

# Pension Trust

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



## AGENDA

### PENSION TRUST BOARD OF TRUSTEES

**Monday, July 23, 2018 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>*

## PUBLIC COMMENT

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

## ORGANIZATIONAL

None

## CONSENT

2. Minutes of the Regular Meeting of June 25, 2018 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of June 2018 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of June 2018 (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through July 6, 2018 (Receive, Approve and File).

## **APPLICATIONS FOR DISABILITY RETIREMENT**

6. Application for Ordinary Disability Retirement – Case 2018-01 (Recommend Approval).
7. Application for Industrial Disability Retirement – Case 2018-03 (Recommend Approval).

## **OLD BUSINESS**

None

## **NEW BUSINESS**

8. Financial Auditor – Selection Process (Review, Discuss, and Direct Staff as necessary).

## **INVESTMENTS**

9. Fiduciary Properties Inc. – Retention of 1000 Mill St. for Operations (Review, Discuss, Recommend Approval).
10. Monthly Investment Report for May 2018 (Receive and File).
11. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

## **OPERATIONS**

12. Staff Reports
13. General Counsel Reports
14. Committee Reports:

a. Audit Committee	No Report
b. Personnel Committee	No Report
c. PAS Replacement Committee	No Report
15. Upcoming Board Topics (subject to change):
  - a. August 27, 2018
    - i. Disability case
    - ii. Mid-year financial statements and budget status
    - iii. 2Q18 Quarterly Investment Report

- iv. Verus – organizational and due-diligence process
  - v. Manager structure review
  - vi. Real Assets outlook
  - vii. Private Equity – additional commitments
  - viii. Alternative Investment Fee Disclosures
- b. September 24, 2018 (room 161/162)
- i. Financial Auditor selection
  - ii. Strategic Planning Session
    - 1. Funding policy
    - 2. Cybersecurity
    - 3. Business Continuity planning
    - 4. SLOCPT member communications
    - 5. Board recruitment
- c. October 22, 2018
- i. TBD

16. Trustee Comments

**REFERRED ITEMS**

None

**ADDED ITEMS**

None

**CLOSED SESSION**

None

**ADJOURNMENT**

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## Board of Trustees

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### **JUNE 25, 2018 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES**

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

**BOARD MEMBERS ABSENT:** None

**STAFF:** Carl Nelson  
Amy Burke

**COUNSEL:** Chris Waddell, Esq.

**CONSULTANTS:** Rosalva Flores, CPA, Brown Armstrong  
Alaina Sanchez, CPA, Brown Armstrong  
Leslie Thompson, Gabriel Roeder Smith

**OTHERS:** Jennifer Alderete, Pension Trust  
Anna Bastidos, Pension Trust  
Lisa Winter, Pension Trust  
Michael Hobbs, Human Resources  
Dan Andoetoe, retiree

The meeting was called to order by President Janssen at 9:33 AM, who presided over same.

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

None.

**ORGANIZATIONAL:**

None.

**CONSENT:**

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

Mr. Savage requested that Agenda Item 6: Request for Reinstatement from Retirement be removed from the consent agenda and considered separately. President Janssen approved the change in agenda.

Public comment: None

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

- ITEM 2:** The Minutes of the Regular Meeting of May 21, 2018 were approved.
- ITEM 3:** The Report of Deposits and Contributions for the Month of May 2018, was received and filed.
- ITEM 4:** The Report of Service Retirements, Disability and DROP Retirements for the month of May 2018, was received, approved and filed.
- ITEM 5:** The Report of Applications for participation in the Deferred Retirement Option Program received through June 8, 2018 was received, approved and filed.

**APPLICATIONS FOR DISABILITY RETIREMENT:**

None.

**OLD BUSINESS:**

None.

**NEW BUSINESS:**

**AGENDA ITEM NO. 6: REQUEST FOR REINSTATEMENT  
FROM RETIREMENT**

In answer to Board questions on reinstatements from retirement, the Executive Secretary and General Counsel briefed the Board on the Retirement Plan provisions and practices. Upon questioning about the need for Board of Trustees approval of reinstatements from retirement and concerns with the process, General Counsel noted that most retirement systems make reinstatements an administrative matter. Mr. Savage expressed his concerns over Board of Trustees direct involvement in reinstatements and suggested future Plan amendments consider making reinstatements an administrative matter.

Public Comment: None

Upon the motion of Mr. Hamm, seconded by Mr. Janssen, and unanimously passed the reinstatement of retirement of Debbie Heilman was approved.

**AGENDA ITEM NO. 7: AUDITED FINANCIAL STATEMENTS FOR THE  
PERIOD ENDED DECEMBER 31, 2017.**

Rosalva Flores, CPA and Partner and Alaina Sanchez, CPA and audit manager with Brown Armstrong Accountancy reviewed the results of their audit of the SLOCPT 2017 financial statements and CAFR. Brown Armstrong issued an unqualified opinion on the 2017 financials and discussed various other auditor reports to the Board. Questions from the Board were received and discussed.

Public Comment: None

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

- a) The audited Financial Statements for the period ended December 31, 2017 as presented in the 2017 Comprehensive Annual Financial Report (CAFR) were received, approved and filed; and

- b) The Executive Secretary was authorized and directed to transmit the 2017 CAFR to the following agencies as required by the Government Code and retirement plan as follows:
  - 1) One copy to the Office of the State Controller as required by Government Code Section 7504(c); and
  - 2) One copy to the Board of Supervisors pursuant to Retirement Plan Section 17.02; Annual Statement of Financial Condition; and
  - 3) One copy to the County Auditor-Controller pursuant to Plan Section 17.02: Annual Statement of Financial Condition.

### **AGENDA ITEM NO. 8: JANUARY 1, 2018 ACTUARIAL VALUATION.**

A detailed presentation by Leslie Thompson, of Gabriel Roeder Smith (GRS) as Plan Actuary was made. The Board of Trustees held an extensive discussion with Ms. Thompson.

Public Comment: None

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

- 1) The January 1, 2018 Actuarial Valuation was received, approved and filed; and
- 2) The transfer of \$209,903,231 from the Current Reserve to the Retiree Reserve as recommended by GRS as Plan Actuary in the Actuarial Valuation was approved; and
- 3) The recommendation of the Plan Actuary to increase the current level of County appropriation and Employee Contribution rates such that a TOTAL CONTRIBUTION RATE OF 42.19% EFFECTIVE JANUARY 1, 2018 IS RECEIVED (AN INCREASE OF 2.51% OVER THE CURRENT CHARGED RATE OF CONTRIBUTIONS AS OF 12/31/2017) was approved. Such contribution rate increase is the total aggregate increase for the Plan and different contribution rate increases for the specific classes of members (Miscellaneous, Probation, Safety) will apply. Further, this increase is subject to delayed implementation as may be requested by the Plan Sponsor and Contracting Agencies, with adjustments to the rate calculated by GRS to account for the deferred implementation. The contribution rate increases necessary for the different classes of member for the alternative implementation dates of 1/1/19 or 7/1/19 were detailed in an accompanying "Delayed Implementation for Rate Increase" exhibit prepared by GRS.

**AGENDA ITEM NO. 9: EMPLOYER CONTRIBUTION PREFUNDING AMOUNT  
- FISCAL YEAR 2018-2019.**

Calculations by Gabriel Roeder Smith (GRS) as Plan Actuary, were presented and discussed relative to potential prefunding of Employer pension contributions for FY18-19 at a discount rate of 6.00% as previously approved.

Public Comment: Mr. Dan Andoetoe, retiree, asked the question that if the County can prefund Employer pension contributions with a discount, why Employees could not also prefund their pension contributions?

Upon the motion of Mr. Erb, seconded by Mr. Janssen, and unanimously passed, staff recommendation to approve the discounted prefunded Employer Contributions and Employer Paid Member Contributions (EPMC or “pick-up) for Fiscal Year 2018-2019 with several alternative implementation dates for the previously approved pension contribution rate increase approved with the 2018 Annual Actuarial Valuation as calculated by GRS was approved.

**AGENDA ITEM NO. 10: MONTHLY INVESTMENT REPORT FOR MAY 2018.**

Public comment: None

Upon the motion of Mr. Janssen, seconded by Mr. Erb, and unanimously passed, the Investment Report for May 2018 was received and filed.

**AGENDA ITEM NO. 11: INVESTMENT CONSULTANT – VERUS – REVISED CONSULTING AGREEMENT.**

Staff reported that the Pension Trust’s investment consultant, Verus, had proposed a revision to the investment consulting agreement with the Pension Trust last updated in 2007. Verus proposes to change to a flat dollar amount of consulting fees as opposed to the fees as a percentage of total Plan assets as included in the 2007 agreement. The change will result in a fee reduction for the Pension Trust.

Public comment: None

Upon the motion of Mr. Sibbach, seconded by Mr. Hamm, and unanimously passed, the Revised Investment Consulting Agreement with Verus was approved.

**AGENDA ITEM NO. 12: ASSET ALLOCATION.**

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

**OPERATIONS:**

**AGENDA ITEM NO. 13: STAFF ORAL REPORTS.**

- A)** Staff informed the Board on the election results for the trustee position held by Mr. Janssen. The January 19, 2018 election date ballot results from the Clerk & Records Office were: Mr. Janssen 266 votes, Mr. Hansen 201 votes, Write-ins 4, over-voted ballot 1. Mr. Janssen will continue for the next three-year term (2018-2021) as one of the three elected Trustees.
- B)** Staff discussed with the Board the pending Trustee change in January 2019 when Mr. Hamilton, who has been elected as County ACTTC, will become the ex-officio Trustee as the County Treasurer. This will leave a vacant elected Trustee position on the Board. Mr. Janssen and Mr. Clemens, as the two remaining elected Trustees, will conduct a selection process and appoint a Trustee to serve out the remainder of Mr. Hamilton's term through June 2020.
- C)** Staff reported that the closing for the previously approved commitment to the TPG TAO Contingent fund was completed on June 8th.

**AGENDA ITEM NO. 14: GENERAL COUNSEL ORAL REPORTS.**

General Counsel Waddell commented on the current status of a California Supreme Court case awaiting ruling involving the City of San Diego and the Proposition B pension reform ballot initiative.

**AGENDA ITEM NO. 15: COMMITTEE REPORTS – AS NEEDED.**

- A)** AUDIT COMMITTEE: Mr. Sibbach and Mr. Clemens reported on the May 30, 2018 Audit Committee meeting with Brown Armstrong. No concerns were raised.
- B)** PERSONNEL COMMITTEE: Nothing to report.

- C) PENSION ADMINISTRATION SYSTEM ADMINISTRATION (PASR) COMMITTEE:** Nothing to report.

**AGENDA ITEM NO. 16: UPCOMING BOARD TOPICS.**

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

**AGENDA ITEM NO. 17: TRUSTEE COMMENTS.**

Staff requested Trustee input on topics for the September 2018 Planning Session at the regular Board of Trustees meeting. In addition to the previously planned discussion on funding and actuarial practices, the Board expressed an interest in a discussion of business continuity/disaster planning.

**REFERRED ITEMS:** None.

**ADDED ITEMS:** None.

**CLOSED SESSION:** None.

**ADJOURNMENT.**

There being no further business, the meeting was adjourned at 11:47 AM. The next Regular Meeting was set for July 23, 2018, at 9:30 AM, in the Board of Supervisors Chambers, New County Government Center, San Luis Obispo, California 93408.

**Respectfully submitted,**

**Carl Nelson  
Executive Secretary**

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

PP 12 6/8/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
					Employee Contributions	Employee Rate					
<b>By Employer and Tier:</b>											
County Tier 1	3,880,485.93	907,360.79	23.38%	443,669.58	330,978.23	19.96%	43.35%	1,537.50	504.83		<b>1,684,050.93</b>
County Tier 2	974,751.32	232,963.99	23.90%	47,821.36	82,329.18	13.35%	37.25%	67.90	709.70		<b>363,892.13</b>
County Tier 3	2,380,799.07	531,974.76	22.34%	278,054.24	-	11.68%	34.02%	-	862.20		<b>810,891.20</b>
Superior Court Tier 1	268,591.98	67,262.92	25.04%	43,626.66	-	16.24%	41.29%	-	-		<b>110,889.58</b>
Superior Court Tier 3	68,181.69	16,357.57	23.99%	7,485.32	-	10.98%	34.97%	-	221.17		<b>24,064.06</b>
APCD Tier 1	69,469.28	15,295.29	22.02%	8,871.01	4,646.51	19.46%	41.48%	-	-		<b>28,812.81</b>
APCD Tier 3	8,364.01	1,813.72	21.68%	1,119.75	-	13.39%	35.07%	-	-		<b>2,933.47</b>
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-		<b>3,186.42</b>
Pension Trust Staff Tier 2	9,308.28	2,139.04	22.98%	227.20	864.74	11.73%	34.71%	-	-		<b>3,230.98</b>
Pension Trust Staff Tier 3	9,002.13	2,024.59	22.49%	1,153.90	-	12.82%	35.31%	-	-		<b>3,178.49</b>
LAFCO Tier 1	12,494.29	3,666.71	29.35%	677.19	1,160.72	14.71%	44.06%	-	-		<b>5,504.62</b>
	<b>7,688,616.53</b>	<b>1,782,506.71</b>	<b>23.18%</b>	<b>833,579.34</b>	<b>420,645.34</b>	<b>16.31%</b>	<b>39.50%</b>	<b>1,605.40</b>	<b>2,297.90</b>		<b>\$ 3,040,634.69</b>
PP 13 6/22/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
<b>By Employer and Tier:</b>											
County Tier 1	3,869,621.04	905,029.88	23.39%	442,469.94	330,125.53	19.97%	43.35%	1,387.50	50,973.20		<b>1,729,986.05</b>
County Tier 2	968,471.19	231,635.70	23.92%	48,091.79	81,796.62	13.41%	37.33%	67.90	709.70		<b>362,301.71</b>
County Tier 3	2,388,807.93	534,386.42	22.37%	279,626.80	-	11.71%	34.08%	-	935.70		<b>814,948.92</b>
Superior Court Tier 1	267,803.85	67,080.42	25.05%	43,490.25	-	16.24%	41.29%	-	-		<b>110,570.67</b>
Superior Court Tier 3	68,352.90	16,398.64	23.99%	7,509.32	-	10.99%	34.98%	-	221.17		<b>24,129.13</b>
APCD Tier 1	69,465.75	15,294.52	22.02%	8,870.43	4,646.31	19.46%	41.48%	-	-		<b>28,811.26</b>
APCD Tier 3	8,642.40	1,872.68	21.67%	1,162.71	-	13.45%	35.12%	-	-		<b>3,035.39</b>
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-		<b>3,186.42</b>
Pension Trust Staff Tier 2	9,412.18	2,162.91	22.98%	228.48	874.39	11.72%	34.70%	-	-		<b>3,265.78</b>
Pension Trust Staff Tier 3	8,917.96	2,005.66	22.49%	1,143.44	-	12.82%	35.31%	-	-		<b>3,149.10</b>
LAFCO Tier 1	12,494.29	3,666.71	29.35%	677.19	1,160.72	14.71%	44.06%	-	-		<b>5,504.62</b>
	<b>7,679,158.04</b>	<b>1,781,180.87</b>	<b>23.20%</b>	<b>834,143.48</b>	<b>419,269.53</b>	<b>16.32%</b>	<b>39.52%</b>	<b>1,455.40</b>	<b>52,839.77</b>		<b>\$ 3,088,889.05</b>
<b>TOTAL FOR THE MONTH</b>	<b>15,367,774.57</b>	<b>3,563,687.58</b>	<b>23.19%</b>	<b>1,667,722.82</b>	<b>839,914.87</b>	<b>16.32%</b>	<b>39.51%</b>	<b>3,060.80</b>	<b>55,137.67</b>		<b>\$ 6,129,523.74</b>
<b>TOTAL YEAR TO DATE</b>	<b>99,531,208.63</b>	<b>22,972,517.51</b>	<b>23.08%</b>	<b>10,712,883.99</b>	<b>5,535,329.47</b>	<b>16.32%</b>	<b>39.41%</b>	<b>21,346.57</b>	<b>116,677.49</b>		<b>\$ 39,358,755.03</b>

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

**JUNE 2018**

RETIREE NAME	DEPARTMENT	DATE	MONTHLY ALLOWANCE
ANDERSON, JULIANNE	AUDITOR-CONTRLR-TREAS-TAX-COLL	06-01-2018	6997.03 1650.00** 120.98*
BEACOCK, ANDREW	LIBRARY	06-30-2018	1419.68
CANNON, TRENA	BEHAVIORAL HEALTH	06-30-2018	1766.36
CARLISLE, LAUREL	AGRICULTURAL COMMISSIONER	06-10-2018	1595.43
CONSIDINE, PATRICK	SOCIAL SERVICES	06-02-2018	5187.13
CRAWLEY, ROXANA	SOCIAL SERVICES	06-29-2018	2366.55
GOREY, MICHELE (DROP)	LIBRARY	06-01-2018	2514.48
HEITZMAN, ROBERT	APCD	06-16-2018	5440.91
JONES, PERRI	SOCIAL SERVICES	06-02-2018	1727.33 743.10**
MINSK, JANNA	PLANNING & BUILDING / RECIPROCAL	06-13-2018	Option selection
MUNDS, MARY	AUDITOR-CONTRLR-TREAS-TAX-COLL	06-02-2018	5427.41 1802.00** 4.29*
OLIVER, DeANN (HUFF)	PUBLIC HEALTH / RECIPROCAL	06-09-2018	Option selection
RUSSELL, CHARLES (DROP)	SHERIFF-CORONER	06-01-2018	4753.34 1774.00** 1.77*
RYAN, MURIEL	BEHAVIORAL HEALTH	06-02-2018	2005.18
<b>ADDENDUM:</b>			
OLSON, DEBBIE	SHERIFF-CORONER / ALTERNATE PAYEE	09-01-2017	Option selection
BURGESON, ROBERT	SHERIFF-CORONER	03-09-2018	6414.68
ROSS, STEPHANIE	SHERIFF-CORONER / ALTERNATE PAYEE	03-09-2018	291.31
BROOKINS, LEWIS	SUPERIOR COURT / RECIPROCAL	04-30-2018	Option selection
HALL, DYAN	SUPERIOR COURT / RESERVE	05-01-2018	381.28

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

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

## Board of Trustees

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

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

#### **Recomendation:**

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

#### **Discussion:**

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

**AUGUST 1, 2018**  
**AUGUST 1, 2018**

**Patti Staples, Sheriff Department**  
**Paul Boyan, Sheriff Department**

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## Board of Trustees

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Date: July 23, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary  
Jennifer Alderete – Financial Accountant

### **Agenda Item Number 8: Financial Audit Firm Selection Process – 2018-2022 Audits**

#### **Recommendation:**

Staff recommends that the Board of Trustees discuss and direct staff on the process to select an audit firm for a five-year engagement commencing with the 2018 audit. The purpose of this discussion is to consider two possible directions while the most recent audit is a fresh experience:

- **Request for Proposal** – Issue an RFP for a financial audit firm during 2018. The responses to such an RFP would be evaluated by staff and a recommendation made to the Board of Trustees at a future meeting.
- **Re-engagement with Brown Armstrong Accountancy** – Request a re-engagement / renewal agreement with the current financial audit firm, Brown Armstrong Accountancy. Two key areas to be addressed in such a re-engagement would be:
  - Revised fee proposal for the full five-year term of the engagement.
  - Partner rotation – The current partner in charge of the Pension Trust has managed the 2015, 2016, and 2017 audits. Typical practice would be to rotate the partner in charge at least every 5 years.

#### **Process Discussion:**

The consideration of the SLOCPT's financial auditing firm is a topic for the Audit Committee of the Board of Trustees to make recommendations about. This Board item deals only with the process of selecting an auditor – RFP vs. negotiated renewal with the incumbent. Staff recommends foregoing a separate Audit Committee meeting and to address this question as a full

Board in the interests of efficiency. The final approval of a financial audit firm resulting from this process would be the topic of a formal Audit Committee recommendation.

**Audit Background Discussion:**

The Pension Trust currently employs Brown Armstrong (BA) for its annual financial audit. The most recent five-year engagement with BA ran through the 2017 audit. In 2013, the recommendation of the Audit Committee and the decision of the Board of Trustees included the following:

“The Audit Committee of the Board of Trustees met on October 3, 2013 and discussed alternatives with Staff. The Audit Committee recommended that Brown Armstrong be retained subject to the following –

- A five-year engagement for 2013 through 2017 audits
- Negotiation of a satisfactory fee arrangement that kept fees unchanged for three years with a reasonable escalator in years 4 and 5.
- Rotation of the partner in charge as a routine matter from Andy Paulden to another qualified partner.

The Audit Committee also expressed the expectation that at the end of the next 5-year audit engagement cycle that the Trust should consider a routine change in audit firm with a formal RFP process.”

Subsequent to the initiation of this five-year engagement, the partner who replaced Andy Paulden, Connie Perez, left the firm. With Board of Trustees approval, the current partner at BA in charge of the audit was changed to Rosalva Flores. Ms. Flores has managed the 2015, 2016 and 2017 audits. Typical practice would be to rotate the partner in charge at least every 5 years. This would suggest that should a re-engagement with BA be planned for the 2018-2022 audits that a partner rotation on the 2020 audit take place (assuming no changes in BA personnel).

The audit fees from BA in the current five-year engagement were not-to-exceed fees of:

2013 Audit	\$50,600
2014 Audit	\$50,600
2015 Audit	\$50,600
2016 Audit	\$52,118
2017 Audit	\$53,682

**Other Retirement Systems’ Auditors:**

If the Board of Trustees would prefer a full RFP process staff anticipates that there would be limited number of firms responding that are active in the California public retirement system audit sector. The CALAPRS listing of California retirement systems (excluding the large state systems like CalPERS) lists audit firms retained as shown below.

1. Williams, Adley & Co. (large national CPA firm)
  - a. Alameda County
  - b. AC Transit
  
2. Brown Armstrong (BA)
  - a. Bay Area Rapid Transit
  - b. Contra Costa County
  - c. Fresno County
  - d. Fresno City
  - e. Imperial County
  - f. LA County
  - g. LA City
  - h. LA Fire & Police
  - i. Marin County
  - j. Mendocino County (*new with BA in 2018 – prior auditor – Gallina – merged with Clifton Allen Larson*)
  - k. Merced County (*new with BA in 2018 – prior auditor was MGO*)
  - l. San Mateo County
  - m. Santa Barbara County
  - n. Sonoma County
  - o. San Diego County
  - p. SLO
  - q. San Joaquin County
  - r. Tulare County
  - s. Ventura County
  
3. Clifton Allen Larson (large national firm)
  - a. Kern County
  
4. Macias, Gini & O’Connell (MGO)
  - a. Orange County
  - b. Oakland Police & Fire
  - c. Pasadena Police & Fire
  - d. Sacramento County
  - e. San Bernardino County
  - f. San Diego City
  - g. San Francisco City & County
  - h. San Jose City and San Jose Fire & Police
  - i. Stanislaus County
  
5. Simpson & Simpson (LA area)
  - a. Los Angeles Dept. of Water & Power
  - b. Los Angeles Fire & Police

Staff is aware of only two California retirement system that have changed auditors in recent years:

- Mendocino County changed to Brown Armstrong after their previous auditor, a smaller firm, merged into a large national firm.

- Merced County changed to Brown Armstrong in 2017 from Macias, Gini & O’Connell. The change was the result of an RFP process in response to Merced’s Board having a general preference for periodic auditor change. Merced’s RFP is reported to have drawn responses from MGO, BA and a small number of regional CPA firms without significant retirement system experience. After selecting Brown Armstrong, Merced reports being quite satisfied with the quality and thoroughness of BA’s initial audit.

**SLOCPT Staff Opinion:**

Staff reports that the performance of Brown Armstrong on recent audits has been outstanding, organized, thorough and efficient. Staff is fully satisfied with the performance of BA and their qualifications. BA’s audit team maintains continuity of part of the assigned staff from year to year with some of the audit team changing each year. This allows for a “fresh set of eyes” on the audit along with the highly important partner-in-charge rotation.

Respectfully Submitted

## Board of Trustees

1000 Mill Street  
San Luis Obispo, CA 93408  
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Date: July 23, 2018

To: Board of Trustees

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

### **Agenda Item Number 9: Fiduciary Properties Inc. – Retention of 1000 Mill St. for Operations**

#### **Recommendation:**

Staff recommends that the Board of Trustees approve the retention of the Pension Trust's owned real estate at 1000 Mill St./778 Osos St. for the foreseeable future as the operational office for the organization.

#### **Background:**

The Pension Trust has Fiduciary Properties, Inc. (FPI) as a wholly owned 501(c)(25) real estate title holding subsidiary. Historically the Pension Trust (PT) has owned local real estate as investments within FPI including the PT office at 1000 Mill/778 Osos. FPI is currently included in the investment assets on the PT balance sheet.

The PT is currently pursuing an exit strategy from local real estate for reasons of diversification. This process is being managed by American Realty Advisors (ARA). There are two remaining investment properties held by FPI (in addition to 1000 Mill/778 Osos) that are being actively marketed for sale by ARA. We anticipate that those properties will be sold in late 2018 or in 2019 leaving only 1000 Mill/778 Osos owned by FPI. At the conclusion of the FPI local real estate sales, ARA will step down as the investment manager for FPI. Prior to that step, Staff and ARA need to have Board instruction on how 1000 Mill/778 Osos will be handled – sold or retained.

1000 Mill/778 Osos has a fair market value in ARA's opinion of \$2,300,000, or \$305/SF for the total of 7,540 SF. The property consists of two buildings on a ~ 15,000 SF lot that are connected and share a common elevator and parking lot. The property was acquired in 2004 by the PT and remodeled at that time.

- **1000 Mill Street** - 3,624 SF of rentable space. Originally built as an apartment building circa 1940s (?) and remodeled multiple times. Wholly occupied by the PT as its operational office and customer service location.
- **778 Osos St.** – 3,916 SF rentable space divided into four suites, a lobby and two restrooms. Originally built in the late 1980s as an integrated addition to 1000 Mill St. with covered parking below and a shared elevator in a breezeway/stair area between the two buildings.
  - **Suite A** – 740 SF - Currently used by the PT as training and consultant space for the Pension Administration System (PAS) replacement project. It is planned to retain Suite A for PT use in the future as overflow office space, staff expansion (if needed) and archival records storage.
  - **Suite B** – 1,122 SF - Leased to a financial planning firm. Planned to remain leased space.
  - **Suite C** – 1,218 SF - Currently used by the PT for archival records storage. During 2019 with the conclusion of the PAS replacement project it is anticipated that the cloud-based electronic document management system integrated with the PAS will be fully vetted (it is fully operational at this time without problem). This will allow a large volume of archival paper files in Suite C to be shredded. This will free up this space and it is planned to return Suite C to an available to lease status.
  - **Suite D** – 740 SF - Small suite leased to a law practice. Planned to remain leased space.

### Alternatives:

ARA was asked by staff to prepare a market analysis of alternatives for 1000 Mill/778 Osos. That analysis is attached to this memo. The three alternatives for this property are –

1. **Hold and Occupy** – the PT would continue to own 1000 Mill/778 Osos for the foreseeable future and occupy it as its place of business.
2. **Sale and Leaseback** – The PT would sell the property and continue to occupy 1000 Mill St. and Suites A and C in 778 Osos.
3. **Sell and Move** – The PT sells the property and moves to alternative leased space in the 4,000 SF to 5,000 SF range. The lease cost for such a space – if available - are estimated at approximately \$150,000/year.

For Alternatives 1 and 2, ARA made the conservative assumption that the PT would continue to occupy Suite C as it does at present. However, staff expects to be able to vacate Suite C in 2019 and return it to leasable status.

The Summary Table on page 3 of ARA’s analysis provides a concise financial analysis of these three alternatives as well as their respective pros and cons. **ARA’s analysis indicates that the**

**three alternatives are financially equivalent in terms of rates of return.** ARA's conclusion is that the main decision criteria are the operational needs of the PT. In other words, there are not compelling investment reasons to distinguish between the three alternatives so operational office requirements are the primary factor to consider.

### **Operational Office Requirements:**

Staff has analyzed PT operating space needs annually as part of the budget process. We are confident that 1000 Mill/778 Osos will provide an optimum operating location for the PT for the foreseeable future.

- **Staffing and space needs** - The budgeted FY18-19 employee count for the PT is 9.55 FTE. Current staffing is at 8.55 FTE with a temporary office assistant position vacant. Budget projections over five years are consistent at 9.80 FTE without increases. The anticipated retirement of the PT's senior Retirement Program Specialist in 2019 may be offset by another new hire.
  - Potential staffing above this level is not anticipated, but if it were to occur then 778 Osos, Suite A provides ample space for non-direct customer contact staff.
  - The forecasts of PT staffing needs staying relatively constant at 9.80 FTE are in the expectation of the new Pension Administration System (PensionGold version 3) going live in 2019 and functioning smoothly. The customization and development of the new PAS has gone smoothly thus far and we have no reason to doubt the productivity improvements expected from the new system.
  - The forecasts of PT staffing needs also are in the expectation that major Retirement Plan changes do not take place. At present, we do not see any indications of changes taking place that would increase PT staffing levels significantly.
- **Customer Service** – the 1000 Mill/778 Osos property has several compelling advantages for customer service to the members of the Retirement Plan.
  - Central County location – convenient for the County employment concentration downtown as well as for north-County and south-County Members who frequently come into San Luis Obispo for other purposes.
  - Customer accessible offices – the four 1<sup>st</sup> floor offices in 1000 Mill St. and the lobby/reception area provide adequately sized, private and ADA accessible venues for retirement counseling. The offices on the 2<sup>nd</sup> floor are also appropriate for customer service where ADA access is not required.
  - Parking – since many of the PT's members work outside of the downtown SLO area, having easily available free parking is constantly commented on favorably by Members.

- Confidential office – most County retirement systems maintain offices separate from their Plan Sponsor. This is because of their status as retirement systems legally separate from the County Plan Sponsor. Also, it is common for Members thinking about retirement to wish that their initial inquiries and retirement planning be confidential.

### **Occupancy Costs and Budget:**

As part of the larger FPI portfolio, the operations costs for 1000 Mill/778 Osos have been included in the total portfolio and paid from operating revenue of the other properties. As such, we do not have a disaggregated operational cost history for 1000 Mill/778 Osos. Staff has examined the cost estimates used by ARA in their analysis. **The budgeting conclusion is that the net rent from 778 Osos St., Suites B, C, & D will approximately offset the operating and capital reserve costs for the entire 1000 Mill/778 Osos.**

### **Accounting and Title Holding:**

Should the Board of Trustees approve the Hold and Occupy alternative staff will confer with auditors and legal counsel on two administrative points.

- Investment Asset vs. Operating Capital Asset – Once the other investment properties are sold from FPI, it is likely that proper accounting practice will be to convert 1000 Mill/778 Osos from an investment asset to a capital asset. As a capital asset, the revenue from the 778 Osos suites leased to others would be treated as a non-material amount of operating income to the PT offsetting operating costs of the PT. They would be incorporated into the PT's administrative budget accordingly.
- Ownership – FPI vs the PT directly – The original rationale for forming FPI to hold local real estate investments was twofold. First, to provide a shield from the remote possibility of real estate revenue being subject to Unrelated Business Income Tax (UBIT). Tax counsel does not view this as a material risk for a simple operating asset. Secondly, as a liability shield from real estate risks. General Counsel will review and opine on this issue, but with only one property and appropriate insurance coverages this appears to be an immaterial benefit. If FPI were to be dissolved and 1000 Mill/778 Osos conveyed to direct PT ownership an additional benefit would be eliminating the need to file an annual tax return (with a net \$0 tax liability year after year) for FPI.

Respectfully Submitted

July 10, 2018

Via Email

Mr. Carl Nelson  
Executive Secretary & CIO  
San Luis Obispo County Pension Trust  
1000 Mill Street  
San Luis Obispo, CA 93408

Re: Fiduciary Properties, Inc.  
1000 Mill Street and 778 Osos Street  
San Luis Obispo, California  
Hold Versus Sell Analysis

Dear Carl:

At your request, ARA conducted a hold versus sell analysis of the office property located at 1000 Mill Street and 778 Osos Street in San Luis Obispo, California (collectively, the “Property”), which the Pension Trust partially occupies. 1000 Mill Street contains approximately 3,624 rentable square feet and 778 Osos Street contains approximately 3,916 rentable square feet for a total of 7,540 sf. As of March 31, 2018, the fair market value (FMV) of both properties is \$2,300,000 (\$305 psf).

There are three scenarios we considered, which are as follows:

- Hold and Occupy: The Pension Trust maintains ownership of the Property and continues to occupy a portion of it.
- Sell and Leaseback: The Pension Trust sells the Property and continues to occupy and lease back its same portion.
- Sell and Move: The Pension Trust sells the Property, moves to a different office and leases the same amount of space.

For the projected ten-year cash flow of holding the Property, it is assumed that the Pension Trust occupies the same space it occupies now, namely the entire property at 1000 Mill Street and two suites at 778 Osos Street for a total of 5,664 rentable square feet. It is assumed that the Pension Trust pays current market rent for its space of \$1.80/sf/mo. NNN for 1000 Mill Street and \$1.90/sf/mo. NNN for its space at 778 Osos, with 2.5% annual rent increases over the ten-year period. The length of the lease can vary, but generally the longer the lease term the more attractive the investment is to a buyer.

The projected return to the Pension Trust holding the Property is a 7.6% unleveraged IRR. The general assumptions and projected 10-year cash flow used to determine the return is attached to this letter.

For the two sell scenarios, we identified what return the Pension Trust can expect from a similarly risk-adjusted real estate investment as that of the Property. We reviewed projected returns of similar

properties and found them to be within close range of the Property's projected return. From a purely return perspective, there is no reason to sell the Property and buy a similar investment property because the Pension Trust would incur sale costs of approximately 6.5% of the Property's sale price, equaling \$149,000, as well as additional moving costs.

After speaking with you last week and getting an understanding of the Pension Trust's outlook for returns, staying and holding the Property would provide a projected return that is in-line with the Pension Trust's projected investment rate of return; however, we do not view the Property as institutional quality.

### Sale and Moving Costs

If the Pension Trust was to sell the Property, there would be sale costs of approximately 6.5% of the sale price for a broker's sale commission and closing costs. If the Pension Trust was to move (as opposed to selling and leasing back the Property), there would be moving costs, new furniture costs, Pension Trust employee time needed to find a new space, plan the buildout, and conduct the move. These costs would vary depending on the type of buildout and furniture the Pension Trust chooses, but a rough estimate of these costs is as follows:

Sale Costs:	\$149,500 (6.5% x \$2,300,000)
Moving Costs:	30,000
New Furniture & Buildout:	283,200 (5,664 rsf x \$50/rsf)
<u>Employee Time:</u>	<u>30,000 (5 employees x \$75/hr/employee x 80 hours)</u>
Total:	\$492,700

It should be noted that under the hold and occupy scenario, the IRR and projected cash flow described above take into consideration the sale costs in the tenth year of the analysis. This was done for analysis purposes.

A table summarizing the projected investment returns, sale and moving costs and other pros and cons are provided on the following page.

Summary Table			
	Stay and Hold	Sale Leaseback	Sell and Move
Projected Unleveraged IRR	7.6%	7.3%-7.8% (for investment in a similar risk-profiled property)	7.3%-7.8% (for investment in a similar risk-profiled property)
Sale Costs (today's dollar value)	\$149,500 (incurred in year 10 grown at inflation)	\$149,500 (incurred now)	\$149,000 (incurred now)
Moving Costs (today's dollar value)	\$343,200 (incurred in year 10 grown at inflation)	\$343,200 (incurred in year 10 grown at inflation)	\$343,200
Pros	<ol style="list-style-type: none"> <li>Control of property operations, maintenance, and tenants</li> <li>Good location and parking for employees, trustees, and beneficiaries</li> <li>Control of occupancy costs over the long term</li> <li>Ability to expand or contract amount of space needed by the administrative offices</li> </ol>	<ol style="list-style-type: none"> <li>No landlord maintenance responsibilities</li> <li>Good location and parking for employees, trustees, and beneficiaries</li> <li>Option to invest equity in another investment class</li> <li>Could draft the lease to include minimum maintenance requirements for the new landlord, and options to extend the lease term, expand the space or reduce the space.</li> </ol>	<ol style="list-style-type: none"> <li>No landlord maintenance responsibilities</li> <li>Option to move to a more remote location with possibly lower rent</li> <li>Option to invest equity in another investment class</li> <li>Build out of new space could be more efficient than the current layout, which potentially could produce significant cost savings that would offset moving costs.</li> </ol>
Cons	<ol style="list-style-type: none"> <li>The property is not considered institutional real estate and should not be considered part of a core investment strategy</li> <li>Landlord oversight responsibilities</li> <li>No option to move to a lower rent location</li> <li>No option to invest equity in another investment class</li> </ol>	<ol style="list-style-type: none"> <li>At risk of having a poor-quality landlord and adjoining tenants</li> <li>No option to move to lower rent location</li> <li>Puts long-term space needs at risk of market factors such as availability of space and market rent.</li> </ol>	<ol style="list-style-type: none"> <li>At risk of having a poor-quality landlord and adjoining tenants</li> <li>New location might not be as good as the Property's current location, that also has ample parking.</li> <li>Puts long-term space needs at risk of market factors such as availability of space and market rent.</li> </ol>

## Conclusion

The Pension Fund's investment in the Property is projected to perform in-line with similar risk profiled properties. If the Pension Fund desires to invest in such a property type, this one performs in-line with its return requirements. Other items that the Pension Fund may wish to consider include:

- Does the Pension Trust want to be a landlord for its own space or not?
- Does the Pension Trust want to reduce or increase its occupied space?
- How important is making more efficient use of its space by moving or reconfiguring its current space?
- Does the Pension Trust want to be in this location or a different location?
- How important is parking to the Pension Trust?
- How important is having space that is ADA accessible?

These are the items we believe the Pension Trust will need to consider from an investment and office needs standpoint. We hope this is helpful and should you have any questions or would like to discuss, please feel free to call me.

Sincerely,



David Hubbs  
Executive Vice President, Portfolio Management  
ARA | American Realty Advisors  
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DH/cbn

cc: Ms. Kristin Adrian  
Mr. Scott Beltz  
Mr. Jay Butterfield  
Mr. Scott Darling  
Mr. Stanley Iezman  
Mr. Daniel Robinson  
Mr. Scott Whalen

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**Exhibit**

Financial Model Assumptions and Projected 10-Year Cash Flow from the Property

Financial Model Assumptions		
	1000 Mill	778 Osos
Lease Term Length (Years)	10 (Pension Trust)	5 (3 <sup>rd</sup> party tenants) 10 (Pension Trust)
Renewal Probability	70.00%	70.00%
Months of Downtime if Vacant	6	6
Market Base Rent (\$/SF/Mo)	1.80	1.90
Annual Rent Increases	2.5%	2.5%
Free Rent	0	0
Recovery Type	Net	Net
Tenant Improvements - New (\$/SF)	\$20.00	\$20.00
Tenant Improvements - Renew (\$/SF)	\$5.00	\$5.00
Leasing Commissions - New	5.00%	5.00%
Leasing Commissions - Renew	2.00%	2.00%
Annual Rent Growth (both buildings)*	0.0%, 0.5% 0.0%, 0.6%, 0.9%, 3.0% thereafter	
Expense Inflation	3% annually	
New Free Rent (Months)	0	0
Credit Loss Reserve	3.0% (excluding Pension Trust)	3.0% (excluding Pension Trust)

\* Rent growth pursuant to Costar

**1000 Mill & 778 Osos Projected Cash Flow and IRR Calculation**

Fair Market Value (1Q18)	2,300,000
Rentable Square Feet	7,540
Price Per SF	305
Hold Period	9

Net Sale Proceeds in Year 10	
Year 10 NOI	183,594
Cap Rate	6.50%
Sale Price	2,824,523
Closing Costs (6.5%)	-183,594
<b>Net Sale Proceeds</b>	<b>2,640,929</b>

Year Ending	\$/SF/Yr	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Mar-2019	Mar-2020	Mar-2021	Mar-2022	Mar-2023	Mar-2024	Mar-2025	Mar-2026	Mar-2027	Mar-2028
<b>Rental Revenue</b>											
Potential Base Rent	22.37	168,652	171,746	175,439	178,873	183,479	183,924	183,310	184,617	185,773	187,176
Absorption & Turnover Vacancy	-0.57	-4,317	0	-2,826	0	0	-4,536	0	-1,567	-1,614	0
Scheduled Base Rent	21.80	164,335	171,746	172,613	178,873	183,479	179,389	183,310	183,050	184,159	187,176
Total Rental Revenue	21.80	164,335	171,746	172,613	178,873	183,479	179,389	183,310	183,050	184,159	187,176
<b>Other Tenant Revenue</b>											
Total Expense Recoveries	8.78	66,191	76,970	79,641	90,323	92,758	92,364	97,375	98,920	101,426	104,985
Total Other Tenant Revenue	8.78	66,191	76,970	79,641	90,323	92,758	92,364	97,375	98,920	101,426	104,985
Total Tenant Revenue	30.57	230,527	248,716	252,254	269,196	276,236	271,753	280,686	281,970	285,585	292,161
Potential Gross Revenue	30.57	230,527	248,716	252,254	269,196	276,236	271,753	280,686	281,970	285,585	292,161
<b>Vacancy &amp; Credit Loss</b>											
Credit Loss	-0.17	-1,311	-1,703	-1,667	-2,017	-2,075	-1,896	-2,105	-2,090	-2,141	-2,277
Total Vacancy & Credit Loss	-0.17	-1,311	-1,703	-1,667	-2,017	-2,075	-1,896	-2,105	-2,090	-2,141	-2,277
Effective Gross Revenue	30.40	229,216	247,013	250,587	267,179	274,161	269,857	278,581	279,880	283,443	289,884
<b>Operating Expenses</b>											
R&M	2.32	17,500	18,025	18,566	19,123	19,696	20,287	20,896	21,523	22,168	22,834
Janitorial	0.60	4,500	4,635	4,774	4,917	5,065	5,217	5,373	5,534	5,700	5,871
Utilities	1.09	8,200	8,446	8,699	8,960	9,229	9,506	9,791	10,085	10,388	10,699
Management	1.37	10,315	11,116	11,276	12,023	12,337	12,144	12,536	12,595	12,755	13,045
Taxes	2.86	21,578	22,010	22,450	22,899	23,357	23,824	24,301	24,787	25,283	25,788
Insurance	0.41	3,100	3,193	3,289	3,387	3,489	3,594	3,702	3,813	3,927	4,045
General & Administrative	1.33	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048
Security	0.98	7,400	7,622	7,851	8,086	8,329	8,579	8,836	9,101	9,374	9,655
Non-Recoverable	0.13	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305
Total Operating Expenses	11.09	83,593	86,376	88,575	91,416	93,883	95,902	98,569	100,966	103,529	106,290
Net Operating Income	19.31	145,623	160,636	162,012	175,763	180,278	173,954	180,012	178,915	179,914	183,594
Cap Rate	6.3%	6.3%	7.0%	7.0%	7.6%	7.8%	7.6%	7.8%	7.8%	7.8%	8.0%
<b>Leasing Costs</b>											
Tenant Improvements	1.43	10,792	0	7,458	0	0	12,511	0	0	8,905	0
Leasing Commissions	0.53	3,988	0	2,611	0	0	4,190	0	0	2,983	0
Total Leasing Costs	1.96	14,780	0	10,069	0	0	16,701	0	0	11,888	0
<b>Capital Expenditures</b>											
Capital Reserve	0.50	3,770	3,883	4,000	4,120	4,243	4,370	4,502	4,637	4,776	4,919
Elevator Modernization		0	0	0	0	0	0	30,000	0	0	0
Roof underlayment replacement	0.00	0	0	0	0	75,000	0	0	0	0	0
Total Capital Expenditures	0.50	3,770	3,883	4,000	4,120	79,243	4,370	34,502	4,637	4,776	4,919
Total Leasing & Capital Costs	2.46	18,550	3,883	14,068	4,120	79,243	21,071	34,502	4,637	16,664	4,919
Cash Flow Before Debt Service	16.85	127,073	156,753	147,943	171,644	101,035	152,883	145,510	174,278	163,250	178,675
Cash on Cash Return	5.5%	5.5%	6.8%	6.4%	7.5%	4.4%	6.6%	6.3%	7.6%	7.1%	7.8%
<b>Investment Cash Flow &amp; IRR</b>											
Purchase Price	-2,300,000										
Operating Cash Flow		127,073	156,753	147,943	171,644	101,035	152,883	145,510	174,278	163,250	178,675
Net Sale Proceeds											2,640,929
Investment Cash Flow	-2,300,000	127,073	156,753	147,943	171,644	101,035	152,883	145,510	174,278	163,250	2,819,604
<b>Unleveraged IRR</b>	<b>7.6%</b>										

## Board of Trustees

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



Date: July 23, 2018

To: Board of Trustees

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

### **Agenda Item 10: Investment Report for June 2018**

	June	Year to Date 2018	2017	2016	2015	2014	2013
Total Trust Investments (\$ millions)	\$1,318		\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end	\$1,131 year end
<b>Total Fund Return</b>	-0.6% Gross	<b>0.3%</b> Gross	15.5 % Gross	6.6 % Gross	-0.8 % Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	-0.2%	0.3%	13.4 %	7.7 %	-0.5 %	5.2 %	13.4%

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

The Pension Trust operates on a calendar year basis. Therefore, the annual rate of return of most significance to the annual actuarial valuation is as of December 31<sup>st</sup>. However, many retirement systems are on a June 30<sup>th</sup> ending fiscal year. As a result, the financial media is actively reporting the year-ending June 30<sup>th</sup> rates of returns for those systems due to their actuarial significance. For comparison, the preliminary estimate of Pension Trust gross returns for the year ended June 30<sup>th</sup> is 7.1%.

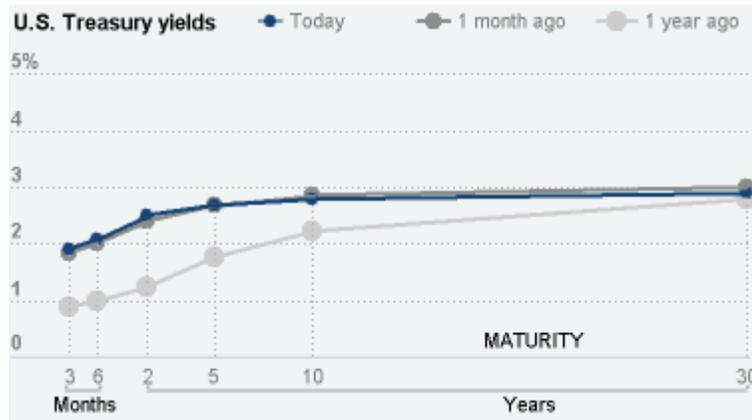
### **The Economy and Capital Markets:**

Some significant factors in the economy for June and into mid-July have been –

- **Fed Policy** – For June and July news from the Fed reflected the continued rate normalization.
  - The Fed met the market’s expectations with a second interest rate increase for the year at its June 13<sup>th</sup> meeting. The 0.25% increase brought the targeted Fed Funds rate to a range of 1.75% to 2.00%. Expectations from the Fed are now for two additional rate increases in 2018 for a total of four increases this year.
  - Inflation data suggests a possible resurgence of inflation. In addition, money supply growth (M2) has increased to a 5% annual rate in the last quarter after a long period of dormancy. With rapidly escalating Federal budget deficits expected by the CBO to push the Debt/GDP ratio for the U.S. above 100% in the next two years, the outlook for increased inflation seems likely. This has implications for further Fed rate increases.
  - In addition, the strong May jobs report further suggests an increase in the pace of Fed rate normalization through the course of the year. In other words, with the economy at full employment, the employment side of the Fed dual mandate is in order and the Fed can focus on the controlling inflation side of their dual mandate. The concerns this raises with the capital markets is that Fed rate increases to combat inflation have a history of occurring even when they fuel an inverted yield curve (see below) and have a high probability of negative GDP growth – the definition of a recession.
  
- **Interest Rates** – Bond markets participants are increasingly anxious about the flattening of the yield curve.
  - With the spread between 2 year Treasuries and 10 year Treasuries shrinking from above 2% in 2014 to a low near 0.35% recently, the possibility of an inverted yield curve is increased.
  - Recession risk is elevated with inverted yield curves (short rates higher than long rates). Inverted yield curves are a reliable indicator of tipping into recession – particularly when co-occurring with low unemployment rates. Every recession in the past 60 years has been preceded by an inverted yield curve. The Fed appears to be on track to cause an inverted yield curve by the end of 2018 which is suggestive of a recession GDP growth in late 2019-early 2020.
  - The flattening yield curve happens when –
    - Short term rates increase – typically due to Fed Open Market Committee actions.
    - Long term rates not increasing – typically when concerns over long-term growth outweigh concerns over future inflation. This may be in despite short term optimism over economic growth fueled partly by tax cuts.
  - However, the persistent suppressed state of long term rates can be influenced by atypical factors including –
    - Fed holdings of long term bonds. Even though the Fed is gradually unwinding their unprecedented large holdings in long term bonds from a decade of quantitative easing, the Fed balance sheet still holds massive amounts of debt that may artificially hold rates down.

- Global volatility influenced by unpredictable trade and geopolitical changes may contribute to a “flight to quality” trade that holds down long-term Treasury rates.

➤ The yield curve as of July 18 is shown in the graph below.



- **GDP Growth –**

- U.S. Real GDP growth for 1Q18 was revised down slightly to a 2.0% annual rate by the Bureau of Economic Analysis. This followed a 4Q17 GDP increase at a 2.9% rate.
- Market expectations for U.S. GDP growth in the current quarter are increasingly optimistic for above-trend GDP growth in 2018 due in part to strong fiscal stimulus from the tax reductions. The BEA release date for 2Q18 initial GDP estimates is July 27<sup>th</sup>.

- **Trade Protectionism, International Tensions, Economic Fallout –**

- The on-again / off-again pattern of threatened tariff increases that has added to capital market volatility in 2Q18 solidified July 5<sup>th</sup> with the actual imposition by the U.S. of substantial tariffs on a range of products. While primarily targeted at China and steel, the tariffs include impacts on other trading partners including Canada and the EU. China responded with retaliatory tariff increases as expected.
- Capital markets appear uncertain about the actual impacts of the now official trade war. The potential fallout depends on the actual magnitude of trading disruption and could include increased prices to U.S. consumers (e.g., products using steel), revenue and employment hits (e.g., U.S. soybean production), and industrial production (e.g., U.S. automobile exports). Given that China is a major purchaser of U.S. Treasury debt, possible disruption to the bond markets is also possible.

- **Employment and Wages –**

- The June DOL report on nonfarm employment showed -
  - June jobs report was up 213k – above market expectations. Revisions were upwards for the April (+175k) and May (+244k) jobs reports.

- Unemployment increased from 3.8% to 4.0%. One year ago, the unemployment rate was 4.3% by comparison.
  - Labor Force Participation –
    - Labor shortages are illustrated by the current ratio of unemployed persons to job openings. This ratio was 1.9 unemployed/job opening in pre-recession 2007, rose to a high of 6.6 in 2009 and is at 0.9 unemployed/job opening as of April.
    - During June the civilian labor force increased by 601k increasing the labor force participation rate slightly to 62.9% - still historically low.
    - The decline in the labor force participation rate is primarily due to the baby-boom generation reaching retirement age so this rate is not expected to increase significantly. The proportion of workers marginally attached to the workforce may shrink and increase the labor force participation rate as current labor shortages and the possibility of increasing wages make work more attractive and achievable for lower-skill workers. However, the U.S. is unlikely to see a return to participation rates similar to the 66% seen in 2007. The BLS forecasts labor force growth of only 0.6% annually for the next 10 years.
  - For the year ending with June, average hourly earnings increased 2.7%. The trend in wage increases over the last four years has been around 2% so the recent increase may indicate building inflationary pressures.
- **Economy and the markets – commentary** – Russell Investments Global Market Outlook Q3 Update report includes the comments of Paul Eitelman excerpted below -

“The U.S. economy is performing well as we approach the middle of 2018. Consumer spending is strong, corporate earnings are outstanding, the unemployment rate is at a 49-year low and the Federal Reserve (Fed) has taken tightening steps at every “press conference” meeting since December 2016. We believe the big fiscal stimulus package from President Trump and the Republicans should keep the economy humming along, with above-trend growth through the middle of 2019. Against this backdrop, the Fed is likely to continue hiking rates to prevent the economy from overheating.

There’s a rhythm to the United States economy that makes a “more of the same” outlook a very reasonable one for the next 12 months. The challenge for investors is that we believe this rhythm is already in the price. The market’s near-term outlook for monetary policy is well-aligned with the Fed’s forecasts and our own. As such, our preferred positioning on U.S. government bonds is currently neutral: we expect the 10-year U.S. Treasury yield to hold steady at around 3% and the yield curve to flatten further with an inversion possible (on the 10-year/2-year spread) around the beginning of 2019. The U.S. equity market is expensive, but corporate fundamentals suggest the path of least resistance is a gradual grind higher until the macro environment weakens.

One of our biggest areas of emphasis right now is trying to identify when that inflection point in the cycle might occur. Our business cycle model suggests the next 12 months look reasonably safe, but we see significant risks lurking just beyond the horizon.”

**SLOCPT Investment Returns:**

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

Respectfully submitted

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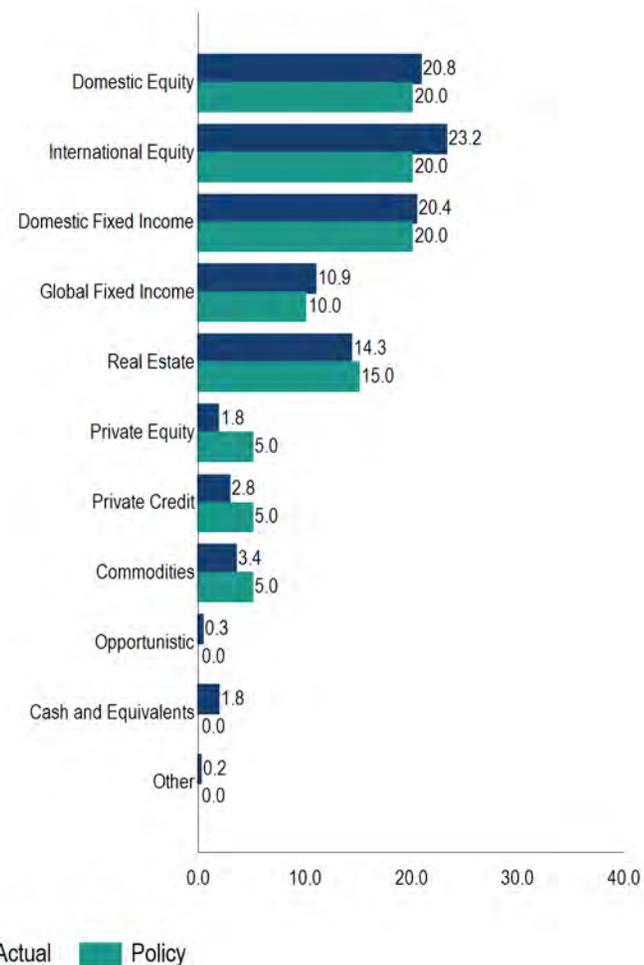
# San Luis Obispo County Pension Trust

## Executive Summary - Preliminary (Gross of Fees)

Period Ending: June 30, 2018

	Market Value	% of Portfolio	1 Mo	YTD	1 Yr
<b>Total Fund</b>	<b>1,318,067,387</b>	<b>100.0</b>	<b>-0.6</b>	<b>0.3</b>	<b>7.1</b>
Total Fund ex Overlay	1,316,019,810	99.8	-0.6	0.3	7.1
Policy Index			-0.2	0.3	7.0
<b>Total Domestic Equity</b>	<b>274,515,173</b>	<b>20.8</b>	<b>0.2</b>	<b>2.1</b>	<b>15.2</b>
Russell 3000			0.7	3.2	14.8
PIMCO RAE Fundamental PLUS Instl	60,106,165	4.6	0.7	1.4	13.7
S&P 500			0.6	2.6	14.4
Loomis Sayles Large Cap Growth	78,927,312	6.0	0.0	3.9	17.8
Russell 1000 Growth			1.0	7.3	22.5
Boston Partners Large Cap Value	75,100,785	5.7	-0.6	-1.6	10.3
Russell 1000 Value			0.2	-1.7	6.8
Atlanta Capital Mgmt	60,380,911	4.6	1.0	5.1	19.7
Russell 2500			0.7	5.5	16.2
<b>Total International Equity</b>	<b>305,778,435</b>	<b>23.2</b>	<b>-1.3</b>	<b>-2.0</b>	<b>7.3</b>
MSCI ACWI ex USA Gross			-1.8	-3.4	7.8
Dodge & Cox Intl Stock	145,635,364	11.0	-1.7	-6.8	1.1
MSCI EAFE Gross			-1.2	-2.4	7.4
WCM International Growth	160,143,071	12.1	-0.9	2.9	13.6
MSCI ACWI ex USA Gross			-1.8	-3.4	7.8
<b>Total Domestic Fixed Income</b>	<b>268,690,683</b>	<b>20.4</b>	<b>0.0</b>	<b>-0.2</b>	<b>1.8</b>
BBgBarc US Aggregate TR			-0.1	-1.6	-0.4
BlackRock Core Bond	99,460,836	7.5	-0.1	-1.1	0.5
BBgBarc US Aggregate TR			-0.1	-1.6	-0.4
Dodge & Cox Income Fund	99,003,527	7.5	-0.1	-1.0	0.8
BBgBarc US Aggregate TR			-0.1	-1.6	-0.4
Pacific Asset Corporate Loan	70,226,320	5.3	0.1	2.3	5.0
S&P/LSTA Leveraged Loan Index			0.1	2.2	4.4
<b>Total Global Fixed</b>	<b>144,165,664</b>	<b>10.9</b>	<b>-2.3</b>	<b>-4.8</b>	<b>-1.4</b>
Citi World Govt Bond Index			-0.3	-0.9	1.9
Brandywine Global Fixed Income	74,735,363	5.7	-0.8	-2.0	0.8
Citi WGBI ex US			-0.5	-0.9	3.2
Stone Harbor Local Markets Ins	69,430,301	5.3	-3.9	-7.7	-3.6
JPM GBI-EM Global Diversified TR USD			-2.9	-6.4	-2.3

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. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 6/30/2018. All data is preliminary.

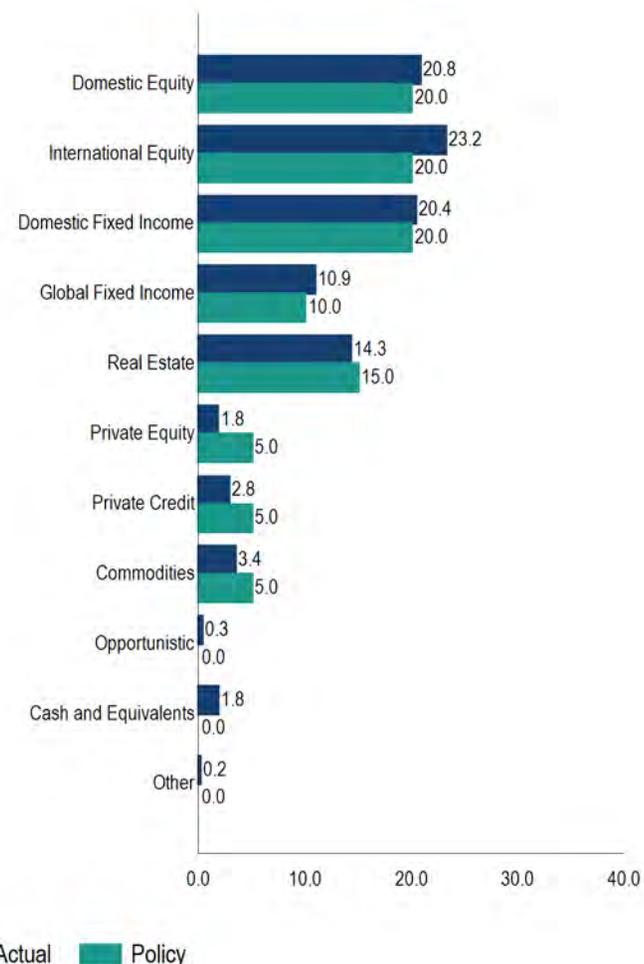
# San Luis Obispo County Pension Trust

## Executive Summary - Preliminary (Gross of Fees)

Period Ending: June 30, 2018

	Market Value	% of Portfolio	1 Mo	YTD	1 Yr
<b>Total Real Estate</b>	<b>188,220,315</b>	<b>14.3</b>	<b>0.0</b>	<b>3.6</b>	<b>7.2</b>
NCREIF Property Index			1.7	3.4	7.1
JP Morgan Core Real Estate	156,536,789	11.9	0.0	3.2	6.3
NCREIF-ODCE			0.0	2.2	6.3
NCREIF Property Index			1.7	3.4	7.1
ARA American Strategic Value Realty	17,238,425	1.3	0.0	4.2	9.0
NCREIF-ODCE			0.0	2.2	6.3
NCREIF Property Index			1.7	3.4	7.1
Direct Real Estate	14,445,101	1.1	0.0	7.5	15.3
NCREIF-ODCE			0.0	2.2	6.3
NCREIF Property Index			1.7	3.4	7.1
<b>Total Commodities</b>	<b>45,379,851</b>	<b>3.4</b>	<b>-2.2</b>	<b>1.7</b>	<b>12.4</b>
Bloomberg Commodity Index TR USD			-3.5	0.0	7.3
Gresham MTAP Commodity Builder	45,379,851	3.4	-2.2	1.7	12.4
Bloomberg Commodity Index TR USD			-3.5	0.0	7.3
<b>Total Private Equity</b>	<b>23,632,709</b>	<b>1.8</b>			
Harbourvest Partners IX Buyout Fund L.P.	13,509,957	1.0			
Pathway Private Equity Fund Investors 9 L.P.	10,122,752	0.8			
<b>Total Private Credit</b>	<b>37,396,868</b>	<b>2.8</b>			
TPG Diversified Credit Program	37,396,868	2.8			
<b>Total Cash</b>	<b>23,769,953</b>	<b>1.8</b>	<b>0.0</b>	<b>0.6</b>	<b>0.9</b>
91 Day T-Bills			0.2	0.8	1.4
Cash Account	23,769,953	1.8	0.0	0.6	0.9
91 Day T-Bills			0.2	0.8	1.4
<b>Total Opportunistic</b>	<b>4,470,159</b>	<b>0.3</b>			
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	4,320,267	0.3			
PIMCO Distressed Credit Fund	149,892	0.0			
CPI + 5%					

Actual vs Target Allocation (%)



\*Other balance represents Clifton Group.

Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. 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. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 6/30/2018. All data is preliminary.



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

JUNE 2018  
Capital Markets Update

# Market commentary

## U.S. ECONOMICS

- Personal spending rose 0.2% from the previous month in May (4.6% YoY), below expectations of a 0.4% increase. The slower pace of consumer spending led to downward revisions in Q2 GDP expectations – the Atlanta Fed’s forecast fell from 4.5% to 3.8%.
- Core PCE inflation increased by 2.0% YoY in May, slightly above expectations of 1.9%. Year-over-year growth in this price gauge has moved up from 1.3% in August of last year and reached 2.0% for the first time since April of 2012.
- Non-farm payrolls added 213,000 jobs in June, led by strong gains in the manufacturing sector (+36,000). Year-to-date employment growth continued to be strong, despite low unemployment rates indicating a tight labor market.

## U.S. EQUITIES

- Investor concerns over uncertainty in global trade relations dominated the headlines, but U.S. equities still managed positive returns for the third straight month. The S&P 500 Index returned 0.6% in June.
- The S&P 500 Index has been rangebound between 2600 and 2800 since the sell off in February. The index finished the month near the middle of that range at 2718.
- Second quarter earnings estimates have increased over the past three months. According to FactSet, the bottom-up earnings forecast for the S&P 500 Index is 20.0% YoY, up from a forecast of 18.1% on March 31<sup>st</sup>.

## U.S. FIXED INCOME

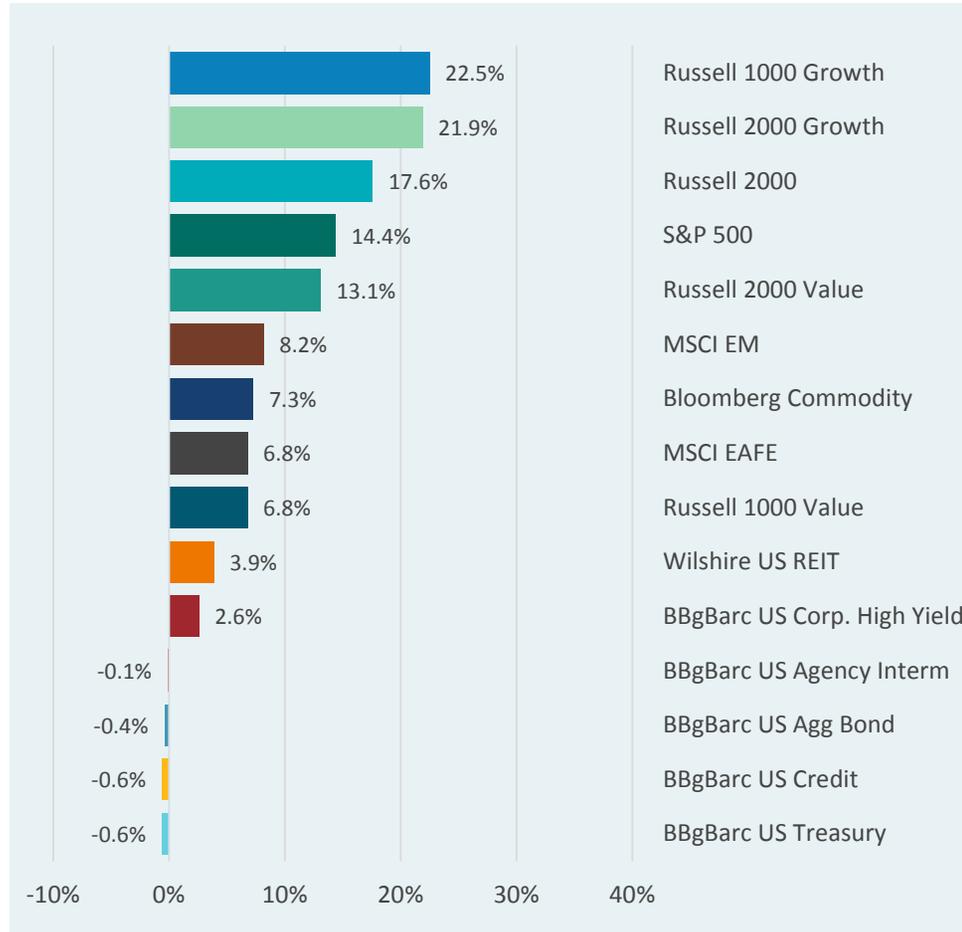
- The 10-year Treasury yield traded within a narrow range between 2.85% and 2.90%, ending the month at 2.86%.
- Short-term Treasury yields moved higher, resulting in a further flattening of the yield curve. The 2-year Treasury yield rose 10 bps to 2.53% – the spread between the 2 and 10-year yields fell to a cycle low of 33 bps.
- As expected, the Fed raised the fed funds rate by 25 bps to a target range of 1.8% to 2.0%. The committee also raised its expectations for additional hikes this year from one to two.

## INTERNATIONAL MARKETS

- The back and forth on trade relations between the U.S. and much of the rest of the world intensified, although there were not any major breakthroughs or setbacks. Global markets were rattled after a report that the White House was considering curbing foreign investment in U.S. companies for firms with more than 25% Chinese ownership. However, President Trump chose to focus on strengthening an already established foreign investment review process with the CFIUS.
- International developed equities underperformed U.S. equities (MSCI EAFE -1.2%) during the month, but much of this performance was driven by currency losses. On a hedged basis the MSCI EAFE returned -0.1%.
- Emerging market currencies depreciated further – the JPMorgan Emerging Market Currency Index fell 2.6%.

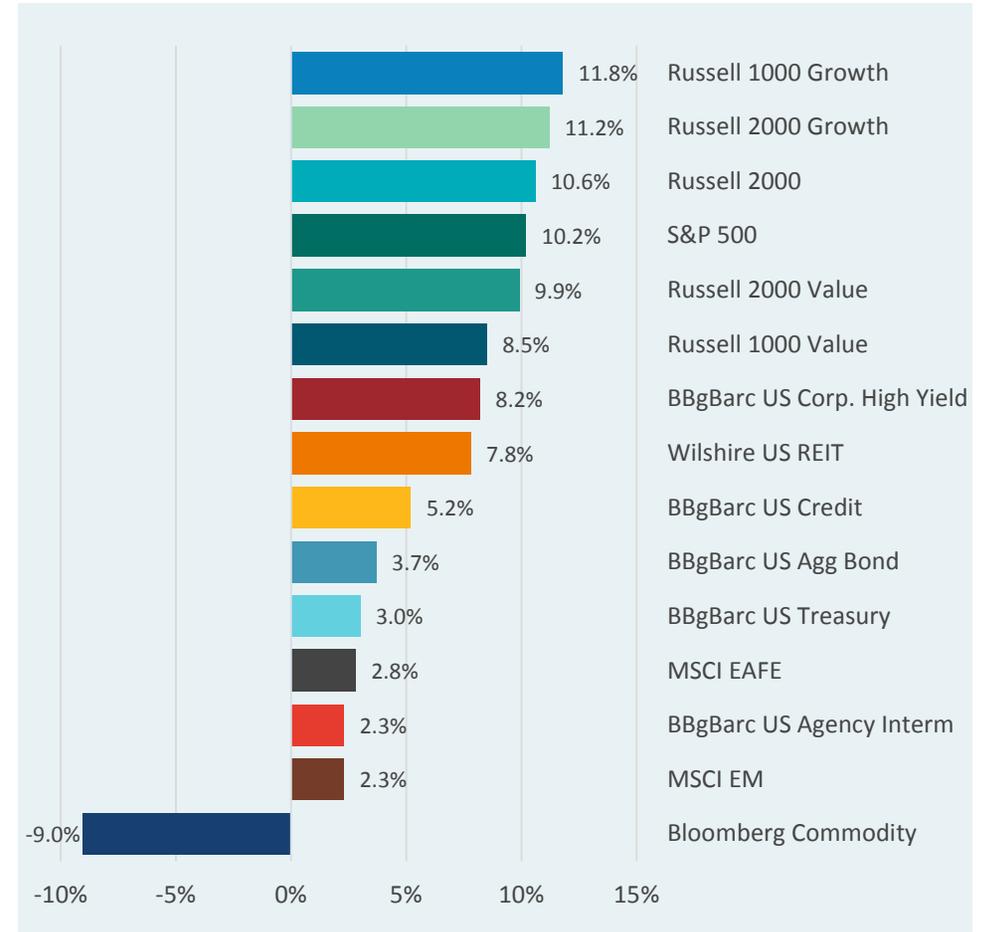
# Major asset class returns

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/18

TEN YEARS ENDING JUNE



Source: Morningstar, as of 6/30/18

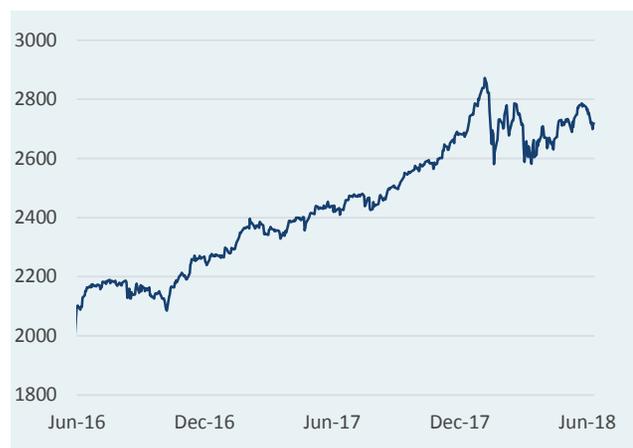
# U.S. large cap equities

- The S&P 500 Index climbed to the upper end of its recent range (2800) in the middle of the month, but came back down to close only slightly higher, influenced by increased global trade tensions. The Index returned 0.6% in June.
- Defensive sectors in the S&P 500, such as Consumer Staples (+4.5%) and Utilities (+2.8%) outperformed the overall index. Cyclical sectors, including Industrials (-3.3%) and Financials (-1.9%) lagged the market.

- Implied volatility rose off of low levels during the second half of the month. The VIX Index closed at 16.1, slightly below its long-term average.
- Forward P/E ratios have been mostly unchanged since the significant upward earnings revisions experienced at the beginning of the year. The S&P 500 traded at a forward earnings multiple of 16.2 at the end of June, slightly above its long-term average of 15.8 since 1990.

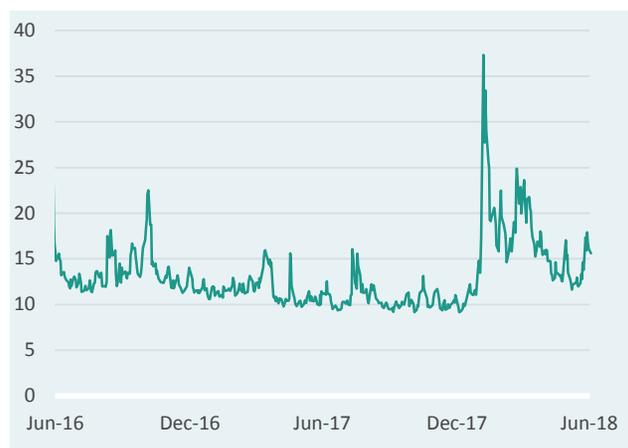
U.S. large cap equities remained rangebound

S&P 500 PRICE INDEX



Source: Bloomberg, as of 6/30/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 6/30/18

S&P 500 VALUATION SNAPSHOT



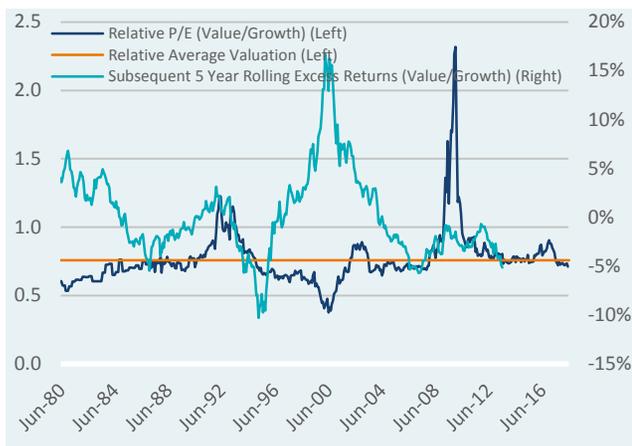
Source: Bloomberg, as of 6/30/18

# Domestic equity size and style

- Small cap equity performance was on par with that of large cap equities. The Russell 2000 Index and Russell 1000 Index returned 0.7% and 0.6% in June, respectively.
- Small cap equities have experienced strong positive momentum over the past three months. The Russell 2000 Index was 5.7% above its 200-day moving average at the end of June, while the Russell 1000 Index was only 2.1% above its 200-day moving average.
- Growth equities outperformed value equities for the third straight month. The Russell 1000 Growth Index and Russell 1000 Value Index returned 1.0% and 0.2%, respectively.
- The Russell 1000 Growth and Russell 1000 Value Indices traded at trailing P/E ratios of 26.4 and 18.2, respectively at the end of June. The ratio of value to growth multiples was 0.69, slightly below its long-term average of 0.73.

Growth equities outperformed for a third straight month

VALUE VS. GROWTH RELATIVE VALUATIONS



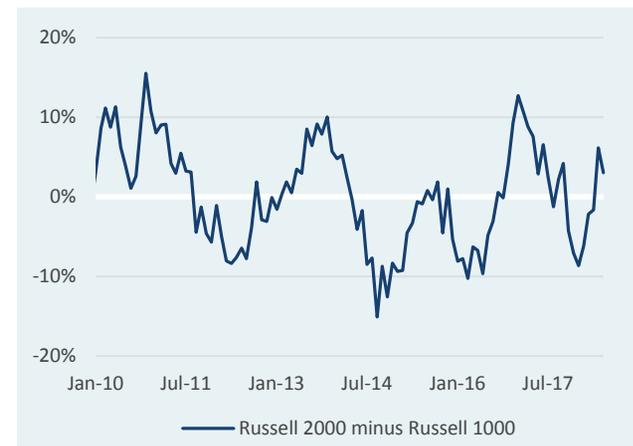
Source: Russell, Bloomberg, as of 6/30/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 6/30/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 6/30/18

# Fixed income

- The Bloomberg Barclays Agg Index lost 0.1% during the month as Treasury yields rose slightly and investment grade credit spreads widened. The yield on the index rose 7 bps to 3.3%, below the 20-year average of 4.0%.
- The shape of the Treasury yield curve flattened to a cycle low. The spread between the 10- and 2-year yields was 33 bps at the end of June. Yield curve shape (inversion) has historically been a useful late cycle indicator, but the ongoing Fed balance sheet unwind may impact how investors should interpret this signal.
- Investment grade credit spreads continued a year-to-date widening trend. The spread on corporate bonds in the Agg Index increased 8 bps to 1.23%, the highest level since late 2016. Investment grade spreads are up 30 bps so far this year.
- Emerging market local debt experienced more weakness during the month, primarily due to currency losses. The JPM GBI-EM Global Diversified Index lost 2.9%.

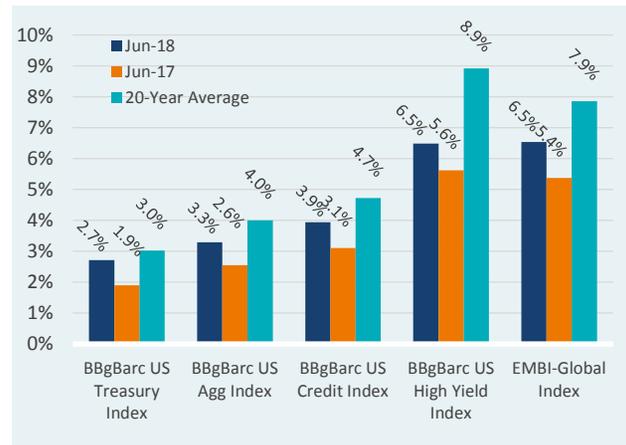
The Treasury curve flattened to a cycle low

U.S. TREASURY YIELD CURVE



Source: Bloomberg, as of 6/30/18

NOMINAL YIELDS



Source: Morningstar, as of 6/30/18

BREAKEVEN INFLATION RATES



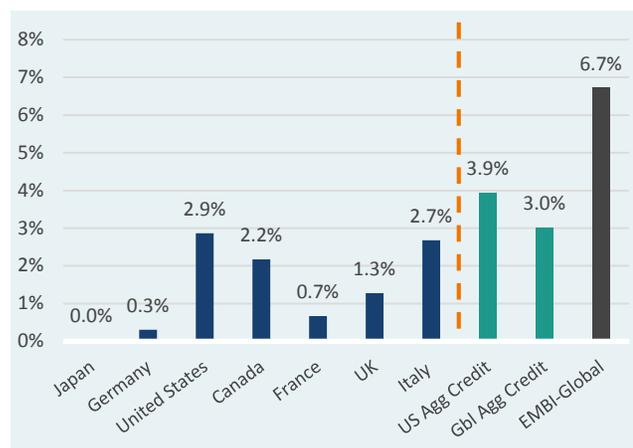
Source: Bloomberg, as of 6/30/18

# Global markets

- Emerging market equities significantly underperformed developed market equities for a third consecutive month. Recent losses in EM equity markets appear to be driven more by investor nervousness over trade rather than a change in fundamentals. The MSCI Emerging Markets Index and the MSCI World Index returned -4.2% and 0.0%, respectively.
- Chinese mainland equities experienced sharp losses in June. The CSI 300 Index fell 7.7%, and was down 20.0% from its peak in late January.
- As expected, the ECB announced it will cut bond purchases from €30 to €15 billion in October, and then stop purchases altogether at the end of year. The central bank also communicated it will not raise interest rates until at least the middle of 2019.
- The dollar appreciated in June against developed and emerging market currencies. The price-adjusted U.S. Dollar Major Currency Index rose 1.3%.

Emerging market assets faced continued selling pressure

GLOBAL SOVEREIGN 10-YEAR YIELDS



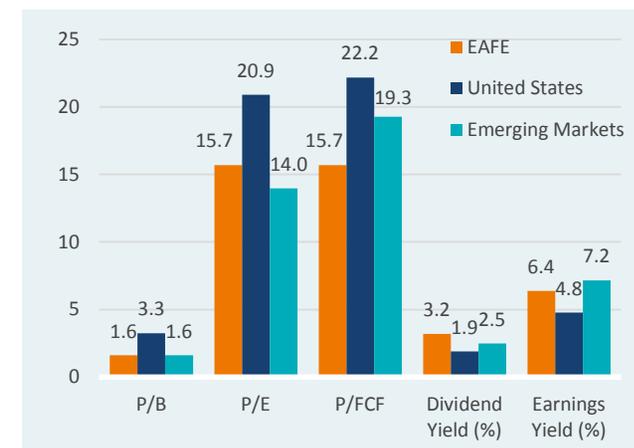
Source: Bloomberg, as of 6/30/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 6/30/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 6/30/18

# Commodities

- The Bloomberg Commodity Index fell 3.5% in June as agriculture and industrial metal prices sank.
- The Bloomberg Commodity Agriculture Index dropped 10.5%, influenced by concerns over slowing Chinese purchases of U.S. agriculture products as a retaliation to tariffs.
- WTI oil prices jumped to over \$74 per barrel for the first time since late 2015, up from \$67 (+10.7%) to start the month.

- Oil prices were impacted by OPEC’s agreement to increase production by around 800,000 barrels per day, less than originally anticipated. Further increases may be limited because certain members such as Saudi Arabia have already stepped up production to replace lower supply in countries such as Venezuela and Iran.

Agriculture prices dropped materially

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(3.5)	0.4	(0.0)	7.3	(4.5)	(6.4)	(9.0)
Bloomberg Agriculture	(10.5)	(8.7)	(5.8)	(13.3)	(9.9)	(9.5)	(7.1)
Bloomberg Energy	2.7	10.7	12.7	34.8	(9.0)	(13.0)	(20.0)
Bloomberg Grains	(11.7)	(9.7)	(3.3)	(16.7)	(13.7)	(12.0)	(9.5)
Bloomberg Industrial Metals	(4.8)	1.0	(5.3)	15.2	6.2	0.9	(4.6)
Bloomberg Livestock	2.7	5.5	(5.1)	(9.4)	(4.5)	(2.7)	(5.5)
Bloomberg Petroleum	3.8	13.0	18.3	58.4	(4.1)	(10.9)	(13.9)
Bloomberg Precious Metals	(3.3)	(4.5)	(5.0)	(0.8)	1.2	(1.3)	1.5
Bloomberg Softs	(7.4)	(1.9)	(11.8)	(7.9)	(4.4)	(8.4)	(4.7)

Source: Morningstar, as of 6/30/18

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 6/30/18

# Appendix

# Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	9.7	16.4	11.8
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	7.7	13.6	11.2
Large Cap Growth	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	7.3	13.4	10.6
Small Cap Value	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	5.4	12.5	10.2
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	2.9	11.2	9.9
Real Estate	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	1.7	10.3	8.5
Hedge Funds of Funds	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	1.2	10.0	6.1
Cash	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	0.8	6.4	4.8
Commodities	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	0.0	6.3	3.7
60/40 Global Portfolio	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-0.8	5.0	2.8
US Bonds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	-1.6	3.6	2.3
Large Cap Value	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-1.7	2.3	1.5
International Equity	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-2.7	0.4	0.4
Emerging Markets Equity	-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	-6.7	-6.4	-9.0

BEST

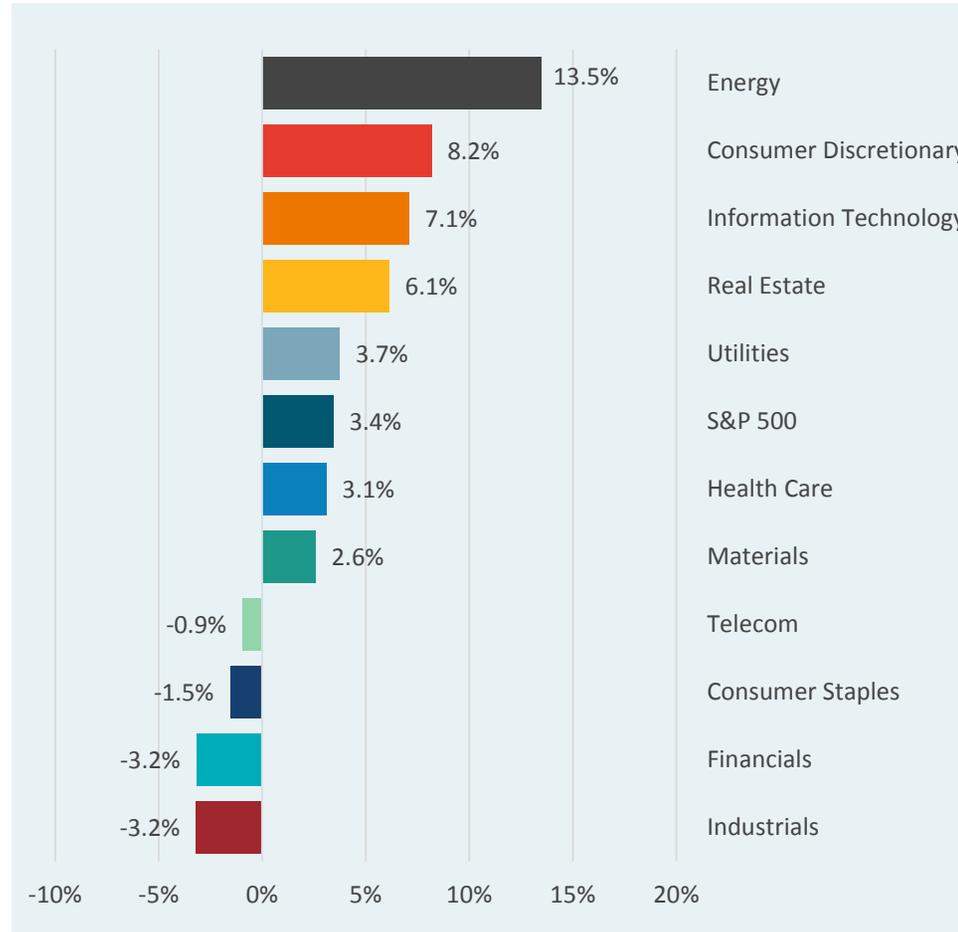
WORST

- Large Cap Equity
- Small Cap Growth
- Commodities
- Large Cap Value
- International Equity
- Real Estate
- 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 3/31/18.

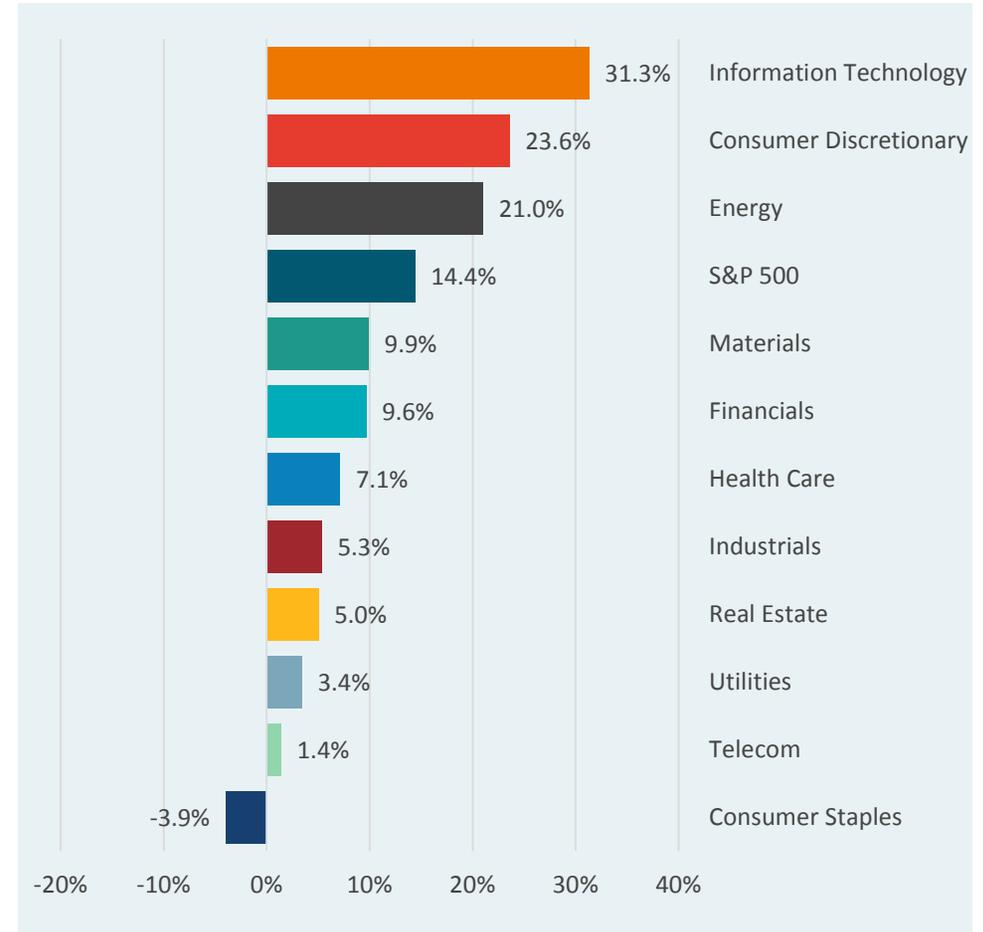
# S&P 500 sector returns

QTD



Source: Morningstar, as of 6/30/18

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/18

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	0.6	3.4	2.6	14.4	11.9	13.4	10.2
S&P 500 Equal Weighted	0.9	2.8	1.8	12.0	10.5	12.8	11.6
DJ Industrial Average	(0.5)	1.3	(0.7)	16.3	14.1	13.0	10.8
Russell Top 200	0.6	3.9	3.1	15.4	12.5	13.8	10.2
Russell 1000	0.6	3.6	2.9	14.5	11.6	13.4	10.2
Russell 2000	0.7	7.8	7.7	17.6	11.0	12.5	10.6
Russell 3000	0.7	3.9	3.2	14.8	11.6	13.3	10.2
Russell Mid Cap	0.7	2.8	2.3	12.3	9.6	12.2	10.2
<b>Style Index</b>							
Russell 1000 Growth	1.0	5.8	7.3	22.5	15.0	16.4	11.8
Russell 1000 Value	0.2	1.2	(1.7)	6.8	8.3	10.3	8.5
Russell 2000 Growth	0.8	7.2	9.7	21.9	10.6	13.6	11.2
Russell 2000 Value	0.6	8.3	5.4	13.1	11.2	11.2	9.9

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	(0.5)	0.5	(0.4)	10.7	8.2	9.4	5.8
MSCI ACWI ex US	(1.9)	(2.6)	(3.8)	7.3	5.1	6.0	2.5
MSCI EAFE	(1.2)	(1.2)	(2.7)	6.8	4.9	6.4	2.8
MSCI EM	(4.2)	(8.0)	(6.7)	8.2	5.6	5.0	2.3
MSCI EAFE Small Cap	(1.9)	(1.6)	(1.3)	12.4	10.1	11.3	6.8
<b>Style Index</b>							
MSCI EAFE Growth	(1.2)	0.1	(0.9)	9.4	6.4	7.4	3.5
MSCI EAFE Value	(1.3)	(2.6)	(4.6)	4.3	3.3	5.4	2.2
<b>Regional Index</b>							
MSCI UK	(1.0)	2.9	(1.0)	10.0	3.1	4.9	2.7
MSCI Japan	(2.5)	(2.8)	(2.0)	10.5	6.2	7.4	3.5
MSCI Euro	(0.7)	(2.8)	(3.2)	5.0	5.3	7.1	1.1
MSCI EM Asia	(4.7)	(5.8)	(5.1)	10.1	7.3	8.3	5.6
MSCI EM Latin American	(3.1)	(17.8)	(11.2)	(0.2)	2.0	(2.4)	(3.7)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	0.4	0.8	(0.0)	2.1	1.9	1.7	3.0
BBgBarc US Treasury Bills	0.2	0.5	0.8	1.3	0.7	0.4	0.4
BBgBarc US Agg Bond	(0.1)	(0.2)	(1.6)	(0.4)	1.7	2.3	3.7
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.0	0.2	0.1	0.0	0.4	0.6	1.3
BBgBarc US Treasury Long	0.2	0.3	(3.0)	(0.1)	3.4	4.5	6.1
BBgBarc US Treasury	0.0	0.1	(1.1)	(0.6)	1.0	1.5	3.0
<b>Issuer</b>							
BBgBarc US MBS	0.0	0.2	(1.0)	0.1	1.5	2.3	3.5
BBgBarc US Corp. High Yield	0.4	1.0	0.2	2.6	5.5	5.5	8.2
BBgBarc US Agency Interm	0.0	0.2	(0.2)	(0.1)	0.8	1.1	2.3
BBgBarc US Credit	(0.5)	(0.9)	(3.0)	(0.6)	2.9	3.4	5.2

## OTHER

<b>Index</b>							
Bloomberg Commodity	(3.5)	0.4	(0.0)	7.3	(4.5)	(6.4)	(9.0)
Wilshire US REIT	4.5	9.7	1.5	3.9	7.8	8.4	7.8
CS Leveraged Loans	0.2	1.0	2.3	4.5	4.2	4.1	5.0
Alerian MLP	(1.5)	11.8	(0.6)	(4.6)	(5.9)	(4.1)	6.5
<b>Regional Index</b>							
JPM EMBI Global Div	(1.2)	(3.5)	(5.2)	(1.6)	4.6	5.1	6.7
JPM GBI-EM Global Div	(2.9)	(10.4)	(6.4)	(2.3)	2.0	(1.4)	2.6
<b>Hedge Funds</b>							
HFRI Composite	(0.1)	0.8	1.2	5.2	2.6	4.2	3.5
HFRI FOF Composite	(0.2)	0.9	1.2	5.6	2.1	3.6	1.5
<b>Currency (Spot)</b>							
Euro	0.0	(5.1)	(2.8)	2.4	1.6	(2.1)	(3.0)
Pound	(0.8)	(5.9)	(2.4)	1.6	(5.7)	(2.7)	(4.0)
Yen	(1.9)	(4.0)	1.7	1.4	(3.4)	(2.2)	(0.3)

Source: Morningstar, HFR, as of 6/30/18

# Notices & disclosures

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## Board of Trustees

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Date: July 23, 2018

To: Board of Trustees

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

### **Agenda Item 11: Asset Allocation July 2018**

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

Staff has been informed that the County does indeed intend to prefund FY18-19 Employer Appropriations and Employer Paid for Member Contributions (EPMC or “pick up”). This prefunding at a discounted rate will be for San Luis Obispo County and for the Air Pollution Control District contributions. It also assumes a July 1, 2019 implementation date for the pension contribution rate increases approved at the June 25<sup>th</sup> Board of Trustees meeting.

Staff has consulted with Verus on the allocation of the \$54 million prefunding expected on July 16, 2018 into the Treasury account. Verus and staff agree on the following allocations to be executed in the last two weeks of July.

These are rebalancing allocations consistent with the Board of Trustees approved Investment Policy Statement so are administrative in nature and no specific Board approval is needed. Dollar amounts are in \$ millions.

SLO County contributions prefunding	\$ 54 to Treasury account
Retain in Treasury account to fund July, August, and September drawdowns for retiree payroll. This leaves 3 months of benefits in the Treasury account per investment policy.	\$ 19
Asset Rebalancing transfers – (\$ 25 total)	
Loomis – domestic equity (growth)	\$ 3
Boston Partners – domestic equity (value)	\$ 7
Pacific Asset Mgmt. – bank loans	\$ 5
Stone Harbor – emerging market debt	\$ 5
Gresham – commodities	\$ 5
Retain in liquidity account for 3Q18 capital calls – real estate, private equity, private credit	\$ 10

Verus comments on the allocation of this rebalancing are quoted below –

- Adding to domestic equity to reduce the international overweight.
  - Favoring value over growth to balance out the two in a market that has favored growth over value for a while (mean reversion principle).
- Adding to EMD overweight relative to core fixed income underweight because although it has been beat up lately on faltering global growth and currency concerns, it is beginning to look like a screaming buy.
- Adding to bank loan overweight relative to core underweight to hedge against rising rates with variable rate structure.
- Adding to commodities based on general inflation concerns.

Respectfully submitted