 with the dismissal of pending litigation regarding contribution rate increase allocation. Future unforeseen legal expense will be handled with either a Board approved budget amendment or the use of contingency funds.
  - Medical Evaluations – Disabilities: Assumes costs associated with medical review services to be performed by MMRO.
  - Human Resources Consulting: Based on estimated costs associated with services provided by the County’s Human Resources Department.
  - Information Technology Services: Includes expenses relating to RAD software system maintenance (per contract) and County IT’s services. Budgeted expense have decreased based on County supplied FY 2018-2019 Key Financials.

- Banking & Payroll: Includes estimated banking fees for SLOCPT's two banking relationships (Union Bank and Pacific Premier) and fees associated with payroll services provided by Paychex.
  - Other Professional Services: Based on estimated expense for professional services not related to categories listed above.
- **Other Expenses –**
    - Trustee Election Expenses: County Clerk Recorder fees relating to annual Trustee elections. Actual cost will be lower if there is an uncontested candidacy.
    - Insurance: Includes Fiduciary, General and Cyber liability coverages. Estimate is based on current year expense plus 5%.
    - Building & Maintenance: Estimate based on current year expenses.
    - Office Expense: Expense includes general office supplies, printing and mailing services provided by ASAP Reprographics, and document destruction services provided by Docuteam. Increase attributed estimated price increases.
    - Memberships & Publications: Includes industry specific memberships and publications.
    - Postage: Estimate based on FY16/17 experience.
    - Communications: Includes cost associated with telephone services provided by County IT. Estimate is based on County supplied budget document.
    - Training & Travel: (see Attachment C) Based on current year actual costs.
    - Information Technology: Expense includes all purchases relating to tangible IT equipment. Assumes staggered four year replacement cycle for office computers.
    - Equipment: Includes expenses associated with copier lease and office furniture purchases. Decrease associated with furniture purchases in prior budget cycle.
  - **Contingencies** – 5% of total budget to be used for unexpected expenses.

**Attachments:**

Attachment A – Proposed Administrative Budget for Fiscal Year 2018-2019

Attachment B – Proposed Staffing

Attachment C – Proposed Training & Travel

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**San Luis Obispo County Pension Trust**  
**PROPOSED ADMINISTRATIVE BUDGET:**  
**Fiscal Year 2018-2019**

	FY16-17 Actual Expenses	FY17-18 Estimated Expenses	FY17-18 Adopted Budget	FY18-19 Proposed Budget	Increase/ Decrease From PY
<b>INVESTMENT EXPENSE (discretionary):</b>					
<b>Invest. Exp. (Discretionary)</b>	<b>\$ 445,053</b>	<b>\$ 530,000</b>	<b>\$ 461,000</b>	<b>\$ 481,000</b>	<b>\$ 20,000</b>
<b>ADMINISTRATIVE EXPENSE:</b>					
<b>Personnel Services</b>	<b>\$ 1,236,397</b>	<b>\$ 1,113,000</b>	<b>\$ 1,340,500</b>	<b>\$ 1,220,400</b>	<b>\$ (120,100)</b>
<b>Professional Service</b>					
Accounting & Auditing	62,006	61,000	61,000	65,000	4,000
Actuarial	108,292	185,000	170,000	100,000	(70,000)
Legal	213,540	256,000	231,400	220,500	(10,900)
Medical Evaluations - Disabilities	22,500	20,000	21,500	21,500	-
Human Resources Consulting	5,000	5,000	5,000	5,000	-
Information Technology Services	173,531	166,000	175,000	166,000	(9,000)
Banking and Payroll	19,912	21,000	22,500	22,500	-
Other Professional Services	4,004	3,000	2,500	2,500	-
<b>Total Professional Services</b>	<b>\$ 608,785</b>	<b>\$ 717,000</b>	<b>\$ 688,900</b>	<b>\$ 603,000</b>	<b>\$ (85,900)</b>
<b>Other Expenses</b>					
Trustee Election Expenses	-	6,000	6,000	6,000	-
Insurance	116,423	119,000	123,000	126,000	3,000
Building Maintenance	30,489	29,000	33,500	31,500	(2,000)
Office Expense	18,699	20,000	27,000	28,500	1,500
Memberships & Publications	4,723	5,000	5,100	5,100	-
Postage	24,242	26,000	27,000	27,000	-
Communications	3,441	5,000	5,000	5,000	-
Training & Travel	24,303	30,000	49,000	53,500	4,500
Information Technology	4,372	4,000	4,500	4,500	-
Equipment	7,816	12,000	13,000	8,000	(5,000)
<b>Total Other Expenses</b>	<b>\$ 234,508</b>	<b>\$ 256,000</b>	<b>\$ 293,100</b>	<b>\$ 295,100</b>	<b>\$ 2,000</b>
<b>Contingencies</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 126,000</b>	<b>\$ 130,000</b>	<b>\$ 4,000</b>
<b>TOTAL ADMINISTRATIVE</b>	<b>\$ 2,079,690</b>	<b>\$ 2,086,000</b>	<b>\$ 2,448,500</b>	<b>\$ 2,248,500</b>	<b>\$ (200,000)</b>
<b>ADMIN. + INVEST. (discretionary)</b>	<b>\$ 2,524,743</b>	<b>\$ 2,616,000</b>	<b>\$ 2,909,500</b>	<b>\$ 2,729,500</b>	<b>\$ (180,000)</b>

Increase from Prior Year Budget

-6.2%

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San Luis Obispo County Pension Trust PROPOSED STAFFING:	FY16-17	FY17-18	FY17-18	FY18-19	Increase /	Projected	Projected	Projected	Projected
	Actual	Amended Budget	Actual	Proposed Budget	(Decrease) From PY	FY19-20	FY20-21	FY21-22	FY22-23
<b>Positions (FTEs):</b>									
Executive Secretary	1.00	1.00	1.00	1.00	-	1.00	1.00	1.00	1.00
Deputy Executive Secretary	1.00	1.00	1.00	1.00	-	1.00	1.00	1.00	1.00
System Coordinator	1.00	1.00	-	-	(1.00)	-	-	-	-
Retirement Programs Spec. III	1.00	1.00	1.00	1.00	-	3.00	2.00	2.00	2.00
Retirement Programs Spec. II	1.00	3.00	2.00	2.00	(1.00)	-	-	-	-
Retirement Programs Spec. I	2.00	-	-	-	-	-	-	-	-
Retirement Analyst Aide	-	-	-	-	-	-	1.00	1.00	1.00
Retirement Technician	-	-	-	1.75	1.75	2.00	2.00	2.00	2.00
Financial Accountant/Auditor I/II/III	-	-	-	-	-	0.80	0.80	0.80	0.80
Financial Accountant III	0.80	0.80	0.80	0.80	-	-	-	-	-
Financial Accountant II	-	-	-	-	-	-	-	-	-
Financial Accountant I	-	-	-	-	-	-	-	-	-
Accounting Technician	0.75	0.75	0.75	-	(0.75)	-	-	-	-
Administrative Asst. III	1.00	1.00	1.00	1.00	-	1.00	1.00	1.00	1.00
Administrative Asst. II	-	-	-	-	-	-	-	-	-
Part-Time Temporary Office Asst.	0.63	1.00	0.63	1.00	-	1.00	1.00	1.00	1.00
<b>TOTAL POSITIONS</b>	<b>10.18</b>	<b>10.55</b>	<b>8.18</b>	<b>9.55</b>	<b>(1.00)</b>	<b>9.80</b>	<b>9.80</b>	<b>9.80</b>	<b>9.80</b>

**PROPOSED SALARY & BENEFIT BENCHMARKS:**

*\*\*Note: SLOCPT compensation benchmarks would be updated in concurrence with any County enacted wage adjustments (i.e. prevailing wage etc.).*

FY 17-18	Step 1	Step 2	Step 3	Step 4	Step 5	Benefits: (health, pension, other)
Executive Secretary <i>Subject to change per Contract Approval</i>	67.47	70.82	74.37	78.10	81.99	Benchmarked to County BU 7 + \$450/month auto allowance (not pensionable)
Deputy Executive Secretary <i>80% of Executive Secretary</i>	53.98	56.66	59.50	62.48	65.59	Benchmarked to County BU 7
Retirement Programs Spec. III <i>#9663 Risk Mgmt. Analyst III</i>	40.92	42.97	45.12	47.38	49.75	Benchmarked to County BU 7

**PROPOSED SALARY & BENEFIT BENCHMARKS: (continued)**

<b>FY 17-18</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Benefits: (health, pension, other)</b>
Retirement Programs Spec. II <i>#9658 Risk Mgmt. Analyst II</i>	34.98	36.73	38.57	40.50	42.53	Benchmarked to County BU 7
Retirement Programs Spec. I <i>#9657 Risk Mgmt. Analyst I</i>	30.17	31.68	33.26	34.92	36.67	Benchmarked to County BU 7
Financial Accountant III <i>#907 Accountant III</i>	34.40	36.12	37.93	39.83	41.82	Benchmarked to County BU 7
Financial Accountant II <i>#906 Accountant II</i>	29.70	31.19	32.75	34.39	36.11	Benchmarked to County BU 7
Financial Accountant I <i>#905 Accountant I</i>	25.35	26.62	27.95	29.35	30.82	Benchmarked to County BU 7
Retirement Technician <i>#913 Accounting Technician - Conf.</i>	21.81	22.90	24.05	25.25	26.51	Benchmarked to County BU 11
Administrative Asst. III <i>#2203 Administrative Asst. III - Conf.</i>	18.85	19.79	20.78	21.82	22.91	Benchmarked to County BU 11
Administrative Asst. II <i>#2222 Administrative Asst. II - Conf.</i>	17.13	17.99	18.89	19.83	20.82	Benchmarked to County BU 11
Administrative Asst. I <i>#2221 Administrative Asst. I - Conf.</i>	15.54	16.32	17.14	18.00	18.90	Benchmarked to County BU 11
Part-Time Temporary Office Assistant <i>#911 Account Clerk</i>	17.12	17.98	18.88	19.82	20.81	N/A

**San Luis Obispo County Pension Trust  
PROPOSED TRAINING & TRAVEL:**

	<b>FY16-17 Actual</b>	<b>Current FY17-18 YTD</b>	<b>FY17-18 Amended Budget</b>	<b>FY18-19 Proposed Budget</b>	<b>Increase / (Decrease) From PY Budget</b>
<b><i>CALAPRS General Assembly</i></b>					
Attendees - Board	2	2	3	3	-
Attendees - Staff	2	2	2	2	-
Total Expense	3,602	3,831	5,500	6,000	500
<b><i>CALAPRS Advanced Trustee Institute (UCLA)</i></b>					
Attendees - Board	2	2	1	-	(1)
Attendees - Staff	-	-	-	-	-
Total Expense	6,410	6,200	3,450	-	(3,450)
<b><i>CALAPRS Trustees Training- New</i></b>					
Attendees - Board	-	-	-	1	1
Attendees - Staff	-	-	-	-	-
Total Expense	181	-	-	2,800	2,800
<b><i>Wharton Portfolio Concepts (new BoT members)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	-	-	-
Total Expense	-	-	-	-	-
<b><i>Wharton West / IFEBP or similar seminar</i></b>					
Attendees - Board	-	-	1	1	-
Attendees - Staff	-	-	1	1	-
Total Expense	-	-	9,150	9,150	-
<b><i>SACRS Trustees Training- Berkeley (new)</i></b>					
Attendees - Board	1	1	1	1	-
Attendees - Staff	-	-	-	1	1
Total Expense	6,538	1,096	4,150	8,300	4,150
<b><i>SACRS Semi-Annual Conferences</i></b>					
Attendees - Board	-	-	1	1	-
Attendees - Staff	-	-	-	-	-
Total Expense	-	-	1,650	1,650	-

**San Luis Obispo County Pension Trust  
PROPOSED TRAINING & TRAVEL:**

	<b>FY16-17 Actual</b>	<b>Current FY17-18 YTD</b>	<b>FY17-18 Amended Budget</b>	<b>FY18-19 Proposed Budget</b>	<b>Increase / (Decrease) From PY Budget</b>
<b><i>Nossaman Fiduciaries Forum</i></b>					
Attendees - Board	-	1	-	1	1
Attendees - Staff	-	-	-	-	-
Total Expense	-	887	-	1,125	1,125
<b><i>CALAPRS Administrators Institute</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	1	1	1	-
Total Expense	1,348	1,406	1,925	1,950	25
<b><i>CALAPRS Trustees Roundtables (2/yr)</i></b>					
Attendees - Board	-	-	2	2	-
Attendees - Staff	-	-	-	-	-
Total Expense	-	-	1,200	1,200	-
<b><i>CALAPRS Administrators Roundtables (2/yr)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	-	2	2	-
Total Expense	306	-	1,200	1,200	-
<b><i>CALAPRS Investment Officers Roundtables (2/yr)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	1	1	-
Total Expense	-	-	600	625	25
<b><i>CALAPRS Attorneys Roundtables (3/yr)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	2	2	2	-
Total Expense	100	250	250	250	-
<b><i>CALAPRS Operations Roundtables (4/yr)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	14	5	8	8	-
Total Expense	3,136	1,216	4,760	5,000	240

**San Luis Obispo County Pension Trust  
PROPOSED TRAINING & TRAVEL:**

	<b>FY16-17 Actual</b>	<b>Current FY17-18 YTD</b>	<b>FY17-18 Amended Budget</b>	<b>FY18-19 Proposed Budget</b>	<b>Increase / (Decrease) From PY Budget</b>
<b><i>CALAPRS Disability training</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	1	1	-
Total Expense	-	-	1,725	625	(1,100)
<b><i>CALAPRS Overview Course (3 class series)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	2	2	2	2	-
Total Expense	1,544	2,222	2,500	2,500	-
<b><i>CALAPRS - Board, Faculty, and related travel</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	3	4	4	-
Total Expense	552	1,105	1,900	1,900	-
<b><i>Investment Seminars</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	2	2	-
Total Expense	-	-	3,200	3,200	-
<b><i>Investment Due Diligence On-site visits (combined w/other travel if possible)</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	-	-	-
Total Expense	-	-	-	-	-
<b><i>Software Training</i></b>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	2	2	-
Total Expense	-	-	4,400	4,400	-
<b><i>Misc. Board and Staff Training</i></b>					
Total Expense	587	724	1,440	1,625	185
<b>Subtotal Training and Travel</b>					
Training	14,237	10,750	19,475	20,650	1,175
Travel (air, hotel, food)	5,928.63	5,073	19,815	22,150	2,335
Mileage Reimb.	3,343	2,696	9,260	10,000	740
Misc. Travel	795	418	450	700	250
<b>Total Training and Travel</b>	<b>24,304</b>	<b>18,937</b>	<b>49,000</b>	<b>53,500</b>	<b>4,500</b>

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# Pension Trust

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www.SLOPensionTrust.org

San Luis Obispo County  
Pension Trust  
*SLOOPT*

Date: April 23, 2018

To: Board of Trustees

From: Chris Waddell – General Counsel

## **Agenda Item 10: Board Educational Presentation – Fiduciary Responsibilities Refresher Briefing**

The Pension Trust's General Counsel, Chris Waddell of Olson Hagel & Fishburn, LLP, will be presenting an annual refresher briefing on fiduciary responsibilities.

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## **The Fiduciary Duties Applicable to Pension Trust Board Members—A Refresher and Some Hypotheticals to Discuss**

San Luis Obispo County Pension Trust  
March 23, 2018

Chris Waddell  
Senior Attorney

### **Introduction—What We'll Cover**

- Overview/Refresher of applicable fiduciary duties
- How the “Eight Questions” align with those duties and help Board Members fulfill them
- “Purely hypothetical” illustrative scenarios for discussion

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## APPLICABLE FIDUCIARY DUTIES

- Duty of Care *Cal. Const. Art. 26, §17(c)*
- Duty of Loyalty *Cal. Const. Art. 26, §17(b)*
- Did I Mention There are a Few More?
  - Duty to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries *Cal. Const. Art. 26, §17(a)*
  - Duty to diversify investments *Cal. Const. Art. 26, §17(d)*
  - Duty to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system *Cal. Const. Art. 26, §17(e)*

3

## DUTY OF CARE

- 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.”
  - Focus on conduct of fiduciary and extent of his/her investigation and performance of acts consistent with the specific purpose and circumstances of the plan (“procedural prudence”)

4

## DUTY OF LOYALTY

- “Most fundamental” fiduciary duty
  - “...the punctilio of an honor the most sensitive...” (Justice Cardozo)
  - **“A retirement board’s duty to its participants and beneficiaries shall take precedence over any other duty”** (California Constitution)
- Board member must place the interests of system participants above all other interests
  - Not harm the interests of system members and beneficiaries by doing any of the following:
    - Acting in the fiduciary’s own interests ( no self-dealing)
    - Acting in the interests of the plan sponsor or a third party (avoid prohibited transactions)
    - Favoring the interests of one group of members/beneficiaries over those of another group (Duty of impartiality)

5

## DUTY TO ADMINISTER

- “The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries.”
  - Concerns “the protection and delivery of the assets, benefits and services for which the Board has a fiduciary duty.” *Westly v. Board of Administration* (2003) 105 Cal. App. 4<sup>th</sup> 1095, 1110.
  - Under this interpretation, duty runs parallel to duties of care and loyalty.

6

## DUTY TO DIVERSIFY

- “The members of the retirement board of a public pension or retirement system shall diversify the investments of the system 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.”
  - Generally viewed as being a part of the duty of care.

7

## DUTY TO PROVIDE FOR ACTUARIAL SERVICES

- “The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.”
  - “... expressly relates to the Board’s exclusive power to provide for actuarial services. It is not a freestanding provision requiring that the Board “assure the sufficiency of trust assets to deliver benefits.” *Bandt v. Board of Retirement* (2006) 136 Cal. App. 4<sup>th</sup> 140, 153
  - “Board has the authority to determine what funding is required to assure the actuarial soundness of the retirement system.”  
89 Ops Cal. Atty. Gen 270
  - **Why is this even in the Constitution?**

8

## Sound Board Decisions Consistent with Applicable Fiduciary Duties

- Common denominator = Casting the vote
- One approach:
  - What should a trustee ask his/her self in order to be confident that they are complying with their fiduciary duties before casting a vote?
  - CalPERS asked itself this question a few years ago, and the resulting 8 questions tie directly to the underlying fiduciary duties we've discussed and tell us a lot about the need for sound governance practices.

9

## Eight Questions

1. Do the agenda materials and presentation/discussion at the meeting provide all of the information necessary for a proper understanding of the issue so that we can make a sound, informed decision?
2. Have all of the potential benefits and risks resulting from this decision been appropriately identified and analyzed?
3. Have all viable alternatives to this proposal been appropriately identified and analyzed?

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## Eight Questions—Cont'd

4. Are staff and the outside expert (where applicable) in agreement on the recommended course of action?
  - If not, are the bases for disagreement adequately explained?
  - Are both recommendations reasonable (so that I can reasonably choose/decide between them), or do we need to seek another opinion?
5. Were any questions that we had before and during the discussion of the item sufficiently addressed?

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## Eight Questions—Cont'd

6. Do I have any actual or potential conflicts of interest that prevent me from participating in this decision or make it advisable for me not to do so?
7. Does my intended vote reflect what I feel to be in the best interests of the System's members, beneficiaries and retirees as a whole, without regard to the interests of any constituency or appointing power responsible for my position as a Board member?
8. Will the results of the Board's decision favor the interests of one group of the System's members, beneficiaries or retirees over those of another group?

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## Why does your General Counsel Think That These are the Right Questions?

- Duties of Care and Loyalty are a constant presence in Board discussions and decisions;
- Questions 1 – 5 are designed to help ensure that the Board's Duty of Care is fulfilled by following a prudent process.
- Questions 6-8 are designed to help ensure that the Board's Duty of Loyalty is fulfilled by providing a "checklist" for Board members regarding potential concerns.

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## Putting the Questions to the Test

- Purely "hypothetical" scenarios– something like this may have happened somewhere else but not intentionally based on anything at the Pension Trust;
- What questions do they raise?
- Who would you direct the question to?
- When would you raise the question?
- What if you didn't like the answer?

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## Hypothetical #1

- The system's outside actuary has recommended a reduction in the system's assumed rate of interest from 7% to 6.5%. Strong objections have been voiced to this reduction by the plan sponsor, who says that the resulting contribution rate increase will result in drastic cuts in services to the public and inevitably lead to layoffs, and by the system's active members, who don't want to be laid off.

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## Hypothetical # 2

- A plan sponsor, after bargaining to impasse over a proposed reduction in pension benefits that would affect both active and retired members, seeks to implement unilaterally the changes. Several active and retired employees, together with their organization representatives, have asked the Board to seek a legal opinion regarding whether the benefits in question are vested. The Board has noticed a discussion/action item on whether to seek the opinion.

16

## Hypothetical #3

- The Board is considering whether to make an investment in a new technology that promises the ability to clean up the massive floating island of plastic garbage in the Pacific Ocean. The investment case is built on the premise that Pacific Rim countries will be willing to contribute to the cost of a clean-up utilizing the technology. The Investment Consultant's memorandum states that the investment "is consistent with the Board's asset allocation and investment policy" but is silent on whether the consultant recommends the investment.

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## Hypothetical #4

- During the discussion of a complex disability case with heartbreaking facts, one Board member who used to supervise the applicant characterized her as a malingerer, which prompts a response from another Board member who states that he had a relative with a similar disabling condition and that this made him very sympathetic to the applicant's claim.

18

## Hypothetical #5

- The retirement system is significantly underfunded and its actuary has advised the Board that it will run out of money in 25 years based upon the current actuarial assumptions, which include an 7.5% assumed rate of return, and benefit structure, which includes a 2.5% annual compounded COLA. The plan sponsor has enacted legislation directing the Board to develop a proposed solution. The solution now being considered by the Board includes significant increases in employee and plan sponsor contribution rates and decreases in the COLA.

19

## Hypothetical #6

- A high-ranking official of the plan sponsor of the retirement system makes a number of provocative comments that are covered by the local media concerning what the official characterized as the system's "overly-generous" benefits and "unsustainable" funding. One of system's Board members is offended by these comments and proposes to the Board that the system initiate a communications strategy targeted towards the public to rebut them.

20

## Hypothetical #7

- A gubernatorial appointee who, by virtue of her office, sits as an *ex officio* Board member of the statewide public retirement system is unexpectedly called into a meeting in the Governor's office. The meeting is attended by the Governor's chief of staff and several other staffers, as well as a plaintiff's class action attorney who wants the Board to seek class action status in pending litigation that is being considered by the Board the next day. The attorney, who is known to be a major campaign contributor to the Governor, speaks for a long time about the advantages to the Board in seeking lead plaintiff status.

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## QUESTIONS?



CartoonStock.com

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## Board of Trustees

1000 Mill Street  
San Luis Obispo, CA 93408  
Phone: (805) 781-5465  
Fax: (805) 781-5697  
www.SLOPensionTrust.org



Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary  
Scott Whalen - Verus

### **Agenda Item 11: TAO Contingent Fund – Opportunistic – Recommendation Approval**

#### **Recommendation:**

The Board of Trustees actions recommended at this meeting are –

- A commitment to TPG/TSSP's TAO Contingent Fund as part of the Opportunistic class in the Pension Trust's Investment Policy Statement (IPS).
- The commitment to TPG/TSSP's TAO Contingent Fund to be sized at \$60 million. This commitment size over-commits the 3% allocation for individual Opportunistic investments per the IPS, but the amount invested at any time is expected to not exceed the 3% target.

#### **Background:**

At the March 26, 2018 Board of Trustees meeting preliminary approval was given for a commitment to the TPG/TSSP TAO Contingent Fund and the incurring of legal costs for document review. The review of document has proceeded and Staff concurs with Verus' recommendation to proceed with final approval of the TAO Contingent Fund commitment.

The second closing for the TAO Contingent Fund is now expected to take place in late May. The SLOCPT's recommended commitment of \$60 million will constitute approximately 1.5% of the planned \$4 billion maximum size for the fund. The only costs (besides legal costs for document review) to be incurred prior to activation of the TAO Contingent Fund are SLOCPT's share of TAO Contingent Fund organizational costs (\$1-\$2 million total) estimated to be less than \$30,000.

The following is primarily repeated material from the March 26, 2018 memo on the TAO Contingent Fund.

The Pension Trust has a 5% allocation to Private Credit. This allocation is filled with a commitment to a “fund-of-one” evergreen Limited Partnership (LP) structure with TPG/TSSP initiated in 4Q16. The TPG private credit fund invests in a variety of TPG managed closed-end LPs and is in the capital-call phase and is not yet fully funded.

TPG/TSSP is a large and sophisticated private credit management firm with substantial deal sourcing, funding and execution capabilities. The types of investments used in such strategies includes distressed debt for control, direct lending (U.S. and Europe), asset financing and corporate dislocation financing.

One of the main funds in the TPG/TSSP platform is the TPG Adjacent Opportunities Fund (TAO). This LP structured fund invests in the full range of TPG opportunities. A portion of the Pension Trust’s existing TPG/TSSP Private Credit fund invests in the various vintages of the present TAO fund. TAO is currently not open to new investments due to capacity constraints.

### **TAO Contingent Fund:**

TPG/TSSP expects that at some point in the next three years events of significant disruption to the credit markets are likely to occur. While the firm’s underlying outlook for global economic health is positive, the likelihood of market disruption leading to unanticipated interest rate increases, unexpected increases in credit spreads (corporate interest rates vs. Treasury rates), distressed corporate borrowers and similar situations is high. At such points of market disruption investment funds that can deploy quickly have an advantage in investing at higher yields. Both Verus and TPG/TSSP describe the TAO Contingent fund as analogous to “a call option on opportunities from disruption”.

To capitalize on such opportunities, TPG/TSSP is forming the TAO Contingent fund

- Formed on a contingent basis – no capital called initially
- Can be activated at TPG/TSSP’s discretion upon market disruption creating buying opportunities. Would probably be activated in at least two phases.
- Seeking “stand-by” commitments from investors for approximately \$4 billion. TPG/TSSP expects that market opportunities in an environment of credit disruption will allow significantly more capacity in the TAO strategy – but with advantages for investors able to invest quickly.
- 3-year initial activation period from final close in 3Q18 to be in stand-by mode without invested funds. Initial activation period may be extended in 2-year periods at the option of the LPs and the General Partner (GP – or TSSP).
- Once activated, 3-year commitment period from initial activation date. It is during this period that capital calls from the LPs will be made.

- Fees
  - Prior to activation – only costs are a pro rate share of the organizational expenses of the fund. No fees prior to activation is an innovative and attractive feature.
  - Upon activation – Fee on unfunded commitment = 1.15%, Fee on Invested Capital = 1.50%, Carried Interest for the GP (TSSP) = 18.50% over 5.00% preferred return on a deal-by-deal basis. These fees are typical for Private Equity and Private Credit LPs.

**Verus Recommendation:** Verus is recommending that SLOCPT make a commitment to the TPG/TSSP TAO Contingent Fund. The Pension Trust's IPS includes an Opportunistic asset allocation of 0% to 10% of the fund with a 3% limit on any one Opportunistic investment.

**Commitment size:** Verus recommends a \$60 million commitment to the TAO Contingent Fund, which is more than 3% of the fund at present, but at any one time the TAO Contingent Fund allocation is not expected to go over the 3% limit. Similar over-commit targets are being used for Private Equity and Private Credit for the same reasons.

**Source of funds:** Should the TAO Contingent Fund be activated and capital called, the source of those funds within the Pension Trust's portfolio would be determined by the market conditions at the time and Verus' recommendations. Portfolios to be drawn down to fund the TAO Contingent Fund could be public market fixed income (e.g., core bonds), public market equities (domestic or international) or other portfolios as appropriate.

Respectfully submitted

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## Board of Trustees

1000 Mill Street  
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Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary  
Chris Waddell – General Counsel

### **Agenda Item 12: Indemnification – Authorization pursuant to Section 16.02(j) of the Retirement Plan**

Pursuant to Section 16.02(j) of the Retirement Plan the Board of Trustees must approve the necessary findings relative to indemnification for the Pension Trust’s private credit commitment to the TPG/TSSP TAO Contingent Fund.

Legal document review is taking place at this time. The scope and detail of the indemnification provisions in the TAO Contingent Fund documents to be considered will be addressed in a memo to the Board of Trustees to be distributed under separate cover prior to the April 23, 2018 Board meeting.

Respectfully Submitted,

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## Board of Trustees

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Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

### **Agenda Item 13: Investment Report for March 2018**

	March	Year to Date 2018	2017	2016	2015	2014	2013
Total Trust Investments (\$ millions)	\$1,345		\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end	\$1,131 year end
<b>Total Fund Return</b>	-0.4% Gross	<b>0.9%</b> Gross	15.5 % Gross	6.6 % Gross	-0.8 % Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	-0.4%	-0.4%	13.4 %	7.7 %	-0.5 %	5.2 %	13.4%

(r) Policy index as of Aug. 2016 revision to Strategic Asset Allocation Policy: 20% domestic equity, 20% international equity, 15% core bonds, 5% bank loans, 5% global bonds, 5% emerging market debt, 15% real estate, 5% commodities, 5% private equity, 5% private credit.

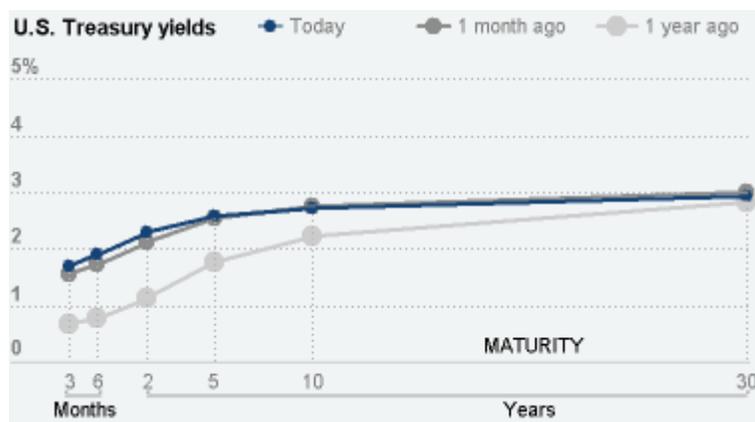
### **The Economy and Capital Markets:**

Some significant factors in the economy for March and into mid-April have been –

- **Fed Policy** – Capital markets continue to watch for developments on the Fed’s “rate normalization” interest rate increases.
  - The Fed met expectations with a 0.25% increase in the Fed Funds rate to a 1.50%-1.75% range at its March 21<sup>st</sup> meeting.

- The Fed has been signaling its intention for three rate increases in 2018, including the March 21<sup>st</sup> increase. Capital market pricing was consistent with two additional rate hikes this year.
  - The continued absence of significant upticks in inflation and the low rate of M2 growth have helped restrain market reactions to concerns over accelerated Fed rate increases.
  - Capital market reactions were volatile – particularly on the March new-jobs economic report that was below expectations and preceded Fed Chair Powell’s testimony that indicated no intent to slow the pace of Fed rate normalization.
- **Interest Rates** – Interest rates have risen in recent months in the expectation of future Fed increases.

- In particular, the short end of the yield curve has risen in the last year reflecting these concerns. In general, economists view the short end of the yield curve as being driven by Fed policy on interest rates while the long end of the yield curve responds more to the outlook for growth and inflation.
- Credit spreads (corporate vs. Treasury rates) remain in the low end of their historical range, albeit with some widening in March.
- The substantial increase in projected Federal budget deficits continues to provide upward pressure on interest rates. Recent CBO estimates of a \$1 trillion deficit in 2020 add to a forecast of a \$33 trillion Federal debt by 2028 (96% of forecast GDP in 2028) – levels not seen since just after World War II and not typical of economies at full employment.
- The following graph shows the Treasury yield curve as of April 17<sup>th</sup> with the 10 year Treasury at a 2.82% rate.



- Market expectations for continued Fed monetary policy normalization and 3-4 rate increases in 2018 contribute to market expectations that the 10 year Treasury will cross over above 3.00% in late 2018 and 2019.

- **Trade Protectionism –**

- Capital market volatility continued in March largely with the proximate cause of the brewing trade war. On March 1<sup>st</sup> President Trump announced steep tariffs on all imported steel and aluminum spurring selloffs in the equity markets. Subsequent escalation of trade protectionism rhetoric and announced Chinese retaliatory tariffs fueled selloffs. Interspersed episodes of lowered trade protectionism alarm based on unsubstantial expectations buoyed markets briefly only to be beat back by the net round of inflammatory announcements.
- Market commentators in the face of volatile rhetoric appear to have a loose expectation that an all-out trade war destructive to the global economy will be averted. Such an expectation appears to include prolonged negotiations, significant posturing by both sides, and an eventual walking-back on key threats such that a meaningful impact on global growth will be avoided.
- However, the possibility of a trade war escalation to mutually harmful levels given the heated rhetoric to-date cannot be ruled out.

- **GDP Growth –**

- The U.S. economy's 4Q17 growth rate on was revised up to a 2.9% rate on the BEA's "3<sup>rd</sup> estimate" after earlier revisions pegged it at 2.5%.
- The release date for preliminary 1Q18 GDP growth is April 27th.
- Fed GDP forecasts -
  - The Fed revised it's 2018 expected GDP growth forecast upwards to 2.7%.
  - The Fed's long-term GDP growth forecast is at a 1.8% rate.
- Congressional Budget Office GDP forecasts –
  - 2018 GDP growth at 3.3%.
  - 2018 GDP growth at 2.4%.
  - 10 year GDP growth at 1.9%.
- Long term GDP growth faces a drag from the secular decline in growth in the domestic working age population. It bears repeating, that in the long-term GDP growth is fundamentally driven by growth in the labor force and productivity improvements.

- **Employment and Wages –**

- From the March DOL report on nonfarm employment -
  - Jobs up 103k which was well below expectations.
  - Unemployment steady at a 17 year low of 4.1%.
  - Wage growth restrained to a year-over-year increase of 2.7%.

- Long term expectations for unemployment trend towards the mid 3% range – historically low – and testing the boundaries of what is considered the “full employment rate”.
- Wage increase pressures are held back by persistently low inflation and employer’s reluctance to increase costs, despite stimulus from reduced tax rates.
- Locally – the February unemployment rates were –
  - U.S. 4.1%
  - California 4.5%
  - San Luis Obispo County 3.2%

- **Capital Market Strength/Weakness and Volatility –**

- The synchronized global growth, accommodative global monetary policy, increasing corporate earnings with an added tailwind from U.S. Tax reform, contributed to strong equity market returns through early in 1Q18. Subsequently, global events reignited volatility in the markets.
- The following excerpt from JP Morgan’s April 10, 2018 report from Michael Cembalest on “Trumpism and the Financial Markets” captures the impact of recent events.

“Market-friendly aspects of Trumpism were delivered in 2017; this year, investors have to deal with the rest. The US corporate sector is in very good shape when looking at strong profits growth, high profit margins and rising stock buybacks, but falling valuations justifiably reflect concerns about what comes next from the White House (including the possible termination of the Iran nuclear agreement in May), and a Fed that may increase the funds rate to 3.25%-3.50% by the end of 2019. I still expect positive single digit equity returns this year as offsetting forces work their way through financial markets, but the range of uncertainty around that figure has widened a lot given the events of the last month.”

**SLOCPT Investment Returns:**

The attached report from Verus covers the investment returns of the SLOCPT portfolio and general market conditions through the end of March. Subsequent market movements in April have been positive and will be reported on in next month’s investment report.

Respectfully submitted

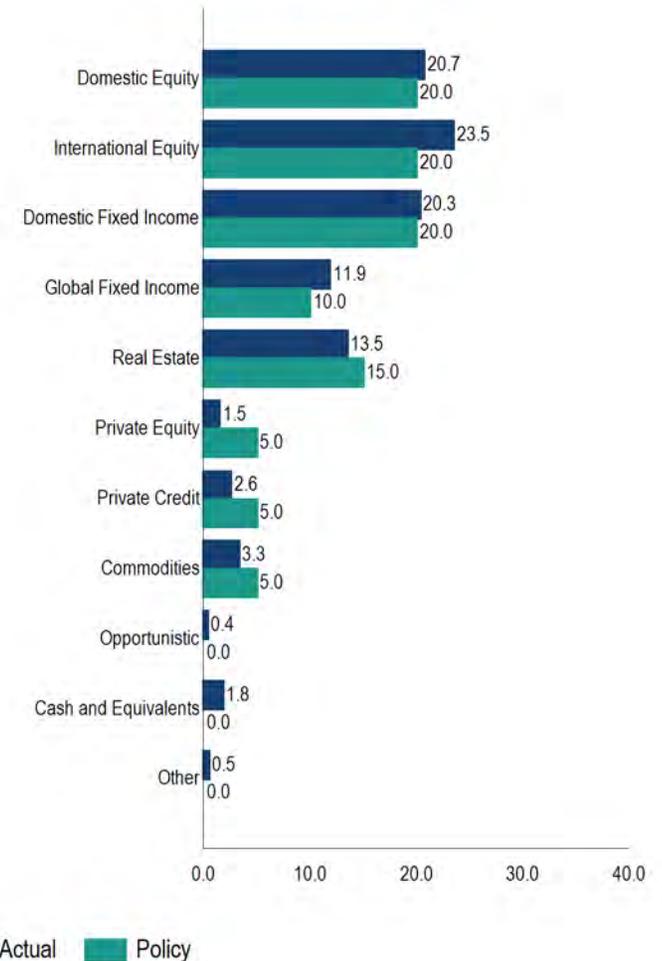
# San Luis Obispo County Pension Trust

## Executive Summary - Preliminary (Gross of Fees)

Period Ending: March 31, 2018

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Fund</b>	<b>1,344,858,228</b>	<b>100.0</b>	<b>-0.4</b>	<b>0.9</b>
Total Fund ex Overlay	1,337,929,861	99.5	-0.4	0.9
Policy Index			-0.4	-0.4
<b>Total Domestic Equity</b>	<b>278,615,728</b>	<b>20.7</b>	<b>-2.1</b>	<b>-0.2</b>
Russell 3000			-2.0	-0.6
PIMCO RAE Fundamental PLUS Instl	58,510,426	4.4	-2.4	-1.4
S&P 500			-2.5	-0.8
Loomis Sayles Large Cap Growth	81,825,279	6.1	-3.2	0.9
Russell 1000 Growth			-2.7	1.4
Boston Partners Large Cap Value	80,131,983	6.0	-2.6	-1.5
Russell 1000 Value			-1.8	-2.8
Atlanta Capital Mgmt	58,148,040	4.3	0.7	1.3
Russell 2500			1.0	-0.2
<b>Total International Equity</b>	<b>315,756,740</b>	<b>23.5</b>	<b>-1.1</b>	<b>-0.3</b>
MSCI ACWI ex USA Gross			-1.7	-1.1
Dodge & Cox Intl Stock	157,457,829	11.7	-2.7	-2.0
MSCI EAFE Gross			-1.7	-1.4
WCM International Growth	158,298,911	11.8	0.6	1.5
MSCI ACWI ex USA Gross			-1.7	-1.1
<b>Total Domestic Fixed Income</b>	<b>273,328,883</b>	<b>20.3</b>	<b>0.4</b>	<b>-0.4</b>
BBgBarc US Aggregate TR			0.6	-1.5
BlackRock Core Bond	99,274,911	7.4	0.6	-1.4
BBgBarc US Aggregate TR			0.6	-1.5
Dodge & Cox Income Fund	104,374,372	7.8	0.2	-0.8
BBgBarc US Aggregate TR			0.6	-1.5
Pacific Asset Corporate Loan	69,679,600	5.2	0.3	1.4
S&P/LSTA Leveraged Loan Index			0.3	1.4
<b>Total Global Fixed</b>	<b>159,418,889</b>	<b>11.9</b>	<b>1.2</b>	<b>5.0</b>
Citi World Govt Bond Index			1.5	2.5
Brandywine Global Fixed Income	79,950,472	5.9	1.3	4.6
Citi WGBI ex US			1.8	4.4
Stone Harbor Local Markets Ins	79,468,417	5.9	1.0	5.4
JPM GBI-EM Global Diversified TR USD			1.0	4.4

Actual vs Target Allocation (%)



\*Other balance represents Clifton Group.

Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. ARA American and Direct Real Estate MVs as of 12/31/2017 +/- calls and distributions. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. SSGA TIPS liquidated on 12/7/2017. Fidelity Real Estate Growth III liquidated on 12/29/2017. SSGA Flagship S&P 500 liquidated 2/1/2018. All data is preliminary.

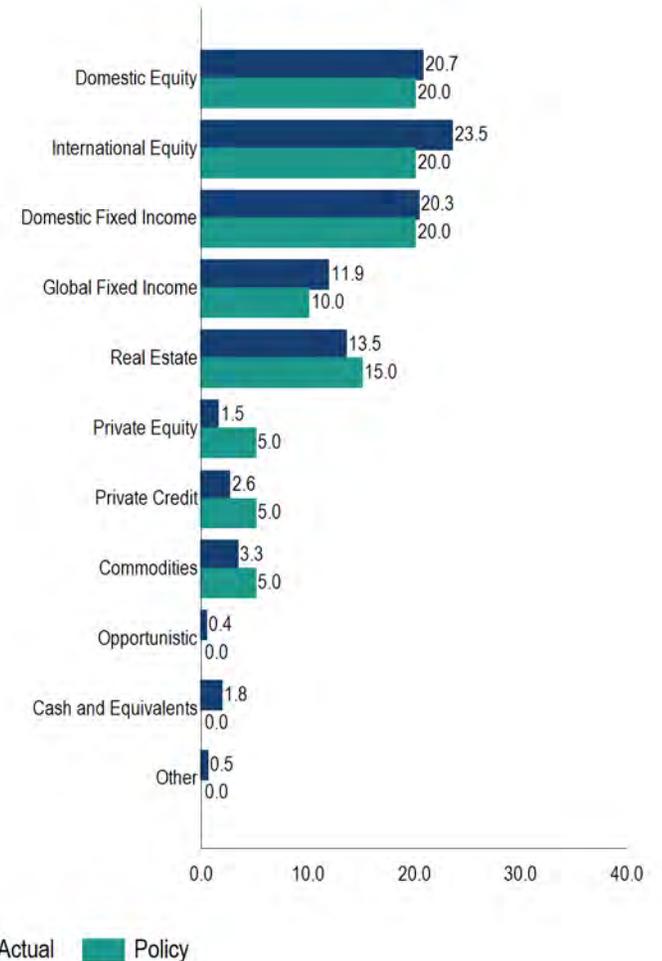
# San Luis Obispo County Pension Trust

## Executive Summary - Preliminary (Gross of Fees)

Period Ending: March 31, 2018

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Real Estate</b>	<b>181,756,196</b>	<b>13.5</b>	<b>0.3</b>	<b>2.0</b>
NCREIF Property Index			1.8	1.8
JP Morgan Core Real Estate	154,427,667	11.5	0.4	1.9
NCREIF-ODCE			0.0	0.0
NCREIF Property Index			1.8	1.8
ARA American Strategic Value Realty	13,388,299	1.0	0.0	2.0
NCREIF-ODCE			0.0	0.0
NCREIF Property Index			1.8	1.8
Direct Real Estate	13,940,230	1.0	0.0	2.7
NCREIF-ODCE			0.0	0.0
NCREIF Property Index			1.8	1.8
<b>Total Commodities</b>	<b>44,624,999</b>	<b>3.3</b>	<b>-0.2</b>	<b>0.0</b>
Bloomberg Commodity Index TR USD			-0.6	-0.4
Gresham MTAP Commodity Builder	44,624,999	3.3	-0.2	0.0
Bloomberg Commodity Index TR USD			-0.6	-0.4
<b>Total Private Equity</b>	<b>20,162,355</b>	<b>1.5</b>		
Harbourvest Partners IX Buyout Fund L.P.	13,412,090	1.0		
Pathway Private Equity Fund Investors 9 L.P.	6,750,265	0.5		
<b>Total Private Credit</b>	<b>34,656,989</b>	<b>2.6</b>		
TPG Diversified Credit Program	34,656,989	2.6		
<b>Total Cash</b>	<b>24,222,873</b>	<b>1.8</b>	<b>0.0</b>	<b>0.0</b>
91 Day T-Bills			0.1	0.4
Cash Account	24,222,873	1.8	0.0	0.0
91 Day T-Bills			0.1	0.4
<b>Total Opportunistic</b>	<b>5,386,209</b>	<b>0.4</b>		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	5,282,746	0.4		
PIMCO Distressed Credit Fund	103,463	0.0		
CPI + 5%				

Actual vs Target Allocation (%)



\*Other balance represents Clifton Group.

Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. ARA American and Direct Real Estate MVs as of 12/31/2017 +/- calls and distributions. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. SSGA TIPS liquidated on 12/7/2017. Fidelity Real Estate Growth III liquidated on 12/29/2017. SSGA Flagship S&P 500 liquidated 2/1/2018. All data is preliminary.



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

MARCH 2018  
Capital Markets Update

# Market commentary

## ECONOMIC CLIMATE

- Hiring slowed from its fast pace last month – the U.S. added 103,000 jobs to nonfarm payrolls in March, below the consensus estimate of 185,000.
- The U-3 unemployment rate was unchanged at 4.1%, while the broader U-6 rate (includes part-time and underemployed workers) tightened from 8.2% to 8.0%, the lowest level in the current expansion.
- The core PCE inflation rate ticked up from 1.5% to 1.6% YoY in February. This measure likely accelerated in March (release on 4/30) due to a low base effect from the prior year. If the index is unchanged, the YoY rate will rise to 1.8%.
- Retail sales declined in February, and missed expectations for the second straight month. Sales dropped 0.1% from the previous month versus expectations of a 0.3% increase, mainly driven by lower auto sales.

## DOMESTIC EQUITIES

- Volatility remained elevated in U.S. equities and the S&P 500 Index (-2.5%) posted its second consecutive month of negative performance.
- The drop in equities was led by the tech sector, driven by several company-specific risks, including a data breach at Facebook.
- Trade concerns may have also weighed on stocks after the White House implemented tariffs on steel and aluminum.

## DOMESTIC FIXED INCOME

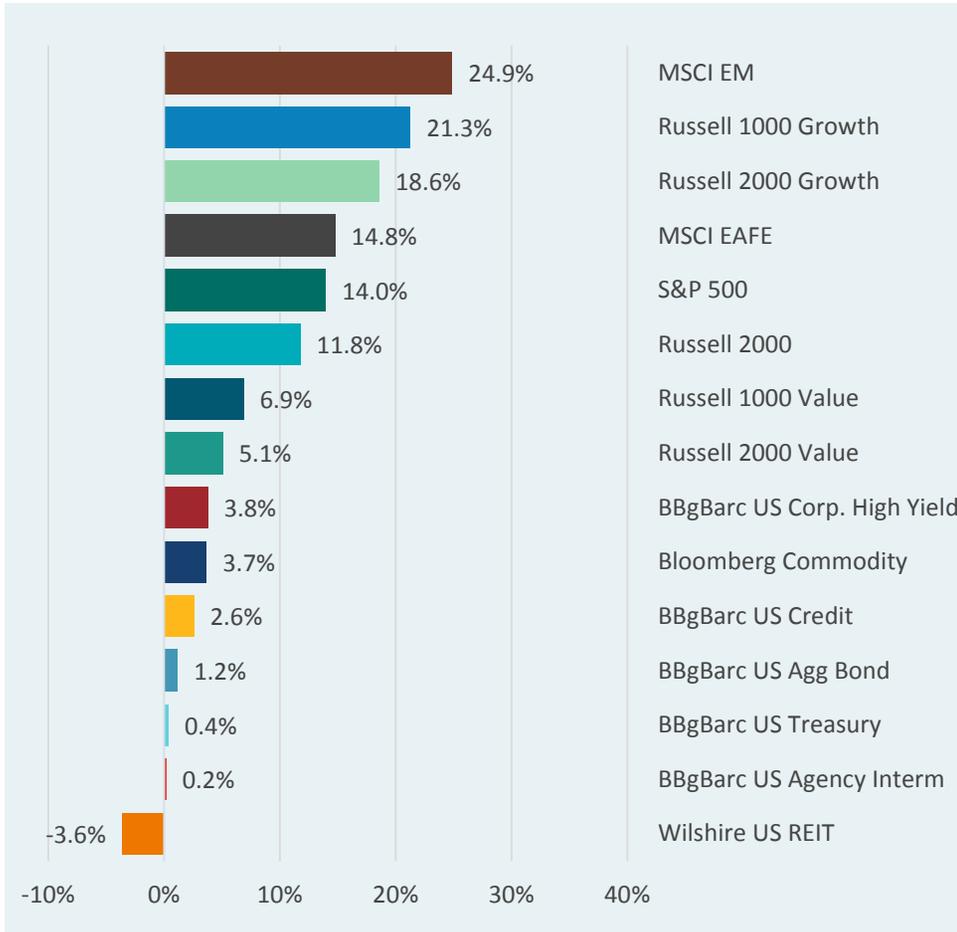
- The Fed raised its benchmark interest rate by 25 bps to a target range of 1.50% - 1.75%, as expected. In his first public comments since taking over as Fed chairman, Jerome Powell's views appeared to support a continuation of gradual monetary tightening.
- According to the updated Fed dot plot, officials are expecting two additional rate hikes this year, on par with market pricing.
- Short-term borrowing costs tied to Libor continued to rise during the month. The 3-month USD Libor rate moved steadily higher from 2.0% to 2.3%.

## INTERNATIONAL MARKETS

- International equities also recorded negative performance (MSCI ACWI ex-U.S. -1.8%), but outperformed domestic markets on a relative basis.
- The White House announced tariffs on steel and aluminum imports of 25% and 10%, respectively, that went into effect in March. Several countries, including Mexico and Canada, were given exemptions to allow for ongoing trade negotiations.
- In an additional measure on trade, the White House announced that the U.S. will impose tariffs on \$50 billion worth of Chinese goods in response to intellectual property theft.
- The Eurozone composite PMI fell for the third straight month in March, down from 57.1 to 55.3.

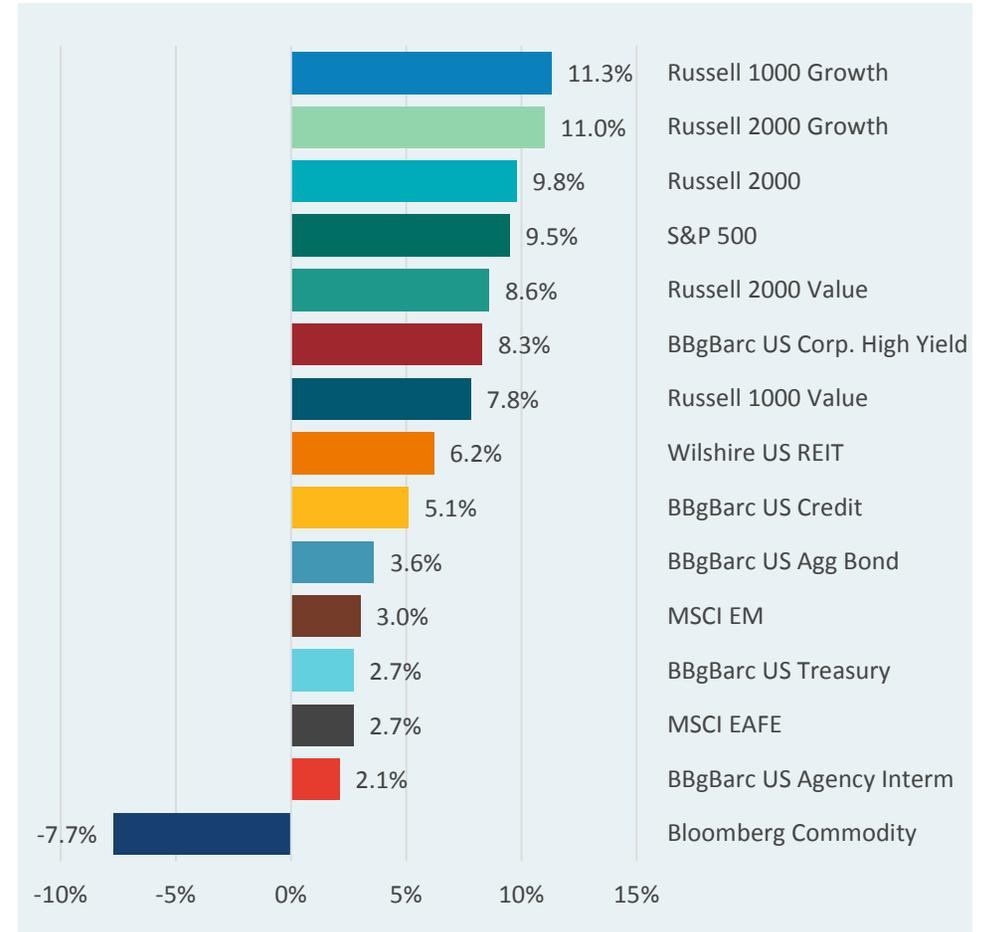
# Major asset class returns

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/18

TEN YEARS ENDING MARCH



Source: Morningstar, as of 3/31/18

# U.S. large cap equities

- The S&P 500 Index (-2.5%) fell for the second straight month, influenced by concerns in the tech sector and tariff negotiations. The index had registered 15 months of positive returns prior to February.
- The tech sector was heavily influenced by negative idiosyncratic events in mega-cap companies such as Facebook, Apple, and Amazon. The overall S&P 500 tech sector fell 3.9%, while the NYSE FANG+ Index dropped 6.9%.
- Implied volatility remained high following a spike in the VIX Index in February. The VIX Index averaged 19.0 in March, compared to an average of 11.9 in the prior 12 months.
- Q1 earnings season will start next month, and expectations are high. According to FactSet, the expected Q1 YoY earnings and revenue growth rates are 17.1% and 7.3%, respectively. Earnings growth estimates were revised considerably higher over the first quarter, primarily due to corporate tax cuts.

Equity volatility remained high

S&P 500 PRICE INDEX



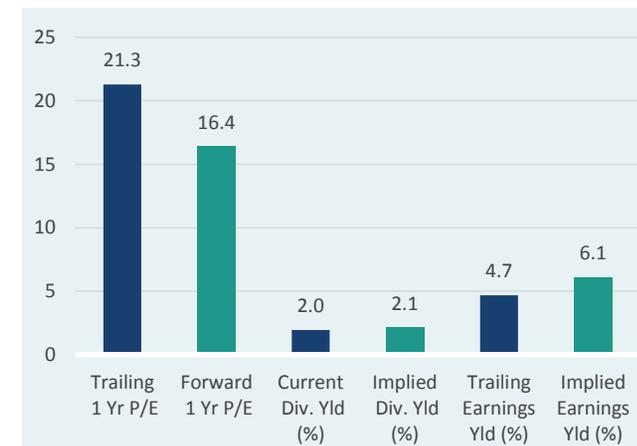
Source: Bloomberg, as of 3/31/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 3/31/18

S&P 500 VALUATION SNAPSHOT



Source: Bloomberg, as of 3/31/18

# Fixed income

- After jumping higher in the first two months of the year, long-term Treasury yields fell in March as inflation fears subsided. The 10-year Treasury yield dropped 12 bps to 2.74%.
- The short-end of the curve was little changed with the 2-year yield up 1 bp to 2.26%, resulting in a flatter yield curve (shorter-term rates are more sensitive to Fed policy). The spread between the 2- and 10-year yields was 46 bps at month-end, the lowest level since 2007.

- As expected, the Fed raised its benchmark interest rate by 25 bps to a range of 1.50% - 1.75%. Fed officials pointed to strong economic fundamentals, such as GDP growth, the unemployment rate, and firming inflation as reasons to continue gradual monetary tightening.
- Credit spreads widened slightly as equity prices fell, but are still at historically low levels. High yield spreads rose 30 bps to 3.5% and IG spreads increased 14 bps to 1.1%.

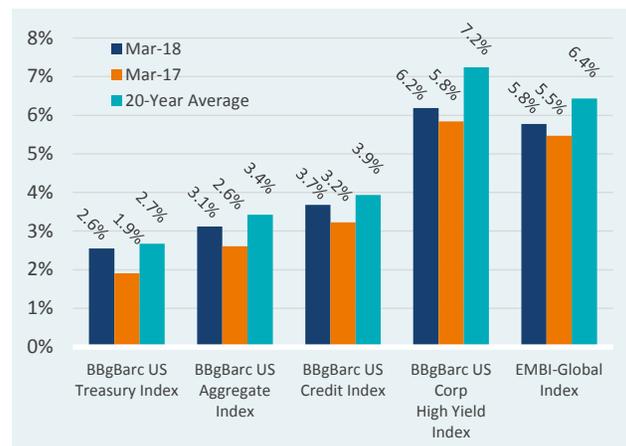
Treasury yields fell and the curve flattened

U.S. TREASURY YIELD CURVE



Source: Bloomberg, as of 3/31/18

NOMINAL YIELDS



Source: Morningstar, as of 3/31/18

BREAKEVEN INFLATION RATES



Source: Bloomberg, as of 3/31/18

# Global markets

- The announcement of U.S. tariffs on steel and aluminum imports led to uneasiness in the markets and raised concerns about a potential global trade war. Steel and aluminum represent a small portion of U.S. imports, and these tariffs are unlikely to have a major impact on financial markets by themselves.
- International developed equities declined during the month, but outperformed U.S. markets. The MSCI EAFE Index returned -1.8%, compared to -2.5% for the S&P 500 Index. Currency depreciation was a slight detractor from returns (EAFE Hedged Index, -1.3%).

- International equity markets experienced a slight increase in volatility, but not as much relative to the U.S. The MSCI EAFE and EM Indices had an annualized standard deviation of 9.5% and 15.0%, respectively in March.
- Global sovereign long-term yields moved lower throughout the month. The 10-year German bund yield fell 16 bps to 0.50%, 26 bps below a two and half year high reached in early February.

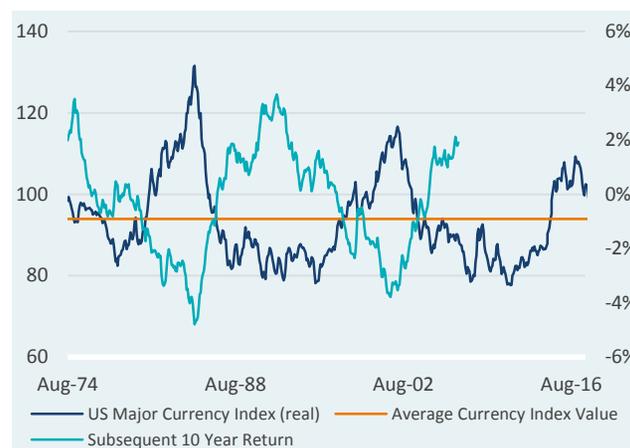
Tariff discussions weighed on global markets

GLOBAL SOVEREIGN 10-YEAR YIELDS



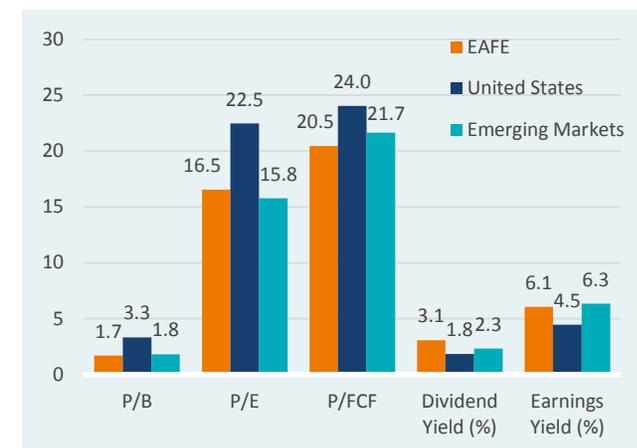
Source: Bloomberg, as of 3/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 3/31/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 3/31/18

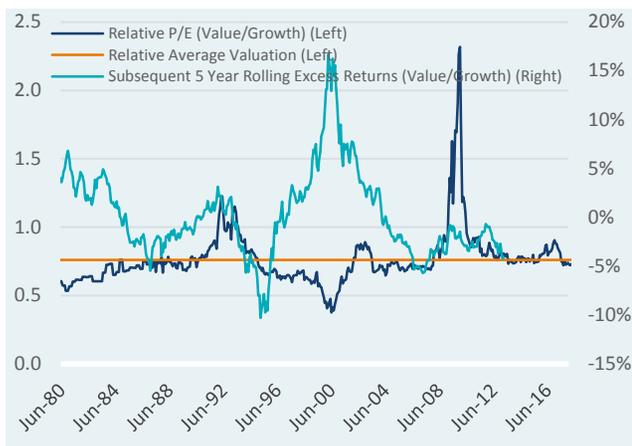
# Domestic equity size and style

- Small cap equities materially outperformed large cap equities in March – the Russell 2000 Index and Russell 1000 Index returned 1.3% and -2.3%, respectively. Much of the weakness in large cap equities was driven by a small number of mega-cap firms. Additionally, small cap companies are likely more insulated from a deterioration in global trade relations.
- Large cap equities have still outperformed over the past year, beating small cap equities by 2.2% over the period.

- Value equities outperformed growth equities as the Russell 1000 Value Index and Russell 1000 Growth Index returned -1.8% and -2.7%, respectively.
- Value outperformance was driven by a larger relative position in the energy sector, which was supported by higher oil prices. The Russell 1000 Energy Index returned 2.0% in March.
- Growth equities have significantly outperformed value equities over the past year, however.

Small and value equities outperformed in March

VALUE VS. GROWTH RELATIVE VALUATIONS



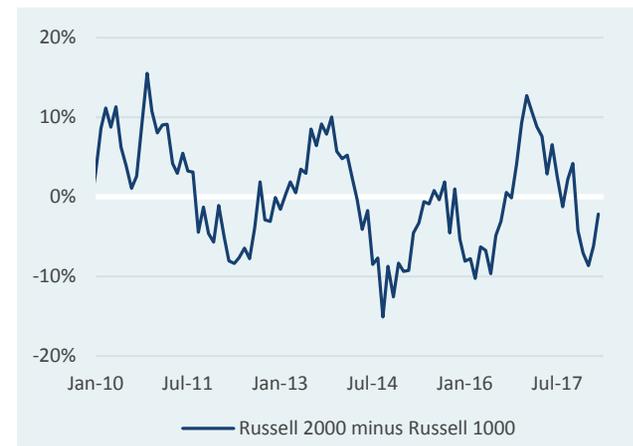
Source: Russell, Bloomberg, as of 3/31/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 3/31/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 3/31/18

# Commodities

- The Bloomberg Commodity Index returned -0.6% in March, led by positive returns in energy sector. The Bloomberg Energy sub-index posted a 4.9% return.
- WTI oil prices increased by 5.3% during the month to \$64.94 per barrel, near its year-to-date high. The price increase was influenced by strong OPEC production cut compliance in February.

- Steel prices rose in anticipation that the U.S. would enact a 25% tariff on imports. Hot-rolled coil steel futures contracts were up 6.7% during the month.
- Commodity futures strategies are still experiencing a drag from negative roll yields, but spot prices have gained momentum over the past year. The Bloomberg Commodity Spot Index is up 8.1% over the last 12 months, compared to 3.7% for the total return index.

Oil prices rose to near year-to-date highs

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.6)	(0.4)	(0.4)	3.7	(3.2)	(8.3)	(7.7)
Bloomberg Agriculture	(2.8)	3.1	3.1	(5.4)	(4.6)	(8.7)	(5.0)
Bloomberg Energy	4.9	1.8	1.8	9.9	(9.0)	(16.2)	(18.4)
Bloomberg Grains	(2.4)	7.1	7.1	(3.6)	(7.8)	(10.8)	(6.9)
Bloomberg Industrial Metals	(4.4)	(6.2)	(6.2)	12.7	4.0	(1.5)	(5.1)
Bloomberg Livestock	(7.1)	(10.0)	(10.0)	(4.4)	(6.7)	(3.4)	(5.3)
Bloomberg Petroleum	6.1	4.7	4.7	26.5	(3.8)	(14.0)	(12.2)
Bloomberg Precious Metals	0.2	(0.5)	(0.5)	0.5	1.8	(6.1)	2.0
Bloomberg Softs	(4.7)	(10.1)	(10.1)	(19.5)	(3.3)	(9.6)	(4.2)

Source: Morningstar, as of 3/31/18

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 3/31/18

# Appendix

# Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	2.3	15.5	11.3
Emerging Markets Equity	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.4	13.2	11.0
Large Cap Growth	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	1.4	12.9	9.8
Hedge Funds of Funds	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	0.9	11.5	9.6
Cash	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	0.4	10.8	8.6
60/40 Global Portfolio	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	0.0	10.2	7.8
Real Estate	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	0.0	10.0	6.1
Small Cap Equity	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-0.1	6.5	4.7
Commodities	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-0.4	6.2	3.6
Large Cap Equity	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-0.7	5.0	3.0
US Bonds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	-1.5	3.5	2.7
International Equity	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-1.5	1.8	1.6
Small Cap Value	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-2.6	0.3	0.3
Large Cap Value	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-2.8	-8.3	-7.7

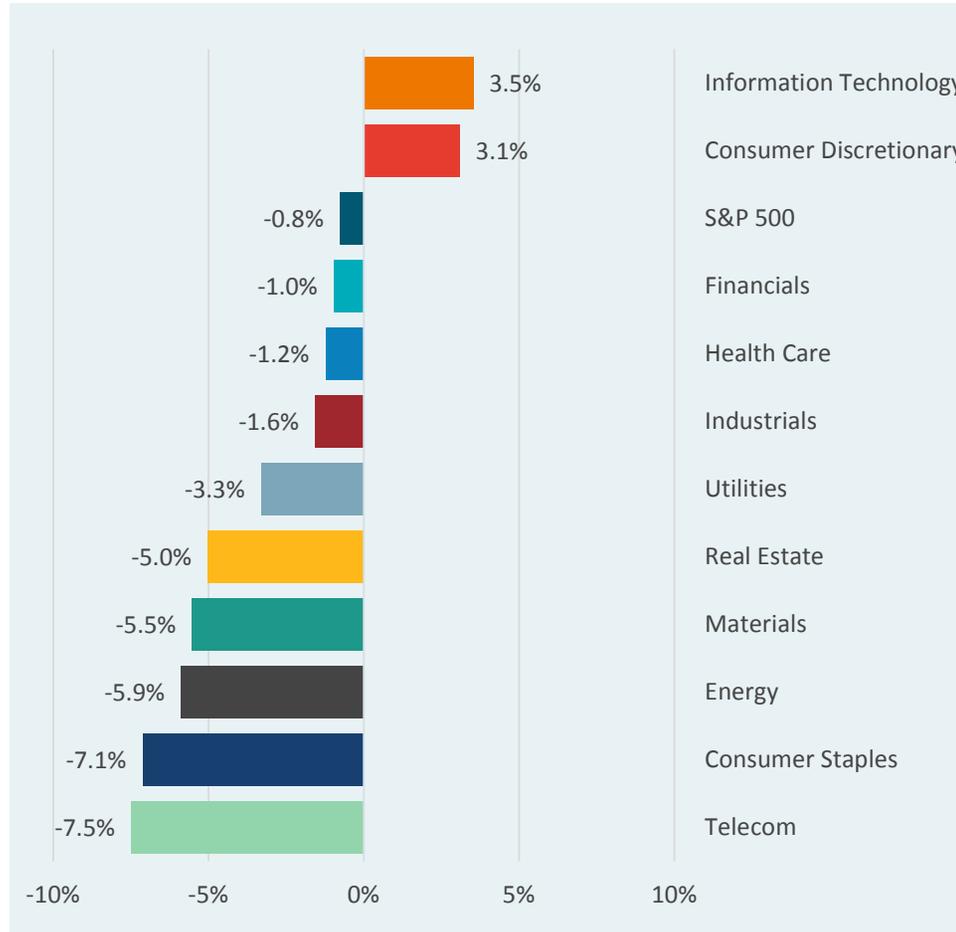
WORST

- Large Cap Equity
- Small Cap Growth
- Commodities
- Large Cap Value
- International Equity
- Real Estate
- Large Cap Growth
- Emerging Markets Equity
- Hedge Funds of Funds
- US Bonds
- 60% MSCI ACWI/40% BBgBarc Global Bond
- Cash

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/17.

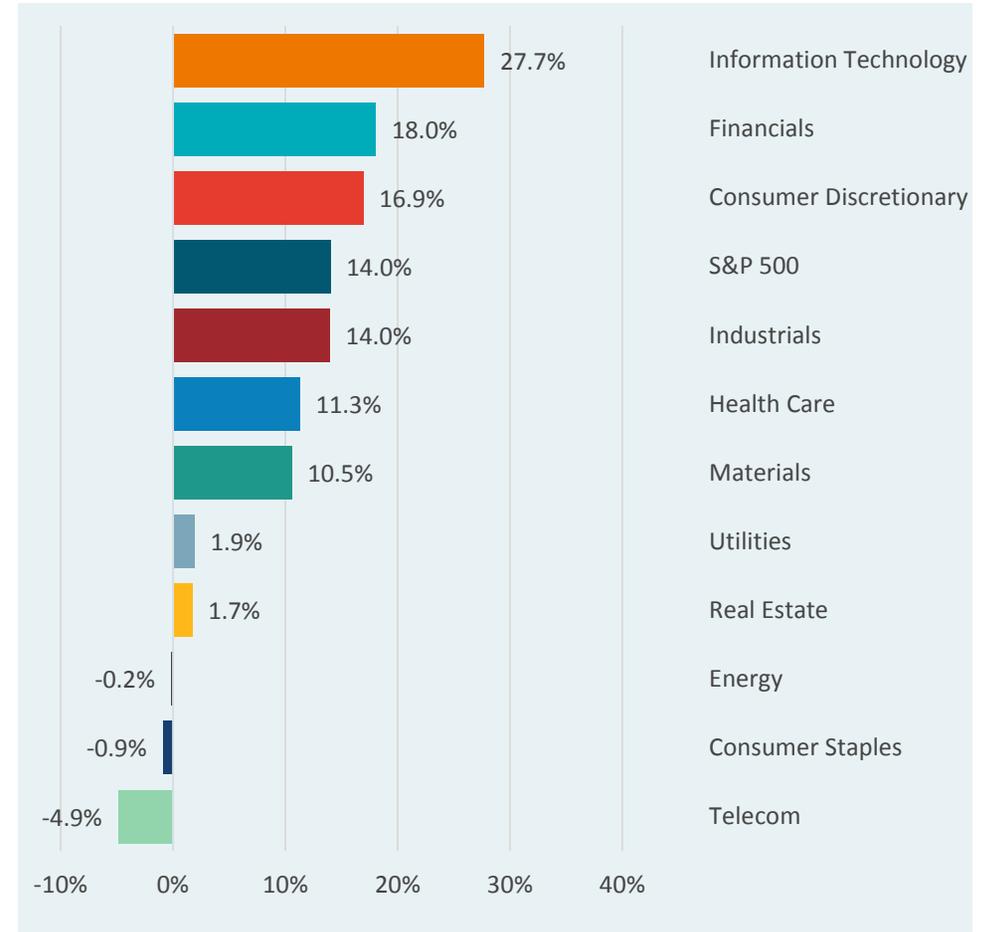
# S&P 500 sector returns

Q1



Source: Morningstar, as of 3/31/18

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/18

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	(2.5)	(0.8)	(0.8)	14.0	10.8	13.3	9.5
S&P 500 Equal Weighted	(0.9)	(1.0)	(1.0)	11.7	9.1	12.9	11.0
DJ Industrial Average	(3.6)	(2.0)	(2.0)	19.4	13.5	13.3	9.9
Russell Top 200	(3.2)	(0.8)	(0.8)	14.7	11.4	13.6	9.4
Russell 1000	(2.3)	(0.7)	(0.7)	14.0	10.4	13.2	9.6
Russell 2000	1.3	(0.1)	(0.1)	11.8	8.4	11.5	9.8
Russell 3000	(2.0)	(0.6)	(0.6)	13.8	10.2	13.0	9.6
Russell Mid Cap	0.1	(0.5)	(0.5)	12.2	8.0	12.1	10.2
<b>Style Index</b>							
Russell 1000 Growth	(2.7)	1.4	1.4	21.3	12.9	15.5	11.3
Russell 1000 Value	(1.8)	(2.8)	(2.8)	6.9	7.9	10.8	7.8
Russell 2000 Growth	1.3	2.3	2.3	18.6	8.8	12.9	11.0
Russell 2000 Value	1.2	(2.6)	(2.6)	5.1	7.9	10.0	8.6

## INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
MSCI ACWI	(2.1)	(1.0)	(1.0)	14.8	8.1	9.2	5.6
MSCI ACWI ex US	(1.8)	(1.2)	(1.2)	16.5	6.2	5.9	2.7
MSCI EAFE	(1.8)	(1.5)	(1.5)	14.8	5.6	6.5	2.7
MSCI EM	(1.9)	1.4	1.4	24.9	8.8	5.0	3.0
MSCI EAFE Small Cap	(1.1)	0.2	0.2	23.5	12.3	11.1	6.5
<b>Style Index</b>							
MSCI EAFE Growth	(1.2)	(1.0)	(1.0)	17.5	6.7	7.1	3.4
MSCI EAFE Value	(2.4)	(2.0)	(2.0)	12.2	4.3	5.8	2.0
<b>Regional Index</b>							
MSCI UK	(0.3)	(3.9)	(3.9)	11.9	3.1	3.9	2.3
MSCI Japan	(2.1)	0.8	0.8	19.6	8.4	8.9	4.1
MSCI Euro	(1.2)	(0.4)	(0.4)	16.1	5.7	8.1	0.7
MSCI EM Asia	(1.4)	0.8	0.8	27.0	9.4	8.4	5.2
MSCI EM Latin American	(1.0)	8.0	8.0	19.3	10.1	(1.9)	(0.8)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	1.1	(0.8)	(0.8)	0.9	1.3	0.0	2.9
BBgBarc US Treasury Bills	0.1	0.3	0.3	1.0	0.5	0.3	0.4
BBgBarc US Agg Bond	0.6	(1.5)	(1.5)	1.2	1.2	1.8	3.6
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.2	(0.2)	(0.2)	(0.0)	0.4	0.5	1.1
BBgBarc US Treasury Long	3.0	(3.3)	(3.3)	3.5	0.4	3.3	5.8
BBgBarc US Treasury	0.9	(1.2)	(1.2)	0.4	0.4	1.1	2.7
<b>Issuer</b>							
BBgBarc US MBS	0.6	(1.2)	(1.2)	0.8	1.1	1.8	3.5
BBgBarc US Corp. High Yield	(0.6)	(0.9)	(0.9)	3.8	5.2	5.0	8.3
BBgBarc US Agency Interm	0.3	(0.4)	(0.4)	0.2	0.7	0.9	2.1
BBgBarc US Credit	0.3	(2.1)	(2.1)	2.6	2.2	2.8	5.1

## OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Index</b>							
Bloomberg Commodity	(0.6)	(0.4)	(0.4)	3.7	(3.2)	(8.3)	(7.7)
Wilshire US REIT	4.1	(7.5)	(7.5)	(3.6)	1.0	6.1	6.2
CS Leveraged Loans	0.3	1.6	1.6	4.6	4.3	4.2	5.4
<b>Regional Index</b>							
JPM EMBI Global Div	0.3	(1.7)	(1.7)	4.3	5.8	4.7	7.0
JPM GBI-EM Global Div	1.0	4.4	4.4	13.0	5.4	(0.7)	3.8
<b>Hedge Funds</b>							
HFRI Composite	(0.7)	0.1	0.1	4.6	2.0	3.9	3.6
HFRI FOF Composite	(0.0)	0.9	0.9	6.2	2.1	3.5	1.6
<b>Currency (Spot)</b>							
Euro	0.8	2.4	2.4	15.0	4.6	(0.9)	(2.5)
Pound	1.8	3.7	3.7	12.2	(1.9)	(1.6)	(3.4)
Yen	0.3	5.9	5.9	4.8	4.1	(2.4)	(0.7)

Source: Morningstar, as of 3/31/18

# Definitions

**Markit Euro Manufacturing Index** – The Eurozone PMI (Purchasing Managers' Index ) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 5,000 companies based in the euro area manufacturing and service sectors. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

**NYSE FANG+ Index** – an equally weighted index of Apple, Netflix, Tesla, Amazon, Alphabet, NVIDIA, Facebook, Alibaba, Baidu, and Twitter

# Notices & disclosures

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## Board of Trustees

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Date: April 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

### **Agenda Item 14: Asset Allocation April 2018**

This item on the agenda provides a properly noticed opportunity for the Board of Trustees to discuss and take action if necessary regarding asset allocation and related investment matters.

The only asset allocation changes planned by Staff for April are a \$10 million drawdown for liquidity purposes to cover benefit payments. Given that the domestic equity portfolios are still above their target allocation percentages, Staff plans to use this April drawdown for rebalancing purposes. The current intent for this is to draw \$5 million each from the Loomis Sayles and the Boston Partners portfolios. Verus has been consulted on this transfer and is in agreement.

Further liquidity drawdowns will be necessary in May and June and will be decided on depending on asset mix at those times.

Should SLO County proceed with the anticipated prefunding of employer paid contributions for the County and the APCD in July, those funds will be allocated depending on asset mix at that time.

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