

# Pension Trust

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



## AGENDA

### PENSION TRUST BOARD OF TRUSTEES

**Monday, March 25, 2019 9:30 AM**  
Board of Supervisors Chambers  
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>*

#### A) 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.

#### B) CONSENT

2. Minutes of the Regular Meeting of February 25, 2019 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of February 2019 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of February 2019 (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through March 8, 2019 (Receive, Approve and File).
6. Resolution Modifying and Affirming Investment and Banking authority - Resolution 2019-02 (Recommend Approval).

#### C) ORGANIZATIONAL

None

**D) APPLICATIONS FOR DISABILITY RETIREMENT**

- 7. Application for Industrial Disability Retirement – Case 2018-05 (Recommend Approval).

**E) OLD BUSINESS**

None

**F) NEW BUSINESS**

- 8. 2019 Actuarial Valuation Planning - Actuarial Assumptions Approval - Presentation by Leslie Thompson, EA, FSA - (Discuss, Direct Actuary and Staff as necessary - Recommend Approval).
- 9. Actuarial Assumptions Peer Comparison (Discuss)
- 10. Employer Contributions Prefunding (Discuss, Direct Staff as necessary).
- 11. Pension Trust By-Law Amendments (Discuss, Direct Staff as necessary).

**G) INVESTMENTS**

- 12. Indemnification Approval – Ashmore Group (Recommend Approval)
- 13. Monthly Investment Report for February 2019 (Receive and File)
- 14. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

**H) OPERATIONS**

- 15. Staff Reports
- 16. General Counsel Reports
- 17. Committee Reports:
  - i. Audit Committee No Report
  - ii. Personnel Committee No Report
  - iii. PAS Replacement Committee Report

## 18. Upcoming Board Topics (subject to change)

- i. April 22, 2019
  - a. Disability case(s) – TBD
  - b. Business Continuity Planning
  - c. Member Survey
  - d. FY19-20 SLOCPT Administrative Budget presentation
  - e. Fiduciary Refresher Training
- ii. May 20, 2019
  - a. Disability case(s) - TBD
  - b. FY19-20 SLOCPT Administrative Budget approval
  - c. Quarterly Investment Report
  - d. Investment Benchmark Review
  - e. Strategic Asset Allocation Policy – IPS Amendments
  - f. Investment Policy Peer Comparisons
  - g. ESG/SRI Investing Update
- iii. June 24, 2019
  - a. 2018 Financial Audit Report
  - b. 2018 Comprehensive Annual Financial Report approval
  - c. 2019 Actuarial Valuation and Contribution Rates approval
  - d. Employer Contributions Prefunding – final approval
- iv. July 22, 2019
  - a. Disability case(s) – TBD
  - b. TBD
- v. August 26, 2019
  - a. Mid-year Financial Statements and Budget Update
  - b. Quarterly Investment Report
  - c. Private Equity / Private Credit program review
  - d. Private Equity – 2019 commitment

## 19. Trustee Comments

**I) CLOSED SESSION**

None

**J) ADJOURNMENT**

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BOARD OF TRUSTEES**

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**MINUTES**

**February 25, 2019**  
Regular Meeting of the Pension Trust  
Board of Trustees

**Board Members Present:** Will Clemens President  
Guy Savage Vice President  
Jeff Hamm  
Jim Hamilton  
Matt Janssen  
Michelle Shoresman  
Gere Sibbach

**Board Members Absent:** none

**Pension Trust Staff:** Carl Nelson Executive Secretary  
Amy Burke Deputy Executive Secretary

**General Counsel:** Chris Waddell, Esq.

**Consultants:** Scott Whalen Verus  
Ian Toner Verus  
Ed Meyers LRWL, Inc.  
Andy Martin LRS  
Shawn Farris LRS

**Others:** Larry Batchelder SLOCREA  
Michael Hobbs SLO County Human Resources  
Dan Andoetoe Retiree  
Susan Pittaway Active Member  
Jennifer Alderete Pension Trust staff  
Myca Conaway SLO County Info Tech.  
Ryan Lamb SLO County Info Tech.  
Drew Fendritch LRS  
Dana Fagan LRS

**Call to Order:** 9:32 AM by President Clemens, presiding over the meeting.

President Clemens announced that Agenda Item 9 would be heard out of order at the conclusion of other business to allow the presenters time to arrive.

## A) PUBLIC COMMENT

1. None

## B) CONSENT

Motion: To approve the consent agenda items -

2. Minutes of the Regular Meeting of January 28, 2019 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of January 2019 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of January 2019 (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through February 8, 2019 (Receive, Approve and File).
6. Stipulation for the Division of Pension Benefits - Option Four Pension Benefit Election (Approval).

Public Comment: None

Motion Made: Mr. Janssen

Motion Seconded: Mr. Savage

Carried: Unanimous

## C) ORGANIZATIONAL

7. **Resolution Number 2019-01: A Resolution Honoring Andrea Paley for her 40 years of Service to the Pension Trust**

Discussion: Mr. Nelson introduced the item and commented on the wonderful, positive impact that Ms. Paley has had on four decades of County employees as they transitioned to retirement. President Clemens read aloud Resolution 2019-01 honoring Andrea Paley for her 40 years of service to the Pension Trust. Mr. Janssen thanked Andrea for her dedication and excellent service. Mr. Sibbach commented that he has known Andrea for decades and appreciated the large amount of complex matters she had mastered over the years. Mr. Clemens commented on the virtues of Andrea and that she served for so many years because of her dedication to others and her love of the service she gave to people.

Motion: To approve Resolution 2019-01

Public Comment: None

Motion Made: Mr. Janssen

Motion Seconded: Mr. Savage

Carried: Unanimous

## **D) APPLICATIONS FOR DISABILITY RETIREMENT**

None

## **D) OLD BUSINESS**

None

## **E) NEW BUSINESS**

### **8. Approval of the Annual Cost-Of-Living Adjustments provided by the San Luis Obispo County Employees Retirement Plan.**

Discussion: Staff reviewed the recommendation and calculation of the 2019 COLA. Mr. Sibbach inquired of General Counsel if it was appropriate for him to vote on this item that would affect him as a retiree. Mr. Waddell noted that it is permissible for Trustees to vote on matters that might affect their own retirement benefit as long as the action applies generally to all retirees. Mr. Clemens commented on the value of the COLA to retirees.

Motion: To approve Staff recommendation

Public Comment: None

Motion Made: Mr. Savage

Motion Seconded: Mr. Janssen

Carried: Unanimous

## **G) INVESTMENTS**

### **10. Market Environment Report - Verus**

Discussion: Detailed investment market report by Ian Toner, CFA, Chief Investment Officer of Verus.

Motion: Receive and File

Public Comment: None

Motion Made: Mr. Clemens

Motion Seconded: Mr. Hamilton

Carried: Unanimous

**11. Quarterly Investment Report for the 4<sup>th</sup> Quarter of 2018 – Verus**

Discussion: Detailed investment performance report by Scott Whalen, CFA, CAIA, Executive Managing Director and Senior Consultant of Verus.

Motion: Receive and File

Public Comment: None

Motion Made: Mr. Clemens

Motion Seconded: Mr. Hamilton

Carried: Unanimous

**12. Monthly Investment Report for January 2019**

Discussion: Monthly investment performance report by Staff and Verus.

Motion: Receive and File

Public Comment: None

Motion Made: Mr. Sibbach

Motion Seconded: Mr. Savage

Carried: Unanimous

**13. Emerging Market Debt Investment Manager – Verus**

Discussion: Following a November 2018 Board approval of a change in the Emerging Market Debt (EMD) strategy from a local-currency only to a blended hard-currency/local-currency strategy, Verus made investment manager recommendations.

Motion: To approve Verus' and Staff recommendation to shift the EMD management to the Ashmore Group EM Blended Debt Total Return Strategy and to terminate the use of Stone Harbor.

Public Comment: None

Motion Made: Mr. Savage

Motion Seconded: Mr. Janssen

Carried: Unanimous

**14. Capital Market Assumptions – 2019 – Verus**

Discussion: Presentation on Verus' 2019 Capital Market Assumptions by Scott Whalen of Verus. Various Trustees asked elaborating questions on the Verus CMAs and their implications.

Motion: Receive and File

Public Comment: None

Motion Made: Mr. Clemens

Motion Seconded: Mr. Savage

Carried: Unanimous

**15. Asset Allocation**

Discussion: Staff reviewed routine administrative asset allocation transfers related to liquidity.  
No Action Necessary

*Break: President Clemens called for a 10 minute break at 11:35 AM.  
Returned to session at 11:45 AM*

**H) OPERATIONS****16. Staff Reports**

- i) 2018 Financial Audit schedule
- ii) Form 700 disclosure due date reminder (April 1<sup>st</sup>)
- iii) Fiduciary Properties Inc. (Pension Trust real estate subsidiary). Mr. Nelson reported that the last FPI owned local investment property being marketed, the Campanile building, had an offer to purchase at \$5.6 million. The carrying value of this property most recently was \$4.5 million.
- iv) DROP program and injured on duty leave for public safety personnel. In response to recent articles in the LA Times, Mr. Nelson reported that staff had met with County Human Resources and determined that SLO County follows prudent return-to-work practices for injured Deputies whether they are in the DROP or not. The cost-neutral design of the SLO County Employees Retirement Plan DROP was also discussed.

**17. General Counsel Reports**

- i) Mr. Waddell reported on the expected release in early March of a California Supreme Court ruling in the CalFire “Airtime” case.

**18. Committee Reports:**

- i) Audit Committee – Mr. Clemens reported that the Audit Committee had held its audit entrance meeting with Brown Armstrong on February 19, 2019.
- ii) Personnel Committee No Report
- iii) PAS Replacement Committee No Report

**19. Upcoming Board Topics** – published on meeting agenda**20. Trustee Comments** - None

**I) REFERRED ITEMS**

None

**J) ADDED ITEMS**

None

**K) CLOSED SESSION**

None

**E) NEW BUSINESS (continued)**

**9. Member Portal Demonstration – PensionGold Version 3 - LRS**

Discussion: Andy Martin and Shawn Farris of LRS, Inc, the provider of the Pension Trust’s new Pension Administration System (PAS) currently being implemented, demonstrated the Member Portal for online access by Pension Trust Members and Retirees. Following the planned start date for the new PAS in July 2019, the related Member Portal is planned for implementation in late 2019. The security features of the Member Portal were a major part of the presentation.

Mr. Sibbach and Mr. Clemens requested Staff to inquire about adding the ability of the PensionGold system to allow Members doing online retirement estimates to keep them private and viewable only by the Member, and not Pension Trust staff.

This item was a Review, Discuss and Direct Staff as Necessary item, and no action was necessary

**L) ADJOURNMENT –**

There being no further business, the meeting was adjourned at 12:46 PM. The next Regular Meeting was set for March 25, 2019, at 9:30 AM, in the Board of Supervisors chambers, County Government Center, San Luis Obispo, California 93408.

Respectfully submitted,

Carl Nelson  
Executive Secretary

**REPORT OF DEPOSITS AND CONTRIBUTIONS FOR THE MONTH OF  
FEBRUARY 2019**

PP 3	2/1/2019	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
						Employee Contributions	Employee Rate				
	<b>By Employer and Tier:</b>										
	County Tier 1	3,559,197.21	832,712.44	23.40%	408,754.13	302,579.47	19.99%	43.38%	1,187.50	1,232.31	<b>1,546,465.85</b>
	County Tier 2	970,984.81	232,611.79	23.96%	48,039.84	82,022.23	13.39%	37.35%	68.94	709.70	<b>363,452.50</b>
	County Tier 3	2,614,329.14	585,888.04	22.41%	307,145.43	-	11.73%	34.14%	-	1,525.77	<b>894,559.24</b>
	Superior Court Tier 1	265,768.01	69,456.79	26.13%	45,594.11	-	17.16%	43.29%	-	-	<b>115,050.90</b>
	Superior Court Tier 3	73,714.75	18,343.88	24.88%	9,038.78	-	12.26%	37.15%	-	114.54	<b>27,497.20</b>
	APCD Tier 1	58,352.88	13,549.54	23.22%	7,880.53	4,080.69	20.50%	43.72%	-	-	<b>25,510.76</b>
	APCD Tier 3	11,298.41	2,562.27	22.68%	1,572.52	-	13.92%	36.60%	-	-	<b>4,134.79</b>
	Pension Trust Staff Tier 1	7,204.40	1,655.57	22.98%	877.50	669.29	21.47%	44.45%	-	-	<b>3,202.36</b>
	Pension Trust Staff Tier 2	8,374.40	1,924.43	22.98%	221.92	777.98	11.94%	34.92%	-	-	<b>2,924.33</b>
	Pension Trust Staff Tier 3	11,164.20	2,510.83	22.49%	1,393.14	-	12.48%	34.97%	-	-	<b>3,903.97</b>
	LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-	<b>5,828.61</b>
		<b>7,593,616.12</b>	<b>1,765,098.37</b>	<b>23.24%</b>	<b>831,234.84</b>	<b>391,358.54</b>	<b>16.10%</b>	<b>39.34%</b>	<b>1,256.44</b>	<b>3,582.32</b>	<b>\$ 2,992,530.51</b>
PP 4	2/15/2019	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
	<b>By Employer and Tier:</b>					Employee Contributions	Employee Rate				
	County Tier 1	3,567,661.83	834,749.14	23.40%	409,577.65	303,543.11	19.99%	43.39%	1,162.50	67,343.31	<b>1,616,375.71</b>
	County Tier 2	967,597.56	231,837.45	23.96%	47,925.32	81,637.51	13.39%	37.35%	67.24	3,105.82	<b>364,573.34</b>
	County Tier 3	2,608,774.20	584,966.51	22.42%	304,703.67	-	11.66%	34.08%	-	1,550.86	<b>891,221.04</b>
	Superior Court Tier 1	266,397.06	69,624.15	26.14%	45,900.12	-	17.23%	43.37%	-	-	<b>115,524.27</b>
	Superior Court Tier 3	71,380.49	17,793.02	24.93%	8,758.61	-	12.27%	37.20%	-	114.54	<b>26,666.17</b>
	APCD Tier 1	58,352.98	13,549.57	23.22%	7,880.55	4,080.69	20.50%	43.72%	-	-	<b>25,510.81</b>
	APCD Tier 3	11,298.40	2,562.26	22.68%	1,572.52	-	13.92%	36.60%	-	-	<b>4,134.78</b>
	Pension Trust Staff Tier 1	7,204.40	1,655.57	22.98%	877.50	669.29	21.47%	44.45%	-	-	<b>3,202.36</b>
	Pension Trust Staff Tier 2	8,374.40	1,924.43	22.98%	221.92	777.98	11.94%	34.92%	-	-	<b>2,924.33</b>
	Pension Trust Staff Tier 3	10,938.87	2,460.15	22.49%	1,364.88	-	12.48%	34.97%	-	-	<b>3,825.03</b>
	LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-	<b>5,828.61</b>
		<b>7,591,208.10</b>	<b>1,765,005.04</b>	<b>23.25%</b>	<b>829,499.68</b>	<b>391,937.46</b>	<b>16.09%</b>	<b>39.34%</b>	<b>1,229.74</b>	<b>72,114.53</b>	<b>\$ 3,059,786.45</b>
<b>TOTAL FOR THE MONTH</b>		<b>15,184,824.22</b>	<b>3,530,103.41</b>	<b>23.25%</b>	<b>1,660,734.52</b>	<b>783,296.00</b>	<b>16.10%</b>	<b>39.34%</b>	<b>2,486.18</b>	<b>75,696.85</b>	<b>\$ 6,052,316.96</b>
<b>TOTAL YEAR TO DATE</b>		<b>30,423,441.53</b>	<b>7,069,123.10</b>	<b>23.24%</b>	<b>3,324,676.06</b>	<b>1,574,651.41</b>	<b>16.10%</b>	<b>39.34%</b>	<b>5,002.50</b>	<b>82,349.45</b>	<b>\$ 12,055,802.52</b>

**REPORT OF RETIREMENTS****FEBRUARY 2019**

<b>RETIREE NAME</b>	<b>DEPARTMENT</b>	<b>BENEFIT TYPE *</b>	<b>EFFECTIVE DATE</b>	<b>MONTHLY BENEFIT</b>	<b>SS TEMP ANNUITY**</b>
Forsberg, John	South Bay Fire	Service Retirement	12/19/18	1,670.81	False
Forsberg, John	South Bay Fire	Additional Annuity	12/19/18	22.92	False
German, Isabel	Social Services	Service Retirement	02/08/19	3,644.53	False
Guise, Melissa	APCD	Service Retirement	02/16/19	4,130.39	False
Koval, Andrew	Public Works	Service Retirement	09/29/18	1,375.79	False
Maggiore, Damon	Behavioral Health	Service Retirement	02/01/19	1,260.74	True
McCracken, Patrick	Public Works ISF	DROP	01/01/19	2,290.74	False
Mullis, Melody	Library	Service Retirement	02/23/19	6,808.03	False
Pacheco, Gloria	Public Health	Service Retirement	02/01/19	1,610.67	False
Tarrant, Kim	Child Support Services	Service Retirement	02/07/19	2,847.22	False
Thoresen, Debrorah	Public Health	Service Retirement	12/08/18	871.00	True

\* Additional Annuity Benefits are calculated based on the Additional Contribution and associated Interest balance of the Retiree at the point of retirement (per Sections 5.07, 27.12, 28.12, 29.12, 30.12, and 31.12 of the Plan)

\*\* If "True" Retiree has elected an optional Social Security Coordinated Temporary Annuity (per Section 13.06 of the Plan), actual monthly allowance will be increased until age 62 and then actuarially reduced going forward

## Board of Trustees

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Date: March 25, 2019  
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:

**APRIL 1, 2019**  
**APRIL, 1 2019**

**Ronald M. Wallravin, Public Works ISF**  
**Judith Golla, Sheriff-Coroner**

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## Board of Trustees

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Date: March 25, 2019

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 2019-01 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 approximately 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 22, 2019.

Resolution 2019-02 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.

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**SAN LUIS OBISPO COUNTY  
PENSION TRUST**

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

ABSENT: Gere Sibbach

**RESOLUTION NO. 2019-02**

**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 March 25, 2019, is hereby approved.

Adopted: March 25, 2019

Approved as to Form and Legal Effect

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

SIGNED: \_\_\_\_\_  
Will Clemens  
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: March 25, 2019  
Date of Certification: March 25, 2019

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:

Will Clemens, President  
Guy Savage, Vice President  
Matt Janssen  
Michelle Shoresman

Jeff Hamm  
James Hamilton  
Gere Sibbach

Signed: \_\_\_\_\_  
Will Clemens, President  
San Luis Obispo County Pension Trust  
Board of Trustees

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

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# San Luis Obispo County Pension Trust *SLOPCT*

Date: March 25, 2019

To: Board of Trustees

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

## **Agenda Item 8: Actuarial Valuation Planning – Actuarial Assumptions Approval**

### **Recommendation:**

Following the receipt and discussion of the Pension Trust Actuary’s presentation on planning for the 2019 Valuation, direct the Actuary to use the following Actuarial Assumptions in the preparation of the 2019 annual Actuarial Valuation -

	2018 Valuation	2019 Valuation
<b>Inflation</b>	<b>2.500%</b>	<b>2.500%</b>
Real Rate of Return	<u>4.500%</u>	<u>4.500%</u>
<b>Earnings Assumption</b>	<b>7.000%</b>	<b>7.000%</b> <i>(no change)</i>
<b>Retiree COLAs</b>		
Tier 1	<b>2.500%</b>	<b>2.500%</b>
Tiers 2 & 3	2.000%	2.000% <i>(no change)</i>
<b>Salary Growth</b>	<b>2.750% + merit</b>	<b>2.750% + merit</b> <i>(no change)</i>
<b>Payroll Growth</b>	<b>3.00%</b> Inflation (2.500%) +0.25% productivity +0.00% geographic diff. Phased decrease to 2.75% over 2018 and 2019	<b>2.750%</b> Inflation (2.500%) +0.25% productivity +0.00% geographic diff. Phased decrease to 2.75% over 2018 and 2019

	2018 Valuation	2019 Valuation
<b>UAAL Amortization</b>	30 year closed 2010-2040	Legacy UAAL at 1/1/19 amortized over 21 years to 2040  <b><u>2019 and later</u> – 20 Year Layered amortization for</b> - <b>Assumption changes</b> - <b>Experience gains/losses</b>
Mortality – Post Retirement	RP 2014 base table & MP2017 projection scale (Generational mortality)	<i>(no change)</i>
Mortality – Disability	RP 2014 (disabled) base table & MP2017 projection scale (Generational mortality- Calibrated to actual experience)	<i>(no change)</i>
Mortality – Active Service	RP 2014 base table & MP2017 projection scale (Generational mortality- Calibrated to actual experience)	<i>(no change)</i>
Interest crediting rate on member accounts	6.00%	6.00%
All other assumptions	No change	No change

**Discussion:**

It is the policy of the Pension Trust to have an annual Actuarial Valuation to set the total level of contributions necessary to fund the retirement system – the Total Combined Annually Determined Contribution (Total ADC). In support of that annual Actuarial Valuation, the Pension Trust has performed a biennial Actuarial Experience Study. In these Experience Studies the actuary analyzes the trailing five years of Plan demographic and financial experience to inform the actuary on what actuarial assumptions to recommend to the Board of Trustees to use in the annual Actuarial Valuation.

It has been the policy of the Pension Trust to change major actuarial assumptions (if change is warranted) on a biennial basis in conjunction with the Actuarial Experience Study and in a coordinated manner. For example, changes in expected inflation have an impact on multiple assumptions – Earnings, Payroll Growth, Salary Growth, Retiree COLAs – so logically those changes should be made at the same time.

The 2018 Valuation was performed in conjunction with the 2018 Experience Study. The 2019 Valuation is an “off year” valuation between Experience Studies.

**The Pension Trust’s Actuary and Staff recommend the changes to major assumptions noted above. The only changes are –**

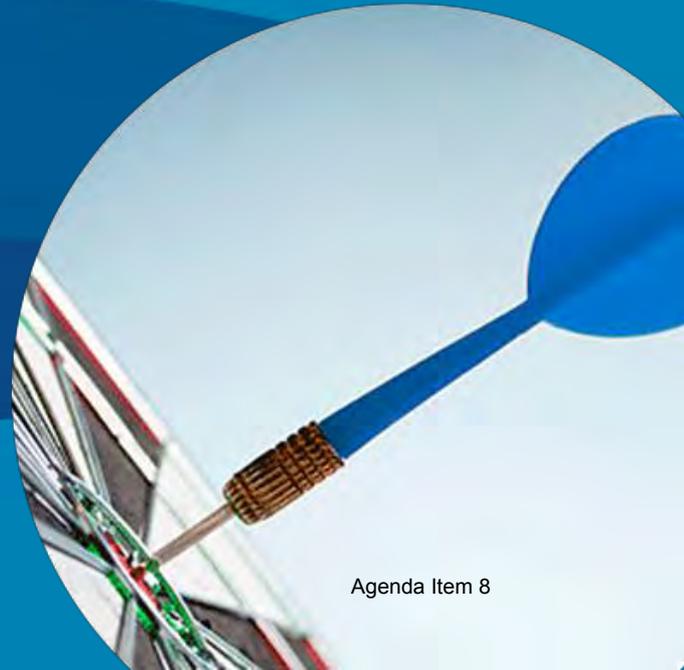
- The change to UAAL Amortization on a 20 year layered method. This change has been planned for several years to take place after the 10-year asset smoothing of the 2008 market losses was complete.
- The planned phase in of the Payroll Growth assumption from 3.375% in 2017 over two years to 2.75% in 2019. This phase in was an explicitly planned part of the 2018 Actuarial Valuation.

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# San Luis Obispo County Pension Trust

## Planning Session for the 2019 Actuarial Valuation

**Leslie Thompson FSA, FCA, EA, MAAA**  
**March 25, 2019**



# Today's Agenda

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- 2019 Presentation Schedule
  - March 25, 2019 Meeting - Planning
  - June 24, 2019 Meeting – January 1, 2019 Valuation presentation and contribution rate recommendations
  - September 23, 2019 – Board retreat – discussion of risk and sustainability
- Highlight special considerations around the annual valuation process
  - A reminder of the assumption changes made in 2018
    - A brief history of assumption changes
  - The asset smoothing method for 2008 loss
    - What 2008 loss?
  - The amortization method-a consideration as of 1/1/2019
  - Asset corridor change (proposed)
  - California Actuarial Advisory Panel
    - The report card

# 2018 Experience Study and Assumption Recommendations Summary

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- Changes recommended:
  - Decrease inflation from 2.625% to 2.50%
  - Decrease the assumed rate of return from 7.125% to 7.00%
  - Decrease the total payroll growth assumption from 3.375% to 3.00% in 2018 and 2.75%, thereafter
  - Decrease the salary increase assumption by 1/8<sup>th</sup> of a percent
  - Realign mortality assumptions using the latest projection scales
  - Decrease interest rate crediting on employee accounts assumption from 6.125% to 6.00%
- We recommend no changes to these other assumptions and methods
  - Retirement Rates
  - Termination Rates
  - Marriage assumptions
  - Age difference between husbands and wives (3 years)
  - Entry age normal cost method
  - Decrement timing assumption (all are mid year)
  - 40% of new deferred vested members are assumed to become Reciprocal members (40% actually became reciprocal members in last 5 years)
  - Assumed retirement age for deferred vested of age 57 for Reciprocal and Reserve members
  - 100% of safety plan active deaths are assumed to be duty related

# Historical review of economic assumption changes

San Luis Obispo County Pension Trust					
Historical review of economic assumption changes					
Assumption	Pre 2012	2012	2014	2016	2018
Inflation	3.750%	2.750%	2.750%	2.625%	2.500%
Real Return	4.000%	4.500%	4.500%	4.500%	4.500%
Total Return (inflation plus real return)	7.750%	7.250%	7.250%	7.125%	7.000%
Tier 1 COLA	3.750%	2.750%	2.750%	2.625%	2.500%
Payroll Growth	4.250%	3.750%	3.750%	3.375%	3.00% in 2018 and 2.75% thereafter
Interest credited on employee accounts	7.250%	6.750%	6.750%	6.125%	6.000%
Salary increases	3.75% inflation plus 1.75% productivity across-the-board plus merit for recent hires	2.75% inflation plus .5% productivity across-the-board plus merit for recent hires	2.75% inflation plus .5% productivity across-the- board plus merit for recent hires	2.625% inflation plus .25% productivity across-the- board plus merit for recent hires	2.50% inflation plus .25% productivity across-the- board plus merit for recent hires

# CAAP Policy Objectives - Amortization

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- The California Actuarial Advisory Panel
  - Amortization policy to balance demographic matching and volatility management
  - Costs should emerge as a level percent of pay
  - Different sources of the change in UAAL should be shown
    - Experience gains and losses
    - Changes in methods and assumptions
    - Benefit changes
  - Explicitly consider level and duration of negative amortization (if any)
  - Illustrate accountability and transparency
    - Reflect the history, sources and treatment of the UAAL
    - Show the date for full amortization of the UAAL

# CAAP Policy Objectives - Amortization

Model Practice	Period	Comments
Active Plan Changes	Demographic, or up to 15	Found that less than 15 years gives too little volatility control
Inactive Plan Changes	Demographic, or up to 15	Longer than 20 years started to run counter to intergenerational equity (and can have negative amortization)
Experience Gain/loss	15 to 20	
Assumption or Method Changes	15 to 25	
Early Retirement Incentives	5 or less	Use a period corresponding to economic benefit to plan sponsor
Surplus	Longer period than UAAL amortization	Note: California law may require a minimum contribution of normal cost

# Proposed Amortization Method Review- 1/1/2019

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- The California Actuarial Advisory Panel
  - Suggests a model approach would be layered amortization
    - A new layer each year; each layer “closed” period
  - GRS recommends moving to this approach after the full recognition of the 2008 asset loss base
  - This means the first valuation reflecting the new amortization schedule would be 1/1/2019
- The legacy unfunded accrued liability would have 21 years remaining

# Amortization Bases

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- Reviewed last year with options of :
  - Assumption and method changes: 15 or 20 years
  - Experience: 15 or 20 years
- Recommendation:
  - Leave Legacy base on its current path (21 years remaining at 1/1/2019)
  - Assumption and method changes: 20 years
  - Experience gains and losses: 20 years

# Asset Corridor

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- **CAAP recommends a corridor around the market value of assets**
  - So the smoothed actuarial value of assets does not stray too far from market value
  - SLO does not have a corridor
  - Five year history shows 85% as largest difference from market value (12/31/2012)
  - CAAP model practice has a maximum 50%/150% corridor paired with five year smoothing
- **Recommendation**
  - At least a 50%/150% corridor for “model” practice

# CAAP categories

*A review of actuarial practices*

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<u>California Actuarial Advisory Panel</u>	
Description	"Grade"
Model Practice	A
Acceptable Practice	B
Acceptable Practice with Conditions	C
Non-Recommended Practice	D
Unacceptable Practice	F

# CAAP Comparison

California Actuarial Advisory Panel "CAAP"		
Policy Issue	SLOCPT Stated Policy	CAAP Grade
<b>Actuarial Cost Method</b>		
Funding method	Entry Age Normal Cost wth Normal Cost as a level percent of pay	A
Multiple Tiers	Normal Cost based on each member's benefit	A
Types and incidence of benefits	All benefits funded over a single measure of expected future service	A
Normal Cost	Sum of individual members for that tier	A
<b>Asset Smoothing Method</b>		
Fixed smoothing period	Five years	A
Maximum corridor for 5 years	50%/150% (SLOCPT will adopt a corridor)	A
<b>Amortization Policy</b>		
Period	21 years remaining on legacy base	A
Payment Pattern	Level percent of pay	A
Open or closed	Closed	A
Number of layers	Layered amortization effective 1/1/2019	A

# Contacts

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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: March 25, 2019

To: Board of Trustees

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

### **Agenda Item 9: Actuarial Assumption Peer Comparisons**

This item is informational for the Board of Trustees and no action is required.

The attached table summarizes select data from actuarial valuations from other California public sector retirement systems that we use as benchmarks due to their similar size and complexity. Most of the Plans used for comparison are larger than the SLOCPT, but still are not in the large, State Plan category such as CalPERS.

When comparing funded ratios and Annually Determined Contribution rates it is important to keep in mind that each retirement system follows a complex path in plan design, funding that all evolve over decades. As a result, simple comparisons are not appropriate without an in-depth analysis outside the scope of this simple comparison.

The more useful data is to compare the assumed rate of return used for each Plan's actuarial valuation.

Respectfully Submitted

<b>SLOCPT - Peer Comparison - 2019</b>		Actuary	Actuarial Info. source	Earnings Assumption	Funded Ratio-AVA	ADC-combined	EE rate avg.	
	<b>San Luis Obispo County Pension Trust</b>	SLOCPT	GRS	2018 Val.	7.000%	68.3%	42.190%	16.410%
1	<b>Fresno County ERA</b>	FCERA	Segal	2018 Val 7/18 data	7.000%	81.5%	65.120%	9.310%
2a	<b>Fresno City ERS</b>	CFRS	Segal	2018 Val 7/18 data	7.250%	114.8%	18.6900%	7.580%
2b	<b>Fresno City Fire &amp; Police RS</b>	CFRS	Segal	2018 Val 7/18 data	7.250%	120.3%	28.5600%	8.970%
3	<b>Imperial County ERS</b>	ICERS	Segal	2018 Val 7/18 data	7.250%	88.3%	34.3600%	12.610%
4	<b>Kern County ERS</b>	KCERA	Segal	2018 Val 7/18 data	7.250%	65.1%	53.300%	6.580%
5	<b>Marin County EA</b>	MCERA	Cheiron	2018 Val 7/18 data	7.000%	87.1%	39.520%	10.620%
6	<b>Merced CCERA</b>	MerERA	Cheiron	2018 Val 7/18 data	7.250%	63.5%	57.170%	8.020%
7	<b>San Mateo CERA</b>	SAMCERA	Milliman	2018 Val 7/18 data	6.750%	87.5%	46.070%	12.400%
8	<b>Santa Barbara County ERS</b>	SBCERS	Cheiron	2018 Val 7/18 data	7.000%	77.2%	44.740%	6.270%
9	<b>Sonoma County ERA</b>	SCERA	Segal	2017 Val 12/17 data	7.250%	87.7%	30.610%	11.610%
10	<b>San Joaquin County ERA</b>	SJCERA	Cheiron	2018 Val 12/17 data	7.250%	64.8%	53.100%	7.600%
11a	<b>San Jose Federated ERS (1975)</b>	SJFERS	Cheiron	2018 Val 12/17 data	6.875%	53.6%	64.800%	6.500%
11b	<b>San Jose Fire &amp; Police</b>	SJP&F	Cheiron	2018 Val 12/17 data	6.875%	76.6%	92.200%	11.400%
12	<b>Stanislaus County ERA</b>	STANCERA	Cheiron	2018 Val 12/17 data	7.250%	74.3%	41.400%	9.750%
13	<b>Tulare County ERA</b>	TCERA	Cheiron	2018 Val 7/18 data	7.250%	92.0%	21.400%	8.420%
14	<b>Ventura County ERA</b>	VCERA	Segal	2018 Val 7/18 data	7.500%	87.8%	38.540%	10.050%

# Pension Trust

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www.SLOPensionTrust.org



Date: March 25, 2019

To: Board of Trustees

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

## **Agenda Item 10: Employer Contributions Prefunding**

### **Recommendation:**

The Board of Trustees should discuss, and approve actions based on the following:

1. To agree to the FY19-20 prefunding of employer contributions from the County of San Luis Obispo and the Air Pollution Control District consistent with the automatic renewal of the FY18-19 Prefunding Agreement (as amended in 2017) that provides for –
  - a. Prefunding of employer paid contributions (including Employer Paid Member Contributions) by June 30<sup>th</sup> for the upcoming fiscal year in a lump sum instead of on a pay-period basis.
  - b. Such prefunding to be calculated by SLOCPT’s actuary using a discount rate adopted on an annual basis by the Board of Trustees. The table below shows the previous year’s rate and Staff’s recommendation for 2019.

	2018 FY18-19 Prefunding Adopted	2019 FY19-20 Prefunding Recommended
Earnings Assumption	7.125%	<b>7.000%</b>
Less	1.125%	<b>1.500%</b>
 = Prefunding Discount Rate	6.000%	<b>5.500%</b>

- c. The Board of Trustees may adopt a different discount rate for Prefunding at its discretion.

- *OR* -

2. To not agree to the FY19-20 prefunding of employer contributions and to provide the County the required 60 days' notice to terminate or suspend the FY18-19 Prefunding Agreement in existence.

### **Background:**

Beginning with FY14-15 the Pension Trust and the County agreed to restart a prior practice of allowing the County to prepay employer pension contributions at the start of a fiscal year at a discounted rate. This agreement was amended in 2017 to set the discount rate to be used at a rate adopted on an annual basis by the Board of Trustees. The discount rate adopted by the Board of Trustees in 2018 was the then current Earnings Assumption used less 1.125% (i.e., for 2018 this rate was 7.125% - 1.125% = 6.000%).

The basic premise for a retirement system to allow the plan sponsor to prefund employer contributions at a discounted rate is that the retirement system then has those funds to invest longer than it would were they to be received in pay-period increments throughout the year. So, for employer contributions, instead of the normal dollar-cost-averaging of investment inflows, a more lump sum pattern of inflows is created. Keep in mind that employee contributions that are not paid for by the employer continue to be made on a pay-period basis throughout the year.

- If the actual earnings on investments is less than the discount rate used for the prefunding, an actuarial loss is created that increases future contribution rates by a small amount. The normal actuarial smoothing of gains and losses spreads out this impact.
- If the actual earnings on investments are greater than the discount rate used for the prefunding, an actuarial gain is created that lowers future contribution rates by a small amount. The normal actuarial smoothing of gains and losses spreads out this impact.

From the plan sponsor's side, prefunded employer contributions discounted at a rate greater than that possible to be earned in the very conservative investments allowed for Treasury funds creates budget savings.

From SLOCPT's side, *over the very long-term*, if the Earnings Assumption was used to discount the prefunding rate, prefunding should have an actuarially neutral effect. This is based on the long-term expectation that investment returns in any given year have 50/50 odds of being greater or lower than the long-term return assumption. To the extent that the discount rate actually used for employer contribution prefunding has been lower than the earnings assumption (e.g., Earnings Assumption less 1.00% or less 1.50%) it increases the probability that SLOCPT will have net actuarial gains over the long term. However, in light of recent investment history and near-term market expectations it is appropriate to review and re-evaluate the practice.

***The current market environment is one where investment returns are constrained by low interest rates and relatively high equity valuation levels. This makes the short-term potential for investment returns being below the discount rate used for prefunding greater than the long-term 50/50 probability.*** This is reflected in the intermediate (10 year) capital market assumptions presented by Verus (investment consultant) in February being approximately 6.70%. Given the constrained 10 year Capital Market Expectations, it is Staff's recommendation to set the discount rate to be used for FY19-20 Prefunding at a rate of the 2018 Earnings Assumption less 1.50%. This equals 7.000% minus 1.50% = 5.500%.

Other California retirement systems have a range of practices in employer contribution prefunding including: no prefunding; prefunding discounted at the actuarial assumed rate of return; prefunding discounted at the actuarial assumed rate of return less a set spread (e.g., 50%); prefunding discounted at half of the actuarial assumed rate of return; or, prefunding at a rate considered and approved on an annual basis.

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## Board of Trustees

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Date: March 25, 2019

To: Board of Trustees

From: Will Clemens, Trustee  
Guy Savage, Trustee

### **Agenda Item 11: Pension Trust By-Laws Amendments**

#### **Recommendation:**

The Board of Trustees should discuss possible Retirement Plan By-Laws amendments to update this section of the Retirement Plan. The intent is to discuss and direct Staff to prepare appropriate draft By-Laws amendments for consideration at a future Board of Trustees meeting.

Possible areas of change to the By-Laws include (but are not limited to):

1. Executive Secretary's title (throughout the By-Laws and the Plan)
2. Regular Meetings – Section 5.01
3. Order of Business – Section 5.04
4. Reports – Section 5.08
5. Any other proposed By-Laws amendments

Any amendments to the By-Laws to be approved by the Board of Supervisors should be coordinated with any pending Retirement Plan technical amendments to be assembled and recommended by Staff and General Counsel.

#### **Summary:**

The By-Laws are an important part of the overall Retirement Plan and are attached to this memo. The Authority for the By-Laws is described in Section 1.02 as follows –

**Section 1.02: Authority for By-Laws.** These By-Laws are adopted pursuant to Government Code Section 53219 and San Luis Obispo County Code Chapter 2.56. The San Luis Obispo County Employees Retirement Plan is a part of these By-Laws.

The terms of the Retirement Plan as well as the By-Laws are subject to approval by the Board of Supervisors. The authority to amend the By-Laws is contained in Section 8.01 as follows –

**Section 8.01: Amendment of the By-Laws.** These By-Laws and the Retirement Plan may be amended, subject to the approval of the Board of Supervisors, by the Board of Trustees at any regular or special meeting of the Board of Trustees. No amendment shall become effective until approved by the Board of Supervisors of the County of San Luis Obispo.

**Discussion:**

As Trustees we observe several areas of possible change to the By-Laws to consider.

**1. Executive Secretary Title –**

- a. The use of “Executive Secretary” to denote the chief office for the administration of the Pension Trust is somewhat archaic and rooted in the establishment of the SLOCPT as a “Trust” under Government Code Sections 53215 et seq. Typical titles for the executive head of other County retirement systems include “Administrator” or “Chief Executive Officer (CEO)” with the latter becoming more prevalent in recent years.
- b. In the Pension Trust’s case, the Executive Secretary has been designated by separate Board resolution as the Chief Investment Officer (CIO). Larger retirement systems frequently have the CEO and CIO responsibilities assigned to different individuals. Smaller retirement systems similar to the Pension Trust frequently have the CEO and CIO roles filled by the same individual.
- c. Any modification to the Executive Secretary’s title would be a global change throughout the By-Laws and the Retirement Plan.
- d. The title of the Deputy Executive Secretary is not specified in the Plan. Logically, if the Executive Secretary title is changed, the Deputy position should also administratively change to “Deputy Executive Officer” or “Deputy Administrator.”

**2. Regular Meetings –**

- a. The current By-Laws in Section 5.01 specify that “Regular meetings of the Board of Trustees shall be held at least monthly at such times and places as the Board of Trustees shall from time-to-time determine.”
- b. We advocate for flexibility in this meeting requirement by–
  - i. Specifying a schedule of meetings on a less than monthly basis (e.g., making April, July, October, and December meetings optional) - or

- ii. Allowing for the cancellation of regular meetings of the Board of Trustees by the President when warranted and with appropriate notice.
    - iii. As a consequence, any scheduled non-meeting months or cancelled meetings are likely to make the preceding or following month's meeting somewhat longer.
    - iv. Continuing the minimum number of meetings concept (i.e., "at least monthly"), reducing it to schedule more appropriate to the business needs of the Pension Trust and changing the By-Laws in Section 5.01 to specify "at least quarterly" or "at least bi-monthly."
  - c. We advocate for transparency in communications between the Executive Secretary, Pension Trust staff, Board of Trustees, members of the Pension Trust, and the public, by continuing the public posting of regular reports, such as those noted in Section 5.08, on a monthly basis, regardless of whether a Regular Meeting of the Board of Trustees is held.
3. **Order of Business** in Section 5.04 seems to need minor updates to conform to a more logical flow as currently practiced.
4. **Reports** in Section 5.08 –
- a. The monthly Report of Retirements is described as "A report of retirements for the month preceding the meeting and of retirements anticipated for the month in which the meeting is occurring *and for the next month.*"
  - b. Retirements for the next month should not be listed to provide confidentiality for upcoming retirements. Occasionally, Members defer or cancel their retirement at the last minute for their own reasons and the Pension Trust should respect their privacy in such a decision.
  - c. The report of retirements should be described as "A report of retirements for the period preceding the meeting." It should be noted that the Board of Trustees does not approve retirements – this is a function of the terms of the Plan and the administrative function of determining eligibility. Rather the Board of Trustees has submitted to it a report of retirements to receive, approve the report, and file.

Respectfully submitted,

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## **PART ONE:**

### **BY-LAWS OF THE SAN LUIS OBISPO COUNTY PENSION TRUST**

#### **ARTICLE 1: AUTHORITY**

**Section 1.01: Authority for this Trust.** This Trust is established pursuant to Section 17 of Article XVI of the California Constitution and Government Code Sections 53215 et seq.

**Section 1.02: Authority for By-Laws.** These By-Laws are adopted pursuant to Government Code Section 53219 and San Luis Obispo County Code Chapter 2.56. The San Luis Obispo County Employees Retirement Plan is a part of these By-Laws.

#### **ARTICLE 2: NAME**

**Section 2.01: Name of Trust.** The name of this Trust shall be "The San Luis Obispo County Pension Trust," and is hereinafter sometimes referred to as "Pension Trust."

#### **ARTICLE 3: BOARD OF TRUSTEES**

**Section 3.01: Board of Trustees.** The Pension Trust shall be managed and administered by a Board of Trustees in accordance with the provisions of these By-Laws, the Retirement Plan, the County Code, and the laws of the United States and the State of California.

**Section 3.02: Officers.** The officers of the Board of Trustees shall be the President, the Vice-President and the Secretary.

**Section 3.03: Duties and Powers of President.** The President shall preside at all meetings of the Board of Trustees and shall preserve order and decorum, shall decide questions of order, subject to appeal to the Board of Trustees, and perform all acts, duties and functions generally appertaining to such office.

**Section 3.04: Duties and Powers of Vice-President.** The Vice-President shall act as President of the Board of Trustees in the absence of the President.

**Section 3.05: President - Election and Term.** The President shall be elected each year by the Board of Trustees at the first regular meeting of the Board of Trustees in January. The term of office of the President shall be for a period of one year or until his or her successor is duly elected and qualified.

**Section 3.06: Vice-President - Election and Term.** The Vice-President shall be elected each year by the Board of Trustees at the first regular meeting of the Board of Trustees in January. The term of office of the Vice-President shall be for a period of one year or until his or her successor is duly elected and qualified.

**Section 3.06: Secretary.** The Secretary of the Board of Trustees shall be the Executive Secretary of the Pension Trust.

## **ARTICLE 4: EXECUTIVE SECRETARY**

**Section 4.01: Executive Secretary.** The Executive Secretary is the administrator of the Pension Trust under the Board of Trustees and is responsible to the Board of Trustees for the efficient and lawful administration of the affairs of the Pension Trust.

**Section 4.02: Appointment and Tenure.** The Executive Secretary is appointed by the Board of Trustees and serves at the pleasure of the Board of Trustees.

**Section 4.03: Directed by Board of Trustees.** The Executive Secretary shall perform his or her duties under the direction of the Board of Trustees.

**Section 4.04: Source of Duties and Authority.** The Executive Secretary shall perform those duties set forth for the Executive Secretary in these By-Laws, the Retirement Plan, and as are from time-to-time assigned by the Board of Trustees.

**Section 4.05: Duties.** Among the duties of the Executive Secretary are:

- (a) Serving as Secretary to the Board of Trustees.
- (b) Maintaining a written record of all official actions taken by the Board of Trustees at all meetings.
- (c) Keeping a complete record of all correspondence and documents of said Board of Trustees and of the Pension Trust.
- (d) Developing and recommending to the Board of Trustees all practices and procedures necessary for the efficient and lawful functioning of the Pension Trust and of the Pension Trust offices.
- (e) Organizing and directing the operation of the office maintained by the Pension Trust and of the employees of the Pension Trust.
- (f) Overseeing the functioning of all of the agents and advisors of the Pension Trust.
- (g) Maintaining the accounts of the Pension Trust in accordance with the law and with generally accepted accounting standards.
- (h) Maintaining the records of all Pension Trust participants, members, retired members and beneficiaries.

**Section 4.06: Vacancies in the Office of Executive Secretary.** During such times as there is a vacancy in the office of Executive Secretary or if the Executive Secretary, by reason of his or her illness has been determined by the Board of Trustees to be unable to act, the Board of Trustees shall appoint an Interim Executive Secretary until such time as the Executive Secretary is either determined by the Board of Trustees to be able to act or a new Executive Secretary is appointed.

**Section 4.07: Counseling.** The Executive Secretary shall counsel with and advise all County officers and County Employees, whether participants in the Pension Trust or not, with respect to their rights and/or obligations to and under the Pension Trust.

## **ARTICLE 5: MEETINGS OF THE BOARD OF TRUSTEES**

**Section 5.01: Regular Meetings.** Regular meetings of the Board of Trustees shall be held at least monthly at such times and places as the Board of Trustees shall from time-to-time determine.

**Section 5.02: Special Meetings.** Special meetings of the Board of Trustees may be held as provided for in the Ralph M. Brown Act (Government Code Sections 54950 et seq.).

**Section 5.03: Quorum.** Four Trustees shall constitute a quorum for any meeting of the Board of Trustees. No motion may be passed or business transacted at a meeting of the Board of Trustees without the affirmative votes of four Trustees.

**Section 5.04: Order of Business.** The regular order of business of the regular meetings of the Board of Trustees shall normally be as follows:

- (a) Roll call.
- (b) Public Comment.
- (c) Approval of Minutes.
- (d) Consent Agenda and Reports.
- (e) Old Business.
- (f) New Business.
- (g) Staff Reports on Operations.
- (h) Investments.
- (i) Adjournment.

**Section 5.05: Minutes.** The Secretary of the Board of Trustees shall cause to be recorded in the minutes of the meetings of the Board of Trustees, and of any committees of the Board of Trustees, the following:

- (a) The time and place of each meeting;
- (b) The names of persons present at each meeting;
- (c) All motions, orders, resolutions and other acts;
- (d) The vote of each Trustee except where the action is unanimous and in that event that fact shall be recorded;
- (e) When requested, a Trustee's dissent or approval with the Trustee's reasons therefore.

**Section 5.06: Rules of Order.** Unless otherwise provided by these By-Laws or by the Retirement Plan or by an order or resolution of the Board of Trustees, the proceedings of the Board of Trustees is committed to the sound discretion of the Board President using Robert's Rules of Order as a procedural reference.

**Section 5.07: Agenda.** The Executive Secretary shall prepare in advance an agenda for each regular meeting of the Board of Trustees which agenda shall be posted in a public place at least 72 hours prior to a regular meeting. The agenda shall be mailed or otherwise delivered to each Trustee on or before the second Friday immediately preceding the date of the regular meeting. In order for an item to appear on the agenda of a regular meeting, the item must be received in the office of the Pension Trust on or before 5:00 p.m. of the third Friday immediately preceding the date of the regular meeting.

**Section 5.08: Reports.** At the first regular meeting of the Board of Trustees each month the Executive Secretary shall cause the following Reports to be made:

- (a) **Retirements.** A report of retirements for the month preceding the meeting and of retirements anticipated for the month in which the meeting is occurring and for the next month.
- (b) **Appropriations and Contributions.** A report of the appropriations and contributions received by the Pension Trust for the previous month. A report of the appropriations and contributions received by the Pension Trust for the year-to-date.
- (c) **Pension Trust Assets.** A report of the status of all assets of the Pension Trust.

## **ARTICLE 6: COMMUNICATIONS AND REQUESTS**

**Section 6.01: Communications to the Pension Trust.** Communications and requests directed to the Board of Trustees shall be made in writing, and the Executive Secretary shall report the substance of each such communication and/or request to the Board of Trustees.

## **ARTICLE 7: BUDGET**

**Section 7.01: Preparation of the Annual Budget.** The Executive Secretary shall annually examine the financial requirements of the Pension Trust and shall prepare and present a budget for the coming fiscal year to the Board of Trustees. The Board of Trustees shall review said proposed budget and shall adopt a budget for the coming fiscal year. The Executive Secretary shall send a copy of the annual budget to the County Administrative Officer.

## **ARTICLE 8. AMENDMENT OF THE BY-LAWS**

**Section 8.01: Amendment of the By-Laws.** These By-Laws and the Retirement Plan may be amended, subject to the approval of the Board of Supervisors, by the Board of Trustees at any regular or special meeting of the Board of Trustees. No amendment shall become effective until approved by the Board of Supervisors of the County of San Luis Obispo.

## Board of Trustees

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



Date: March 25, 2019

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**

#### **Recommendation:**

It is recommended that the Board of Trustees (“BoT”) make findings relative to and approve indemnification pursuant to Section 16.02(j) of the Retirement Plan for the following contract:

- Investment Management Agreement – Ashmore Group Emerging Market Blended Debt fund which is in a Limited Partnership (L.P.) legal form – although it is an open-ended commingled investment fund in operation.

#### **Discussion:**

From 2007 until May, 2016, the Retirement Plan contained in Section 16.02(i) a blanket prohibition on the Pension Trust indemnifying any party. This prohibition became increasingly problematic in the limits it placed on the Pension Trust to enter into contracts, including those for investment management services and commercial banking. On May 10, 2016, the Retirement Plan was amended by the Board of Supervisors for certain technical and housekeeping amendments as recommended by the BoT. These Plan amendments included the following modification of Section 16.02 dealing with indemnification:

**Article 16: Administrations and Operation – Section 16.02 excerpt –**

...

“(h) Except as provided in section 16.02 (j), it shall have no power to, and shall not, authorize the Pension trust to act as surety for any person or entity, or as guarantor for the debt or obligations of any person or entity. (11-20-2007)

(i) Except as provided in section 16.02 (j), It shall have no power to, and shall not, authorize the Pension Trust to indemnify any person or entity. (11-20-2007)

***(j) Notwithstanding sections 16.02 (h) and/or 16.02(i), the Board of Trustees may authorize the Pension Trust to: 1) act as surety for; 2) act as guarantor for; or 3) indemnify any person or entity if the Board of Trustees makes all of the following findings:***

- (i) Based upon the assessment of the Executive Secretary, that it is not possible to obtain comparable services at comparable costs from service providers without having to agree to a surety, guarantor, or indemnification relationship;
- (ii) Based upon the assessment of the Executive Secretary, that if a surety, guarantor or indemnification relationship is required to obtain comparable services at comparable costs, such relationship is not available from another service provide under contractual provisions that would provide greater protection to the Pension Trust;
- (iii) Based upon the assessment of the Executive Secretary and General Counsel, that all potential risks of loss and costs to the Pension Trust resulting from the surety, guarantor or indemnification relationship have been identified and that all available actions to minimize such risks have been considered and, where appropriate, taken;
- (iv) Based upon the assessment of the General Counsel, the process used to evaluate the surety, guarantor or indemnification relationship fulfills the fiduciary duties of the members of the Board of Trustees and Pension Trust staff.”

The purpose of this recommended Board of Trustees approval is to make the necessary findings relative to and approve indemnification for the Pension Trust’s investment with the Ashmore Group Emerging Market Blended Debt fund (hereinafter “Ashmore EMD”. This investment was previously approved by the BoT at its February 25, 2019 meeting, subject to negotiation of acceptable deal terms.

The fund documents provide for the following indemnification provisions:

- 1) The side letter agreement between Ashmore and the Pension Trust provides that the Pension Trust will indemnify the Fund, Manager or any of their affiliates for any losses resulting from the Pension Trust’s failure to provide Ashmore with required information, documents and/or certifications;
- 2) The Subscription Agreement provides that the Pension Trust will indemnify Ashmore and all of its related parties for any loss arising as a result the breach of any acknowledgment, representation, warranties or agreements made by the Pension Trust or any inaccuracy in information provided to Ashmore by the Pension Trust.

- 3) Although this does not a direct indemnification obligation by the Pension Trust, the Limited Partnership Agreement provides that the Partnership, out of Partnership assets, will indemnify Ashmore and its affiliates and related parties for losses arising out of any mistake, action or omission made by Ashmore or its affiliates or related parties with the exception of losses found by a final court decision to have been caused by fraud, willful or unlawful misconduct, or negligence.

(j)(i-ii): It is the assessment of the Executive Secretary that comparable investment managers with investment management agreements that do not contain indemnification provisions similar to those described above or contain indemnification provisions that provide greater protection to the Pension Trust are unavailable, and that the indemnification provisions in the Ashmore EM Blended Debt Fund, LP documents reflect normal terms in the investment management industry.

(j)(iii): The Executive Secretary and the General Counsel believe that all potential risks of loss and costs to the Pension Trust resulting from these indemnifications have been identified and that all available actions to minimize such risks have been considered and, where appropriate, taken.

(j)(iv): It is the assessment of the General Counsel that the process used to evaluate the indemnification relationship as outlined above fulfills the fiduciary duties of the members of the BoT and Pension Trust staff.

We recommend that the Board adopt the findings and approve the indemnification provisions with the service provider described above.

Respectfully Submitted,

## Board of Trustees

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www.SLOPensionTrust.org



Date: March 25, 2019

To: Board of Trustees

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

### **Agenda Item 13: Investment Report for February 2019**

	February	Year to Date 2019	2018	2017	2016	2015	2014
Total Trust Investments (\$ millions)	\$1,329		\$1,285 year end	\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end
<b>Total Fund Return</b>	1.4% Gross	<b>5.6% Gross</b>	-3.2 % Gross	15.5 % Gross	6.6 % Gross	-0.8% Gross	5.1 % Gross
Policy Index Return (r)	1.3%	5.5%	-3.2 %	13.4 %	7.7 %	-0.5 %	5.2 %

(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:**

- **Fed Policy and Interest Rates –**

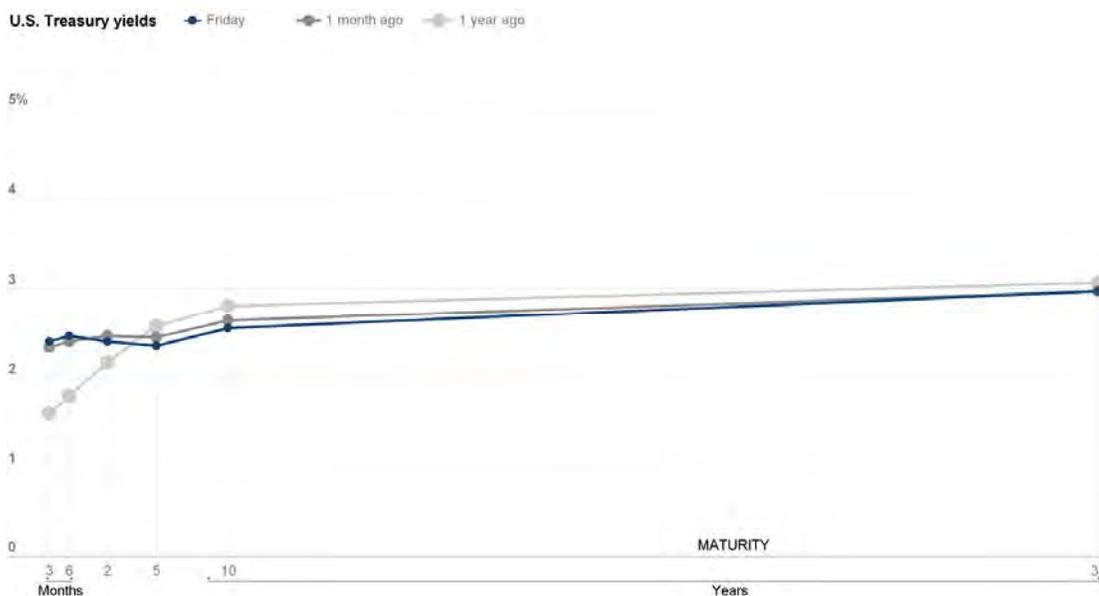
- Following a significant shift in Fed comments in January indicating a more dovish and patient outlook for interest rate increases the capital markets appeared to set aside Fed fears as a frontline issue.
  - The Fed met for the second meeting of the year on March 20<sup>th</sup> and indicated a low probability for further rate increases in 2019.
  - The Fed also lowered its forecast for 2019 U.S. GDP Growth from its December forecast of 2.3% to a March forecast of 2.1%. The Fed also lowered its forecast of

2020 U.S. GDP growth to 1.9%. The Fed forecast revisions noted the impact of trade policy uncertainty, fading 2017 tax cut stimulus and slowing growth in Europe and China.

- PIMCO in their March 20<sup>th</sup> Cyclical Outlook publication noted -

“The Federal Reserve’s pivot to patience in January has reduced the risk of monetary overkill and raises the odds that U.S. short-term interest rates will broadly flatline within PIMCO’s long-standing New Neutral range of 2%–3% for the foreseeable future. The 20 March Fed meeting validated this outlook.”

- The yield curve has remained flat as expectation for 2019-2020 economic growth slow. The yield curve, while flat, has thus far not progressed farther towards an inverted curve with longer term Treasury bonds yielding less than 90 day T-Bills. Treasury yields have remained in a narrow range with the 10 year Treasury yielding 2.59% on March 15<sup>th</sup>. The yield curve as of March 15<sup>th</sup> is shown below.



- **GDP Growth –**

- **U.S. Growth –**

- 2018 GDP growth was reported at a 4Q18 rate of 2.6% and a full year increase of 2.9%. The report on GDP was delayed for a month due to the government shutdown.
- Analyst expectations are for a slow start to the year with 1Q19 U.S. real GDP growth near a 1% rate. Expectations for full year U.S. GDP growth remain positive – no recession appearing to be imminent – but closer to the 2% to 3% range that reflects the long term potential growth for the U.S. economy.

- **Global Growth –**

- Forecast of global growth have shown a marked decrease. The EU’s official forecast for Euro area growth in 2019 fell from 1.9% to 1.0%. The OECD’s global GDP forecast for 2019 declined from 3.5% to 3.3%.

- **Trade Policy –**
  - A significant risk of a “tipping point” for triggering a recession remains trade policy tensions.
  - Reports of constructive U.S. / China trade negotiations and a delay of the Administrations March 2<sup>nd</sup> deadline for threatened tariff increases provided significant calming to the capital markets.
  
- **European Union Status –**
  - Brexit turmoil – the stalemated British politics and a lack of agreement on the U.K. leaving the European Union have not led to progress prior to the March 29<sup>th</sup> deadline for Brexit. A non-structured “Hard Brexit” withdrawal is expected to have a harsh impact on the British economy. Preliminary progress on a delay of the Brexit deadline appeared to be taking place as of March 21<sup>st</sup> as the EU approved a delay of Brexit to May 22<sup>nd</sup> – if Prime Minister May can persuade Parliament to accept her plan – which Parliament has rejected already. Without a break in the Parliamentary impasse the EU deadline for Brexit moves up to April 12<sup>th</sup>.
  
- **Employment and Wages –**
  - The February DOL report on nonfarm employment showed -
    - New jobs up a meager 20k in February, well below expectations of +180k new jobs. The February “speed bump” in jobs and economic growth may reflect constraints on the available labor force in a time of full employment. The latest edition of the Fed’s “Beige Book” that measures economic conditions in the various Fed regions notes that many companies are having difficulty finding qualified workers.
    - Unemployment decreased to 3.8% - reversing the January uptick due in part to the effects of the Federal Government shutdown where workers on temporary furlough count as in layoff status. A broader measure of employment that includes part-time workers who would prefer full-time work and those too discouraged to search fell to 7.3% from 8.1%.
  - Wage growth – For February average hourly earnings brought the year-over-year increase 3.4% - the highest in a decade.
  
- **Economy and the markets**
  - The strong gains in the equity markets – primarily in the U.S. - in January and February following the 4Q18 market correction have retraced more than the losses of 2018. The J.P. Morgan summary for their March 20<sup>th</sup> Market Call with Dr. David Kelly noted -

“After a very rocky fourth quarter, financial markets have stabilized in the first quarter, as trade worries have waned and the Federal Reserve has turned more dovish. Nevertheless, global economic conditions remain weak and questions persist about whether U.S. economic and profit growth will just slow down or actually turn negative. In this environment, on March 20, the Federal Reserve will hold its second meeting of the year.”

**SLOCPT Investment Returns:**

The attached report from Verus covers the investment returns of the SLOCPT portfolio and general market conditions through the end of February. The strong equity market returns in January and February (a +11.8% return on the S&P 500 year to date) has brought the total gross return on the SLOCPT assets in January-February to +5.6%. Compared to the -3.2% return for all of 2018.

Respectfully submitted

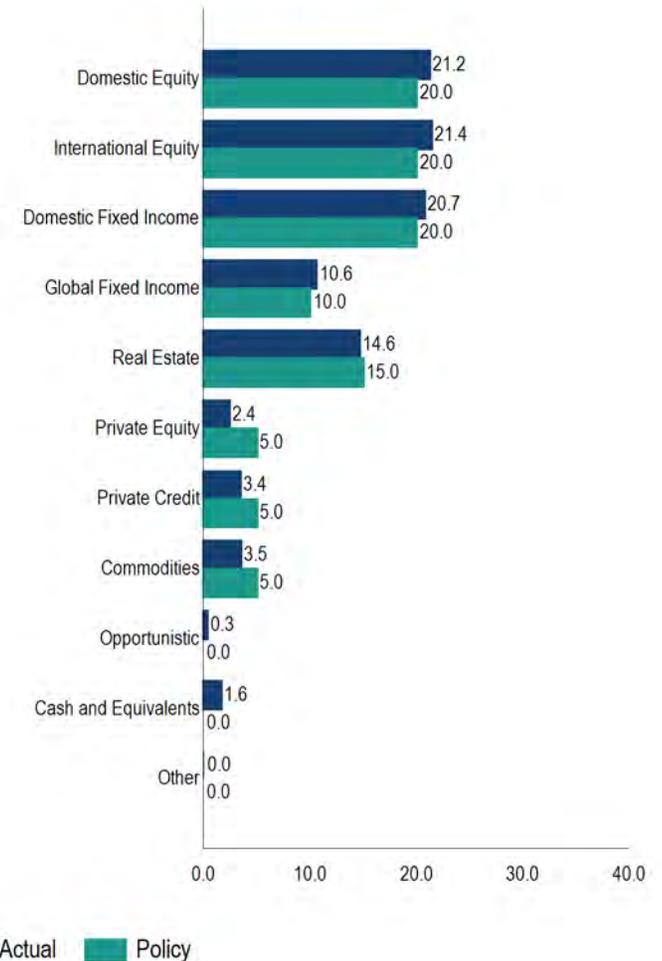
# San Luis Obispo County Pension Trust

## Executive Summary - Preliminary (Gross of Fees)

Period Ending: February 28, 2019

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Fund</b>	<b>1,329,316,941</b>	<b>100.0</b>	<b>1.4</b>	<b>5.6</b>
Total Fund ex Overlay	1,328,846,173	100.0	1.4	5.6
Policy Index			1.3	5.5
<b>Total Domestic Equity</b>	<b>281,976,381</b>	<b>21.2</b>	<b>3.6</b>	<b>12.0</b>
Russell 3000			3.5	12.4
PIMCO RAE Fundamental PLUS Instl	58,369,100	4.4	3.0	11.3
S&P 500			3.2	11.5
Loomis Sayles Large Cap Growth	83,932,133	6.3	4.0	12.8
Russell 1000 Growth			3.6	12.9
Boston Partners Large Cap Value	80,546,319	6.1	2.1	10.2
Russell 1000 Value			3.2	11.2
Atlanta Capital Mgmt	59,128,828	4.4	5.7	13.8
Russell 2500			4.7	16.8
<b>Total International Equity</b>	<b>284,742,585</b>	<b>21.4</b>	<b>2.7</b>	<b>10.2</b>
MSCI ACWI ex USA Gross			2.0	9.7
Dodge & Cox Intl Stock	142,367,676	10.7	2.1	10.8
MSCI EAFE Gross			2.6	9.3
WCM International Growth	142,374,909	10.7	3.4	9.5
MSCI ACWI ex USA Gross			2.0	9.7
<b>Total Domestic Fixed Income</b>	<b>275,655,048</b>	<b>20.7</b>	<b>0.7</b>	<b>2.6</b>
BBgBarc US Aggregate TR			-0.1	1.0
BlackRock Core Bond	99,502,854	7.5	0.1	1.8
BBgBarc US Aggregate TR			-0.1	1.0
Dodge & Cox Income Fund	98,889,906	7.4	0.5	2.0
BBgBarc US Aggregate TR			-0.1	1.0
Pacific Asset Corporate Loan	77,262,289	5.8	1.8	4.3
S&P/LSTA Leveraged Loan Index			1.6	4.2
<b>Total Global Fixed</b>	<b>140,875,861</b>	<b>10.6</b>	<b>-1.1</b>	<b>3.6</b>
FTSE World Govt Bond Index			-0.9	0.5
Brandywine Global Fixed Income	74,529,268	5.6	-0.9	2.3
FTSE WGBI ex US TR			-1.3	0.6
Stone Harbor Local Markets Ins	66,346,593	5.0	-1.2	4.9
JPM GBI-EM Global Diversified TR USD			-1.1	4.3

Actual vs Target Allocation (%)



\*Other balance represents Clifton Group.

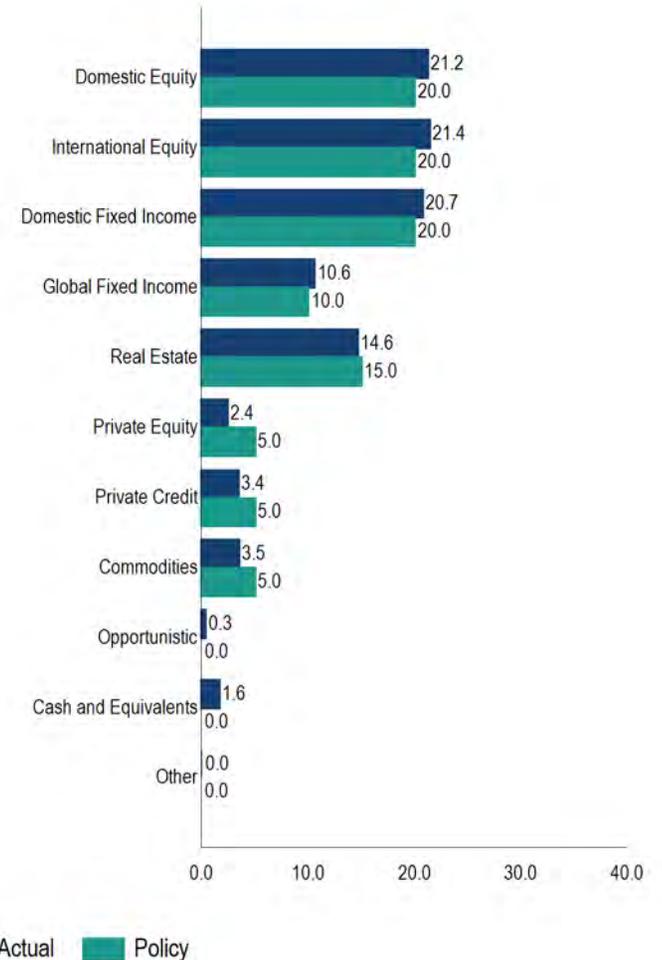
Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. 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. Harbourvest 2018 Global Fund L.P. funded 12/14/2018. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 02/28/2019. All data is preliminary.

San Luis Obispo County Pension Trust  
 Executive Summary - Preliminary (Gross of Fees)

Period Ending: February 28, 2019

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Real Estate</b>	<b>194,649,232</b>	<b>14.6</b>	<b>0.2</b>	<b>0.6</b>
NCREIF Property Index			0.0	0.0
JP Morgan Core Real Estate	164,177,410	12.4	0.2	0.4
NCREIF-ODCE			0.0	0.0
NCREIF Property Index			0.0	0.0
ARA American Strategic Value Realty	23,550,741	1.8	0.0	1.4
NCREIF-ODCE			0.0	0.0
NCREIF Property Index			0.0	0.0
Direct Real Estate	6,921,081	0.5	0.0	3.8
NCREIF-ODCE			0.0	0.0
NCREIF Property Index			0.0	0.0
<b>Total Commodities</b>	<b>46,535,625</b>	<b>3.5</b>	<b>1.8</b>	<b>6.8</b>
Bloomberg Commodity Index TR USD			1.0	6.5
Gresham MTAP Commodity Builder	46,535,625	3.5	1.8	6.8
Bloomberg Commodity Index TR USD			1.0	6.5
<b>Total Private Equity</b>	<b>32,208,595</b>	<b>2.4</b>		
Harbourvest Partners IX Buyout Fund L.P.	12,869,715	1.0		
Pathway Private Equity Fund Investors 9 L.P.	17,979,888	1.4		
Harbourvest 2018 Global Fund L.P.	1,358,992	0.1		
<b>Total Private Credit</b>	<b>45,765,581</b>	<b>3.4</b>		
TPG Diversified Credit Program	45,765,581	3.4		
<b>Total Cash</b>	<b>21,836,452</b>	<b>1.6</b>	<b>0.0</b>	<b>0.4</b>
91 Day T-Bills			0.2	0.4
Cash Account	21,836,452	1.6	0.0	0.4
91 Day T-Bills			0.2	0.4
<b>Total Opportunistic</b>	<b>4,600,813</b>	<b>0.3</b>		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	4,497,329	0.3		
PIMCO Distressed Credit Fund	103,484	0.0		
CPI + 5%			0.8	1.4

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. 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. Harbourvest 2018 Global Fund L.P. funded 12/14/2018. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 02/28/2019. All data is preliminary.



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

FEBRUARY 2019  
Capital Markets Update

# Market commentary

## U.S. ECONOMICS

- U.S. real GDP grew at an annualized quarterly rate of 2.6% in the fourth quarter (3.1% YoY), beating estimates of 2.2%. Personal consumption drove growth, contributing 1.9% to the quarterly rate. Private investment activity also saw healthy gains. Spending on research and development grew 3.2% over the quarter (9.9% YoY) to \$425 billion, and now represents 2.3% of total U.S. GDP.
- Non-farm payrolls increased by 20,000 in February, far below expectations of 180,000. Net revisions from the past two months totaled +12,000, and the three-month average figure remained solid at 186,000 jobs added per month.
- Retail sales contracted 1.6% to \$503 billion in December, and expanded 0.2% in January. December's monthly drop was the largest since September 2009, and was led by the non-store sales component including e-commerce, which fell 5.0%.

## U.S. EQUITIES

- The U.S. equity market continued its rebound from a tough fourth quarter. The S&P 500 Index returned 3.2%, and all sectors posted positive performance.
- With 494/500 companies reporting, S&P 500 Index constituents notched fourth quarter aggregate earnings and revenue growth of 12.1% and 6.0% YoY, respectively.
- According to FactSet, growth is expected to moderate in 2019. Q1 projections call for revenue growth of 5.2% and earnings contraction of 3.2%. For the calendar year 2019, top- and bottom-line growth estimates are 5.1% and 4.1% respectively.

## U.S. FIXED INCOME

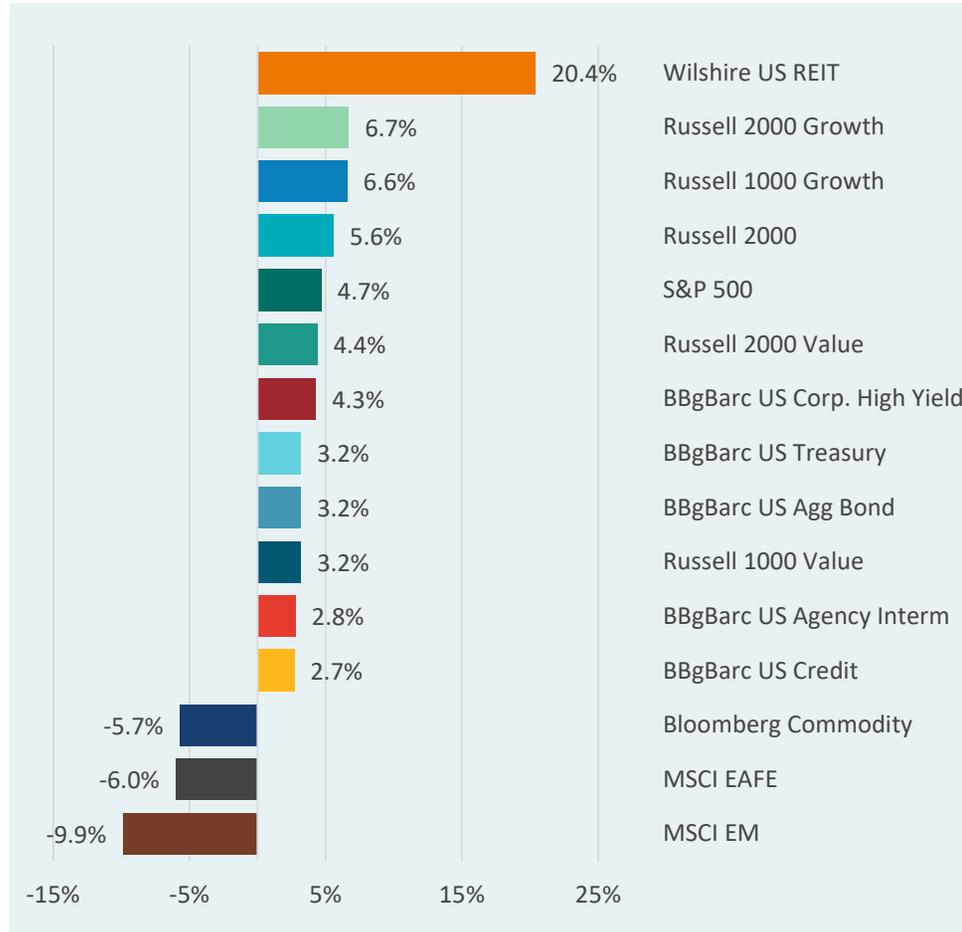
- The 10-year Treasury yields advanced from 2.63% to 2.72%, leading a slight steepening in the 10-2 yield spread from 18 bps to 20 bps.
- High yield debt (+1.7%) outperformed investment grade credit (-0.1%), as well as Treasury bills (+0.2%). High yield credit spread compression provided slight tailwinds for performance.
- U.S. credit spreads resumed their slide lower. Investment-grade corporate spreads fell 7 bps to 1.21% and high yield spreads declined 44 bps to 3.79%.

## INTERNATIONAL MARKETS

- The spread between the JP Morgan Global Services and Manufacturing PMI's reached 2.7 in February, 1.9 above its mark last year. The recent elevation in the spread signals a divergence in growth between the services sector and the manufacturing sector.
- Growth expectations dipped significantly, as global economic institutions downgraded forward outlooks. The OECD's global GDP growth forecasts drifted from 3.5% to 3.3% for 2019 and from 3.5% to 3.4% for 2020. The European Commission's 2019 Euro-area growth forecast fell from 1.8% to 1.0%, and expectations for growth in Germany and Italy fell to 0.7% and -0.2%, respectively.
- The MSCI U.K. Index returned 3.4% in February, bringing YTD gains to 10.7%. Excluding the impact of currency, returns over the same periods were 2.3% and 6.0%, indicating that U.S. investors in British equities have benefitted from the relative strength of the British pound so far this year.

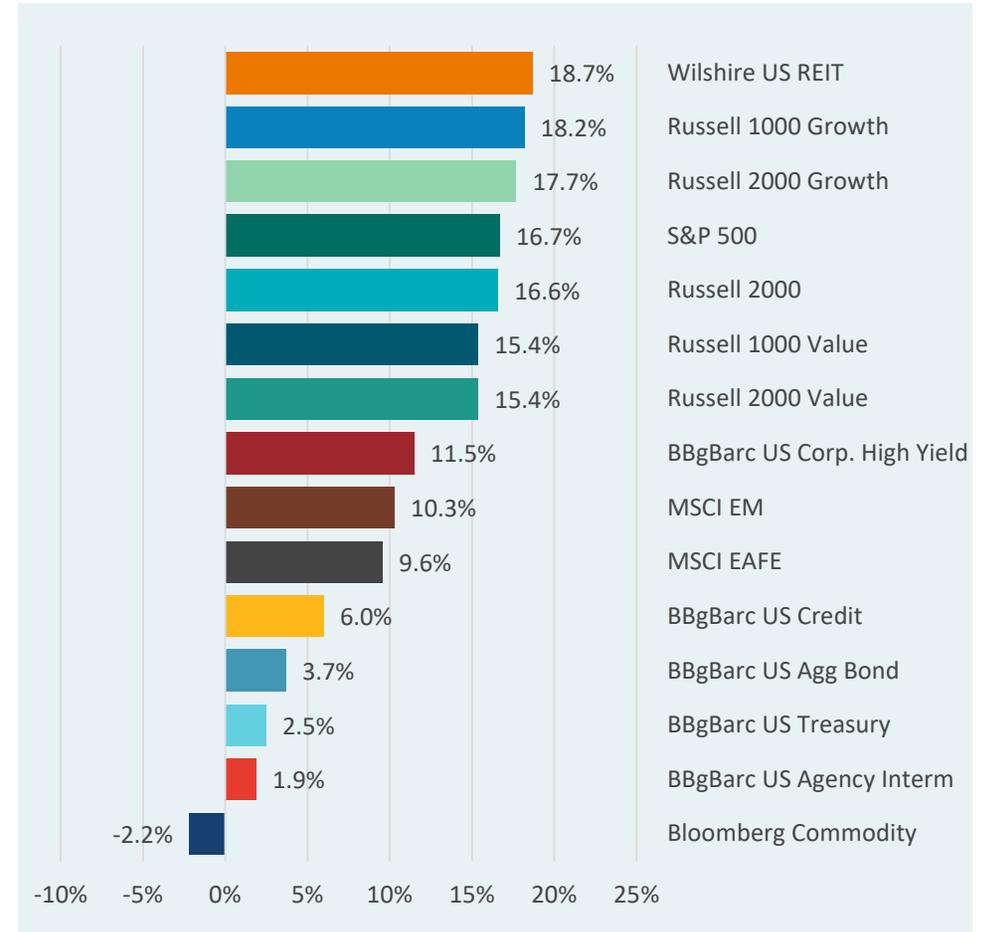
# Major asset class returns

ONE YEAR ENDING FEBRUARY



Source: Morningstar, as of 2/28/19

TEN YEARS ENDING FEBRUARY

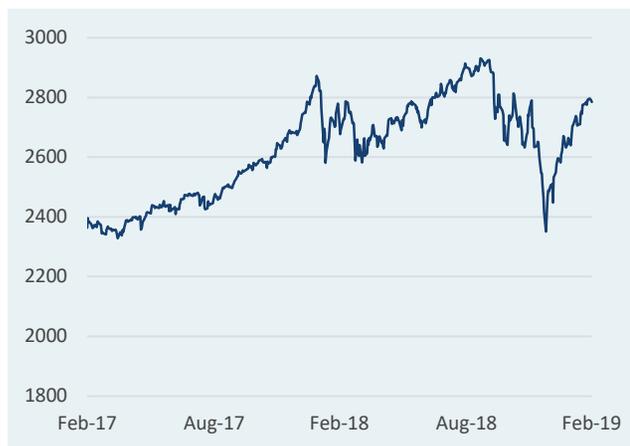


Source: Morningstar, as of 2/28/19

# U.S. large cap equities

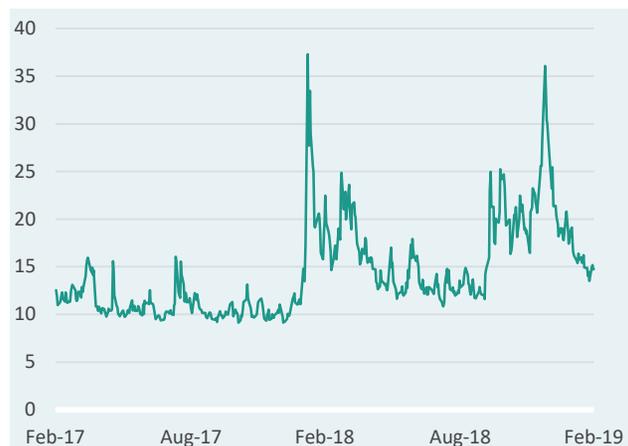
- The S&P 500 Index returned 3.2%, bringing its YTD gain to 11.5%. Information Technology (+6.9%) and Industrials (+6.4%) outperformed, while Consumer Discretionary (+0.8%) and Communication Services (+0.8%) lagged the overall index.
- Per FactSet, 99 S&P 500 companies have issued EPS guidance for Q1 2019. Of those 99 companies, 73 have issued negative guidance. The percentage of companies offering negative EPS guidance (74%) is slightly above the five-year average of 71%.
- The VIX index continued to drift lower. The implied volatility measure descended from 16.6 to 14.8, well below its recent high of 36.1 which was reached back in December.
- The one-year forward P/E ratio of the S&P 500 Index expanded from 15.7 to 16.3 over the month. Of the GICS sectors, Consumer Discretionary (20.1) was the most expensive based on the forward multiple, and the Financials sector (11.6) was cheapest.

**S&P 500 PRICE INDEX**



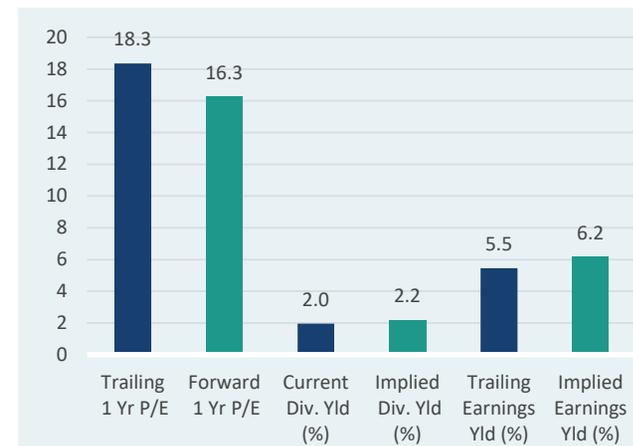
Source: Bloomberg, as of 2/28/19

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 2/28/19

**S&P 500 VALUATION SNAPSHOT**

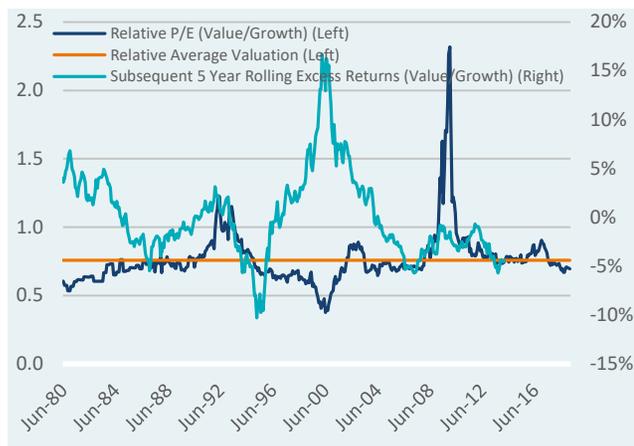


Source: Bloomberg, as of 2/28/19

# Domestic equity size and style

- Small cap equities outperformed large cap equities for the second month in a row. The Russell 2000 Index gained 5.2% while the Russell 1000 Index returned 3.4%.
- Outperformance of small-cap equities was broad. Energy (+0.3% excess return), producer durables (+1.8%), and utilities (+0.9%) were the only Russell sector indexes where large-cap equities outperformed small-cap equities.
- Forward one-year P/E ratios expanded materially in February. The forward multiple for the Russell 1000 Index moved from 16.0 to 16.5, while the multiple for the Russell 2000 Index moved from 21.1 to 22.5. The multiples were up 20.4% and 27.3% from their December 24<sup>th</sup> lows, respectively.
- Growth stocks outperformed value stocks across market-cap classifications. Overall, the Russell 3000 Growth Index (+3.8%) outperformed the Russell 3000 Value Index (+3.2%).

**VALUE VS. GROWTH RELATIVE VALUATIONS**



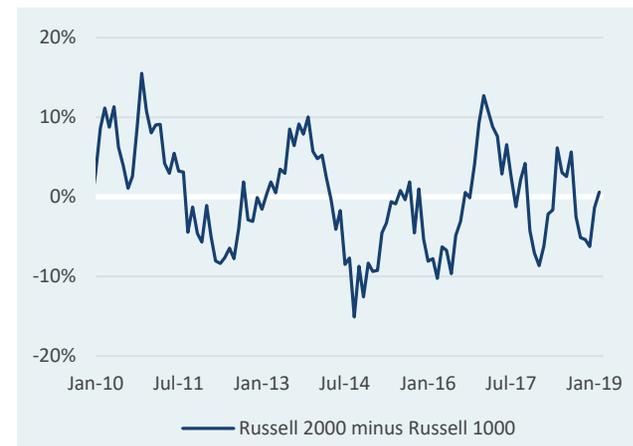
Source: Russell, Bloomberg, as of 2/28/19

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, as of 2/28/19

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, as of 2/28/19

# Fixed income

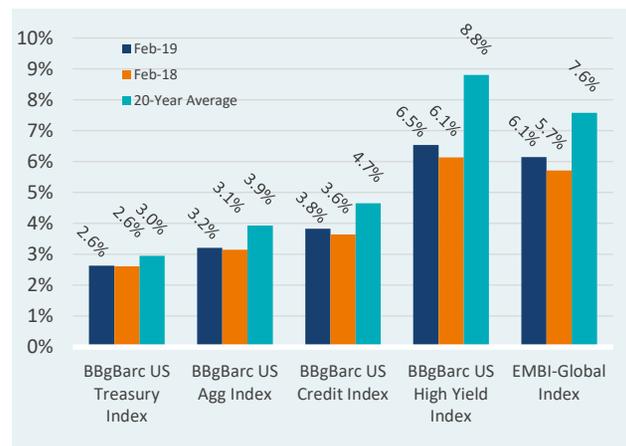
- The European Central Bank cut its 2019 Eurozone growth forecast from 1.7% to 1.1%, citing geopolitics and trade as headwinds. Officials also announced a third injection of stimulus via targeted longer-term refinancing operations (TLTROs), and offered dovish guidance on interest rates.
- Leveraged loans moved higher in February, gaining 1.6% MoM (+3.9% YTD). Some investors have expressed concern over the concentration of “cov-lite” issues, which according to Standard and Poor’s represented 85% of the U.S. market as of Q4 2018.
- The Bank of Japan cut its regular purchases of JGBs maturing in 10-to-25 years from ¥200 to ¥180 billion. Falling global growth expectations and dovish central bank language likely pressed JGB yields lower, and the BoJ’s purchase cut aligned with its goal of targeting 10-year yields around 0%.
- Breakeven inflation rates continued to climb higher from recent December lows. The 5- and 10- year rates rose 13 bps and 8 bps respectively, aided by the recent recovery in crude oil prices.

## U.S. TREASURY YIELD CURVE



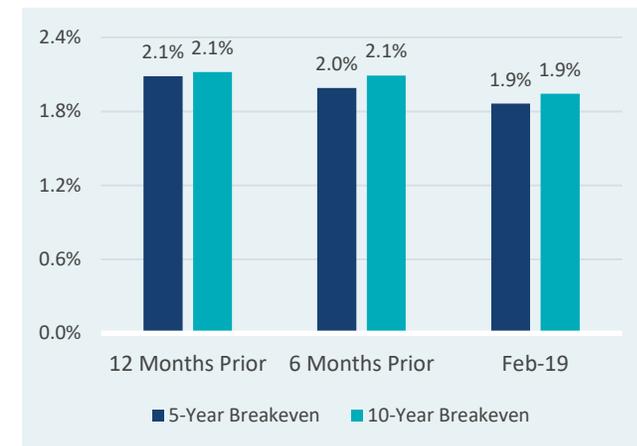
Source: Bloomberg, as of 2/28/19

## NOMINAL YIELDS



Source: Morningstar, as of 2/28/19

## BREAKEVEN INFLATION RATES

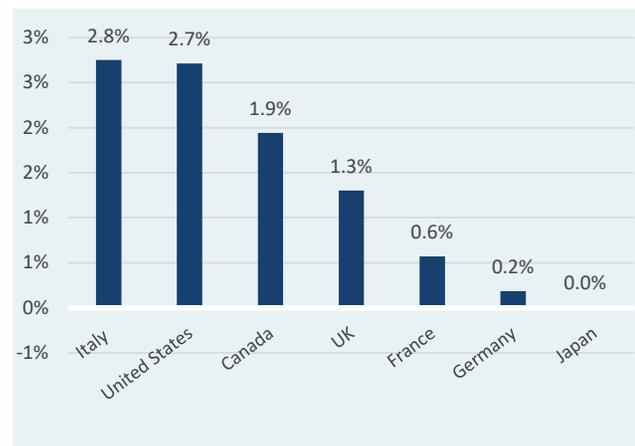


Source: Bloomberg, as of 2/28/19

# Global markets

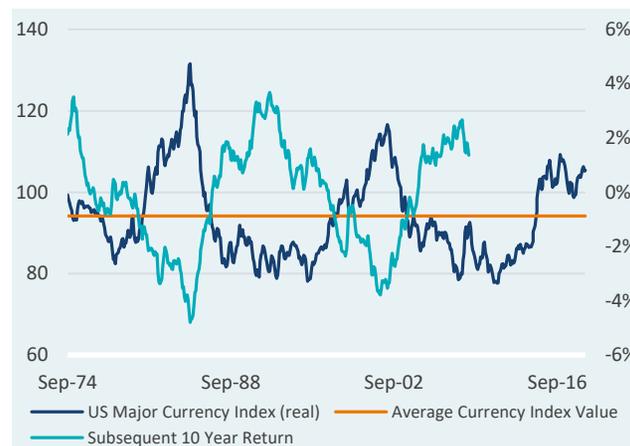
- President Trump waived the March 1<sup>st</sup> deadline for tariff rate hikes on \$200 billion of Chinese imports, citing “substantial progress” made during negotiations. Optimism picked up for some sort of formal trade resolution to be reached around the end of March, although the prospective terms remain unclear.
- Chinese mainland equities (CSI 300 Index) rallied 14.6%, bringing the YTD return to 21.9%. An improving outlook on trade, as well as more stimulative domestic policy likely contributed to the advance.
- Parliament will vote on Prime Minister May’s Brexit deal for the second time on March 12th. If the vote fails again, May has offered a vote on the extension of “Article 50”, which oversees the Brexit departure process. The shift in tone soothed fears of a “no-deal Brexit” and the British pound rallied on the news.
- The Citi Global Economic Surprise Index fell from -18.5 to -26.4 in February, its lowest level since May 2013. The low level of the index indicates that recent global economic data has disappointed relative to forecasts.

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



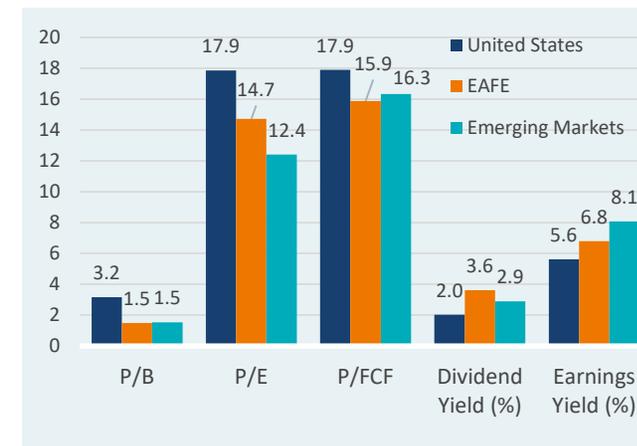
Source: Bloomberg, as of 2/28/19

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 2/28/19

**MSCI VALUATION METRICS (3-MONTH AVG)**



Source: Bloomberg, as of 2/28/19

# Commodities

- The Bloomberg Commodity Index gained 1.0% over the month, driven by another strong month of performance in the energy sector (+5.4%).
- Energy (+5.4%) and petroleum (+7.8%) boosted the overall index higher. Four-year lows in OPEC+ crude oil supply, faster-than-expected production cuts in Russia and Saudi Arabia, and the imposition of U.S. sanctions on Venezuelan oil put upward pressure on crude prices. Additionally, positive rhetoric around U.S.-China trade relations likely buoyed expectations for global demand.
- Grains, which target a 23% weight in the overall index, underperformed, and lost 5.0% over the month. Wheat led the underperformance as soft wheat fell 11.9% and hard red winter wheat fell 12.6%. Analysts attributed the decline to a pickup in price competition ahead of large harvests in Europe and the Black Sea region.
- Industrial metals gained 3.5% in February, bringing the YTD gain to 11.8%. Rising optimism about a trade resolution with China has likely supported the recent rebound for the sector, which lost 19.5% in 2018.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	1.0	6.5	6.5	(5.7)	3.6	(8.8)	(2.2)
Bloomberg Agriculture	(3.9)	(1.0)	(1.0)	(16.8)	(5.9)	(11.1)	(2.0)
Bloomberg Energy	5.4	15.2	15.2	3.6	10.0	(17.1)	(10.0)
Bloomberg Grains	(5.0)	(3.3)	(3.3)	(16.7)	(7.9)	(12.2)	(3.6)
Bloomberg Industrial Metals	3.5	11.8	11.8	(8.1)	11.1	(0.4)	3.4
Bloomberg Livestock	(0.0)	(1.5)	(1.5)	(0.0)	(1.7)	(4.6)	(2.3)
Bloomberg Petroleum	7.8	22.7	22.7	0.4	13.3	(15.5)	(3.6)
Bloomberg Precious Metals	(1.1)	2.1	2.1	(1.9)	1.2	(2.3)	2.4
Bloomberg Softs	(3.5)	1.1	1.1	(16.7)	(6.3)	(12.5)	(2.4)

Source: Morningstar, as of 2/28/19

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 2/28/19

# 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	2018	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	6.7	18.8	12.6	18.2
Small Cap 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	1.9	17.0	10.4	17.7
Small Cap Value	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	0.0	15.2	9.3	16.8
Large Cap Growth	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	-1.5	12.9	8.2	16.6
Large Cap Equity	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	-3.5	12.0	8.1	15.4
Large Cap Value	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	-4.8	11.2	7.4	15.4
International Equity	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	-6.0	9.3	6.5	10.3
Emerging Markets 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	-8.3	9.0	4.2	9.6
60/40 Global Portfolio	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	-9.3	6.8	4.1	9.0
Commodities	-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	-11.0	6.5	2.3	7.5
Hedge Funds of Funds	-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	7.0	-11.2	3.3	2.1	3.7
US Bonds	-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	-12.9	1.0	1.8	3.4
Cash	-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	-13.8	0.4	0.7	0.4
Real Estate	-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	-14.6	0.0	-8.8	-2.2

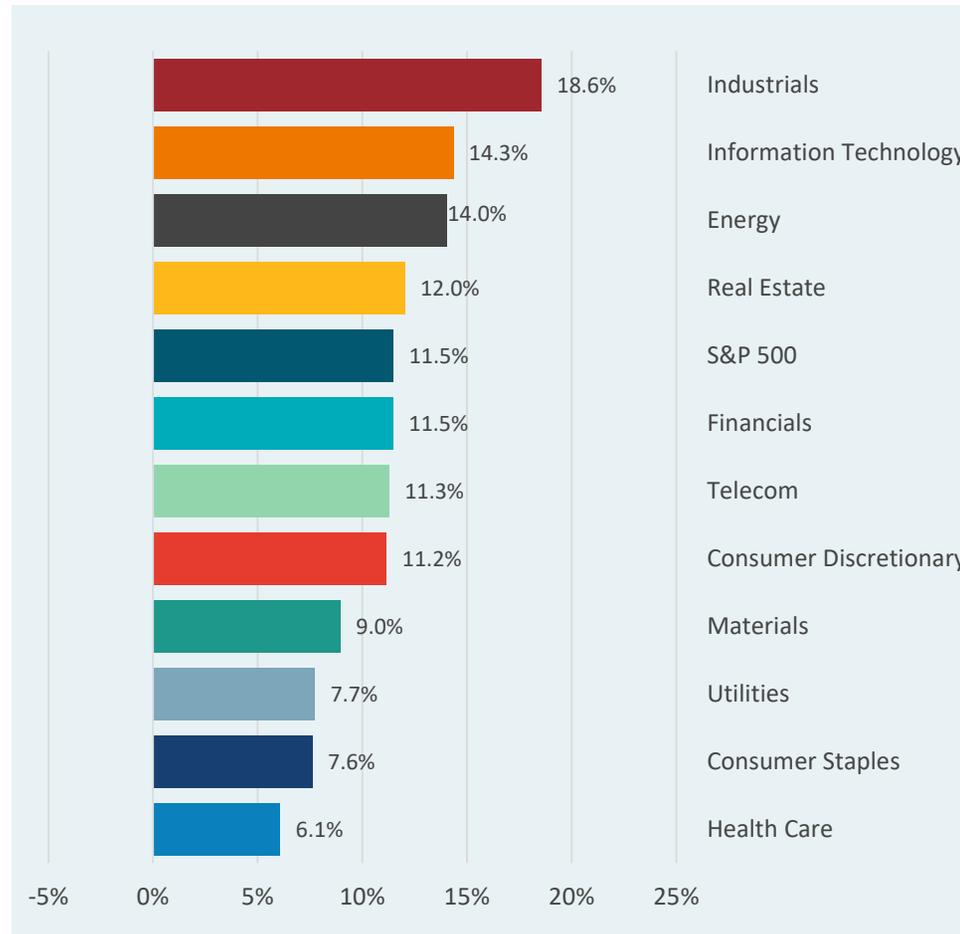
BEST  
↑  
↓  
WORST

- 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 12/31/18.

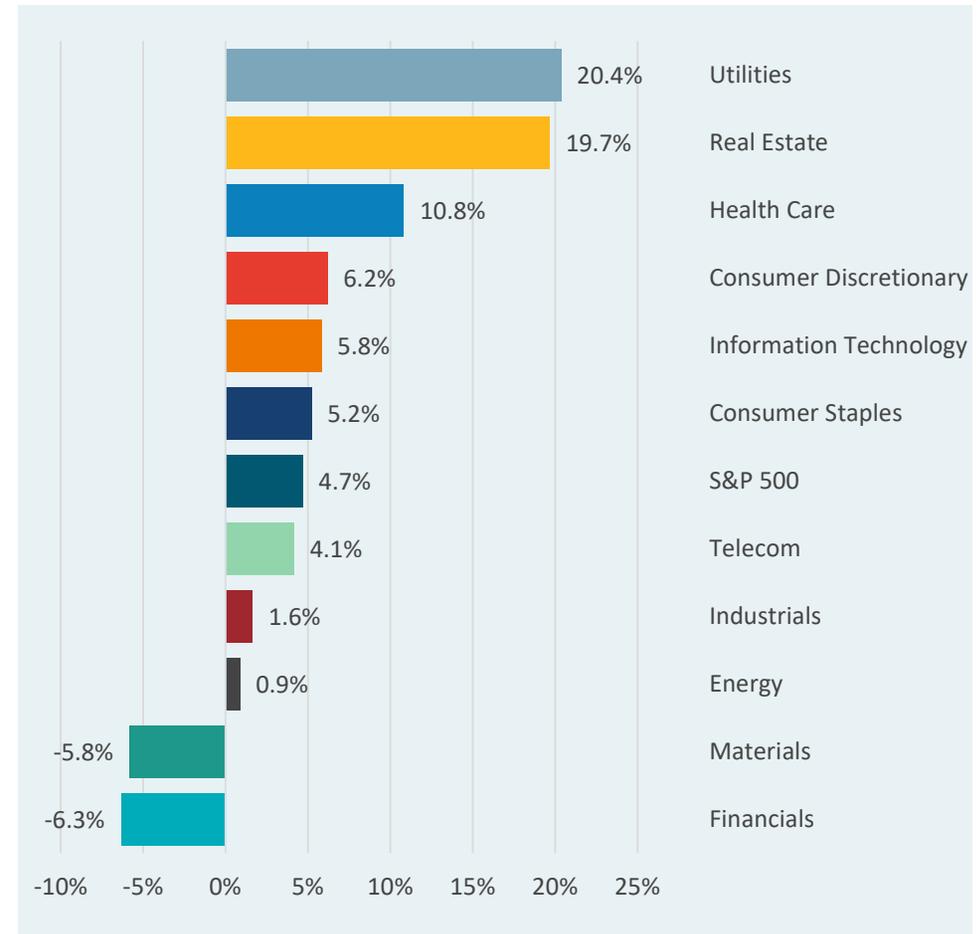
# S&P 500 sector returns

QTD



Source: Morningstar, as of 2/28/19

ONE YEAR ENDING FEBRUARY



Source: Morningstar, as of 2/28/19

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	3.2	11.5	11.5	4.7	15.3	10.7	16.7
S&P 500 Equal Weighted	3.7	13.9	13.9	5.3	14.6	9.5	18.8
DJ Industrial Average	4.0	11.6	11.6	5.9	19.0	12.4	16.8
Russell Top 200	3.0	10.7	10.7	4.8	15.8	11.2	16.5
Russell 1000	3.4	12.0	12.0	5.0	15.4	10.4	16.8
Russell 2000	5.2	17.0	17.0	5.6	16.7	7.4	16.6
Russell 3000	3.5	12.4	12.4	5.0	15.5	10.2	16.8
Russell Mid Cap	4.3	15.5	15.5	5.6	14.5	8.6	17.8
<b>Style Index</b>							
Russell 1000 Growth	3.6	12.9	12.9	6.6	18.0	12.6	18.2
Russell 1000 Value	3.2	11.2	11.2	3.2	12.8	8.1	15.4
Russell 2000 Growth	6.5	18.8	18.8	6.7	18.3	8.2	17.7
Russell 2000 Value	3.9	15.2	15.2	4.4	15.0	6.5	15.4

## INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
MSCI ACWI	2.7	10.8	10.8	(0.8)	12.9	6.3	12.7
MSCI ACWI ex US	2.0	9.7	9.7	(6.5)	10.7	2.5	9.6
MSCI EAFE	2.5	9.3	9.3	(6.0)	9.3	2.1	9.6
MSCI EM	0.2	9.0	9.0	(9.9)	15.0	4.1	10.3
MSCI EAFE Small Cap	2.2	10.5	10.5	(10.5)	10.2	4.3	13.5
<b>Style Index</b>							
MSCI EAFE Growth	3.4	10.1	10.1	(4.2)	9.2	3.4	10.2
MSCI EAFE Value	1.7	8.5	8.5	(7.9)	9.4	0.6	8.9
<b>Regional Index</b>							
MSCI UK	3.4	10.7	10.7	(1.5)	7.6	(0.2)	9.6
MSCI Japan	(0.0)	6.1	6.1	(10.3)	9.5	5.2	8.1
MSCI Euro	3.2	9.8	9.8	(8.9)	9.1	0.6	8.4
MSCI EM Asia	1.7	9.1	9.1	(9.8)	15.2	6.1	12.2
MSCI EM Latin American	(3.7)	10.7	10.7	(5.2)	19.2	1.9	6.6

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	(0.0)	1.3	1.3	1.9	1.7	1.5	3.8
BBgBarc US Treasury Bills	0.2	0.4	0.4	2.1	1.1	0.7	0.4
BBgBarc US Agg Bond	(0.1)	1.0	1.0	3.2	1.7	2.3	3.7
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.1	0.4	0.4	2.3	0.8	0.8	1.0
BBgBarc US Treasury Long	(1.2)	(0.6)	(0.6)	4.0	(0.3)	4.5	5.1
BBgBarc US Treasury	(0.3)	0.2	0.2	3.2	0.5	1.7	2.5
<b>Issuer</b>							
BBgBarc US MBS	(0.1)	0.7	0.7	3.6	1.4	2.3	3.1
BBgBarc US Corp. High Yield	1.7	6.3	6.3	4.3	9.8	4.5	11.5
BBgBarc US Agency Interm	0.1	0.5	0.5	2.8	1.0	1.3	1.9
BBgBarc US Credit	0.2	2.4	2.4	2.7	3.5	3.1	6.0

## OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Index</b>							
Bloomberg Commodity	1.0	6.5	6.5	(5.7)	3.6	(8.8)	(2.2)
Wilshire US REIT	0.9	12.4	12.4	20.4	7.8	8.5	18.7
CS Leveraged Loans	1.6	3.9	3.9	3.8	6.8	3.9	8.1
Alerian MLP	0.2	13.1	13.1	4.4	7.5	(4.5)	10.7
<b>Regional Index</b>							
JPM EMBI Global Div	1.0	5.5	5.5	3.1	6.4	5.4	8.8
JPM GBI-EM Global Div	(1.1)	4.3	4.3	(5.4)	6.8	0.1	5.1
<b>Hedge Funds</b>							
HFRI Composite	1.4	4.9	4.9	(0.4)	5.6	2.8	5.6
HFRI FOF Composite	0.8	3.3	3.3	(1.7)	3.7	1.8	3.4
<b>Currency (Spot)</b>							
Euro	(0.8)	(0.4)	(0.4)	(6.6)	1.6	(3.8)	(1.1)
Pound	1.1	4.4	4.4	(3.5)	(1.5)	(4.5)	(0.7)
Yen	(2.2)	(1.4)	(1.4)	(4.1)	0.5	(1.7)	(1.3)

Source: Morningstar, HFR, as of 2/28/19

# Notices & disclosures

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## Board of Trustees

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Date: March 25, 2019

To: Board of Trustees

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

### **Agenda Item 14: Asset Allocation March 2019**

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.

No Board action is planned at this point.

Respectfully submitted

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