

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, January 28, 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>*

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

2. Election of Officers (Pursuant to Section 3.05 and Section 3.06 of the By-Laws of the San Luis Obispo County Pension Trust).
3. Committees – appointment of members by President.
 - a. Audit Committee (standing committee)
 - b. Personnel Committee (standing committee)
 - c. Pension Administration System Replacement Committee (ad hoc committee)

CONSENT

4. Minutes of the Regular Meeting of December 17, 2018 (Approve Without Correction).
5. Report of Deposits and Contributions for the month of December 2018 (Receive and File).
6. Report of Service Retirements, Disability Retirements and DROP Participants for the month of December 2018 (Receive, Approve and File).

7. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through January 11, 2019 (Receive, Approve and File).
8. Monthly Investment Report for November 2018 (Receive and File).

APPLICATIONS FOR DISABILITY RETIREMENT

9. Application for Industrial Disability Retirement – Case 2017-08 (Recommend Set for Hearing).

OLD BUSINESS

None

NEW BUSINESS

10. Pension Trust Mission and Objectives (Review, Discuss and Take Action as Appropriate).
11. Board of Trustees Policies Review (Review, Discuss and Take Action as Appropriate)

INVESTMENTS

12. Annual Cashflow Analysis (Receive and File).
13. Monthly Investment Report for December 2018 (Receive and File).
14. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

OPERATIONS

15. Staff Reports
16. General Counsel Reports
17. Committee Reports:
 - a. Audit Committee No Report
 - b. Personnel Committee No Report
 - c. PAS Replacement Committee No Report

18. Upcoming Board Topics (subject to change):

- a. February 25, 2019
 - i. Disability case(s) - TBD
 - ii. 2019 Retiree COLA
 - iii. Member Portal Preview and Discussion
 - iv. Quarterly Investment Report
 - v. Market Outlook - Verus
 - vi. Capital Market Expectations – Verus
 - vii. Emerging Market Debt strategy change - Verus

- b. March 25, 2019
 - i. 2019 Actuarial Valuation Planning and Assumptions – Gabriel Roeder Smith
 - ii. Employer Contributions Prefunding
 - iii. Fiduciary Refresher Training

- c. April 22, 2019
 - i. Business Continuity Planning
 - ii. FY19-20 Pension Trust Budget presentation
 - iii. Member Survey

- d. May 20, 2019
 - i. FY19-20 Pension Trust Budget approval
 - ii. Quarterly Investment Report
 - iii. Strategic Asset Allocation Policy – IPS amendments
 - iv. Investment Policy Peer Comparisons
 - v. ESG/SRI Investing Update

19. Trustee Comments

REFERRED ITEMS

None

ADDED ITEMS

None

CLOSED SESSION

None

ADJOURNMENT

Board of Trustees

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



DECEMBER 17, 2018 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES

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

BOARD MEMBERS ABSENT: none

STAFF: Carl Nelson
Amy Burke

COUNSEL: Chris Waddell (via phone)

OTHERS: Larry Batchelder, SLOCREA
Dan Andoetoe, retiree

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

Agenda Item 1: PUBLIC COMMENT.

None

ORGANIZATIONAL:

Agenda Item 2: Announcement of Elected Trustee Vacancy Appointment effective December 17, 2018.

With the retirement of Trustee Erb as ex officio Trustee and the appointment / election of Elected Trustee Hamilton to the position of County Treasurer – Trustee Hamilton effective December 17, 2018 became the ex officio Trustee. This created a vacancy for Trustee Hamilton’s elected Trustee position for the term ending June 2020. Pursuant to the provisions of the Retirement Plan the remaining two elected Trustees – Trustees Janssen and Clemens - appointed a replacement. After solicitation of letters of interest and interviews Trustees Janssen and Clemens selected Michelle Shoresman as the replacement elected Trustee to complete the term ending June 2020. This appointment was announced by Trustees Janssen and Clemens and no further Board action was necessary. Whereupon, Michelle Shoresman took position as elected Trustee for the remainder of the meeting.

CONSENT:

Agenda Items 3-6: CONSENT.

Public comment: None

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

- Item 3:** The Minutes of the Regular Meeting of November 26, 2018 were approved without correction.
- Item 4:** The Report of Deposits and Contributions for the Month of November 2018, was received and filed.
- Item 5:** The Report of Service Retirements, Disability and DROP Retirements for the month of November 2018, was received, approved and filed.
- Item 6:** The Report of Applications for participation in the Deferred Retirement Option Program received through November 30, 2018, as amended at the meeting by Staff correction was received, approved and filed.

APPLICATIONS FOR DISABILITY RETIREMENT:

**Agenda Item 7: APPLICATION FOR ORDINARY DISABILITY
RETIREMENT CASE 2017-09 SHEILA SHEELER.**

Public comment: None

Upon the motion of Mr. Hamm, seconded by Mr. Janssen, and unanimously passed, the application for Ordinary Disability Retirement of the applicant was denied pursuant to the Retirement Plan, Appendix E, Section 3.01(c) due to failure to submit to medical examination.

OLD BUSINESS:

None

NEW BUSINESS:

Agenda Item 8: Actuarial Assumptions Peer Comparison

Staff requested deferral of this report to a future Board of Trustees meeting due to unavailability of some 2018 actuarial valuation from peer retirement systems.

INVESTMENTS:

Agenda Item 9: Monthly Investment Report for November 2018

Staff noted that due to the early date of the December Board of Trustees meeting that the monthly investment report was not yet available from the Pension Trust's investment consultant, Verus. The report will be distributed as soon as possible to the Board and will be on the agenda to receive and file at the January 25, 2019 Board of Trustees meeting.

Agenda Item 10: Asset Allocation

This was a no action item regarding investment asset allocations except to apprise the Board of rebalancing activity.

OPERATIONS:

Agenda Item 11: Staff Reports

- A)** Staff reported that a long term (40 years) key staff member, Andrea Paley has announced that she will be retiring effective March 1, 2019. A special edition of The Fiduciary newsletter is planned for January to include a farewell letter from Ms. Paley to the many retirees and active members that she has assisted over the years.
- B)** Staff reported that staffing was in place to continue operations and customer service after Ms. Paley's retirement as has been planned for several years.
- C)** Staff reported that the active monitoring of SLOCPT retirees working for the County and contracting agencies on a post-retirement, temporary or contract employee basis was taking place. Such retirees are limited to 960 hours/year of such service. Several warning letters to retirees working in this capacity and nearing the 960 hour limit for the fiscal year have already been sent.
- D)** Staff reported that the first retirement of a member with pure Tier 3 service recently took place. It has been five years since PEPRA took effect which created Tier 3.

Agenda Item 12: General Counsel Reports

General Counsel reported on the status of an ongoing California Supreme Court case CalFire and the purchase of "airtime" as banned by PEPRA as well as related cases (e.g., Marin County) progressing towards Supreme Court consideration.

Agenda Item 13: Committee Reports – as needed

- A)** Audit Committee: Nothing to report.
- B)** Personnel Committee: Nothing to report.
- C)** Pension Administration System Replacement Committee: Nothing to report.

Agenda Item 14: 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 15: TRUSTEE COMMENTS.

None

REFERRED ITEMS:

None.

ADDED ITEMS:

None.

CLOSED SESSION:

None.

ADJOURNMENT.

There being no further business, the meeting was adjourned at 10:18 AM. The next Regular Meeting was set for January 28, 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**

This page left blank intentionally.

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

PP 25 12/7/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
					Employee Contributions	Rate					
By Employer and Tier:											
County Tier 1	3,677,764.69	861,778.59	23.43%	421,085.95	313,271.64	19.97%	43.40%	1,187.50	36,968.49		1,634,292.17
County Tier 2	958,540.81	230,479.67	24.04%	48,093.93	80,722.63	13.44%	37.48%	70.66	3,326.55		362,693.44
County Tier 3	2,582,446.28	578,829.60	22.41%	302,780.77	-	11.70%	34.12%	-	9,691.52		891,301.89
Superior Court Tier 1	271,072.71	67,988.44	25.08%	44,021.36	-	16.24%	41.32%	-	13,074.96		125,084.76
Superior Court Tier 3	74,093.04	17,515.28	23.64%	8,248.29	-	11.13%	34.77%	-	114.54		25,878.11
APCD Tier 1	85,387.75	18,861.33	22.09%	10,652.79	5,877.51	19.36%	41.45%	-	-		35,391.63
APCD Tier 3	15,115.22	3,264.70	21.60%	1,951.67	-	12.91%	34.51%	-	-		5,216.37
Pension Trust Staff Tier 1	7,562.87	1,737.95	22.98%	921.16	702.59	21.47%	44.45%	-	-		3,361.70
Pension Trust Staff Tier 2	8,788.80	2,019.67	22.98%	232.91	816.48	11.94%	34.92%	-	-		3,069.06
Pension Trust Staff Tier 3	11,295.84	2,540.44	22.49%	1,411.62	-	12.50%	34.99%	-	-		3,952.06
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-		5,828.61
	7,705,295.92	1,788,898.46	23.22%	840,117.39	402,619.73	16.13%	39.34%	1,258.16	63,176.06		\$ 3,096,069.80
PP 26 12/21/2018											
By Employer and Tier:											
County Tier 1	3,532,477.61	829,835.10	23.49%	406,840.85	300,198.51	20.02%	43.51%	1,187.50	648.63		1,538,710.59
County Tier 2	937,824.56	226,208.39	24.12%	47,937.71	78,561.38	13.49%	37.61%	68.72	709.70		353,485.90
County Tier 3	2,460,759.48	553,892.36	22.51%	289,981.04	-	11.76%	34.27%	-	1,550.86		845,424.26
Superior Court Tier 1	273,542.19	68,745.03	25.13%	44,499.39	-	16.27%	41.40%	-	-		113,244.42
Superior Court Tier 3	74,263.38	17,562.02	23.65%	8,274.45	-	11.14%	34.79%	-	114.54		25,951.01
APCD Tier 1	62,031.37	13,710.60	22.10%	7,719.65	4,292.20	19.36%	41.47%	-	-		25,722.45
APCD Tier 3	11,298.40	2,439.12	21.59%	1,450.50	-	12.84%	34.43%	-	-		3,889.62
Pension Trust Staff Tier 1	7,204.40	1,655.57	22.98%	877.50	669.29	21.47%	44.45%	-	-		3,202.36
Pension Trust Staff Tier 2	8,374.40	1,924.43	22.98%	221.92	777.98	11.94%	34.92%	-	-		2,924.33
Pension Trust Staff Tier 3	10,972.33	2,467.68	22.49%	1,367.85	-	12.47%	34.96%	-	-		3,835.53
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-		5,828.61
	7,391,976.03	1,722,323.09	23.30%	809,887.80	385,728.24	16.17%	39.47%	1,256.22	3,023.73		\$ 2,922,219.08
TOTAL FOR THE MONTH	15,097,271.95	3,511,221.55	23.26%	1,650,005.19	788,347.97	16.15%	39.41%	2,514.38	66,199.79		\$ 6,018,288.88
TOTAL YEAR TO DATE	199,283,712.60	46,128,151.89	23.15%	21,569,804.77	10,846,345.09	16.27%	39.41%	38,996.93	425,487.34		\$ 79,008,786.02
PRIOR YEAR COMPARISON	192,735,873.56	42,060,181.73	21.82%	29,838,567.36	-	15.48%	37.30%	61,194.69	358,165.56		\$ 72,318,109.34
% CHANGE FROM PRIOR YEAR	3.40%	9.67%	1.33%	8.64%	(1)	0.79%	2.11%	-36.27%	18.80%		9.25%

(1) - 2018 was the first year Employer for Employee Contributions were reported separately from Employee Contributions.

This page left blank intentionally.

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

DECEMBER 2018

RETIREE NAME	DEPARTMENT	DATE	MONTHLY ALLOWANCE
ALSOP, RONNIE	EMERGENCY SERVICES	12-29-2018	8658.66 3.28*
ANDREWS, LISA	SUPERIOR COURT	12-15-2018	2371.07
AZEVEDO, OLIVIA	BEHAVIORAL HEALTH	12-15-2018	2257.43
BENNETT, LAURA	SOCIAL SERVICES	12-29-2018	1954.62
BENNETT, STEELE	SOCIAL SERVICES	12-29-2018	2721.21
BLANKENSHIP, JOHNNY	FACILITIES MANAGMENT	12-01-2018	2437.96 8.20*
CAME, KIRSTEN	PARKS	12-15-2018	1157.59
CASTILLO, ARNOLD	PROBATION	12-29-2018	4315.99
CLAASSEN, MELODEE	SHERIFF-CORONER	12-29-2018	Option selection
COLLINS, CYNTHIA	BEHAVIORAL HEALTH	12-22-2018	4154.16 12.31*
DAMON, MARTA	RESERVE / BEHAVIORAL HEALTH	12-25-2018	1099.50 311.62*
DELFINO, JULIE	AUDITOR-CONTRLR-TREAS-TAX-COLL	12-29-2018	Option selection
DEVINY, CHRISTINA	ITD	12-28-2018	8932.80
DUMMIT, CYNTHIA	AUDITOR-CONTRLR-TREAS-TAX-COLL	12-29-2018	5449.70
FORSBERG, JOHN	SOUTH BAY FIRE / RECIPROCAL	12-19-2018	Awaiting calcs
GERMAN, ISABEL	SOCIAL SERVICES	12-29-2018	Option selection
HALL, ANN	ENGINEERING / RECIPROCAL	12-17-2018	Awaiting calcs
HELBERG, SHERILYNN	SOCIAL SERVICES	12-29-2018	2153.02
HUTCHINSON, MARK	PUBLIC WORKS ISF	12-29-2018	11812.91 9.97*
JONES, KENNETH	SHERIFF-CORONER	12-22-2018	2684.12
LEMEN, JULIE	SOCIAL SERVICES	12-29-2019	6233.34 10.03*
MACCARONE, DEBORAH	SLO COUNTY CHILD SUPPORT SERVI	12-14-2018	2529.11
MANSON, JO	PLANNING	12-29-2018	3416.12
MARSHALL, GLENN	PUBLIC WORKS ISF	12-04-2018	4371.87
McGUIRE-MICHAEL, JAN	SUPERIOR COURT	12-22-2018	2174.80
McNULTY, TIM	COUNTY COUNSEL	12-29-2018	9676.12
OLIVAS, TIMOTHY	SHERIFF-CORONER / RECIPROCAL	12-15-2018	3001.38
PEARCE, JAMES H.	BEHAVIORAL HEALTH	12-16-2018	2072.22
PEREZ, GAIL	AGRICULTURAL COMMISSIONER	12-29-2018	Awaiting calcs
SAMUELA, JEAN	SOCIAL SERVICES	12-01-2018	3295.59

RETIREE NAME	DEPARTMENT	DATE	MONTHLY ALLOWANCE
SCHMIDT, NIKKI (DROP)	ADMINISTRATIVE OFFICE	12-01-2018	6624.01 179.29*
STEVER, DON (DROP)	ITD	12-01-2018	5893.95
TAMEZ, DENA	PROBATION	12-01-2018	841.30 436.40**
VALLELUNGA, CHERIE	COUNTY COUNSEL / RECIPROCAL	12-29-2018	4965.59
VAN DUZEN, HEATHER	SOCIAL SERVICES	12-21-2018	1535.85 597.94** 1.64*
VANECEK, FRANK	SHERIFF-CORONER	12-29-2018	520.07 188.89**
WILLIAMS, JON	PUBLIC HEALTH	12-29-2018	2255.82
WILLOUGHBY, KRISTINE	CHILD SUPPORT SERVICES	12-22-2018	4632.40 3.49*
ADDENDUM:			
KOVAL, ANDREW B	FACILITIES MANAGEMENT / RECIPROCAL	09-29-2018	Awaiting calcs
LANGO, MICHAEL	GENERAL SERVICES / RECIPROCAL	09-08-2018	Option selection
STAGG, MONICA	BEHAVIORAL HEALTH / RECIPROCAL	10-21-2018	535.30
DUDLEY, ERIC	PUBLIC HEALTH / ALTERNATE PAYEE	11-01-2018	5603.96
HEILMAN, DEBORAH	SOCIAL SERVICES	11-30-2018	1728.54
WIEST, COLLEEN	PUBLIC HEALTH / RESERVE	11-01-2018	2245.25

* 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

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



Date: January 28, 2019
To: Board of Trustees
From: Carl Nelson – Executive Secretary

Agenda Item 7: 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:

None

This page left blank intentionally.

Board of Trustees

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



Date: December 17, 2018

To: Board of Trustees

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

Agenda Item 9: Investment Report for November 2018

	November	Year to Date 2018	2017	2016	2015	2014	2013
Total Trust Investments (\$ millions)	\$1,338		\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end	\$1,131 year end
Total Fund Return	0.9 % Gross	-0.1 % Gross	15.5 % Gross	6.6 % Gross	-0.8% Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	0.9%	-0.4 %	13.4 %	7.7 %	-0.5 %	5.2 %	13.4%

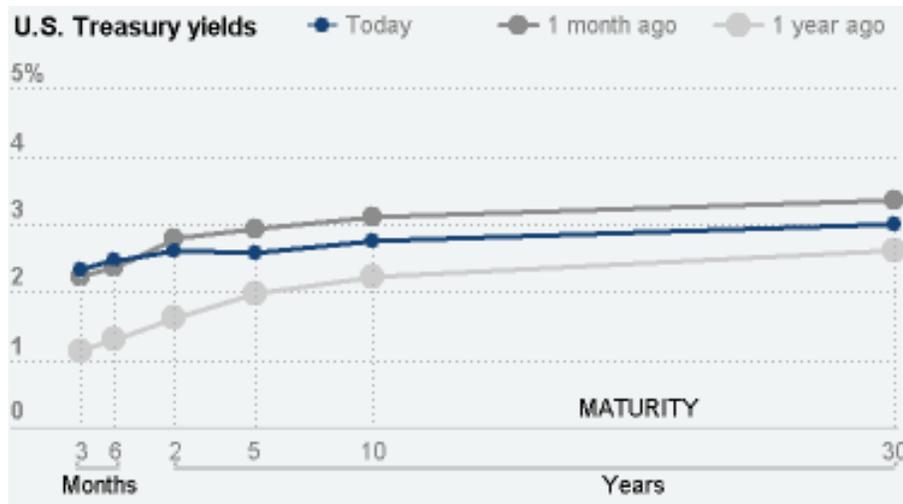
(r) Policy index as of Aug. 2016 revision to Strategic Asset Allocation Policy: 20% domestic equity, 20% international equity, 15% core bonds, 5% bank loans, 5% global bonds, 5% emerging market debt, 15% real estate, 5% commodities, 5% private equity, 5% private credit.

The Economy and Capital Markets:

Some significant factors in the economy for November and into mid-December have been –

- **Fed Policy –**
 - Capital markets have added to their volatility in recent months based in part on concerns over Fed policy. In particular, the pace of Fed mandated interest rate increases in addition to the Fed unwinding its balance sheet and selling bonds left over from Quantitative Easing into the market. Both are forms of monetary tightening.

- The Fed meets again on December 19th, and is expected to approve one more round of rate increases for this year of about +0.25%. However, the capital markets are retreating from expectations of two more rounds of Fed tightening in 2019 based on the Fed Chair comments below.
- On November 28th, speaking to the Economic Club of New York, Fed Chair Powell softened his hawkish tone on interest rate hikes saying “Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy--that is, neither speeding up nor slowing down growth.”
- The yield curve as of December 18th is shown below.



- **GDP Growth , Recession Fears and Corporate Profits –**

- Capital markets are rattled by fear of a U.S. economic recession in 2019 as well as heightened concerns over a slowing in Chinese growth rates. Some of the concerns can be summarized as -
 - The synchronized global growth of recent years may be ending. As the U.S. economy continues to expand with the fiscal stimulus of tax cuts and low unemployment, its rate of growth should slow.
 - China, a traditional strong growth economy shows signs of its GDP growth falling below 6%, due in part to the asymmetric impact of U.S. / China trade policy disputes. As chaotic trade policies and tariffs proceed, the Chinese economy as a dominant exporter is more vulnerable than the U.S. economy.
 - The aggressive fiscal stimulus of U.S. tax cuts is less likely to be acceptable internationally as the resulting budget deficits are riskier for both emerging markets and developed markets that lend money to emerging markets.
 - Globally diverging monetary policies. As the Fed normalizes interest rates with gradual increases, other central banks in Europe, Japan and China are still in a monetary easing mode.
 - Increasing U.S. interest rates relative to the rest of the world leads to a stronger U.S. Dollar. This in turn harms emerging market economies that pay their debts in USD

terms. A strong USD also acts as a headwind to international investment for U.S. investors.

- The monetary systems are less able to provide a contra-cyclical force in the face of an economic downturn given the present eased monetary policies – even in the U.S. despite recent Fed efforts at restocking the monetary toolkit.
 - While corporate profits have been quite strong in 2018, profit margins are one of the first victims if economic activity contracts.
- **Trade Policy –**
 - The chaotic, entrenched and aggressive tone of the U.S. / China trade war appears to be an increasingly potent source of capital market fear and volatility. While the U.S. Administration and the Chinese government announced a “truce” in the imposition of higher 25% tariffs as had been planned for 2019, markets remained concerned over a lack of a long-term plan to address trade policy.
- **Oil Prices –**
 - Oil prices continued a precipitous decline from October highs above \$70/bbl for light sweet crude to around \$46/bbl on December 18th.
 - Factors in the dramatic swings in oil prices include –
 - Uncertain and changeable U.S. positions on Iran sanctions. What had been viewed as a certain hit to Iranian supply of oil to world markets from U.S. sanctions turned to confused relief when the U.S. exempted much of Iran’s oil exports from sanctions.
 - Continued strong supply from U.S. oil shale-based drilling.
 - Expected declines in Chinese demand for oil related to the erratic and aggressive path of the U.S. / China trade war. This last factor is also fueled by concerns over a possibly slowing Chinese growth rate.
- **Employment and Wages –**
 - The November DOL report on nonfarm employment showed -
 - New jobs up 155k in November, a bit below expectations, but still expansionary
 - Unemployment held steady at 3.7% - the lowest since 1969.
 - Wage growth – eagerly watched for signs of an uptick in inflation – for November again showed a year-over-year increase of 3.1% and may not portend the imminent inflation increase that the capital markets are anxious over.
- **Economy and the markets – the 4Q18 “Correction”**
 - October and into mid December has seen a sharp selloff in equity prices globally and volatile interest rates. While November saw a bit of pause in the market correction, December thus far has seen the S&P 500 index off over 7% from its November high point.

- The chart below shows the S&P 500 index for the year ending December 18th –



- December shows the signs of a market “correction of over a 10% drop. The onset of a “Bear market” with drops over 20% is a possible event of great concern.
- The reasons for the 4Q18 correction are also the subject of much market commentary and speculation. Factors include –
 - Concerns over corporate profit impacts of a possible recession..
 - Fed action fears – the concern that surprises in an accelerating inflation rate could lead to more rapid tightening than expected. These fears have been eased by Fed Chair Powell’s end of November statements about interest rates.
 - Market concerns over exogenous shocks to the system such as a continuation of the chaotic and pugnacious trade policies of recent months, oil price shocks, political turmoil, etc.
 - Market expectations of late-cycle economic growth slowing in 2019 to well below the rapid pace of 2018.
- A more tempered set of expectations for 2019 is the topic of an upcoming JP Morgan 2019 Investment Outlook meeting. JP Morgan’s chief strategist, Dr. David Kelly, offered up the following expectations –
 - The U.S. economy will slow but not stall
 - Central banks in the U.S. and abroad will tighten monetary policy
 - Earnings growth will slow although remain positive
 - International equities will be volatile but should rebound following a rough 2018

SLOCPT Investment Returns:

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

Respectfully submitted

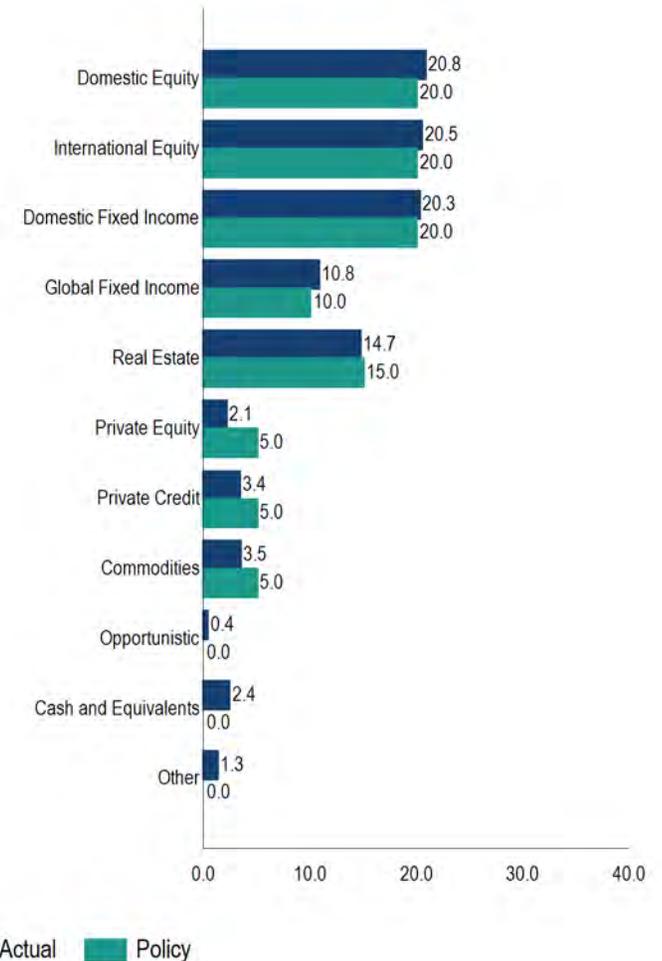
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: November 30, 2018

	Market Value	% of Portfolio	1 Mo	YTD
Total Fund	1,338,212,298	100.0	0.9	-0.1
Total Fund ex Overlay	1,321,334,231	98.7	0.9	-0.1
Policy Index			0.9	-0.4
Total Domestic Equity	278,293,459	20.8	3.1	4.7
Russell 3000			2.0	4.5
PIMCO RAE Fundamental PLUS Instl	58,321,748	4.4	1.4	3.7
S&P 500			2.0	5.1
Loomis Sayles Large Cap Growth	80,775,765	6.0	4.7	6.8
Russell 1000 Growth			1.1	7.8
Boston Partners Large Cap Value	81,451,016	6.1	2.4	1.9
Russell 1000 Value			3.0	1.5
Atlanta Capital Mgmt	57,744,931	4.3	3.4	6.1
Russell 2500			1.9	1.1
Total International Equity	273,988,518	20.5	0.9	-7.1
MSCI ACWI ex USA Gross			1.0	-9.7
Dodge & Cox Intl Stock	137,915,107	10.3	0.1	-11.6
MSCI EAFE Gross			-0.1	-9.0
WCM International Growth	136,073,411	10.2	1.8	-2.5
MSCI ACWI ex USA Gross			1.0	-9.7
Total Domestic Fixed Income	271,066,343	20.3	-0.1	-0.1
BBgBarc US Aggregate TR			0.6	-1.8
BlackRock Core Bond	96,257,457	7.2	0.5	-1.7
BBgBarc US Aggregate TR			0.6	-1.8
Dodge & Cox Income Fund	98,888,740	7.4	0.0	-1.0
BBgBarc US Aggregate TR			0.6	-1.8
Pacific Asset Corporate Loan	75,920,146	5.7	-0.8	3.4
S&P/LSTA Leveraged Loan Index			-0.9	3.1
Total Global Fixed	144,564,337	10.8	1.7	-7.4
FTSE World Govt Bond Index			0.5	-3.2
Brandywine Global Fixed Income	71,947,197	5.4	0.0	-5.4
FTSE WGBI ex US TR			0.3	-4.3
Stone Harbor Local Markets Ins	72,617,140	5.4	3.4	-9.5
JPM GBI-EM Global Diversified TR USD			2.8	-7.4

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. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 11/30/2018. All data is preliminary.

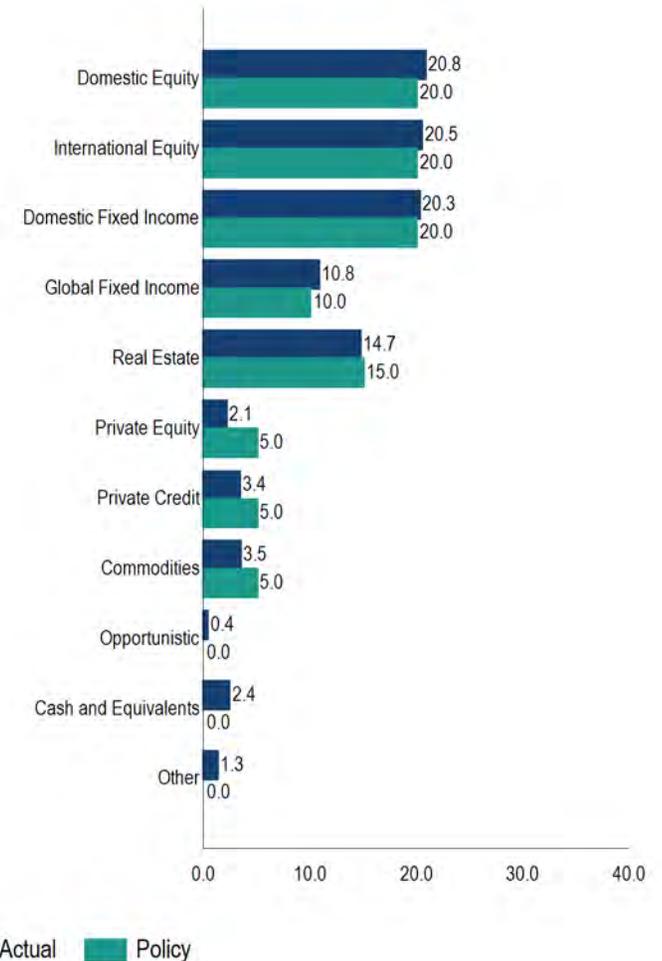
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: November 30, 2018

	Market Value	% of Portfolio	1 Mo	YTD
Total Real Estate	196,523,158	14.7	0.6	7.2
NCREIF Property Index			0.0	5.3
JP Morgan Core Real Estate	162,527,676	12.1	0.7	6.7
NCREIF-ODCE			0.0	6.5
NCREIF Property Index			0.0	5.3
ARA American Strategic Value Realty	22,016,296	1.6	0.0	9.1
NCREIF-ODCE			0.0	6.5
NCREIF Property Index			0.0	5.3
Direct Real Estate	11,979,186	0.9	0.0	11.6
NCREIF-ODCE			0.0	6.5
NCREIF Property Index			0.0	5.3
Total Commodities	46,228,857	3.5	-5.2	-7.1
Bloomberg Commodity Index TR USD			-0.6	-4.7
Gresham MTAP Commodity Builder	46,228,857	3.5	-5.2	-7.1
Bloomberg Commodity Index TR USD			-0.6	-4.7
Total Private Equity	28,434,024	2.1		
Harbourvest Partners IX Buyout Fund L.P.	13,423,653	1.0		
Pathway Private Equity Fund Investors 9 L.P.	15,010,371	1.1		
Total Private Credit	45,293,737	3.4		
TPG Diversified Credit Program	45,293,737	3.4		
Total Cash	32,089,110	2.4	0.0	1.5
91 Day T-Bills			0.2	1.7
Cash Account	32,089,110	2.4	0.0	1.5
91 Day T-Bills			0.2	1.7
Total Opportunistic	4,852,687	0.4		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	4,691,515	0.4		
PIMCO Distressed Credit Fund	161,172	0.0		
CPI + 5%			0.1	6.9

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 11/30/2018. All data is preliminary.



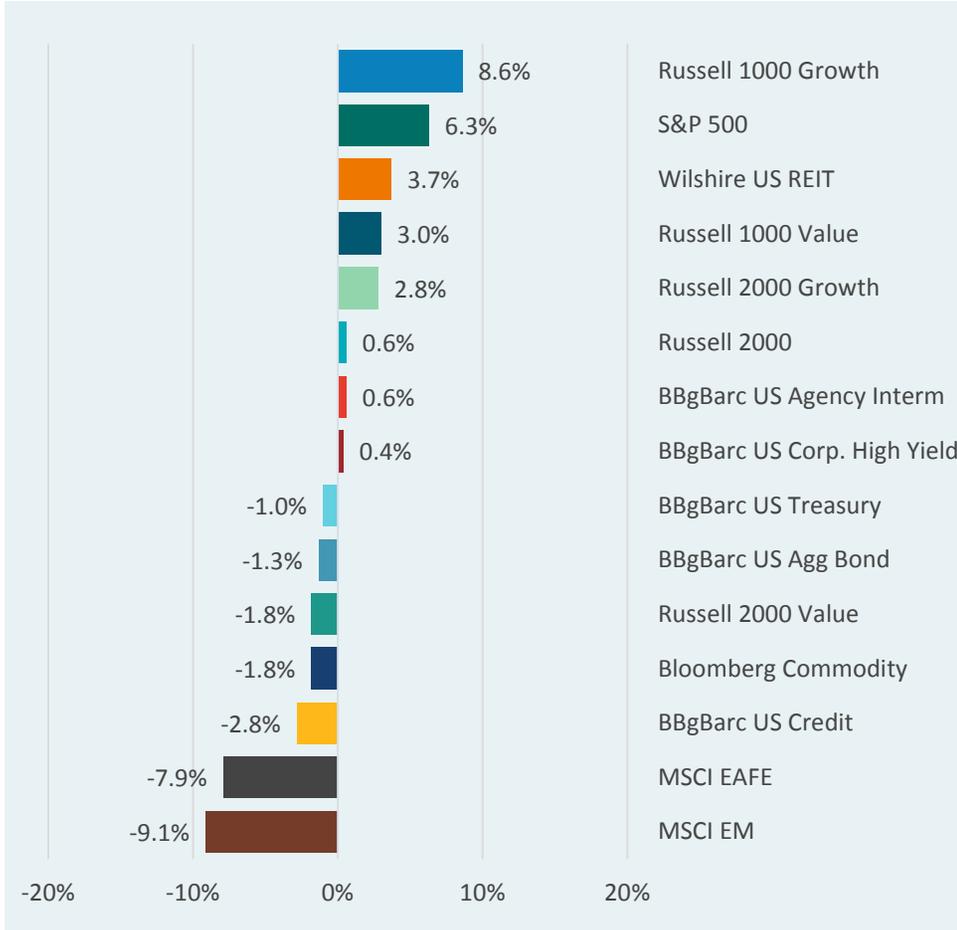
**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

NOVEMBER 2018
Capital Markets Update

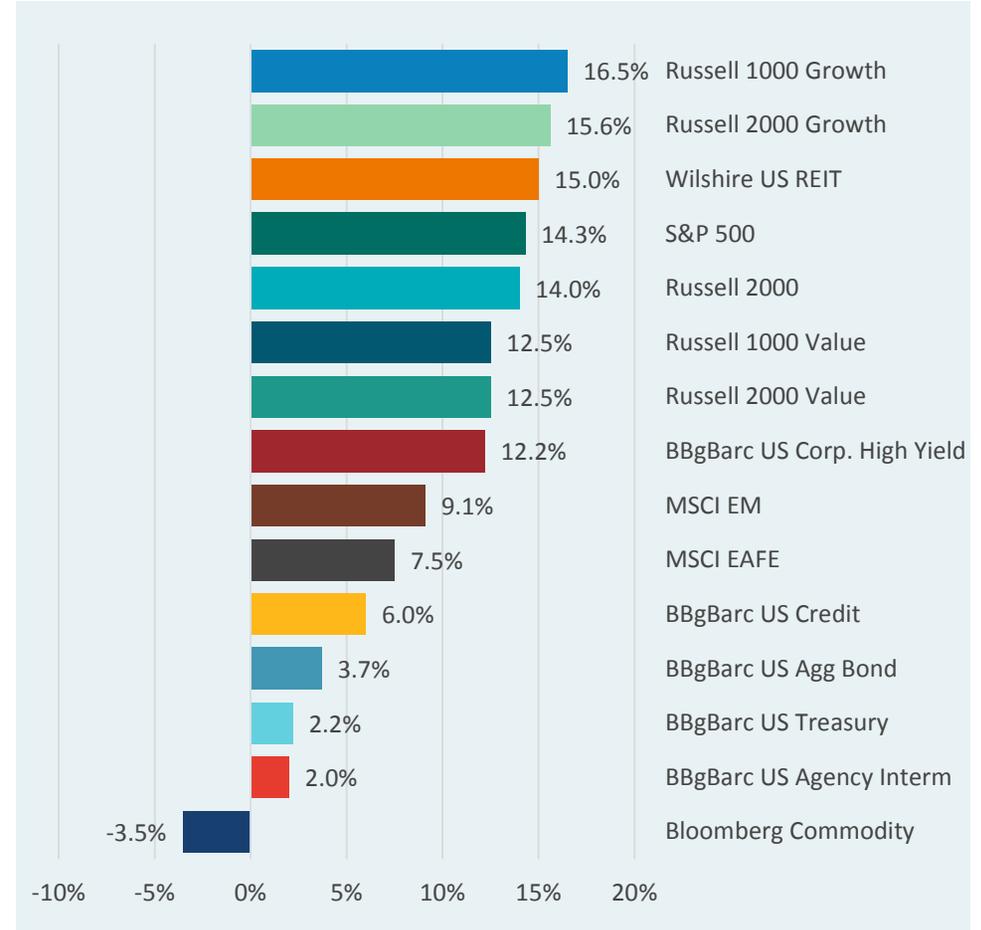
Market commentary

Major asset class returns

ONE YEAR ENDING NOVEMBER



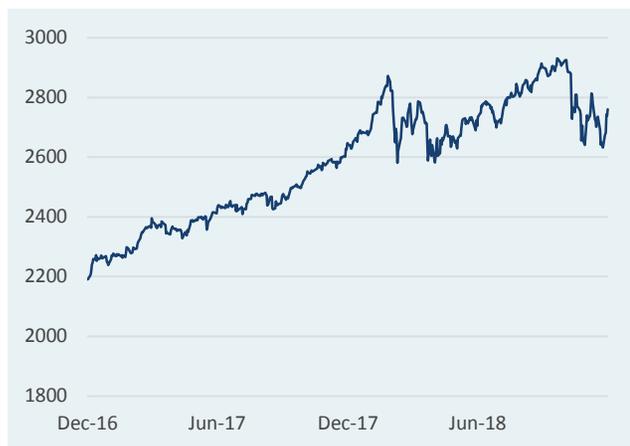
TEN YEARS ENDING NOVEMBER



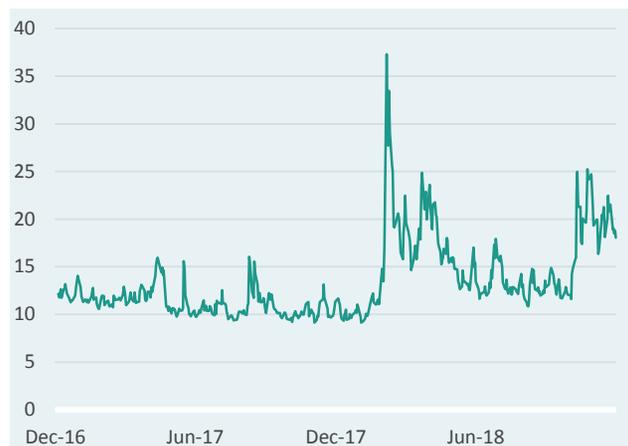
U.S. large cap equities

- Large cap equities recovered modestly in November, with the S&P 500 gaining 2.0%. The index ended the month at 2760, 5.8% below the high watermark reached in September.
- The healthcare sector (+7.1%) materially outperformed, helping to buoy the overall S&P 500 Index. Out of 64 sub-sector constituents, 86% posted price gains in November. The House of Representatives flipping to a Democratic majority in the mid-term elections likely supported the outperformance.
- Only three sectors declined, including Information Technology (-1.9%), Communication Services (-0.6%), and Energy (-1.6%). Concerns related to data privacy, continued uncertainty related to U.S.-China relations, and crude oil inventory builds likely weighed on these sectors.
- Volatility of the S&P 500 Index continued to climb in November following a spike in October. Trailing annualized 30-day volatility peaked mid-month at 23.6% and ended November at 21.4%.

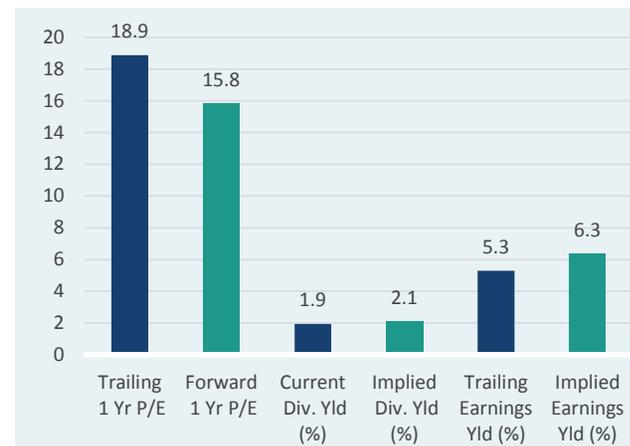
S&P 500 PRICE INDEX



IMPLIED VOLATILITY (VIX INDEX)



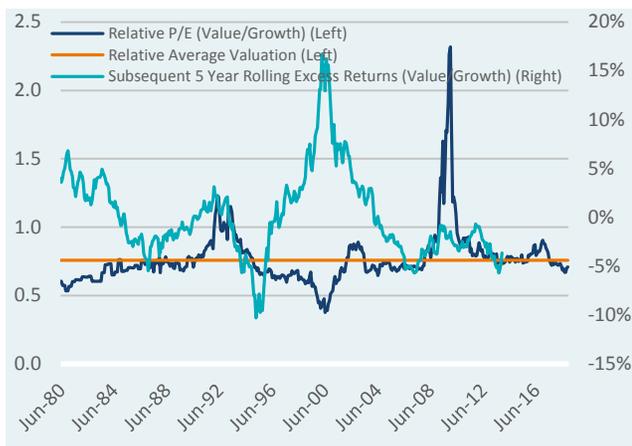
S&P 500 VALUATION SNAPSHOT



Domestic equity size and style

- Value outperformed growth in November in both large- and small-cap equities. The Russell 1000 Value Index (3.0%) outperformed the Russell 1000 Growth Index (1.1%), and the Russell 2000 Value Index (1.6%) edged out the Russell 2000 Growth Index (1.6%) by 6 bps.
- Large cap stocks outperformed small cap stocks over the period. The Russell 1000 Index gained 2.0% versus the Russell 2000 Index return of 1.6%.
- The trailing 30-day realized volatility spread between the Russell 3000 Growth Index and the Russell 3000 Value index reached 10.6% on November 30th, the highest level since May, 2002.
- The relative P/E ratio of the Russell 1000 Value and Growth Indices increased for the second straight month. The ratio rebounded from a 13-year low of 0.67 in September to 0.71 in November, still beneath the five-year average of 0.78.

VALUE VS. GROWTH RELATIVE VALUATIONS



VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



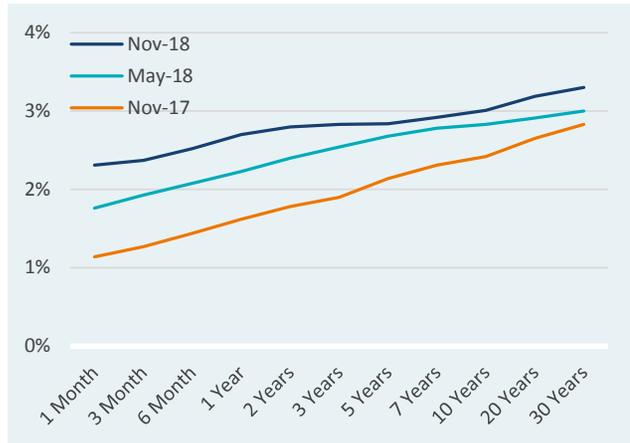
SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



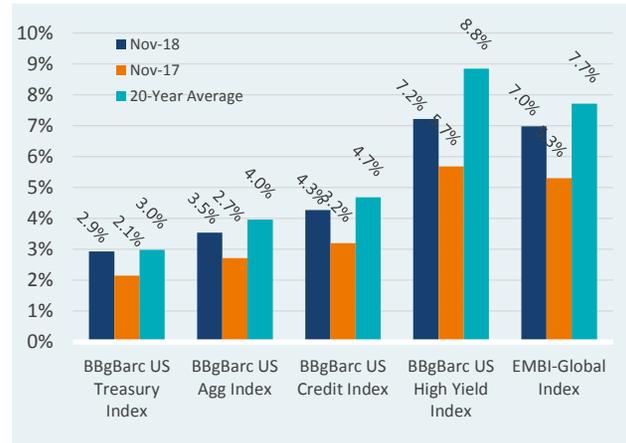
Fixed income

- The U.S. Treasury yield curve markedly flattened in November. The spread between the 10- and 2-year Treasury yields fell from 28 bps to 20bps, and fell as low as 12 bps in the first few days of December.
- At month-end, the 3-5 yield curve inverted, stoking some analysts' concerns regarding the economic outlook. Historically, most recessions have followed yield curve inversions, although the time frame between inversion and recession has varied significantly.
- U.S. corporate high yield spreads widened notably in November. Starting the month at 3.7%, spreads expanded to 4.2%, well above the 50-day moving average of 3.6%.
- Breakeven inflation rates declined in November, continuing a downward trend that started in April. The 5- and 10-year breakeven inflation rates dropped 14 and 9 bps, respectively, in part due to falling oil prices.

U.S. TREASURY YIELD CURVE



NOMINAL YIELDS



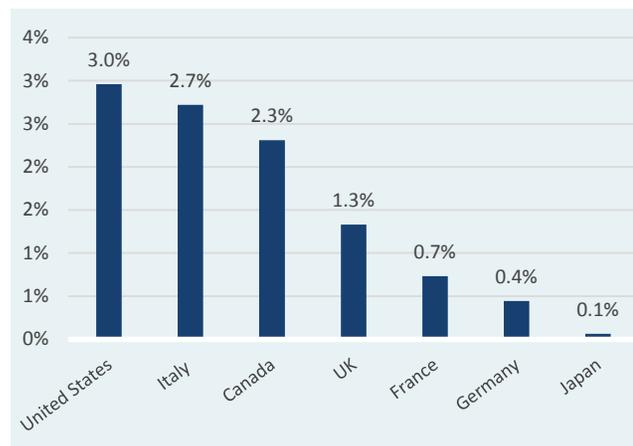
BREAKEVEN INFLATION RATES



Global markets

- In the interest of developing a trade agreement, Chinese and American officials agreed to halt any additional tariff rate hikes until March 1st. Beijing expressed a willingness to buy a “very substantial” amount of U.S. agricultural, energy, and industrial goods, and to consider changes relating to forced technology transfer and intellectual property protections.
- Italian officials softened their tone regarding the budget plan, likely providing relief for Italian debt, which saw 10-year yields decline 22 bps to 3.2%.
- Theresa May’s Brexit deal won endorsement from all 27 remaining members of the European Union. Next, May will have to usher the deal through the British parliament. The vote, scheduled for December 11th, is widely-expected to fail, fueling speculation that EU negotiations might not be over yet.
- Violent protests intensified in Paris as the largely working-class Gilets Jaunes or Yellow Vests movement sought redress for rising fuel prices and policy viewed as favoring the wealthy. French equities (CAC 40 -1.7%) underperformed the Euro Stoxx 50 (-0.7%).

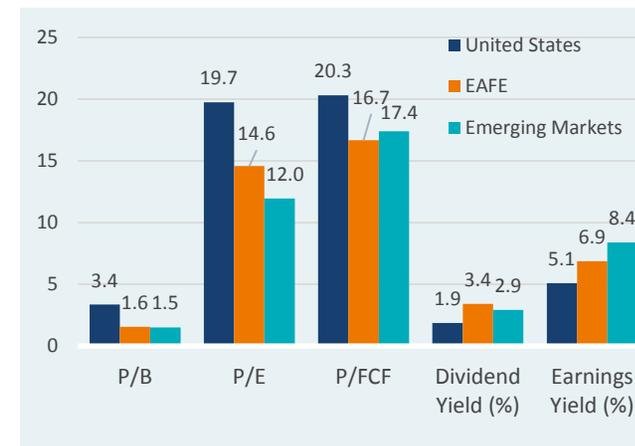
GLOBAL SOVEREIGN 10-YEAR YIELDS



U.S. DOLLAR MAJOR CURRENCY INDEX



MSCI VALUATION METRICS (3-MONTH AVG)



Commodities

- The Bloomberg Commodity Index fell 0.6% in November. The energy sub-component, which targets a 30.4% weight in the overall index, underperformed, and led the decline.
- In its most recent meeting in Vienna, OPEC and its oil-producing allies reached an agreement to cut crude oil production by 1.2 million barrels per day. Additionally, Qatar announced its departure from the cartel, citing an interest to concentrate on gas production, and shrugging off critics who claimed the move was political.
- WTI crude fell from \$65.44 to \$50.93 per barrel, its lowest level since October 2017. Strong gains in natural gas prices (+39.7%), which at month-end represented 13.8% of the overall index and 40.0% of the energy sub-index, helped to pare losses.
- The WTI-WCS spread, which represents the discount on Canadian heavy crude oil relative to WTI, declined from \$43.13 to \$29.00, still well above the five-year average of \$18.32. Alberta officials' decision to cut production by 325,000 barrels per day in Q1 2019 likely contributed to the decline in the spread.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.6)	(2.7)	(4.7)	(1.8)	1.6	(7.3)	(3.5)
Bloomberg Agriculture	0.4	2.6	(8.6)	(10.0)	(6.3)	(9.2)	(2.1)
Bloomberg Energy	(3.3)	(8.7)	7.4	11.6	2.3	(14.2)	(12.9)
Bloomberg Grains	2.1	2.0	(4.3)	(6.2)	(8.0)	(10.9)	(3.6)
Bloomberg Industrial Metals	1.9	(3.8)	(15.1)	(7.4)	10.8	(1.2)	1.1
Bloomberg Livestock	2.3	1.6	(0.8)	(1.5)	1.2	(2.4)	(3.2)
Bloomberg Petroleum	(20.7)	(28.3)	(11.0)	(5.5)	(0.7)	(16.5)	(8.0)
Bloomberg Precious Metals	0.2	1.0	(9.8)	(7.0)	2.8	(2.7)	3.4
Bloomberg Softs	(3.5)	7.5	(17.1)	(15.8)	(6.4)	(8.4)	(1.9)

COMMODITY PERFORMANCE



Appendix

Periodic table of returns

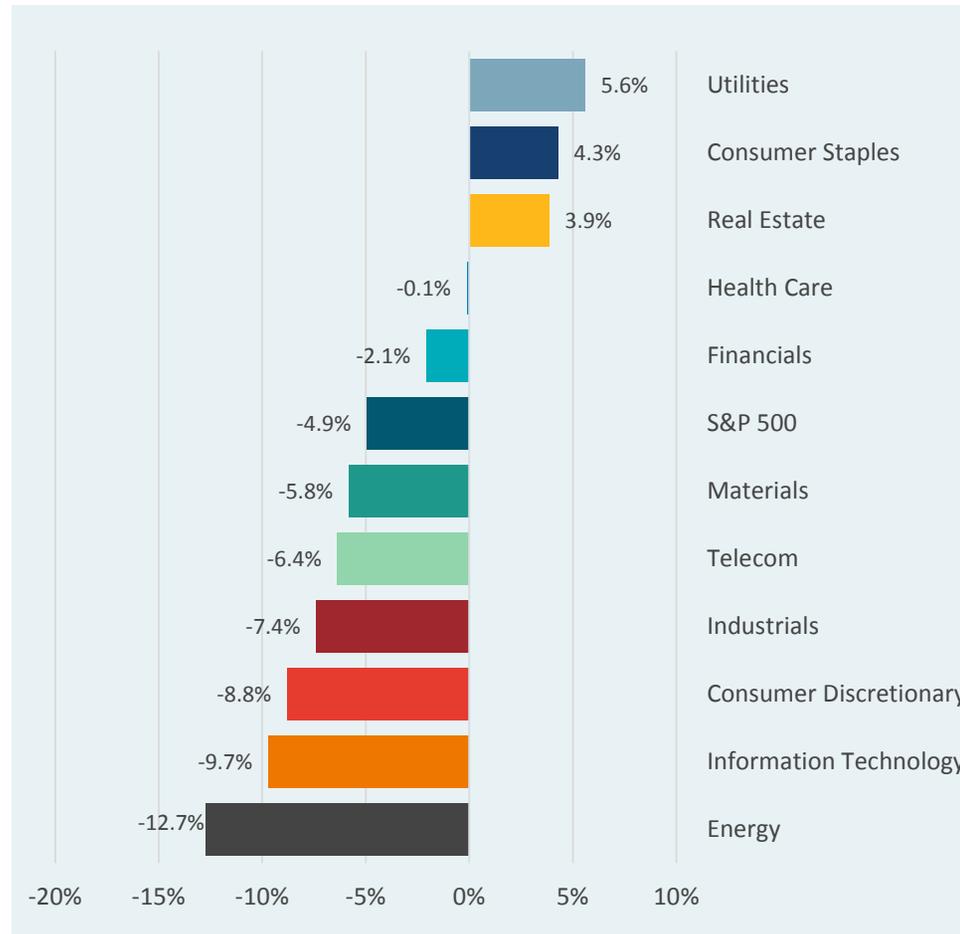
BEST ↑

	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
Large 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	7.8	13.0	16.5
Real Estate	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	5.3	10.9	15.6
Large Cap Equity	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	4.8	9.6	14.5
Small 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	2.7	8.7	14.0
Cash	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	1.7	8.2	12.5
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	1.5	7.5	12.5
Small Cap 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	1.0	6.7	9.1
Small Cap Value	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	-0.9	4.0	7.7
Hedge Funds of Funds	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	-1.6	2.2	7.5
US Bonds	-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	-1.8	2.0	6.4
60/40 Global Portfolio	-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	-2.7	1.9	3.7
Commodities	-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	-4.7	1.8	3.2
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	-9.4	0.6	0.3
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	-12.2	-7.3	-3.5

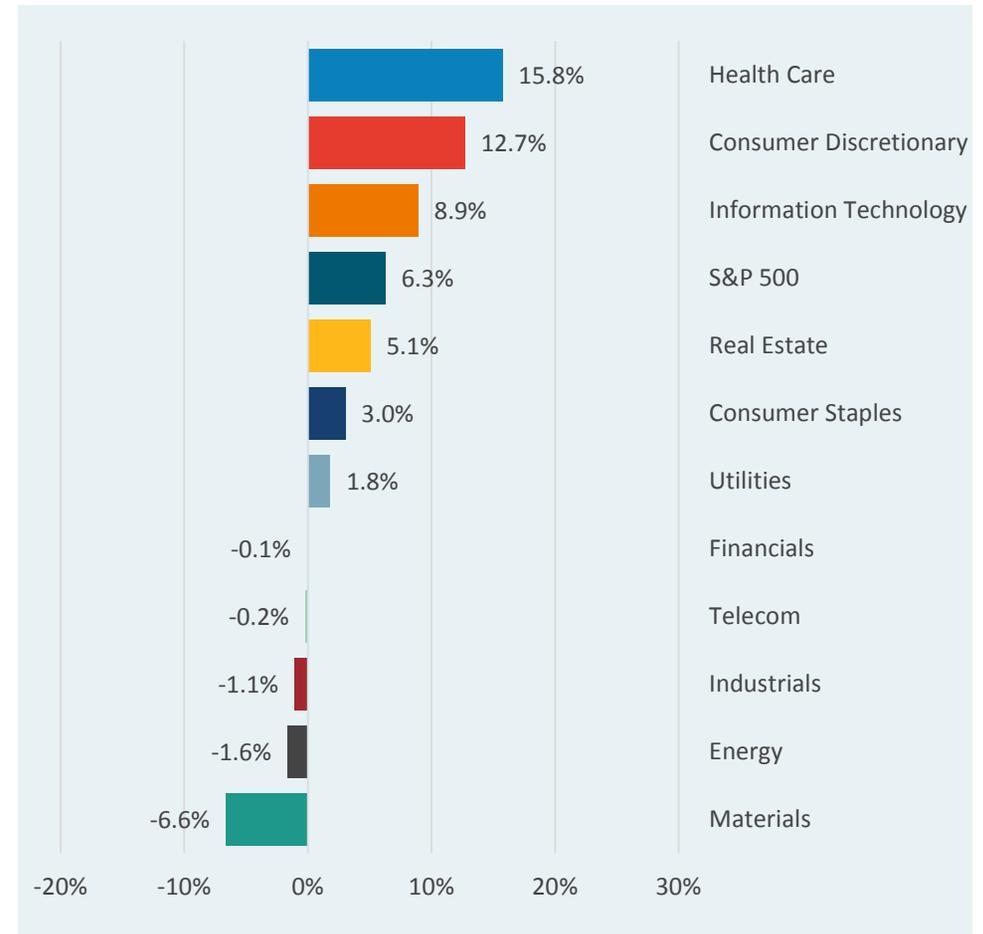


S&P 500 sector returns

QTD



ONE YEAR ENDING NOVEMBER



Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	2.0	(4.9)	5.1	6.3	12.2	11.1	14.3
S&P 500 Equal Weighted	2.8	(4.6)	2.3	3.5	10.9	10.0	16.5
DJ Industrial Average	2.1	(3.0)	5.6	7.6	15.8	12.4	14.1
Russell Top 200	1.9	(4.9)	6.3	7.5	12.8	11.6	14.1
Russell 1000	2.0	(5.2)	4.8	5.9	11.9	10.9	14.5
Russell 2000	1.6	(9.4)	1.0	0.6	10.1	7.5	14.0
Russell 3000	2.0	(5.5)	4.5	5.5	11.8	10.6	14.5
Russell Mid Cap	2.5	(6.1)	1.0	1.9	9.8	9.1	15.7
Style Index							
Russell 1000 Growth	1.1	(8.0)	7.8	8.6	14.0	13.0	16.5
Russell 1000 Value	3.0	(2.3)	1.5	3.0	9.8	8.7	12.5
Russell 2000 Growth	1.6	(11.3)	2.7	2.8	10.0	8.2	15.6
Russell 2000 Value	1.6	(7.5)	(0.9)	(1.8)	10.1	6.7	12.5

INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
MSCI ACWI	1.5	(6.1)	(2.6)	(1.0)	8.6	6.2	10.7
MSCI ACWI ex US	0.9	(7.3)	(10.1)	(8.1)	5.4	1.8	7.7
MSCI EAFE	(0.1)	(8.1)	(9.4)	(7.9)	4.1	1.8	7.5
MSCI EM	4.1	(4.9)	(12.2)	(9.1)	9.4	1.9	9.1
MSCI EAFE Small Cap	(0.7)	(10.3)	(12.2)	(9.9)	6.3	4.9	12.0
Style Index							
MSCI EAFE Growth	0.3	(8.9)	(8.4)	(6.9)	4.3	3.0	8.3
MSCI EAFE Value	(0.6)	(7.2)	(10.4)	(9.0)	3.9	0.7	6.6
Regional Index							
MSCI UK	(1.7)	(8.3)	(10.8)	(6.3)	1.6	(0.4)	6.9
MSCI Japan	0.4	(8.1)	(6.6)	(6.0)	5.9	4.7	6.9
MSCI Euro	(0.4)	(8.8)	(12.1)	(12.5)	2.8	0.5	5.9
MSCI EM Asia	5.2	(6.3)	(12.7)	(10.3)	9.5	4.3	11.3
MSCI EM Latin American	(2.2)	1.2	(5.8)	(1.6)	13.5	(2.1)	5.4

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	0.5	(1.0)	(1.8)	(0.9)	1.7	1.3	4.1
BBgBarc US Treasury Bills	0.2	0.4	1.7	1.7	1.0	0.6	0.4
BBgBarc US Agg Bond	0.6	(0.2)	(1.8)	(1.3)	1.3	2.0	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	0.4	0.5	0.7	0.8	0.6	0.6	0.9
BBgBarc US Treasury Long	1.9	(1.2)	(6.9)	(5.3)	0.8	4.4	4.5
BBgBarc US Treasury	0.9	0.4	(1.3)	(1.0)	0.6	1.4	2.2
Issuer							
BBgBarc US MBS	0.9	0.3	(0.8)	(0.5)	1.1	2.1	3.1
BBgBarc US Corp. High Yield	(0.9)	(2.4)	0.1	0.4	7.1	4.4	12.2
BBgBarc US Agency Interm	0.5	0.6	0.6	0.6	0.9	1.1	2.0
BBgBarc US Credit	(0.1)	(1.5)	(3.6)	(2.8)	2.4	2.9	6.0

OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Index							
Bloomberg Commodity	(0.6)	(2.7)	(4.7)	(1.8)	1.6	(7.3)	(3.5)
Wilshire US REIT	4.7	1.6	3.9	3.7	5.8	9.9	15.0
CS Leveraged Loans	(0.8)	(0.8)	3.5	3.9	5.5	3.9	8.1
Alerian MLP	(0.5)	(8.7)	(3.9)	0.4	0.6	(5.1)	11.1
Regional Index							
JPM EMBI Global Div	(0.4)	(2.6)	(5.5)	(4.8)	4.2	4.6	8.8
JPM GBI-EM Global Div	2.8	0.8	(7.4)	(5.5)	4.7	(1.3)	4.3
Hedge Funds							
HFRI Composite	(0.2)	(3.1)	(1.8)	(0.8)	3.6	3.0	5.3
HFRI FOF Composite	0.2	(2.5)	(1.6)	(0.7)	2.0	2.2	3.2
Currency (Spot)							
Euro	(0.1)	(2.5)	(5.7)	(5.0)	2.3	(3.6)	(1.1)
Pound	(0.1)	(2.2)	(5.7)	(5.7)	(5.4)	(4.9)	(1.8)
Yen	(0.6)	0.0	(0.8)	(1.4)	2.8	(2.1)	(1.7)

Notices & disclosures

Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. available on the SEC’s website at www.adviserinfo.sec.gov.

Verus – also known as Verus Advisory™.

This page left blank intentionally.

Board of Trustees

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



Date: January 28, 2019

To: Board of Trustees

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

Agenda Item 10: Pension Trust Mission & Objectives

Recommendation:

Staff recommends that the Board of Trustees review, discuss and approve changes to the proposed organizational mission statement and objectives attached.

Discussion:

The Pension Trust's general mission statement and objectives were last adopted in 2001. These objectives are still relevant today. Given changes in Board of Trustees membership and the passage of time it seems appropriate to staff to readdress these statements with the Board.

The 2001 version of this document is shown below –

MISSION STATEMENT

The mission of the San Luis Obispo County Pension Trust is to adequately fund and promptly pay the benefits accrued by Employees of San Luis Obispo County pursuant to the provisions of the San Luis Obispo County Employees Retirement Plan and consistent with Article 16, Section 17 of the California State Constitution.

STATEMENT OF GENERAL OBJECTIVES

In order to accomplish the mission of the Pension Trust the following General Objectives must be achieved:

1. Preserve the financial and actuarial soundness of the Pension Trust and maintain actuarial assumptions that are consistent with the long-term nature of benefit commitments and the long-term investment strategies and contributions that are required to meet those commitments.
2. Achieve the long-term funding objectives of the Board of Trustees while minimizing, to the extent that it is prudent to do so, short term fluctuations that result from deviations from investment performance and actuarial experience.
3. Provide and strengthen the administrative resources necessary to effectively and efficiently deliver Plan benefits and related services to Plan participants in accordance with the provisions of the San Luis Obispo County Employees Retirement Plan and the requirements of the California State Constitution.
4. Provide information to Plan participants and other interested parties as to the numerous benefits available under the Retirement Plan so as to promote a clear understanding of the provisions of the Retirement Plan and enable eligible participants to make appropriate decisions regarding the benefits available to them under the Plan.
5. Meet the legal requirements imposed upon the Pension Trust by Federal, State and Local governmental authorities.
6. Meet or exceed the professional standards prevalent in the industry, including but not limited to, accounting standards, actuarial standards, investment standards and practices and standards of fiduciary conduct.
7. Maintain policies and procedures that will accomplish the mission of the Pension Trust.

Staff recommends that the following wording be discussed and amended by the Board as necessary and adopted as the 2019 version of this document.

San Luis Obispo County
Pension Trust
SLOOPT

Adopted January 28, 2019

MISSION STATEMENT

The mission of the San Luis Obispo County Pension Trust is to adequately fund and promptly pay the benefits accrued by Employees of San Luis Obispo County and Contracting Agencies pursuant to the provisions of the San Luis Obispo County Employees Retirement Plan and consistent with Article 16, Section 17 of the California State Constitution.

OBJECTIVES

~~In order to accomplish the mission of the Pension Trust the following General Objectives must be achieved:~~

1. Preserve the financial and actuarial soundness of the Pension Trust and maintain actuarial assumptions that are consistent with the long-term nature of benefit commitments and the long-term investment strategies and contributions that are required to meet those commitments.
2. Achieve the long-term funding objectives of the Board of Trustees while minimizing, to the extent that it is prudent to do so, short term fluctuations that result from deviations from investment performance and actuarial experience.
3. Provide and strengthen the administrative resources necessary to effectively and efficiently deliver Plan benefits and related services to Plan members and participants in accordance with the provisions of the San Luis Obispo County Employees Retirement Plan and the requirements of the California State Constitution.
4. Provide information to Plan members and participants and other interested parties as to the numerous benefits available under the Retirement Plan so as to promote a clear understanding of the provisions of the Retirement Plan and enable eligible members and participants to make appropriate decisions regarding the benefits available to them under the Plan.
5. Meet the legal requirements imposed upon the Pension Trust by Federal, State and Local governmental authorities.
6. Meet or exceed the professional standards prevalent in the industry, including but not limited to, accounting standards, actuarial standards, investment standards and practices and standards of fiduciary conduct.
7. Maintain policies and procedures that will accomplish the mission of the Pension Trust.

The minor changes to the Mission Statement and Objectives are updating and clarifying in nature. The fundamental relevance of the above was valid in 2001 and it is still valid in 2019.

Respectfully submitted

Board of Trustees

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



Date: January 28, 2019

To: Board of Trustees

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

Agenda Item 11: Board of Trustees Policies Review

Recommendation:

Staff and General Counsel recommend that the Board of Trustees review, discuss and consider possible changes to Pension Trust policies attached.

Discussion:

The Board of Trustees in 2014 and 2015 considered at length and approved several key policies related to Pension Trust governance and fiduciary conduct. A prudent practice is to review these policies approximately every five years.

Staff does not have any recommendations for changes except for an update of the Pension Trust logo on each policy document. However, it is recommended that the Board of Trustees review these policies and discuss them. If the Board deems any changes necessary, appropriate direction can be given to Staff.

Related to the SLOOPT Board Member Responsibilities, Core Competencies and Education Policy, Trustees are asked to annually complete a Board Member Knowledge Self-Assessment. A copy of this self-assessment is attached for each Trustee to complete. This tool is not a “test”. It is for your own use and is not submitted to the Pension Trust.

Attachments:

1. SLOCPT Governance Policy – October 2014
2. SLOCPT Conflict of Interest Code – March 2014 (reviewed biennially pursuant to the Political Reform Act – last reviewed by the Board of Trustees April 2018)
3. SLOCPT Ethical and Fiduciary Conduct Policy – April 2015
4. SLOCPT Board Member Responsibilities, Core Competencies and Education Policy – February 2014
5. Board Member Knowledge Self-Assessment

Respectfully submitted

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

San Luis Obispo County
Pension Trust
SLOOPT



SAN LUIS OBISPO COUNTY PENSION TRUST
BOARD OF TRUSTEES
GOVERNANCE POLICY

Adopted October 27, 2014

CONTENTS

- I. **ROLE AND DUTIES OF BOARD**
- II. **STRUCTURE AND ROLE OF THE COMMITTEES**
- III. **ROLE OF THE BOARD PRESIDENT AND VICE-PRESIDENT**
- IV. **ROLE AND DUTIES OF EXECUTIVES AND BOARD REPORTING RELATIONSHIPS**

I. ROLE AND DUTIES OF BOARD

A. TRUSTEES

The composition of the Board of Trustees and the rules regarding the election and appointment of Trustees are set out in Article 3, section 3.05 of the Pension Trust By-Laws and Article 16, section 16.01 of the Retirement Plan.

B. DUTIES OF BOARD OF TRUSTEES

1. Retirement Plan Provisions: Article 3, section 16.02 of the Retirement Plan identifies the following duties of the Board of Trustees:

The Board of Trustees shall administer and operate the Pension Trust and Retirement Plan and shall interpret, construe, and apply all provisions of the By-Laws and the Retirement Plan, and its decision with respect thereto shall be final. Its duties, among others shall include:

- (a) It shall authorize the employment of such personnel as may be necessary for the operation of the Pension Trust and Retirement Plan including such legal, actuarial, accounting, auditing, investment and other professional services as it may deem appropriate.
- (b) It shall be responsible for the filing and maintaining of personnel, financial, and other records necessary for operation of the Pension Trust and the Retirement Plan.
- (c) It shall authorize the payment of retirement allowances and benefits under the Pension Trust and Retirement Plan.
- (d) It shall approve mortality tables, interest rates, and all other actuarial factors to be used in determining the requirements of the Pension Trust and the Retirement Plan.
- (e) It shall authorize the purchase, lease, or other acquisition of such other goods, services and property as are reasonably necessary to the operations of the Pension Trust and the Retirement Plan.
- (f) It shall annually cause to be prepared and shall adopt a budget for the operation of the Pension Trust and the Retirement Plan.
- (g) It shall administer and apply the provisions of any contract between the County and a local agency which contract is pursuant to Article 25 of this Retirement Plan.

(h) Section 16.02 (h) 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.

(i) It shall have no power to, and shall not, authorize the Pension Trust to indemnify any person or entity.

2. By-Law Provisions: Article 4, sections 4.02 and 4.03 of the By-Laws provide that the Board of Trustees shall appoint and direct the work of the Executive Secretary.

3. Additional Duties: Consistent with its duties as specified in the Retirement Plan delineated above, the Board of Trustees shall also :

(a) Approve the creation or dissolution of standing and ad hoc committees of the Board of Trustees.

(b) Adopt and promulgate such policies as are necessary for the effective administration of the Pension Trust.

(c) Establish all investment objectives and policies related to the investment of Trust funds. The Board shall develop and approve guidelines for the execution of the Pension Trust's investment policies. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed.

(d) Retain investment consultants to provide such services as conducting investment performance review and analysis, asset allocation studies and recommendations, investment manager searches and ongoing investment manager reviews and investment research. The Board shall be responsible for selecting a qualified Investment Consultant with the assistance and recommendation of the Executive Secretary and Investment Officer. The Board shall be responsible for selecting a qualified custodian with advice from the Executive Secretary, Investment Officer, and the Investment Consultant. The Board, in its sole discretion, may delegate to the Executive Secretary, Investment Officer, and to external, qualified investment management organizations, the authority and responsibility for buying and selling assets in accordance with the Board of Trustees' guidelines.

The investment authority vested in the Board shall not be delegated to any committees of the Board, except by formal resolution. Such resolutions shall specify the limits of the authority delegated and require that all actions be reported to the Board of Trustees.

(e) Review and approve the release of the Pension Trust's annual actuarial valuation and the Comprehensive Annual Financial Report (CAFR).

(f) Commission an actuarial audit at least every five years or more frequently as determined by the Board of Trustees to confirm the valuations of the system actuary.

(g) Delegate appropriate responsibilities to the Executive Secretary and, consistent with its fiduciary duties, exercise general supervision over the Executive Secretary.

- (h) Establish performance goals and objectives for and conduct an annual performance review of the Executive Secretary consistent with a formal policy and process that is adopted by the Board of Trustees.

II. STRUCTURE AND ROLE OF THE COMMITTEES

A. STANDING COMMITTEES

The Board of Trustees has established two standing committees, the Audit Committee and the Personnel Committee. In addition, the Board may establish additional ad hoc committees to assist with conducting Board business. When an ad hoc committee is created, the Board must state for the record the committee's: (1) purpose, (2) composition, (3) scope of duties, and (4) duration. No more than three Trustees may be assigned to any standing or ad hoc committee.

1. Audit Committee

The duties of the Audit Committee are as follows:

- (a) Meet as necessary to fulfill its responsibilities.
- (b) Oversee the annual audit of the Pension Trust's financial statements and any other internal or external audits of the Pension Trust.
- (c) Refer all audit results to the full Board of Trustees for further action.
- (d) Recommend the issuance and timing of Requests for Proposals for selecting the outside auditor, review Requests for Proposals and oversee the selection process.
- (e) Review the adequacy of internal controls as determined by the Committee.
- (f) Direct investigations, as appropriate.
- (g) Perform other duties as directed by the Board.

2. Personnel Committee

The duties of the Personnel Committee are as follows:

- (a) Meet at least quarterly and otherwise as necessary to fulfill its responsibilities.

- (b) Subject to the approval of the Board of Trustees, develop and implement the recruitment strategy for the selection of the Executive Secretary when the position is vacant.
- (c) Develop for Board adoption the formal policy and process for the identifying the performance goals and objectives for and conducting the annual performance review of the Executive Secretary.
- (d) Advise the Board and the Executive Secretary concerning appropriate labor market benchmarks for Pension Trust personnel salaries.
- (e) Advise the Board and the Executive Secretary as necessary regarding the recruitment, development and retention of talent necessary to meet the business objectives of the Pension Trust.
- (f) Perform other duties as directed by the Board or as requested by the Executive Secretary.

III. ROLE OF THE BOARD PRESIDENT AND VICE-PRESIDENT

A. BOARD PRESIDENT

1. By-Law Provisions: Article 3, section 3.05 of the By-Laws provides that the President shall be elected each year by the Board of Trustees at the first regular meeting of the Board of Trustees in January, and that 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. Article 3, section 3.03 of the By-Laws provides that 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.
2. Additional Duties: Consistent with his or her duties as specified in the By-Laws delineated above, the Board President shall also:
 - (a) Appoint the members of all of the Board of Trustees' standing and ad-hoc committees.
 - (b) Have final approval authority for whether an item is to be included or not included on the agenda for regular and special meetings of the Board of Trustees unless a majority of Board members directs that an item be included on an agenda during the "Trustee Comments" portion of a Board meeting.
 - (c) Perform other duties as directed by the Board.

B. BOARD VICE-PRESIDENT

1. By-Law Provisions: Article 3, section 3.06 of the By-Laws provides that 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, and that 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. Article 3, section 3.04 of the By-Laws provides that the Vice-President shall act as President of the board of Trustees in the absence of the President.
2. Additional Duties: The Vice-President shall also perform other duties as directed by the Board.

IV. ROLE AND DUTIES OF EXECUTIVES AND BOARD REPORTING RELATIONSHIPS

A. EXECUTIVE SECRETARY

1. Retirement Plan Provisions:
 - (a) **Communications to the Pension Trust:** Article 6, section 6.01 of the Retirement Plan provides that 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.
 - (b) **Preparation of the Annual Budget:** Article 7, section 7.01 of the Retirement Plan provides that 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.
2. By-Law Provisions: Article 4, sections 4.01 through 4.5 and 4.10 identifies the following role and duties of the Executive Secretary
 - (a) 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.
 - (b) The Executive Secretary is appointed by the Board of Trustees and serves at the pleasure of the Board of Trustees.
 - (c) The Executive Secretary shall perform his or her duties under the direction of the Board of Trustees.

- (d) 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.
- (e) Among the duties of the Executive Secretary are:
 - (i) Serving as Secretary to the Board of Trustees.
 - (ii) Maintaining a written record of all official actions taken by the Board of Trustees at all meetings.
 - (iii) Keeping a complete record of all correspondence and documents of said Board of Trustees and of the Pension Trust.
 - (iv) 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.
 - (v) Organizing and directing the operation of the office maintained by the Pension Trust and of the employees of the Pension Trust.
 - (vi) Overseeing the functioning of all of the agents and advisors of the Pension Trust.
 - (vii) Maintaining the accounts of the Pension Trust in accordance with the law and with generally accepted accounting standards.
 - (viii) Maintaining the records of all Pension Trust participants, members, retired members and beneficiaries.

3. Additional Duties Delegated by Board of Trustees to Executive Secretary

- (a) Determine the amount of and make timely payment of retirement, survivor and beneficiary benefit allowances, lump sum benefits and refunds under the Retirement Plan, including the authority to adjust any benefit payments and to correct any underpayment or overpayment of benefit payments and collect any overpayments of benefits, all in accordance with the Retirement Plan and applicable governing laws.
- (b) Establish and determine the maintenance of an effective system of internal controls and records and accounts following recognized accounting principles.
- (c) Execute documents relating to asset allocation rebalancing actions.

- (d) Negotiate, execute, amend and terminate contracts for both investment and non-investment services and/or goods as may be necessary for the administration of the Pension Trust as authorized by the Board of Trustees.
- (e) Collaborate with the Investment Consultant, supervise and oversee all activities of the Pension Trust Investment Officer (if applicable), monitor the activities of external investment managers and ensure that all investment activities are in compliance with this Investment Policy.
- (f) Manage and supervise the activities of the Investment Officer at such times as this position exists and is filled.
- (g) Coordinate as part of the normal due diligence process, with the Investment Officer (if applicable), on-site due diligence visits of the Master Custodian, Investment Managers, and the Investment Consultant, as appropriate.
- (h) Accept service of summons and any other legal service of process for and on behalf of the Board of Trustees and/or the Pension Trust.
- (i) Act as the primary liaison for the Pension Trust with the County and other participating employers and as the primary spokesperson to stakeholders, the public, and the press.

B. DEPUTY EXECUTIVE SECRETARY

The Executive Secretary may appoint a Deputy Executive Secretary. The Deputy Executive Secretary shall report to and assist and support the Executive Secretary in the management of the Pension Trust and perform such duties and responsibilities as are determined by the Executive Secretary. The Deputy Executive Secretary shall have the authority to act in the place of the Executive Secretary in his or her absence.

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

San Luis Obispo County
Pension Trust
SLOOPT



**SAN LUIS OBISPO COUNTY PENSION TRUST
CONFLICT OF INTEREST CODE**

ADOPTED FEBRUARY 24, 2014
EFFECTIVE MARCH 1, 2014

I. PURPOSE

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

II. POLICY OBJECTIVES

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

III. INCORPORATION OF SECTION 18730

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

IV. POLICY GUIDELINES

1. MEMBERS OF THE BOARD OF TRUSTEES AND EXECUTIVE SECRETARY

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

2. CATEGORIES OF DISCLOSURE AND INDIVIDUALS SUBJECT TO DISCLOSURE

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

3. TIMING OF DISCLOSURES

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

4. LOCATION OF DISCLOSURES

The original Form 700 shall be filed with the Executive Secretary or his or her designee in the Pension Trust office. The Executive Secretary or his or her designee shall make and retain a copy, and forward the original to the Clerk-Recorder.

V. POLICY REVIEW

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

VI. AMENDMENT HISTORY

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

EXHIBIT A

DISCLOSURE CATEGORIES

Form 87200 Filers

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

Category 1 Filers

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

EXHIBIT B

DESIGNATED POSITION CATEGORIES

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

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

This page left blank intentionally.

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

San Luis Obispo County
Pension Trust
SLOOPT



ETHICAL AND FIDUCIARY CONDUCT POLICY

Adopted April 27, 2015

ETHICAL AND FIDUCIARY CONDUCT POLICY

As ethical leaders, the Board and executive team of the Pension Trust share values about what is important and work together with mutual respect in a constructive partnership. Together, the Board and executives set the tone at the top that permeates the organization. The purpose of these policies is to provide the foundation for an ethical culture at the Pension Trust.

A. Fiduciary Duties

Duty of Loyalty

Board members and staff of the Pension Trust shall discharge their duties with respect to the system and the plan solely in the interest of the members, retirees and beneficiaries for the exclusive purpose of:

- Providing benefits to members and beneficiaries;
- Minimizing employer contributions; and
- Defraying reasonable expenses of administering the plan.

The Duty of Loyalty is the most fundamental of fiduciary duties. The duty of Board members and staff to Pension Trust participants and their beneficiaries must take precedence over any other duty. A trustee does not serve as an “agent” or representative of the employer, union or other constituency responsible for his or her appointment to the Board, and must act in the best interests of all of the participants and beneficiaries even where doing so is not in the interest of the electoral or appointing authority responsible for the trustee’s appointment. While a trustee

may wear “two hats,” one as a trustee and one reflecting another position, such as employer or union official, the trustee may only wear one hat at a time and must wear their trustee/fiduciary hat when conducting system business.

Under the ***Duty of Impartiality***, a corollary of the Duty of Loyalty, where there are conflicting interests among different groups of participants, retirees and/or beneficiaries the Pension Trust must strive to act in a way that serves the overall best interests of the system’s members as a whole and avoid favoring one group over the other.

Under the ***Duty to Administer***, another corollary of the Duty of Loyalty, the Board has the sole and exclusive fiduciary duty to administer the Pension Trust in a manner that will assure prompt delivery of benefits and services to the participants and their beneficiaries.

Duty of Care

Board members and staff must discharge their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims. This requires:

- Diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- Undertaking an appropriate analysis of a proposed course of action, including determination of the relevant facts, considering alternative courses of action and obtaining expert advice as needed (i.e., follow a “prudent process.”)
- Acting in accordance with the documents and instruments governing the system.

Duty to Provide for Actuarial Services

The Board, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the Pension Trust.

Exclusive Purpose of Systems Assets

The assets of the plan shall never inure to the benefit of an employer and shall be held for the exclusive purposes of providing benefits to members and beneficiaries and defraying reasonable expenses of administering the system.

Prohibited Transactions

Except as otherwise provided by law, the board and the officers and employees of the Pension Trust shall not cause the system to engage in a transaction if they know or should know that the transaction constitutes a direct or indirect:

- Sale or exchange, or leasing, of any property from the system to a member or beneficiary for less than adequate consideration, or from a member or beneficiary to the system for more than adequate consideration.
- Lending of money or other extension of credit from the system to a member or beneficiary without the receipt of adequate security and a reasonable rate of interest, or from a member or beneficiary with the provision of excessive security or an unreasonably high rate of interest.
- Furnishing of goods, services, or facilities from the system to a member or beneficiary for less than adequate consideration, or from a member, retiree, or beneficiary to the system for more than adequate consideration.
- Transfer to, or use by or for the benefit of, a member or beneficiary of any assets of the plan for less than adequate consideration.
- Acquisition, on behalf of the system, of any employer security, real property, or loan.

Prohibitions Against Self-Dealing

Board members and officers and employees of the system shall not do any of the following:

- Deal with the assets of the system in their own interest or for their own account.
- In their individual capacity, act in any transaction involving the Pension Trust on behalf of a party, or represent a party, whose interests are adverse to the interests of the plan or the interests of the members and beneficiaries.
- Receive any consideration for their personal account from any party conducting business with the system in connection with a transaction involving the assets of the plan.

B. Statement of Ethical Conduct

The Board has established the following Statement of Ethical Conduct and has determined that engaging in any of the following activities or conduct is inconsistent, incompatible, in conflict with or inimical to the duties of a Board member and/or staff.

No employment, activity, or enterprise shall be engaged in by any Board Member or staff, which might result in, or create the appearance of resulting in, any of the following:

1. Using the prestige or influence of the Board or staff position for private gain or the advantage of another.

2. Using Pension Trust, facilities, employees, equipment or supplies for private gain or advantage, or the private gain or advantage of another.
3. Using confidential information acquired by virtue of Pension Trust activities for private gain or the advantage of another, including, but not limited to, so-called “insider trading” as described in subsection “C”, *infra*.
4. Providing confidential information to persons to whom issuance of this information has not been authorized.
5. Receiving or accepting money or any other consideration from anyone other than the Pension Trust for the performance of an act which the Board Member or staff would be required or expected to render in the regular course or hours of his/her duties for the Pension Trust.
6. Performance of an act in his/her private capacity other than that as a member of the Pension Trust knowing that such act may later be subject, directly or indirectly, to the control, inspection, review, audit, or enforcement by such person or by the system.¹
7. Receiving or accepting, directly or indirectly, any gift, including money, any service, gratuity, favor, entertainment, hospitality, loan, or any other thing of value, from anyone who is doing or is seeking to do business of any kind with the Pension Trust or whose activities are regulated or controlled in any way by the system, under circumstances from which it reasonably could be inferred that the gift was intended to influence him/her in his/her official duties or was intended as a reward for any official action on his/her part.
8. As a Board member, having an ex parte communication on the merits of an administrative appeal with any party or their attorney until after the Board's decision is final.
9. Publishing any writing or making any statement to the media, a plan sponsor or members of the public which purports to represent the Pension Trust’s position or policy on any matter or subject, before the Board has formally adopted a policy or position on the matter or subject. This section shall not be interpreted to preclude Board Members or staff, as private citizens, from expressing their personal views.

Nothing in this Statement shall exempt any Board Member or staff from applicable provisions of any other laws. The standards of conduct set forth in this Statement are in addition to those prescribed elsewhere in this policy and in applicable laws and rules.

¹ For example, while a Board member who is also a County officer may, so long as consistent with the “two hats” rule, perform duties as a County officer even if they could be subject to Pension Trust review and a Board member who is also a Pension Trust Board member may apply for retirement, etc. even though such application is subject to Board review. However, a board member who operates a private payroll service could not contract with the Pension Trust to issue retirement checks because those checks would be subject to audit by the Pension Trust.

C. Policy Prohibiting Insider Trading

Background

The Board is committed to the highest ethical standards and strictest adherence to federal, state and foreign securities laws and regulations regarding “insider trading.” To ensure that the Pension Trust operates in a manner commensurate with its goal of promoting integrity in the investment, administration and management of securities, the Board has adopted this Policy Prohibiting Insider Trading. The policy applies to Board members and staff, which includes investment consultants and contractors affiliated with the system. The prohibition on insider trading continues to apply even after resignation from the Board or termination of employment until such time, if ever, the information becomes generally available to the public other than through disclosure by or through the Board member or staff.

“Insider trading” has been defined as buying or selling securities on the basis of material, nonpublic information relating to those securities. Any person who possesses material, nonpublic information is considered an “insider” as to that information. The prohibition against insider trading may reach anyone, not just a corporate insider, who has access to the material, nonpublic information. The scope of insider trading liability has been extended to “controlling persons,” which includes any entity or person with power of influence or control over the management, policies or activities of another person. It has also been extended to “tippees” who receive material, nonpublic information from an insider when the “tipper” (the “insider”) breaches a fiduciary duty for his or her personal benefit and the “tippee” knows or has reason to know of the breach. Liability has also been extended to fiduciaries who trade based upon misappropriated material nonpublic information obtained from their principal. The law provides civil and criminal penalties for insider trading violations.

Information is deemed material if it would be considered important by a reasonable investor in deciding whether to buy, sell or refrain from any activity regarding that company’s securities. Material information may be either positive or negative and can relate to any aspect of a company’s business. Common examples of material information include, but are not limited to: unpublished financial results and projections, news of a merger or acquisition, stock splits, public or private securities/debt offerings, changes in dividend policies or amounts, gain or loss of a major customer or supplier, major product announcements, significant changes in senior management, a change in accounting policies, major problems or successes of the business, and information relating to a company against whom the system is considering securities litigation. Material nonpublic information may not be used by Board members or staff for personal gain or to benefit relatives or friends.

Information is considered “nonpublic” if it is not available to the general public. Once it is released to the general public, it loses its status as “inside” information. However, for nonpublic information to become public, it must have been made generally available to the securities marketplace, and sufficient time must pass for the information to become available in the market. To show that material information is public, it is generally necessary to show some fact verifying that the information has become generally available, such as disclosure in company filings with

the SEC or company press releases to a national business and financial wire service, a national news service, or a national newspaper.

Policy on Insider Trading

Board members and staff may be provided or have access to confidential information, including material, nonpublic information. Any information not publicly available must be treated as confidential even if it is not designated as confidential. It is the duty of Board members and staff to maintain the confidentiality of information and to not misuse confidential information, including material nonpublic information, belonging to or relating to the system. Board members and staff who come into possession of material, nonpublic information must not intentionally or inadvertently communicate it to any third party, including but not limited to relatives and friends, unless the person has a need to know for legitimate reasons in keeping with their responsibilities to the Pension Trust. Special care should be taken so that confidential information is not disclosed inadvertently.

If Board members or staff are uncertain whether a piece of information is material, nonpublic information, they shall consult with the Executive Secretary or the General Counsel before taking action based upon that information. Special care should be taken so that confidential information is not disclosed inadvertently. Examples of inadvertent disclosure include, but are not limited to, discussing confidential information in non-private locations, and leaving confidential documents exposed on one's desk or in a public area.

Board members and staff in possession of material, nonpublic information may not purchase or sell securities of the concerned company or other publicly traded securities to which the information pertains. Board members and staff also may not disclose material, nonpublic information to another person who could subsequently use that information for profit. Recommending purchases or sales of securities to which the material nonpublic information relates, even without disclosing the basis for the recommendation, is prohibited.

Like insider trading, "front running" may subject Board members or Pension Trust staff to criminal and/or civil proceedings. Front running occurs when a person enters into a trade of securities with advance knowledge of pending orders from other investors. It could occur, for example, when any Board member or Pension Trust staff covered by this policy trades with the knowledge that a trade is pending on behalf of the Pension Trust. Furthermore, front running may constitute a misappropriation of Pension Trust proprietary information for private or personal gain. It is therefore the policy of the Pension Trust that front running is prohibited. Board members and Pension Trust staff may not place an order for a personal securities transaction when they know that a Pension Trust securities transaction is pending in a security of the company that is the subject of the personal securities transaction, and must wait until 15 days after such Pension Trust securities transaction is executed before placing an order for a personal securities transaction involving the securities of the company. Likewise, Board members and Pension Trust staff may not knowingly delay, hinder, modify, or cancel any internal Pension Trust buy or sell recommendation, decision, or trading order intending to facilitate a personal securities transaction that, but for the action of the Board member or Pension Trust staff person would otherwise constitute front running or violations of state and federal laws.

Board members and staff in possession of material, nonpublic information relating to a tender offer, acquired directly or indirectly from the bidder or target company, may not trade in target company securities. Board members and staff also may not disclose such material, nonpublic information to another person where it is reasonably foreseeable that the recipient of the information could purchase or sell such company securities.

Board members and staff in possession of material, nonpublic information may not purchase, directly or indirectly, any security in the initial public offering of such security.. Board members and staff also may not encourage, facilitate, or arrange such a purchase by or on behalf of any other person.

Compliance

This policy is to be delivered to all new Board members and staff, including consultants, upon commencement of a relationship or employment with the system. Each Board member and all staff must read and complete the certification in Attachment II within 30 days of receipt of the policy and annually by April 1 of each year thereafter. The certifications shall be delivered to the Executive Secretary.

The Executive Secretary shall obtain written confirmation from each external manager that handles securities for the Pension Trust that it has a policy against insider trading and that it enforces the policy. The written confirmation must be received by the system within 30 days of commencement of the manager's relationship with the system.

Statements of Economic Interests (Form 700s) filed by Board members or staff pursuant to state or local law may be reviewed by the system to insure compliance with this policy. Board members and staff should report any suspected violation of this policy to the Executive Secretary or General Counsel. The Executive Secretary or General Counsel is responsible for causing an investigation of any reported violation. Following such investigation, if the Executive Secretary or General Counsel concludes that the policy may have been violated, he or she shall take appropriate action.

Violation of this policy may result in disciplinary action, including dismissal or other sanction. Any disciplinary action for violation of the policy may be in addition to any civil or criminal liability under federal and state securities laws and regulations and is not subject to appeal on the grounds that the violation did not ultimately result in any actual civil or criminal investigation or other legal proceeding.

D. State Conflict of Interest Rules

1. All Pension Trust Board members and designated staff and consultants shall abide by the provisions of the Political Reform Act (PRA), Government Code sections 81000, et seq, including section 87100 that prohibits Board members and designated staff and consultants from making, participating in making, or using their positions to influence Pension Trust decisions in

which they have a financial interest. All Board members and designated staff and consultants are subject to the public disclosure and reporting of economic interests under either section 87200 or the Pension Trust's Conflict of Interest (COI) Code. Absent full compliance with these laws and rules, receipt by a Board member, staff or consultant from a third party of any gift, honoraria, or payment of actual transportation and related lodging and subsistence or any payment or reimbursement of the same may subject them to disqualification from participation in making decisions related to the third party. It is the recipient's responsibility to ensure that he or she does not engage in any action that places him or her in a conflict of interest and to properly disclose and report the receipt of any gift, honoraria or travel expenses under the PRA and/or Pension Trust's COI Code. Board members, staff and consultants are encouraged to confer with the General Counsel if they have questions concerning possible conflicts of interest.

2. Under section 87105 of the PRA and section 18792.5 of the regulations of the Fair Political Practices Commission (FPPC), a Board member or staff member who has a financial interest in a decision of the Pension Trust must, following the announcement of the agenda item to be discussed or voted upon, but before either the discussion or vote commences, do the following:

- Publicly identify the financial interest that gives rise to the conflict;
- Recuse themselves from discussing, voting, or attempting to use their influence to affect the outcome of a decision of the public body; and
- Leave the room until after the discussion and vote on the item in question.
- A Board Member or staff member that has a financial interest in a matter placed on the consent agenda must observe the above requirements with the exception that he or she is not required to leave the room during the consent agenda.
- In the event that the discussion or vote is to occur in closed session, the public identification may be made orally during the open session before the Board goes into closed session and may be limited to a declaration that his or her recusal is because of a conflict of interest under Government Code section 87100.

3. All Pension Trust Board members and staff shall abide by the provisions of Government Code sections 1090, et seq, which prohibit public officers and employees from, in their official capacity, making or participating in the making of any contract made by the Pension Trust in which they are financially interested.

4. Any Board Member or staff who receives an offer from any third party, other than the Pension Trust, of travel expenses (paid or reimbursed) or actual transportation and related lodging and subsistence, has the responsibility to obtain prior approval to ensure compliance with applicable laws and rules. For Board members, prior approval must be given by the full Board. For the Executive Secretary, prior approval must be given by the Board President or designee. For other staff, approval must be given by the Executive Secretary.

E. Avoidance of Appearance of Nepotism

Even if otherwise permissible under applicable conflict of interest laws and/or Board policy, Board members should avoid participating in Pension Trust matters in which a close

relation of the Board member has a personal, managerial or substantial financial interest. A “close relation” is defined as a spouse, mutual financial dependent, significant other or person in an intimate relationship; a child, parent, sibling (including in-laws and step-relations), grandparent or grandchild, niece or nephew, aunt, uncle or cousin. A “substantial financial interest” exists if the personal financial effect of the system matter on the close relation would be \$250 or more in a 12-month period and that effect is particular to the close relation as opposed to affecting a much larger group. For example, under this policy, a Board member would not be precluded from participating in a decision to recommend legislation that would increase the percentage amount of a cost-of-living adjustment paid to all retirees even if the Board members’ mother would receive this increase along with all other retirees. However, if the Board members’ mother files an appeal that contends that her specific cost-of-living adjustment had been calculated incorrectly by the system, under this policy the Board member would be precluded from participating in the decision regarding this appeal.

F. Limitation on Receipt of Gifts

Public pension plan governance is characterized by a host of competing interests, both public and private, that may challenge board members and staff in the exercise of their fiduciary roles with respect to the exclusive interest of system members. Board members and staff require independence and objectivity when interacting with existing or potential service providers to the system. The receipt of gifts and/or the solicitation of charitable contributions can create at a minimum the appearance of a conflict of interest and may violate state or local law.

1. Applicable State/Local Law

Each Board member and designated staff shall comply with the gift limitation provisions and the prohibition on the acceptance of honoraria under California Government Code sections 89500 et seq. and applicable regulations thereunder.

2. Additional Limitations

- a. No Board member or staff may receive, accept, seek or solicit, directly or indirectly, anything of economic value as a gift, gratuity or favor from a person if it could reasonably be expected that the gift, gratuity or favor would influence the vote, action or judgment of the Board or staff member; or be considered as part of a reward for action or inaction.
- c. If the Board member or staff is allowed to accept a gift under applicable law and this policy, he or she is still obligated to evaluate the propriety of accepting the gift. Board members and staff should be sensitive to the source and value of the gift, the frequency of gifts from one source, the possible motives of the giver, and the perception of others regarding the gift. Close cases should always be decided by rejecting gifts, gratuities or favors that may raise questions regarding the board or staff member’s integrity, independence and impartiality. If a board or staff member is

uncertain as to whether to accept the gift, he or she should consult the General Counsel.

3. Application of Policy

Nothing in this policy supersedes any applicable provision of state or local law. Those entities engaged in business with the Pension Trust may also have reporting requirements under state or local law.

G. No Contact Policy

Upon the release of any Request for Proposal (RFP), Invitation for Bid (IFB), or comparable procurement vehicle for any Pension Trust investment or non-investment service or product, there may be no communication or contact between the applicant or bidder and Board members or staff concerning the subject of the procurement process until the process is completed.

Requests for technical clarification regarding the procurement process itself are permissible and must be directed to the person in charge of administering the contract process..

Incidental contact between a prospective bidder or its representative and Board members and staff which is exclusively social, or which clearly pertains to a matter not related to the subject procurement process, is permissible.

Any applicant or bidder who willfully violates this policy will be disqualified from any further consideration to provide the applicable service or product.

Board members and staff should report any suspected violation of this policy to the Executive Secretary, who will determine the appropriate course of action.

H. Disclosure of Communications

1. Disclosure of Communications between Board Members and Staff Regarding Investment Transactions or Non-Investment Matters

As a general matter, the Board recognizes that the free flow of communication between individual Board members and staff or consultants is beneficial to the conduct of system business and that requiring disclosure of all or a large part of such regular communication would create a burdensome reporting requirement that would likely serve no useful purpose. However, in those instances where conduct by an individual Board member can be reasonably interpreted as an attempt to influence the outcome of a Board or staff decision or consultant recommendation in either an investment transaction or non-investment matter, the Board recognizes that such communications could create the potential for misunderstanding, misinformation or conflicting instructions and could be reasonably interpreted as inappropriately affecting the Board, staff or

consultant. Such communications do not always rise to the level of “undue influence,” as defined and discussed in Section H (4), but nevertheless should be subject to disclosure.

Any communication regarding either a potential investment transaction or non-investment matter initiated by a Board member with either a Pension Trust employee or consultant in which the Board member is advocating for a specified outcome must be documented by the employee or consultant and reported to the General Counsel. Such communications will be disclosed to the Board if and when, in the judgment of the General Counsel, they may be material to the Board’s deliberation with respect to any system matter.

2. Avoidance of Undue Influence

The Board recognizes that if a Board member or a third party attempts to direct Pension Trust staff, a consultant or a Board member to a specified action, decision or course of conduct through the use of undue influence, sound decision-making could be compromised to the ultimate detriment of the Board as a whole and/or system members, retirees and beneficiaries.

Any staff member, consultant or Board member who believes that he or she has been subject to the attempted exercise of undue influence, as described above, should report the occurrence immediately and simultaneously to the Executive Secretary and to the General Counsel. The General Counsel will investigate the situation immediately and with the approval of either the Board President or Vice-President is authorized to use the services of an outside law firm to conduct the investigation if he or she deems it appropriate. Following such investigation, if the General Counsel concludes that an exercise of undue influence was attempted, he or she will take whatever action deemed to be appropriate, which will include notification to the Board and thereafter a public disclosure during an open session meeting of the Board. If the Executive Secretary or General Counsel believes that he or she personally has been subjected to an attempted exercise of undue influence, he or she must immediately advise the Board President unless the circumstances dictate that another Board member should instead be notified. The Board President or other Board member will investigate the situation, with the assistance of an outside law firm if appropriate, and take whatever action he or she deems to be appropriate.

All senior executives shall annually certify, in writing, that they have been free from undue influence by any individual Board member, executive or third party.

Definitions:

“Undue Influence” is defined as the employment of any improper or wrongful pressure, scheme or threat by which one’s will is overcome and he or she is induced to do or not to do an act which he or she would not do, or would do, if left to act freely.

“Third Party” means and includes a person or entity that is seeking action, opportunity, or a specific outcome from the Pension Trust regarding a system matter. The Third Party may be seeking the action, opportunity, or outcome for his or her or its own behalf or the Third Party may be seeking it on behalf of another person or entity in the capacity of a representative, agent

or intermediary, or as an advocate for a cause or group of individuals or entities. This definition includes public officials.

I. Disclosure and Recusal Requirement for Campaign Contributions

1. No officer, employee or current Board member, including any ex officio Board members may make, participate in making or in any way attempt to use his or her official position to influence a decision involving a Business Relationship with the system if the officer, employee or member has received, solicited or directed a campaign contribution of \$150 or more, individually or in the aggregate, in the twelve month period prior to the making of the decision from the person or entity seeking the Business Relationship.
2. For purposes of this policy, “Business Relationship” means a relationship between a non-governmental party and the Pension Trust for the purpose of providing investment or non-investment services or goods that is expected to generate at least \$100,000 annually in income, fees or other revenue to the party.
3. If the disqualification provision of subdivision (a) results in the lack of a quorum for the purposes of taking action on any item before the Board or any of its committees, a sufficient number of Board members to constitute a quorum will be drawn by lot from the otherwise disqualified Board members for the purpose of establishing a quorum and taking action on items before the Board or any of its committees. Board members who have been drawn by lot to constitute a quorum will have their participation deemed as necessary and shall be exempt from the restrictions of subdivision (a) for the purpose of establishing a quorum and participating in the deliberations and voting on an item for which a quorum could not be established absent this waiver of the restrictions of subdivision (a).
4. The Executive Secretary or General Counsel will cause an independent investigation to be performed for any reported violation of this Section and report any documented violation to the Board for action. Pension Trust staff will maintain a current list of parties engaged in an Investment Relationship subject to Section 1, subdivision (d). The disclosure and recusal requirements of Section 2, subdivision (a) do not apply to any officer, employee or Board member, including ex officio board members, if the Investment Relationship has not been published on the list maintained by system staff.

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

San Luis Obispo County
Pension Trust
SLOOPT



BOARD MEMBER RESPONSIBILITIES, CORE COMPETENCIES AND EDUCATION POLICY

Adopted February 24, 2014

A. Introduction

Members of the Pension Trust Board of Trustees are charged with the administration of the Pension Trust (Article 16, section 17 of the California Constitution; California Government code Sections 53215 et seq.; County Code Chapter 2.56; and Article 16 of the Retirement Plan). The Pension Trust Board believes that there are identifiable responsibilities and core competencies for Board members that must be exercised and/or acquired in order to ensure the successful governance of the Pension Trust in a manner that fulfills the Board members' fiduciary duties. To help Board members gain and enhance these necessary skills, a structured program of trustee education has been developed.

The Board further recognizes that service as a Board member involves significant responsibility and requires a major commitment of time and effort in order to be successful. For that reason, a summary of trustee duties and responsibilities, which identifies the obligations that a trustee will confront upon assuming office, has been developed and approved by the Board. (Attachment A). This summary will be provided to any individual seeking election or appointment as a Board member. The Board further directs that this summary be refreshed, with Board member input, no less than once every two years.

B. Board Member Responsibilities and Core Competencies

1. **ATTENDANCE.** All Board members are expected to attend all Board and applicable committee meetings. While attendance is not always possible, Board members should, once the calendar for a year is set, immediately flag any scheduling conflicts and thereafter manage their schedules to avoid creating additional conflicts. Absences for medical or other substantial reasons shall be deemed excused absences in the discretion of the Board Chair and shall be reflected as such in the Board minutes.
2. **COMMITTEE SERVICE.** Each Board member should serve on at least one standing or ad hoc committee.
3. **PREPARATION.** Board members should come to Board meetings having read the materials prepared and circulated by staff and/or consultants, and having asked any questions of staff necessary to their understanding of the materials.
4. **INQUISITIVENESS.** Board members should be inquisitive, and should question staff, advisors and fellow board members as circumstances require in a constructive manner that encourages critical thinking and analysis. There is no such thing as a “dumb question.”
5. **INTEGRITY.** Board members shall conduct themselves with integrity and dignity, maintaining the highest ethical conduct at all times. They should understand system objectives and exercise care, prudence and diligence in handling confidential information.
6. **KNOWLEDGE.** Board members should develop and maintain their knowledge and understanding of the issues involved in the management of the system. The specific areas in which Board members should develop and maintain a high level of knowledge should include:
 - Public pension plan governance
 - Asset allocation and investment management
 - Actuarial principles and funding policies
 - Financial reporting, controls and audits
 - Risk management and oversight
 - Benefits administration
 - Disability retirement
 - Vendor selection process
 - Open meeting and public records laws
 - Fiduciary responsibility
 - Ethics, conflicts of interest and disclosures
7. **EDUCATION.** Board members should identify areas where they might benefit from additional education and work with staff to find educational opportunities.

Board members should fulfill the training expectations outlined in the Education Policy and are encouraged to attend additional relevant educational opportunities as outlined in Section 5 of that policy.

8. COLLEGIALITY. Members shall make every effort to engage in collegial deliberations, and to maintain an atmosphere where Board or committee members can speak freely, explore ideas before becoming committed to positions, and seek information from staff and other members. Board members should come to meetings without having fixed or committed their positions in advance.
9. INDEPENDENCE. Board members and their delegates shall, upon the adoption of this policy and thereafter upon taking office, sign a pledge confirming their independence and their understanding of their fiduciary duties. The pledge shall read as follows:

“I understand that as a Board member, I must discharge my duties as a fiduciary with respect to the system solely in the interest of its members, retirees and beneficiaries. I pledge not to allow political meddling or other forms of intimidation to affect my independence of judgment in the exercise of my fiduciary responsibilities.”

C. Board Member Education

1. PURPOSE

In order to permit Board members to develop core competencies, discharge their fiduciary duties to act with care, skill, prudence, and diligence and to ensure that all Board members have a full understanding of the issues facing the system, the Board has adopted orientation and mentoring programs; mandatory fiduciary education and ethics training sessions; encourages education; and makes available appropriate periodicals to foster Board member awareness of relevant developments.

2. PRINCIPLES

The Education Policy rests on the following important principles:

- There is a unique body of knowledge that can be imparted to Board members to facilitate the carrying out of their distinct roles and responsibilities.
- Board members are responsible for making policy decisions affecting all major aspects of pension plan administration. They also must maintain prudent oversight of the operations of the Pension Trust, including the functioning of the consultants and investment managers retained by the Pension Trust and of the assets, including the real property assets, owned

by the Pension Trust. They, therefore, must acquire an appropriate level of knowledge of all significant facets of the plan, rather than only specializing in particular areas.

- No single method of educating board members is optimal. Instead, a variety of methods is necessary and appropriate.
- This policy is not intended to dictate that Board members attend only specific conferences, programs, etc. Instead, board members should work with the Executive Secretary to determine their own educational needs and which educational opportunities best address those needs.

3. ORIENTATION OF NEW BOARD MEMBERS

- Attendance. Each new Board member shall attend an orientation session.
- Timing for Orientation. The new Board member is urged to attend the orientation session before sitting at the first Board meeting as a voting member.
- Development and Content. The orientation sessions will be developed by the Executive Secretary and will, at a minimum, include the following topics:
 - Role and expectations of Board members.
 - A brief history and overview of the system, including the mission and purpose of the System
 - A review of Board committees and their purposes.
 - An overview of the organizational structure and the roles of staff and key service providers, including the actuary, investment consultant, investment managers, custodian, attorneys and auditors.
 - A summary of the actuarial basis of the system, its assets and liabilities, and actuarial assumptions and methodologies.
 - A summary of the asset allocation and investment and funding policies of the system.
 - A summary of the laws and rules governing the system and the Board, including applicable open meeting and public records laws.
 - A summary of the benefit structure and administration.
 - An explanation of fiduciary responsibility, conflicts of interest, and ethics
 - A review of Board member immunity, indemnity and fiduciary insurance.
 - An explanation of the strategic planning process
 - A high level review of existing Board policies
 - A briefing on current and emerging issues before the Board
 - Biographical information on the other Board members
 - A review of best practices for pension governance
 - An introduction to the Executive Management team
 - A tour of system offices, if practicable.

- Materials. At or before the orientation session, the following documents will be made available to new members:
 - A listing of names, addresses, and contact information for the Board members
 - A listing of names, addresses, and contact information for Executive Management
 - The Board Member Handbook, which contains policies and committee charters (under development)
 - A listing of key information available on the Pension Trust’s website, such as board agendas, minutes, and financial reports.
 - A copy of the Open Meeting Act
 - A list of upcoming recommended educational conferences
 - Any other relevant information or documents deemed appropriate by the Executive Secretary

4. MENTORING

Consistent with the Board’s collegial and collaborative values, experienced Board members are available and willing to provide assistance to new Board members on an informal basis. In addition, any new Board member may request a mentor to assist him or her in becoming familiar with his or her responsibilities on the Board. If a request is made, the Board Chair will designate one experienced Board member to be a mentor to the new Board member for a period of one year. The mentor will be available to the new Board member for consultation or discussion on a basis that best serves the mutual interests of the new Board member and mentor.

5. ONGOING BOARD MEMBER EDUCATION

- **First 36 months.** In the Board members’ first 36 months of service on the Board after their election or appointment, in addition to attending the orientation session, Board members should attend both the Principles of Pension Management course sponsored by the California Association of Public Retirement Systems (CALAPRS) as well as the Portfolio Concepts and Management course sponsored by the International Foundation of Employee Benefit Plans at the Wharton School at the University of Pennsylvania. Alternative educational programs will satisfy this requirement if the Executive Secretary determines that they are comparable in both quality and content.
- **Ongoing.** Board members should attend 12 hours of continuous education during each year of his or her service, such as the CALAPRS General Assembly and CALAPRS Trustee Roundtables. Professional education in an individual Board member’s normal field of employment may be applied toward meeting the educational requirement established by this

policy if the subject of such education is directly related to the individual Board member's obligations as a Trustee. Board members are responsible for self-evaluating their additional educational needs and obtaining knowledge in specific needs areas in a controlled manner. Board members shall complete annually a Board member Knowledge Self-Assessment (Attachment 2) and then discuss their results and training needs with the Executive Secretary. While attendance at the programs suggested for newly elected or appointed trustees is deemed to fulfill the continuing education requirement during the first 36 months of service, new Board members are nevertheless encouraged to attend additional continuing education each year if feasible.

Staff will monitor and advise the Board members as to the number of hours of continuing education earned by each Trustee.

- **In-House Education Sessions.** Based on the personal education needs of the Board members, the Executive Secretary will arrange for staff or outside service providers to conduct educational sessions throughout the year at regularly scheduled Board meetings or off-sites. Time spent in such sessions will count towards fulfilling the Board member's annual continuing education responsibility.
- **Educational Conferences.** The Executive Secretary will maintain a list of educational conferences appropriate for Board members and Board members may attend any of these conferences subject to the Board's travel expense policy. The Executive Secretary will scrutinize conference agendas and materials to ensure that they are geared appropriately towards education as opposed to marketing and consider whether associated recreational/entertainment activities present potential appearance concerns for board members. The Executive Secretary will regularly update this list when new educational opportunities arise. The list will also be modified to reflect the evaluations from Board members who have attended specific conferences to ensure that the conferences remain worthy of the Board's time and the System's expense. In considering out-of-state educational opportunities, board members should weigh the costs and benefits of travel versus locally based education.
- **Evaluation Form.** Board members must complete an Education Evaluation form upon completion of any educational conference and such form must be turned in with any request for reimbursement of expenses associated with the conference. A reimbursement will not be made without a completed Education Evaluation form.

6. FIDUCIARY EDUCATION SESSION

Each year the General Counsel will arrange for a fiduciary education session that will update the Board members on issues affecting their service on the Board. Board members are expected to attend.

7. ETHICS TRAINING

Board members and their designated representatives shall complete the ethics training required by Assembly Bill 1234, either through the online or in-person courses. The General Counsel will periodically provide additional training on ethics laws designed to supplement the AB 1234 training. In the event that the AB 1234 training requirement is changed in future legislation, the new training requirement shall be substituted for the existing training and shall be supplemented if necessary by training provided by the General Counsel.

8. RETIREMENT INDUSTRY PERIODICALS

Board members are encouraged to subscribe to periodicals selected from a list of pension and investment-related periodicals maintained by the Executive Secretary. The expense for the periodicals will be paid by the System. The Executive Secretary will annually review and update this list with input from the Board members.

9. COMPLIANCE

The willful failure of a Board member to comply substantially with this education policy will be reviewed by the Board.

ATTACHMENT 1

“FIDUCIARY RESPONSIBILITY” YOUR ROLE AS A SAN LUIS OBISPO COUNTY PENSION TRUST BOARD MEMBER

INTRODUCTION

Board members of a public pension system provide an important service to the community. They are responsible for administering the system and overseeing the investments of the system to ensure that public employees receive a secure retirement after long years of public service. This promise to public employees allows governmental entities to attract and retain qualified employees. As a Pension Trust Board member, you can expect to commit at least 10 hours of your time each month discharging your duties to the system, not including additional time required for training and education.

The following is intended to serve as a general overview of fiduciary responsibilities and duties relating to administration of public employee retirement system.

WHO IS A FIDUCIARY?

A fiduciary is anyone who has discretionary authority or control over plan assets and/or the administration of the employee benefit plan, whether they are administrators, staff, board members or consultants. Board members are fiduciaries charged with fiduciary responsibilities in administration of the retirement system.

YOUR FIDUCIARY DUTIES

It is important to note that your fiduciary duties are measured on an objective standard. It is not enough that you “mean well.” You must approach your duties on the Board exercising the following fiduciary duties:

1. **Duty of Loyalty:** A Board member must discharge his or her duties with respect to the system solely in the interests of and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions and defraying reasonable expenses of administering the system. The duty to participants and their beneficiaries is the Board member’s primary duty that takes precedence over all other duties. A Board member has an undivided duty of loyalty to the participants and beneficiaries and does not serve as an “agent” or representative of the employer, union or other constituency responsible for his or her appointment to the Board. The Board member must act in the best interests of all of the participants and beneficiaries even where doing so is not in the best

interests of the electorate or appointing authority responsible for the Board member's appointment.

2. Duty of Impartiality: The duty of impartiality is really a corollary of the Duty of Loyalty and applies where the Board is required to make a decision that will impact groups of participants differently. Where there are conflicting interests among different groups of participants, the Board member must act in a way that serves the overall best interests of the members of the system.
3. Duty of Care: Fiduciaries must discharge their duties with respect to the system with the same *care, skill, prudence and diligence* under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims. Encompassed within the duty of care are:
 - a. The duty to assure that the assets of the system are sufficient to pay the benefits promised
 - b. The duty to monitor and take corrective action when reasonably appropriate
 - c. The duty to exercise reasonable effort and diligence in making and monitoring investments for the trust and to diversify investments to maximize returns and minimize risk
 - d. The duty to consult with experts and secure and consider the advice of others to the extent necessary or appropriate to the making of informed decisions
 - e. The duty to exercise prudence in decision-making which requires asking questions, analyzing advice and recommendations from experts and understanding the rationale for actions before taking them
 - f. The duty follow the plan document and other applicable laws governing the retirement system and ensure that trust assets are used for the exclusive benefit of delivering benefits and related services to participants and beneficiaries

CONFLICT OF INTEREST

A fiduciary must act in the best interest of the plan and its participants. Fiduciaries should exercise extraordinary precaution to assure that decisions and transactions are fair to the participants and free of any conflict of interests. Board members must not participate in any decisions that will impact, either negatively or positively, their own financial interests. The Political Reform Act requires that board members file an initial disclosure of their financial interests, an annual disclosure thereafter, and a final disclosure when they leave office. Every Board member should become familiar with the California conflict of interest and disclosure laws applicable to their duties as a public pension plan board member. Conflict of interest laws are complex. Board members should seek assistance from the General Counsel to determine what financial disclosures are required and to seek advice in any situation giving rise to a potential conflict of interest.

DELEGATION OF RESPONSIBILITY

Many aspects of plan administration such as day-to-day operations, investment decisions and other services necessary to conduct the affairs of the system are delegated to persons other than the Board members. Fiduciaries must exercise reasonable care in delegating responsibilities over administration of the plan. Board members must ensure that the persons selected are qualified and capable of adequately performing the duties delegated. Once delegated, Board members must actively monitor the activities of the person selected to ensure that he or she is adequately performing and that policies and procedures are being timely and accurately implemented.

PLAN ADMINISTRATION

A Board member's duties relating to plan administration will include:

1. **Legal Compliance:** Board members must ensure that the plan maintains compliance with the plan documents and all applicable laws governing the system. Board members comply with this duty by conducting a periodic review of plan documents and monitoring changing legal requirements.
2. **Education:** Board members are expected to educate themselves on the issues that are likely to appear in front of them and ensure that staff members also obtain sufficient education to keep current with issues that impact administration of the system. Board members should establish an ongoing education program for board members and staff.
3. **Board and Committee Meetings:** Board members are expected to prepare for, attend and participate in regularly scheduled meetings necessary to conduct the business of the system. Board members should ensure that accurate and detailed minutes are kept of all meetings.
4. **Payment of Benefits and Claims:** Board members are responsible for ensuring that plan benefits are paid to participants and beneficiaries in a timely and accurate manner.
5. **Competency of Assets:** Board members are responsible for formulating written investment policies and guidelines and overseeing investments to ensure adequate funding of the system to pay all promised benefits.
6. **Contributions:** Board members must ensure that contributions from plan sponsors and plan participants are set accurately and collected in a timely manner to ensure adequate funding of the system.
7. **Actuarial Advice:** Board members are responsible for retaining and working with a system actuary to analyze potential long-term funding deficiencies and provide advice on contribution rates to ensure adequate funding of the system.
8. **Retention of Vendors, Consultants and Experts:** Board members are responsible for retaining vendors, consultants and experts with sufficient skills and expertise to provide the services necessary to conduct the affairs of the system and pay reasonable compensation for those services.

ATTACHMENT 2

BOARD MEMBER KNOWLEDGE SELF-ASSESSMENT

Introduction

Board policy provides that Board members should develop and maintain their knowledge and understanding of the issues involved in the management of the system across the broad spectrum of pension-related areas. The specific areas in which Board members should develop and maintain useful levels of knowledge shall include:

- Governance
- Asset Allocation and Investments
- Actuarial Process
- Benefits Administration
- Disability
- Fiduciary Responsibility
- Ethics, Conflicts and Disclosures
- Open Meeting and Public Records
- Financial Controls and Audits
- Vendor Selection Process

The policy goes on to state that Board members should identify areas where they might benefit from additional education and work with staff to find educational opportunities. The purpose of this self-assessment is to help Board members fulfill their responsibility to identify such areas so that they can engage in meaningful discussion with the General Counsel regarding educational needs and opportunities and make informed choices about the educational opportunities that they pursue.

Instructions

Keeping in mind that this is not a “test” and that no one besides you will see the specific results, you should answer the questions using your best judgment as to your knowledge level in the given area. As indicated, use a simple numeric scale to identify your knowledge and understanding of the subject matters, with a “1” indicating no knowledge or understanding and a “5” indicating comprehensive and detailed knowledge and understanding. When you complete the self-assessment, identify those subject areas, by either general category or specific question as applicable, where you scored the lowest. Make a note of these areas for future discussion with the General Counsel about your educational needs and upcoming educational opportunities to address those needs.

GOVERNANCE

I am confident that I understand the governance of the system.

This includes:

	1	2	3	4	5
Understanding board function, processes, committee structure, exercise of discretion, delegation of responsibilities and oversight role.					
Understanding the organizational structure and roles of staff and key service providers, including the actuary, investment consultant, attorneys and auditors.					
Understanding the laws and rules governing the system.					
Understanding the system’s independence under applicable laws.					
Understanding best practices for public pension board governance.					

ASSET ALLOCATION AND INVESTMENTS

I am confident that I understand the asset allocation and investment and funding policies of the system.

This includes:

	1	2	3	4	5
Understanding the major asset classes and their characteristics.					
Understanding specialized asset classes and techniques, such as private equity, market neutral, and securities lending.					
Understanding the concept of risk versus reward and the “efficient frontier” principle of asset allocation.					
Understanding the reports provided by staff and the investment consultant on the performance of the investment portfolio.					
Understanding the role of active management in the investment portfolio.					

ACTUARIAL PROCESS

I am confident that I understand the information provided to me by our outside actuary concerning the actuarial soundness of the system.

This includes:

	1	2	3	4	5
Understanding of how assets and liabilities of the system are calculated on an actuarial basis.					
Understanding the difference and relationship between the actuarial value of assets and the market value of assets and the asset smoothing process.					
Understanding how changes in actuarial assumptions have an impact on system assets and liabilities.					
Understanding the nature of the plan sponsors' funding obligations and the responsibility of the Board to determine the annual required contribution.					
Feeling comfortable with asking our actuary questions when I need further information, explanation or clarification on a subject.					

BENEFITS ADMINISTRATION

I am confident that I understand the benefit structure and benefits administration process at the system.

This includes:

	1	2	3	4	5
Understanding the different plans available to employees of all plan sponsors.					
Understanding how the system communicates with its members.					
Understanding the difference between the responsibility for plan design (plan sponsor) and the responsibility for plan administration (the system).					
Understanding how so-called "contingent" benefits are calculated and administered.					
Understanding how the DROP is administered.					

DISABILITY

I am confident that I understand the disability benefit structure, program administration, and hearing/appeals process at the system.

This includes:

	1	2	3	4	5
Understanding the qualifications for a disability retirement and the benefits that are provided.					
Understanding the process that is followed in disability applications, from intake through determination of eligibility.					
Understanding the medical and legal issues that are discussed during consideration of disability matters.					
Understanding the reexamination process.					
Understanding the hearing and appeal process that is followed when a member is dissatisfied.					

FIDUCIARY RESPONSIBILITY

I am confident that I understand the responsibilities that I have as a system fiduciary.

This includes:

	1	2	3	4	5
Understanding the duty to be prudent.					
Understanding the duty of loyalty and to whom that duty is owed.					
Understanding what constitutes a prohibited transaction.					
Understanding the duty to administer the plan in accordance with governing plan documents.					
Understanding how to delegate authority while retaining appropriate oversight.					

ETHICS, CONFLICTS AND DISCLOSURE

I am confident that I understand the laws, rules and policies that address ethics, conflicts and disclosure at the system. This includes:

	1	2	3	4	5
Understanding applicable state and/or local conflict of interest laws and the duty to avoid participating in a decision that affects my economic interests.					
Understanding system policies concerning conflicts of interest.					
Understanding system policies regarding disclosure by board members and/or investment managers of third party communications.					

OPEN MEETING AND PUBLIC RECORDS

I am confident that I understand the applicable laws and procedures concerning open meetings and public records.

This includes:

	1	2	3	4	5
Understanding the notice requirements for meetings, including teleconference meetings.					
Understanding the limitations on discussing matters that have not been noticed on the agenda.					
Understanding the circumstances under which communications outside of noticed meetings can be deemed under the law to be a “meeting.”					
Understanding what may and may not be discussed during a closed session.					
Understanding what constitutes a “public record” under the law and the circumstances under which system records must either be disclosed or withheld.					

FINANCIAL CONTROLS AND AUDITS

I am confident that I understand the system of financial reporting, controls and audits.

This includes:

	1	2	3	4	5
Understanding the respective roles of the Chief Financial Officer, Chief Compliance Officer, the Internal Auditor, and the outside auditor.					
Understanding the Comprehensive Annual Financial Report (CAFR).					
Understanding the concepts of “risk assessment” and developing internal controls to address those risks.					
Understanding the responsibility for maintaining the security of confidential information kept by the system.					
Understanding the present relationship between the system and the plan sponsor(s) with respect to the system’s financial controls and reporting.					

VENDOR SELECTION PROCESS

I am confident that I understand the vendor selection process.

This includes:

	1	2	3	4	5
Understanding when an RFP must be conducted and whether the Board must first approve the RFP.					
Understanding the “no contact” provisions of Board policy as they relate to RFP’s.					

POLICY ON EDUCATIONAL REQUIREMENTS FOR STAFF OF THE PENSION TRUST

The employees and staff of the Pension Trust have an obligation, concurrent with that of the Board of Trustees, to maintain and increase their professional knowledge, and to stay informed and exercise prudent oversight of the advisors and managers retained by the Pension Trust, as well as the assets of the Pension Trust, including the real property assets held by the Trust. In order to clearly memorialize these responsibilities and to set forth the administrative procedures necessary or convenient to accomplish them, the Board of Trustees establishes the following minimum attendance guidelines regarding the Education Requirements for the Executive Secretary and staff designated by the Executive Secretary for attendance at training or continuing education:

1. During the Executive Secretary's term of employment, the Executive Secretary shall attend one or more educational programs presented by an approved sponsor annually.
2. For all staff designated by the Executive Secretary, attendance at one or more educational program presented by an approved sponsor each year during designated staff member's term of employment. CALAPRS General Assemblies and appropriate CALAPRS Roundtables shall be recognized as applicable toward meeting those requirements.

POLICY ON REIMBURSEMENT FOR EXPENSES INCURRED FOR TRAVEL ON PENSION TRUST BUSINESS, INCLUDING EDUCATION AND DUE DILIGENCE:

A. Authorization for attendance by Trustees and Staff at conferences, meetings, seminars and travel necessary to conduct the business of the Pension Trust at Pension Trust expense is hereby granted subject to the following:

1. The program includes subject matter directly pertinent to the operation or administration of the Trust.
2. The program includes subject matter that will enhance the professional knowledge or expertise of Trustees or staff, therefore providing benefit to the Pension Trust.
3. The necessary funds are available within the annual budget of the Pension Trust.
4. The number of nights authorized for overnight lodging is held to the period of the meeting plus timely travel and availability of public transportation.

B. Authorization for attendance without expense reimbursement: Authorization for attendance without travel reimbursement (but on Pension Trust time) at conferences, meetings, educational classes and seminars which relate to work in which the Trustee or staff member is engaged is hereby granted provided that said attendance will benefit both the Trust and the attendee.

C. Authorization for Travel to Educational Programs or for Business (In-state):

1. Pursuant to the conditions set forth herein, travel for the following Pension Trust business is hereby approved within the State of California:
 - a. Travel for necessary and essential Pension Trust business.
 - b. Travel for attendance at programs offered by approved providers as set forth in Section I Approved Sponsors of Educational Programs of this policy.

D. Authorization for Travel to Educational Programs or for Business (Out of State):

1. Pursuant to the conditions set forth herein, travel for Pension Trust business is hereby approved for travel out of state for attendance at programs offered by approved providers as set forth

in Section I: Approved Sponsors of Educational Programs of this policy and for due diligence visitations as specified in The Pension Trust's Investment Policy.

2.) Travel to seminars, conferences and classes sponsored by providers *other* than those identified in Section I: Approved Sponsors of Educational Programs, must be approved by the Board of Trustees. A request from the attendee shall be included in the Board meeting agenda and approved by the Board. Sufficient information about the reason for the trip shall be provided to allow adequate evaluation;

3. Unless otherwise provided by the Retirement Plan or the provisions of this Policy, employees of the Pension Trust must obtain authorization from the Board of Trustees prior to travel out of state. The minutes shall reflect approval of the travel for audit purposes. The Board of Trustees shall review the request and shall approve or disapprove the request, based on the criteria set forth in Section II - A of this policy. Travel out of state to attend educational programs sponsored by providers in Section I: Approved Sponsors of Educational Programs or for purposes of conducting due diligence visitations required by Section II of this policy shall not require prior approval by the Board of Trustees.

E. Reimbursement

1. Meals: Meal expense incurred while traveling or performing Pension Trust business shall be reimbursed based on actual expenses incurred not to exceed the per diem amount established pursuant to this policy. Meal expenses in excess of the per diem amount established herein shall be reimbursed upon presentation of proper substantiation and justification. Per diem meal limits are set forth in Appendix A. In cases where the per diem rate is used, supporting expense logs or meal receipts should be maintained by the Trustee or staff to support the claim. Individual meal expenses in excess of \$25.00 should be supported with a receipt attached to the travel claim.

2. Transportation:

a. Consistent with work schedules, distance and time requirements, the least expensive method of travel should be utilized.

b. Individuals using privately owned automobiles must certify that appropriate insurance is in effect prior to beginning travel.

c. Reimbursement for use of privately owned vehicles will be on a rate per mile basis as specified in Appendix A to this Policy.

d. Commercial Auto Rental: Individuals will be reimbursed for the actual cost of car rentals and fuel when appropriate substantiation is presented. Damage and personal accident insurance should not be purchased, as the Pension Trust is covered for such liability through its insurance coverage.

e. Air Travel: Reimbursement for the cost of commercial air tickets shall be made upon presentation of proper substantiation. Reimbursement shall be limited to coach fare.

f. Railroad Transportation: Reimbursement for the cost of railroad tickets shall be made upon presentation of appropriate substantiation. Reimbursement shall be limited to coach or business fare, unless approved by the Board of Trustees.

3. Lodging:

a. Individuals attending seminars, conferences or classes pursuant to this policy are encouraged to obtain lodging at the hotel or motel where the seminar, conference or class is being presented. **In such cases, reimbursement shall be made for the full amount of lodging expense incurred.** Individuals traveling on Pension Trust business should make advance lodging arrangements through the Pension Trust Office.

b. Individuals who are traveling on Pension Trust business (other than attendance at seminars, conferences or classes) shall be reimbursed for actual lodging expenses up to the limits established by this policy. Maximum lodging limits are set forth in Appendix A which shall be reviewed annually and adjusted as necessary by the Board of Trustees.

4. Business Expenses:

a. Individuals who are traveling on Pension Trust business shall be reimbursed for actual and necessary business expenses (as the term is defined in this policy), other than meals, transportation and lodging. Business expenses must be directly related to the purpose of travel.

5. Claims for Reimbursement: Claims for reimbursement of authorized travel expenses will be submitted on a Pension Trust Travel Reimbursement form. The Executive Secretary, or designee thereof, shall

review the claim for accuracy and compliance with this policy. Reimbursement shall be made by the Office of Pension Trust. Claims and supporting documentation shall be maintained in the office of the Pension Trust for a period of five years.

III. WAIVER OF POLICY

The Board of Trustees may waive any provision of these policies if it determines that extraordinary circumstances exist which indicate that such waiver is in the best interests of the Pension Trust.

IV. COMPLIANCE WITH PROVISIONS OF THE BROWN ACT

Travel by multiple Board members shall be conducted in such a manner as to maintain compliance with the provisions of the Brown Act (Government Code Section 54950 et. seq.). Attendance by members of the Board of Trustees at educational meetings, conferences, seminars and related events is not a violation of the Brown Act provided that the conference or seminar is open the public and involves a discussion of issues of general interest to public agencies of the same type as the Pension Trust (Government Code Section 54952.2.).

VI. DEFINITIONS

A. The following definitions shall apply to this Travel Policy

1. Pension Trust Business: Consists of activities directly related to the functions of the San Luis Obispo County Pension Trust.
2. Authorized Personnel: Those eligible for reimbursement of expenses incurred for the Pension Trust include:
 - a. Members of the Pension Trust Board of Trustees.
 - b. Officers, employees and agents of the Pension Trust.
 - c. Assigned employees of the County subject to approval by the Board of Trustees.
3. Authorized Point of Departure: The authorized point of departure shall be the individual's residence, normal work location or such other place that may be designated by the Board of Trustees.

4. Authorized Point of Return: The authorized point of return shall be the individual's residence, normal work location or such other place that may be designated by the Board of Trustees.
5. Lodging: Lodging expenses consist of those charges for overnight sleeping or dwelling accommodations as required during travel for the conduct of Pension Trust Business. Reimbursable lodging expenses shall be limited to single occupancy rates.
6. Meals: Meal expenses shall be those charged for food and beverages purchased and consumed in the course of Pension Trust business.
7. Transportation Expenses: Transportation expenses are the direct costs related to movement from the authorized point of departure to the authorized point of return. Transportation expenses include, but are not limited to, common carrier tickets, private vehicle mileage and car rental charges.
8. Other Transportation Expenses: These expenses include taxi, bus and streetcar fares; road, bridge and ferry tolls; parking fees and other incidental costs related to the individual's transportation.
9. Business Expenses: Business expenses are all expenses incidental to travel on Pension Trust business that are not transportation, lodging or meal expenses. Business expenses include, but are not limited to, conference registration fees, telephone, telegraph, hotel internet connection fees and Fax charges related to Pension Trust business, reasonable non-meal gratuities (i.e., sky-caps, bellhops, etc.).
10. Expenses Not Reimbursed by the Pension Trust:
 - a. Airline or other travel insurance.
 - b. Annual premium for personal property insurance.
 - c. Unauthorized extra charges.
 - d. Traffic or parking violations.
 - e. Gasoline purchase for private vehicles whenever the individual claims reimbursement at the established per mile rate.
 - f. Additional expenses for spouses or other traveling companions are not reimbursable.

APPENDIX A

TRAVEL REIMBURSEMENT RATES

1. MEALS & INCIDENTALS: Per diem reimbursement rate for meals and incidentals: \$55.00

2. PRIVATE CAR: Per mile reimbursement shall be the amount established by the Internal Revenue Code for non-taxable reimbursement at the time the travel was undertaken.

3. LODGING REIMBURSEMENT RATE FOR TRAVEL OTHER THAN TRAVEL SPECIFIED IN SECTION II, E, 3 (a):

A.	General Travel	<u>\$175 per night plus tax & parking</u>
B.	San Francisco(Financial/Downtown Ctr) (Suburban Area)	<u>\$250 per night plus tax & parking</u> <u>\$200 per night plus tax & parking</u>
C.	L. A. (Financial/Civic Center) (Suburban Area)	<u>\$250 per night plus tax & parking</u> <u>\$200 per night plus tax & parking</u>
D.	San Diego(Financial/Civic Center) (Suburban Area)	<u>\$250 per night plus tax & parking</u> <u>\$200 per night plus tax & parking</u>
E.	New York - Boston (Financial/Civic Ctr) (Suburban Area)	<u>\$300 per night plus tax & parking</u> <u>\$230 per night plus tax & parking</u>

4. PERSONAL PHONE CALLS: Maximum of \$ 10.00 per day

This page left blank intentionally.

San Luis Obispo County Pension Trust

BOARD MEMBER KNOWLEDGE SELF-ASSESSMENT

Introduction

Board policy provides that Board members should develop and maintain their knowledge and understanding of the issues involved in the management of the system across the broad spectrum of pension-related areas. The specific areas in which Board members should develop and maintain useful levels of knowledge shall include:

- Governance
- Asset Allocation and Investments
- Actuarial Process
- Benefits Administration
- Disability
- Fiduciary Responsibility
- Ethics, Conflicts and Disclosures
- Open Meeting and Public Records
- Financial Controls and Audits
- Vendor Selection Process

The policy goes on to state that Board members should identify areas where they might benefit from additional education and work with staff to find educational opportunities. The purpose of this self-assessment is to help Board members fulfill their responsibility to identify such areas so that they can engage in meaningful discussion with the General Counsel regarding educational needs and opportunities and make informed choices about the educational opportunities that they pursue.

Instructions

Keeping in mind that this is not a “test” and that no one besides you will see the specific results, you should answer the questions using your best judgment as to your knowledge level in the given area. As indicated, use a simple numeric scale to identify your knowledge and understanding of the subject matters, with a “1” indicating no knowledge or understanding and a “5” indicating comprehensive and detailed knowledge and understanding. When you complete the self-assessment, identify those subject areas, by either general category or specific question as applicable, where you scored the lowest. Make a note of these areas for future discussion with the General Counsel about your educational needs and upcoming educational opportunities to address those needs.

GOVERNANCE

I am confident that I understand the governance of the system.

This includes:

	1	2	3	4	5
Understanding board function, processes, committee structure, exercise of discretion, delegation of responsibilities and oversight role.					
Understanding the organizational structure and roles of staff and key service providers, including the actuary, investment consultant, attorneys and auditors.					
Understanding the laws and rules governing the system.					
Understanding the system's independence under applicable laws.					
Understanding best practices for public pension board governance.					

ASSET ALLOCATION AND INVESTMENTS

I am confident that I understand the asset allocation and investment and funding policies of the system.

This includes:

	1	2	3	4	5
Understanding the major asset classes and their characteristics.					
Understanding specialized asset classes and techniques, such as private equity, market neutral, and securities lending.					
Understanding the concept of risk versus reward and the "efficient frontier" principle of asset allocation.					
Understanding the reports provided by staff and the investment consultant on the performance of the investment portfolio.					
Understanding the role of active management in the investment portfolio.					

ACTUARIAL PROCESS

I am confident that I understand the information provided to me by our outside actuary concerning the actuarial soundness of the system.

This includes:

	1	2	3	4	5
Understanding of how assets and liabilities of the system are calculated on an actuarial basis.					
Understanding the difference and relationship between the actuarial value of assets and the market value of assets and the asset smoothing process.					
Understanding how changes in actuarial assumptions have an impact on system assets and liabilities.					
Understanding the nature of the plan sponsors' funding obligations and the responsibility of the Board to determine the annual required contribution.					
Feeling comfortable with asking our actuary questions when I need further information, explanation or clarification on a subject.					

BENEFITS ADMINISTRATION

I am confident that I understand the benefit structure and benefits administration process at the system.

This includes:

	1	2	3	4	5
Understanding the different plans available to employees of all plan sponsors.					
Understanding how the system communicates with its members.					
Understanding the difference between the responsibility for plan design (plan sponsor) and the responsibility for plan administration (the system).					
Understanding how so-called "contingent" benefits are calculated and administered.					
Understanding how the DROP is administered.					

DISABILITY

I am confident that I understand the disability benefit structure, program administration, and hearing/appeals process at the system.

This includes:

	1	2	3	4	5
Understanding the qualifications for a disability retirement and the benefits that are provided.					
Understanding the process that is followed in disability applications, from intake through determination of eligibility.					
Understanding the medical and legal issues that are discussed during consideration of disability matters.					
Understanding the reexamination process.					
Understanding the hearing and appeal process that is followed when a member is dissatisfied.					

FIDUCIARY RESPONSIBILITY

I am confident that I understand the responsibilities that I have as a system fiduciary.

This includes:

	1	2	3	4	5
Understanding the duty to be prudent.					
Understanding the duty of loyalty and to whom that duty is owed.					
Understanding what constitutes a prohibited transaction.					
Understanding the duty to administer the plan in accordance with governing plan documents.					
Understanding how to delegate authority while retaining appropriate oversight.					

ETHICS, CONFLICTS AND DISCLOSURE

I am confident that I understand the laws, rules and policies that address ethics, conflicts and disclosure at the system. This includes:

	1	2	3	4	5
Understanding applicable state and/or local conflict of interest laws and the duty to avoid participating in a decision that affects my economic interests.					
Understanding system policies concerning conflicts of interest.					
Understanding system policies regarding disclosure by board members and/or investment managers of third party communications.					

OPEN MEETING AND PUBLIC RECORDS

I am confident that I understand the applicable laws and procedures concerning open meetings and public records.

This includes:

	1	2	3	4	5
Understanding the notice requirements for meetings, including teleconference meetings.					
Understanding the limitations on discussing matters that have not been noticed on the agenda.					
Understanding the circumstances under which communications outside of noticed meetings can be deemed under the law to be a “meeting.”					
Understanding what may and may not be discussed during a closed session.					
Understanding what constitutes a “public record” under the law and the circumstances under which system records must either be disclosed or withheld.					

FINANCIAL CONTROLS AND AUDITS

I am confident that I understand the system of financial reporting, controls and audits.

This includes:

	1	2	3	4	5
Understanding the respective roles of the Chief Financial Officer, Chief Compliance Officer, the Internal Auditor, and the outside auditor.					
Understanding the Comprehensive Annual Financial Report (CAFR).					
Understanding the concepts of “risk assessment” and developing internal controls to address those risks.					
Understanding the responsibility for maintaining the security of confidential information kept by the system.					
Understanding the present relationship between the system and the plan sponsor(s) with respect to the system’s financial controls and reporting.					

VENDOR SELECTION PROCESS

I am confident that I understand the vendor selection process.

This includes:

	1	2	3	4	5
Understanding when an RFP must be conducted and whether the Board must first approve the RFP.					
Understanding the “no contact” provisions of Board policy as they relate to RFP’s.					

Completed by: _____

Date: _____

Board of Trustees

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



Date: January 28, 2019

To: Board of Trustees

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

Agenda Item 12: Cash Flow Analysis for 2019

Recommendation:

It is recommended that the Board receive and file this report.

Discussion:

This report is presented in accordance with the requirements of Section IX, Investment Administration, of the SLOCPT's Investment Policy.

This report is an information item only and is ministerial in nature. Please note that the County and APCD employer paid contributions are currently prepaid through June 30, 2019. This causes a timing issue as funds are received in one discounted lump sum payment in July of each year for contributions due in fiscal years ending June 30. The following projection does not consider the impacts of this prefunding and the associated discount.

SLOCPT

Annual Cashflow projections

Pursuant to Article IX (Investment Administration) of the Investment Policy

<u>Expected Cash Inflows:</u>	<u>2019</u>
Contributions	81,400,000
Real Estate Income Transferred	5,000,000
Net Investment Drawdowns	18,100,000 *
Total Inflows (a)	<u>\$ 104,500,000</u>
<u>Expected Cash Outflows:</u>	
Benefit Payments	\$ (99,800,000)
+ est. COLA for 2019	(2,000,000)
Termination Refunds	(2,000,000)
Death Benefits	(100,000)
Administrative Expenses	(2,900,000)
Total Outflows (b)	<u>\$ (106,800,000)</u>
Net Cashflow (a + b)	<u>\$ (2,300,000)</u>
Current Cash Holdings **	<u>28,000,000</u>
Total Cash Available (at year end)	<u><u>\$ 25,700,000</u></u>

* Net investment drawdowns will be accomplished as part of routine asset mix rebalancing between portfolios during the year.

** Cash held in the County Treasury account and operating accounts at Pacific Premier Bank.

Board of Trustees

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



Date: January 28, 2019

To: Board of Trustees

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

Agenda Item 13: Investment Report for December 2018

	December	Year to Date 2018	2017	2016	2015	2014	2013
Total Trust Investments (\$ millions)	\$1,286		\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end	\$1,131 year end
Total Fund Return	-2.5% Gross	-2.6% Gross	15.5 % Gross	6.6 % Gross	-0.8% Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	-3.0%	-3.4%	13.4 %	7.7 %	-0.5 %	5.2 %	13.4%

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

This is a preliminary estimate of calendar year 2018 returns due to the lag in market value reporting of illiquid investments such as real estate, private equity and private credit. The full quarterly report from Verus for 4Q18 will include a more precise measure of the 2018 investment returns.

The SLOOPT follows an asset allocation policy that is somewhat more conservative than other retirement systems. By way of a rough comparison, it is likely that a traditional 60/40 stocks/bonds asset mix in 2018 would have a return of about -3.1% for the year.

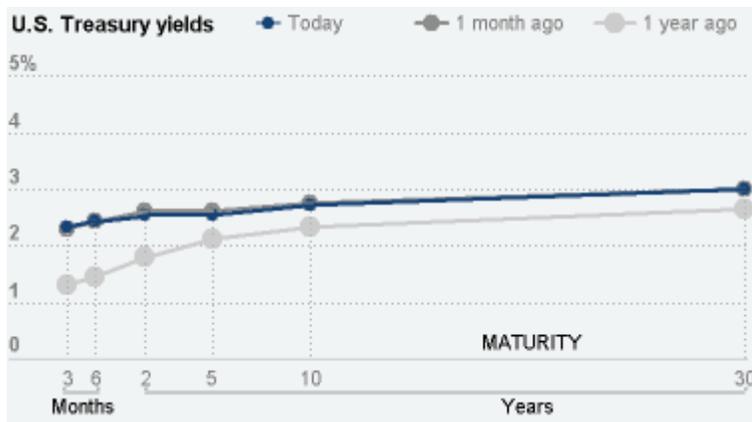
Longer Term Returns – based on the preliminary measure of calendar year 2018 returns shown above, the long-term rates of return can be estimated as –

3 years	2016-2018	~ 6.2%
5 years	2014-2018	~ 4.6%
10 years	2009-2018	~ 8.8%
15 years	2004-2018	~ 5.7%

The Economy and Capital Markets:

• **Fed Policy and Interest Rates –**

- The Fed met on December 19th and approved the last 2018 round of rate increases of about +0.25%.
- On January 3rd at the Economic Club of Washington Fed Chair Powell noted the need for the Fed response to economic conditions to be flexible. The capital markets took this as an indication of a more dovish stance on further monetary tightening in 2019.
- The second half of Fed tightening in addition to the Fed Funds rate – the unwinding of the outsized Fed balance sheet following QE – may moderate in 2019 and is increasingly a focus of capital markets.
 - On a global basis – the European Central Bank has also been following an aggressive asset purchase quantitative easing program. In December, the ECB announced that it also would cease asset purchases.
- Historically Fed rate increases that precipitated, in part, the start of recessions have been viewed as an over-shoot on Fed Policy. Part of this history includes the Fed response to resurgent inflation driven in some cases by energy price spikes. With the current price of oil below \$55/bbl and with tame inflation rates otherwise, the risk of Fed over-tightening to combat inflation and triggering a recession is reduced.
- The yield curve has continued to flatten significantly as expectation for 2019-2020 economic growth slow. The yield curve as of January 18th is shown below.



- **Yield Curve flattening and recession prediction –**

- The often-quoted history of an inverted yield curve being a reliable predictor of coming recessions comes from research by Professor Cam Harvey of Duke University. Prof. Harvey is also a Partner and Senior Advisor to Research Affiliates – an investment firm that the SLOCPT uses for an enhanced index fund domestic equity strategy. A recent article on the Research Affiliates website on the topic of inverted yield curves can be summarized below.
 - Inverted yield curves are defined as –
 - When the yield on a long Treasury Bond (10 years) is lower than the yield on a very short Treasury Bill (3 months) – and
 - When the negative 10 year vs. 3 month Treasury spread persists for at least a full calendar quarter.
 - An inverted yield curve has been a reliable indicator of post-war recessions with a 12-18 month lead time.
 - This is in contrast to the stock market that is notorious for market declines falsely predicting recessions. As the famous economist Paul Samuelson quipped many years ago – “The stock market has predicted nine of the last five recessions...”
 - The yield curve shown above indicates that we do not yet have an inverted yield curve, but it is significantly flattened relative to typical history.
 - Interest rates can be viewed as having two components – an Inflation component and a Real Returns component. When the Real Return component for longer term bonds is less than short term, it reflects a market consensus that long-term growth will be lower than at present – as in a recession. Therefore, an inverted yield curve is a distillation of capital market expectations for economic conditions.
 - Also, when the Fed increases short term rates – typically to satisfy the inflation-control side of the Fed’s dual mandate – it may slow the economy too much which also can act as a part of the trigger for recessionary conditions.
 - The Fed’s aggressive quantitative easing over the last eight years with purchasing long-term debt has artificially repressed interest rates. It is plausible that the result of QE may be a heightened probability of an inverted yield curve finally giving a false signal on a coming recession. However, Prof. Harvey notes that the Fed has followed similar, albeit smaller, monetary easing strategies back into the 1960s.

- **GDP Growth, Recession Fears and Corporate Profits –**

- Capital markets continue to be roiled by multiple fears –
 - Slowing economic growth – particularly in China.
 - Monetary policy uncertainty about the pace of Fed tightening (or not).
 - Corporate earnings in a slowing growth year after the initial 2018 boost from corporate tax cuts.
 - Trade policy turmoil and the erratic and unpredictable course of trade tariffs and the resulting impacts on global economic activity and inflation.
- Apple, Inc. earnings guidance – The January 2nd announcement that Apple’s forecast for 1Q19 earnings was lower served as a bellwether for the concerns noted above. Apple’s

earnings warning called out slowing Chinese demand for reasons of slowing Chinese economic growth as well as trade policy turmoil/tariffs. Early corporate earnings reports such as for Delta Airlines were also lower than expected.

- Purchasing managers confidence – Compounding the concerns above was the release of the Institute for Supply Management (ISM) report for December that showed an unexpected sharp drop in the manufacturing business survey or Purchasing Managers Index (PMI) from 59.3 to 54.1. While still an expansionary read on expected economic activity, the decline reinforces concerns over slowing growth and possibly recessionary risk.
- The economic impact of non-systematic shocks such as a prolonged Federal Government shutdown over budget battles or a further breakdown in trade policy conflict increasingly add to capital market volatility. In particular, the binary outcome of the current trade dispute between the U.S. and China – is a reasonable deal struck or is it not... - dominates market concerns over recessionary risk.

- **Trade Policy –**

- Increasingly the risk of an escalating trade war with China is presenting self as a tipping point risk for recession. It is useful to remember the growing importance of global trade. In the 1960s global trade was about 25% of global GDP. In 2018, global trade is about 55% of global GDP.
 - The Chinese economy is more impacted by U.S. tariffs than the U.S. economy, but slowing growth in China has a significant market influence globally.
 - Should U.S. tariffs increase back to a 25% level on a large portion of Chinese imports, the inflationary impact on U.S. consumers and disruption in corporate supply chains could make the difference between a slowed growth scenario and a recession scenario.
 - In early January U.S. and Chinese trade negotiations to reach a compromise trade deal were underway. The U.S. Administration has set a March 2nd deadline for a negotiated trade deal or U.S. tariffs on \$200 billion of Chinese imports will rise.

- **European Union Status –**

- Brexit turmoil – the continued lack of agreement on the U.K. leaving the European Union as the clock ticks down to the March 29th deadline for Brexit has roiled the British economy. A non-structured “Hard Brexit” withdrawal is expected to have significant negative impacts on Britain. The issue of keeping an open border with Northern Ireland – to remain an EU member – is particularly problematic for Brexit negotiations.

- **Employment and Wages –**

- The December DOL report on nonfarm employment showed -
 - New jobs up 312k in December, well above expectations.
 - Unemployment increased to 3.9% as new entrants to the workforce were drawn in by good employment prospects. The labor force participation rate increased slightly from 62.9% to 63.1%.

- Wage growth – a significant predictor of possible inflation increases – for December again showed a sedately increasing year-over-year increase of 3.2%.
- **Economy and the markets – the 4Q18 “Correction”**
 - October through December saw a sharp selloff in equity prices globally and volatile interest rates. The S&P 500 fell nearly 20% from its October peak in response to concerns over Fed tightening monetary policy above what the market viewed as a “neutral rate of interest”, recession fears, and unpredictable turns in trade policy.
 - A succinct discussion of the risks in store for 2019 was contained in the Atlanta Capital Management 4Q18 Outlook letter by Bill Hackney, CFA excerpted below. Atlanta Capital manages the SLOCPT’s domestic equity small/midcap equity portfolio.

“The key questions now for investors are: Is the lengthy US economic expansion on the eve of destruction and does the nasty market downturn of the past few months represent just the beginning phase of a more severe bear market in stocks?

My short answer to both questions is no. But it is an answer given with only moderate conviction because it is premised on the so-called tariff wars not getting any worse. Worsening trade relations with China was a key worry in the market’s meltdown in the fourth quarter. And recently, there are signs that the slowdown in global trade which logically follows a tariff war is affecting the US. On January 2 the closely watched ISM Purchasing Managers Index (PMI) was released. For December 2018 it posted its largest monthly decline since the Great Recession.

I believe the sudden weakening in US manufacturing gives the Trump administration powerful incentive to show progress on easing, if not resolving, many of problems between China and the US. Such progress will provide a welcome boost to world financial markets. If the US inspired tariff war worsens, however, it will act as a giant tax increase on global economic activity, killing growth and raising inflation—the kind of public policy mistake that can end an economic cycle.

Tariff wars aside, the current US economic cycle, which turns ten years old in June, is maturing. Labor markets are tightening and interest rates should eventually be pushed higher by accelerating wage inflation and increasing credit demands, particularly from federal government deficit financing. Higher inflation and interest rates can end a bull market in stocks and cause a recession, because monetary conditions become “too tight” and/or the burden of high interest rates crushes the players in the economy who have taken on too much debt relative to their ability to repay it. In my opinion, the US economy and its financial system have not yet reached these painful thresholds.

So, in the short term, say the next six to twelve months, I am bullish on the stock market. I believe that a US recession in 2019 is unlikely. Given the

skittishness of world financial markets, the weakening Chinese economy and renewed weakness in the US industrial sector, it seems to me that both President Trump and President Xi have a strong political interest in making some progress on the tariff issue.”

- A similar set of expectations for 2019 was the topic of a JP Morgan 2019 Investment Outlook meeting. JP Morgan’s chief strategist, Dr. David Kelly, offered up the following expectations –
 - The U.S. economy will slow but not stall
 - Central banks in the U.S. and abroad will tighten monetary policy
 - Earnings growth will slow although remain positive
 - International equities will be volatile but should rebound following a rough 2018

- **Economy and the markets – The central role of Fed policy**

- Attached on the next two pages are the graphically striking covers to the J.P. Morgan “Eye on the Market Outlook” publications for both 2019 and 2018.
- This same “J.P. Morgan “Eye on the Market Outlook for 2019” publication contained a succinct summary of their outlook for capital markets –

“For the first time in 20 years, markets will have to survive without support from central banks. While equity valuations are cheaper after the fall selloff, tighter monetary policy, shrinking excess capacity, slower global growth and unresolved trade issues will limit the market rebound in 2019. While we expect US GDP and profits to continue to rise, they don’t always translate into rising asset prices this late in the cycle, particularly with the shift by the Trump administration away from its market-friendly 2017 policies. All things considered, it looks like a volatile, positive single-digit year for diversified portfolios in 2019.”

SLOCPT Investment Returns:

The attached report from Verus covers the investment returns of the SLOCPT portfolio and general market conditions through the end of December. As an initial report on December 2018, this report is based on some estimated asset values. The more precise measure of 2018 investment returns will be published in February with the full 4Q18 Verus Quarterly report. Subsequent market movements in January will be reported on in next month’s investment report.

Of note – the S&P 500 index ended 2018 at 2,497. As of January 18th the S&P 500 index closed at 2,670 – or 6.9% higher than year end.

Respectfully submitted

Eye on the Market Outlook 2019

J.P. MORGAN ASSET MANAGEMENT



The Decline of Western Centralization, Part II. This year's cover repeats last year's punch bowl theme, but with weather conditions worsening now that the spigot is open and liquidity is being drained. For the first time in 20 years, markets will have to survive without support from central banks. While equity valuations are much cheaper after the fall selloff, tighter monetary policy, shrinking excess capacity, slower global growth and unresolved trade issues will limit the market rebound in 2019. While we expect US GDP and profits to continue to rise, they don't always translate into rising asset prices this late in the cycle, particularly with the shift by the Trump administration away from its market-friendly 2017 policies. See inside cover for more details.

2018 Outlook: The Decline of Western Centralization, Part I



This year's cover art repeats last year's punch bowl theme, but with weather conditions worsening due to central bank liquidity withdrawal. The punch bowl is inspired by Fed Chair William McChesney Martin, who explained to his audience in 1955 that the Federal Reserve is often the chaperone who must remove the punch bowl just when the party starts to really warm up.

The returns shown in the banner on the front cover represent year-to-date returns through December 26, 2018 on a theoretical portfolio with 65% in the MSCI World Equity Index or the S&P 500, and 35% in the Barclays Global Aggregate Fixed Income Index or the Barclays US Aggregate Fixed Income Index.

Cover art by Gary Bullock.

FOR INSTITUTIONAL/WHOLESALE/PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY - NOT FOR RETAIL USE OR DISTRIBUTION

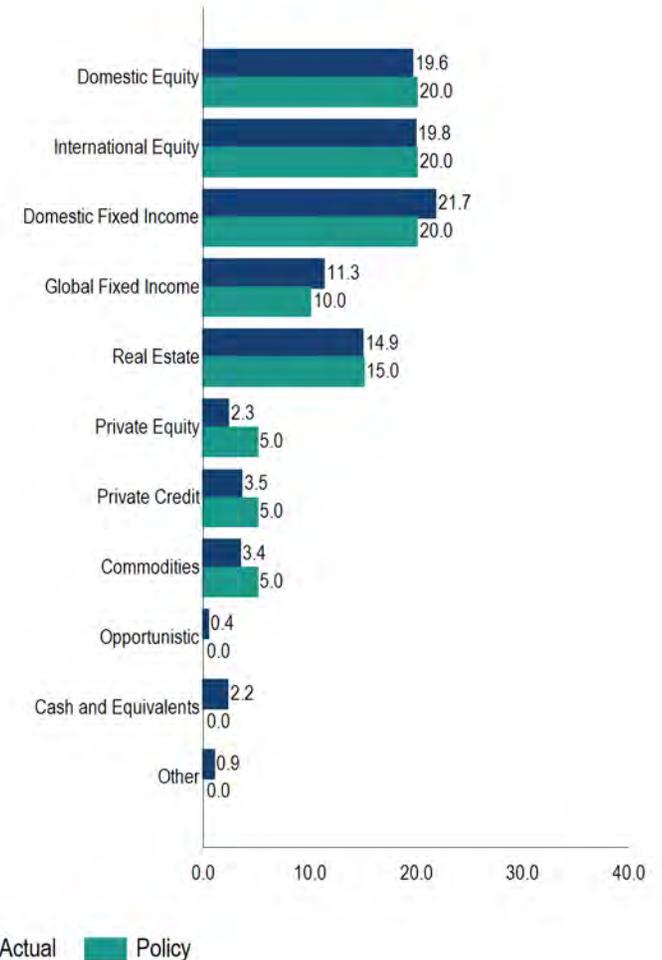
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: December 31, 2018

	Market Value	% of Portfolio	1 Mo	YTD
Total Fund	1,286,491,664	100.0	-2.5	-2.6
Total Fund ex Overlay	1,274,800,324	99.1	-2.5	-2.6
Policy Index			-3.0	-3.4
Total Domestic Equity	251,979,856	19.6	-9.4	-5.2
Russell 3000			-9.3	-5.2
PIMCO RAE Fundamental PLUS Instl	52,494,463	4.1	-10.0	-6.6
S&P 500			-9.0	-4.4
Loomis Sayles Large Cap Growth	74,354,092	5.8	-8.0	-1.7
Russell 1000 Growth			-8.6	-1.5
Boston Partners Large Cap Value	73,113,912	5.7	-10.2	-8.5
Russell 1000 Value			-9.6	-8.3
Atlanta Capital Mgmt	52,017,389	4.0	-9.9	-4.4
Russell 2500			-11.0	-10.0
Total International Equity	255,128,702	19.8	-5.5	-12.2
MSCI ACWI ex USA Gross			-4.5	-13.8
Dodge & Cox Intl Stock	124,980,275	9.7	-6.7	-17.5
MSCI EAFE Gross			-4.8	-13.4
WCM International Growth	130,148,427	10.1	-4.3	-6.7
MSCI ACWI ex USA Gross			-4.5	-13.8
Total Domestic Fixed Income	279,693,675	21.7	3.5	3.4
BBgBarc US Aggregate TR			1.8	0.0
BlackRock Core Bond	106,479,738	8.3	10.6	8.8
BBgBarc US Aggregate TR			1.8	0.0
Dodge & Cox Income Fund	99,082,639	7.7	1.1	0.1
BBgBarc US Aggregate TR			1.8	0.0
Pacific Asset Corporate Loan	74,131,297	5.8	-2.3	1.0
S&P/LSTA Leveraged Loan Index			-2.5	0.4
Total Global Fixed	144,844,122	11.3	0.2	-7.2
FTSE World Govt Bond Index			2.4	-0.8
Brandywine Global Fixed Income	71,947,197	5.6	0.0	-5.4
FTSE WGBI ex US TR			2.5	-1.8
Stone Harbor Local Markets Ins	72,896,925	5.7	0.5	-9.0
JPM GBI-EM Global Diversified TR USD			1.3	-6.2

Actual vs Target Allocation (%)



*Other balance represents Clifton Group.

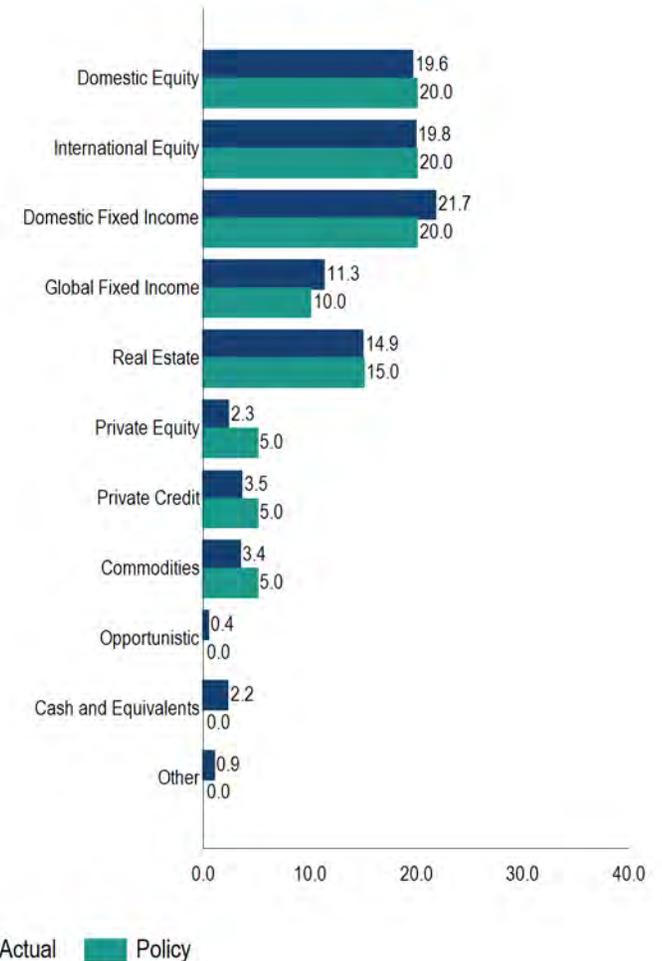
Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment 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 11/30/2018. All data is preliminary.

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

Period Ending: December 31, 2018

	Market Value	% of Portfolio	1 Mo	YTD
Total Real Estate	191,798,413	14.9	0.3	7.5
NCREIF Property Index			0.0	5.3
JP Morgan Core Real Estate	163,245,272	12.7	0.4	7.0
NCREIF-ODCE			0.0	6.5
NCREIF Property Index			0.0	5.3
ARA American Strategic Value Realty	22,016,296	1.7	0.0	9.1
NCREIF-ODCE			0.0	6.5
NCREIF Property Index			0.0	5.3
Direct Real Estate	6,536,845	0.5	0.0	11.6
NCREIF-ODCE			0.0	6.5
NCREIF Property Index			0.0	5.3
Total Commodities	43,566,433	3.4	-5.8	-12.4
Bloomberg Commodity Index TR USD			-6.9	-11.2
Gresham MTAP Commodity Builder	43,566,433	3.4	-5.8	-12.4
Bloomberg Commodity Index TR USD			-6.9	-11.2
Total Private Equity	29,250,497	2.3		
Harbourvest Partners IX Buyout Fund L.P.	13,067,175	1.0		
Pathway Private Equity Fund Investors 9 L.P.	16,183,322	1.3		
Total Private Credit	45,299,264	3.5		
TPG Diversified Credit Program	45,299,264	3.5		
Total Cash	28,386,676	2.2	0.0	1.5
91 Day T-Bills			0.2	1.9
Cash Account	28,386,676	2.2	0.0	1.5
91 Day T-Bills			0.2	1.9
Total Opportunistic	4,852,687	0.4		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	4,691,515	0.4		
PIMCO Distressed Credit Fund	161,172	0.0		
CPI + 5%			0.1	7.0

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 11/30/2018. All data is preliminary.



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

DECEMBER 2018
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Nonfarm payrolls jumped by 312,000 in December, well above expectations for a 176,000 increase. The healthcare sector (+50,000) led job creation, while restaurants and bars (+41,000), construction (+38,000), and manufacturing (+32,000) all contributed strong gains.
- The unemployment rate rose a net 0.2% to 3.9%, driven by an increase in the labor force participation rate, which moved up from 53.9% to 63.1%.
- The ISM Purchasing Managers' indices missed expectations and fell materially over the month. The ISM Manufacturing PMI fell from 59.3 to 54.1, missing expectations of 57.9. The ISM Services PMI slipped from 60.7 to 57.6, impacted by slowing employment and price growth in the services sector.

U.S. EQUITIES

- The S&P 500 Index tumbled 9.0%, experiencing its largest monthly decline since February of 2009. Losses were broad-based – the best performing sector was utilities, which fell 4.0%.
- The CBOE VIX Index reached as high as 36.1, a point off year-to-date highs established in February. The implied volatility measure was 25.4 at month-end, above the ten-year average of 18.5.
- Per Factset, the Q4 2018 estimated earnings and revenue growth rates for the S&P 500 are 11.4% and 6.1% respectively. During the fourth quarter, earnings growth estimates for 2019 fell 2.3%.

U.S. FIXED INCOME

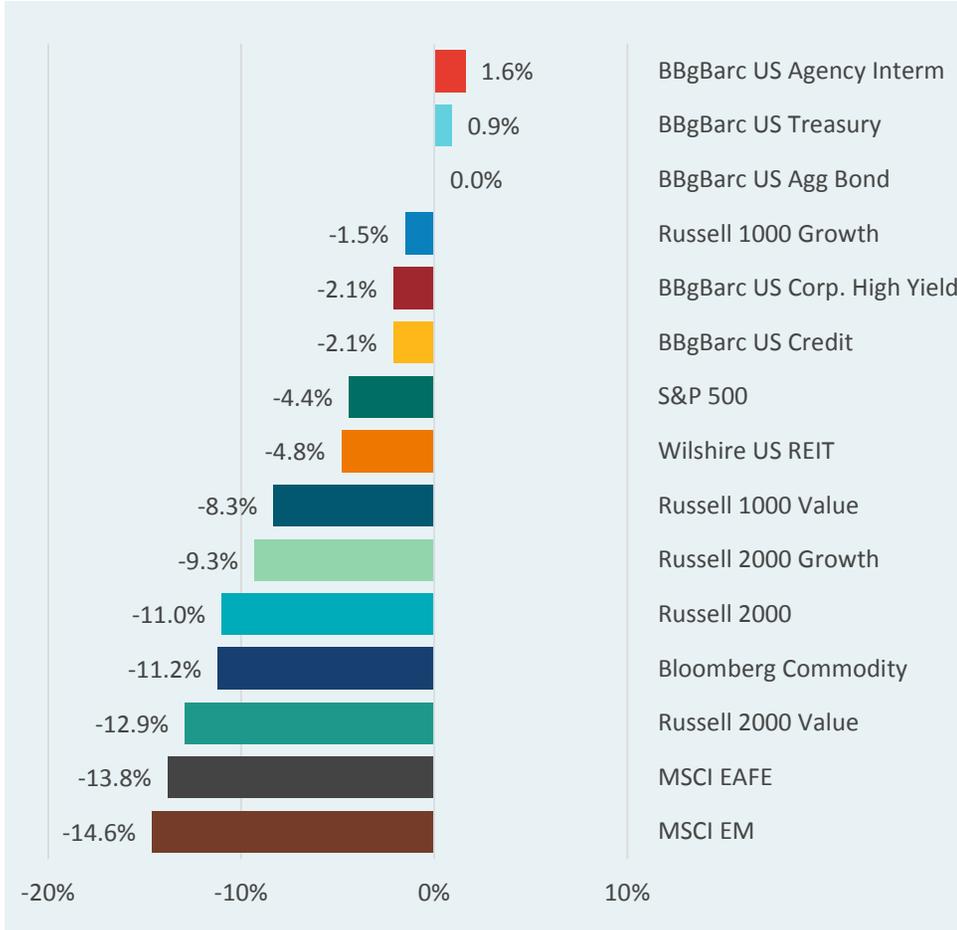
- The Federal Reserve hiked the target range for its benchmark interest rate by 25 basis points to a new range of 2.25% - 2.50%. In line with expectations for a “dovish hike”, central bank officials lowered expectations for hikes in 2019 from three to two.
- Fed Chair Powell largely failed to reassure markets that future policy would develop with consideration of asset prices. Fed messaging concerning the pace of its balance sheet unwind was perceived as rigid, likely contributing to the market sell-off that followed Powell's press conference.
- High yield credit spreads expanded from 4.2% to 5.3% over the period, a level not reached since August of 2016.

INTERNATIONAL MARKETS

- U.S. and Chinese officials agreed to resume trade talks in Beijing during the first week of January. The U.S. delegation, headed by U.S. trade representative Robert Lighthizer, will work in the shadow of the March 2nd deadline after which tariff rates on \$200 billion in Chinese imports are slated to rise from 10% to 25%.
- The Caixin/Markit Manufacturing PMI fell from 50.2 to 49.7 in December, missing expectations of 50.1, and signaling a contraction in manufacturing activity on mainland China.
- Despite poor absolute returns in global equity markets, emerging markets provided positive relative performance. The MSCI EM Index returned -2.7%, outperforming the MSCI EAFE Index (-4.9%), and the S&P 500 Index (-9.0%).

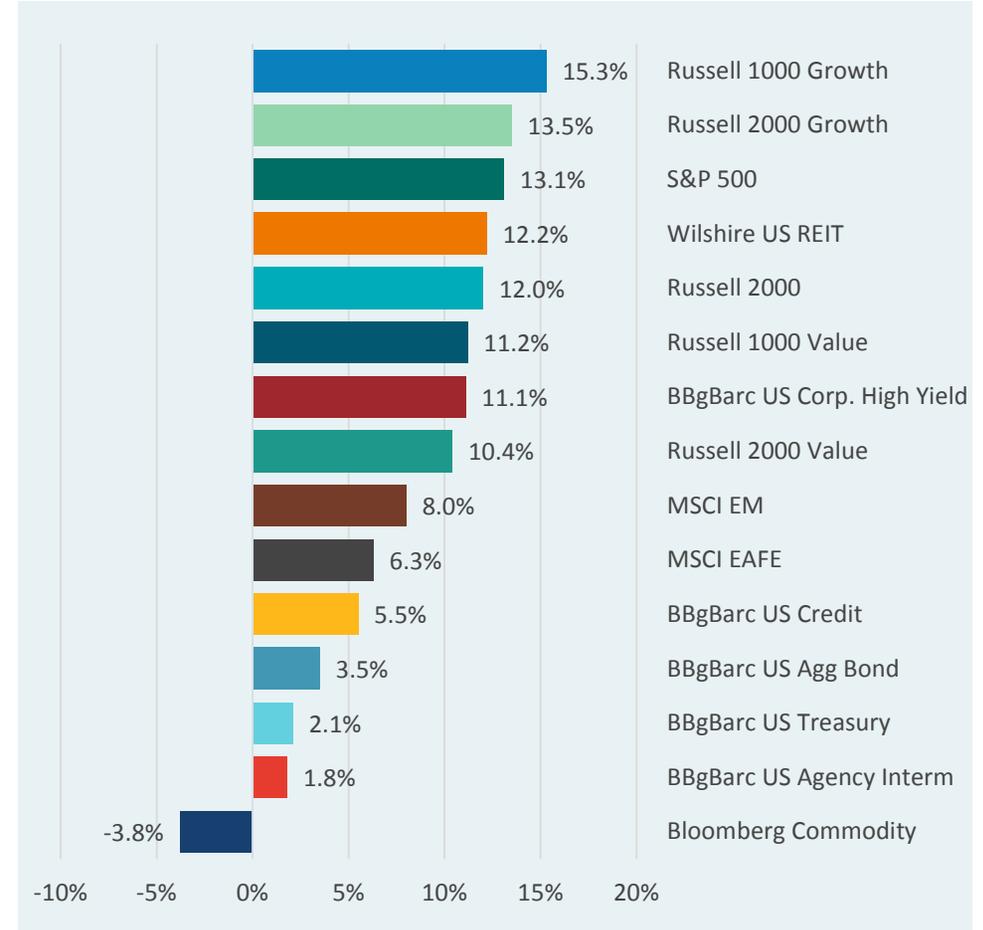
Major asset class returns

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/18

TEN YEARS ENDING DECEMBER



Source: Morningstar, as of 12/31/18

U.S. large cap equities

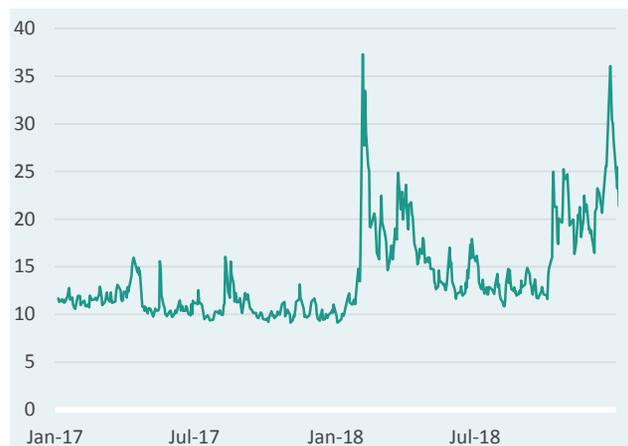
- The S&P 500 Index lost 9.0% and all sectors finished the month with negative returns. Apple, Microsoft, and Amazon were the largest detractors from performance, despite the information technology (-8.5%) and communication services (-7.3%) sectors outperforming slightly.
- Apple lowered its calendar Q4 2018 guidance for revenue from \$89-\$93 billion to \$84 billion, and its gross margin from 38%-38.5% to 38%. Shares fell about 7% on the news, and ended December down 12.2%.
- The trailing 12-month P/E multiple of the S&P 500 continued to compress in December, falling from 18.8x to 17.1x over the month, its lowest level since early 2016, and below the 10-year average of 17.6x.
- Of S&P 500 companies providing Q4 2018 EPS guidance, 72 posted negative guidance and 33 posted positive guidance. The percentage of companies announcing negative guidance (68.5%) was slightly below the five-year average of 70.0%.

S&P 500 PRICE INDEX



Source: Bloomberg, as of 12/31/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 12/31/18

S&P 500 VALUATION SNAPSHOT



Source: Bloomberg, as of 12/31/18

Domestic equity size and style

- Large cap stocks outperformed small cap stocks over the period, despite poor absolute performance. The Russell 1000 Index returned -8.6%, outperforming the Russell 2000 Index, which returned -9.6%.
- The Russell 2000 Index fell 11.9%, its worst monthly loss since February 2009, and its second monthly decline of over 10% in three months. In the fourth quarter, small-cap stocks were down 20.2%.
- Growth outperformed value in both large and small cap equities. The Russell 3000 Growth Index (-8.8%) outperformed the Russell 3000 Value Index (-9.8%) by 1.0%.
- Falling crude oil prices presented headwinds for value equities, which are more exposed to energy stocks. The energy sector represented 9.0% of the Russell 3000 Value Index and 0.8% of the Russell 3000 Growth Index on December 31st, and was down 12.7% for the month.

VALUE VS. GROWTH RELATIVE VALUATIONS



Source: Russell, Bloomberg, as of 12/31/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 12/31/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 12/31/18

Fixed income

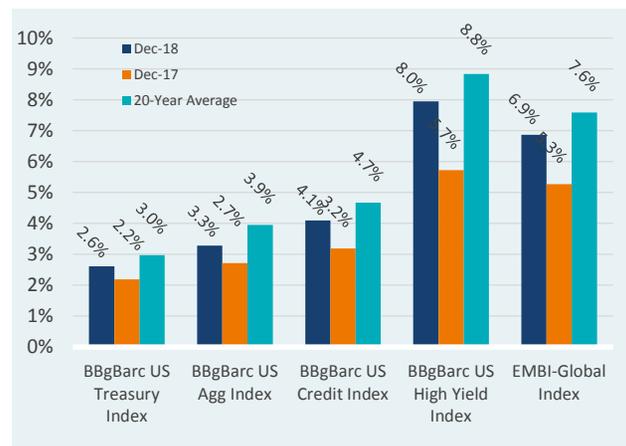
- The ECB officially announced the end of its asset purchase program, and stated it will continue to reinvest maturing securities in full for the foreseeable future. In his statement, ECB President Mario Draghi conveyed a more cautious tone, citing economic risks generally moving to the downside.
- Treasury yields resumed their decline, with 10-year yields falling from 3.0% to 2.7%, and 2-year yields falling from 2.8% to 2.5%. Intra-month, the 10-2 yield spread touched as low as 11 bps, but ended the month little changed around 20 bps.
- Italian 10-year sovereign yields descended from 3.2% to 2.7% in December, down 94 bps from the year-to-date peak of 3.68% reached in October at the height of the fiscal budget deficit negotiations between the Italian government and European Union.
- Breakeven inflation rates continued to trend lower. The 5-year breakeven inflation rate finished the month at 1.5%, its lowest level since October 2016, and 68 bps below May's highs. Falling oil prices likely impacted the decline.

U.S. TREASURY YIELD CURVE



Source: Bloomberg, as of 12/31/18

NOMINAL YIELDS



Source: Morningstar, as of 12/31/18

BREAKEVEN INFLATION RATES

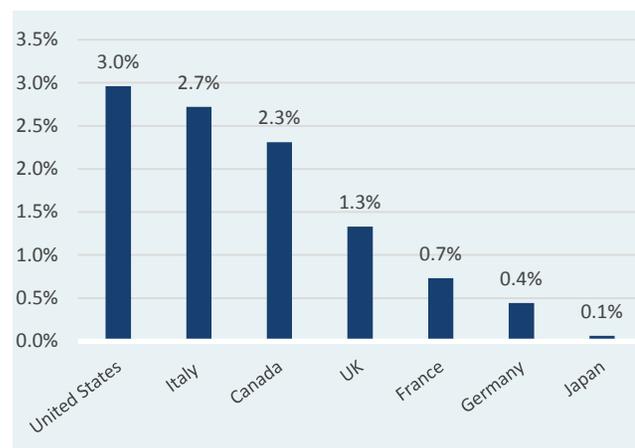


Source: Bloomberg, as of 12/31/18

Global markets

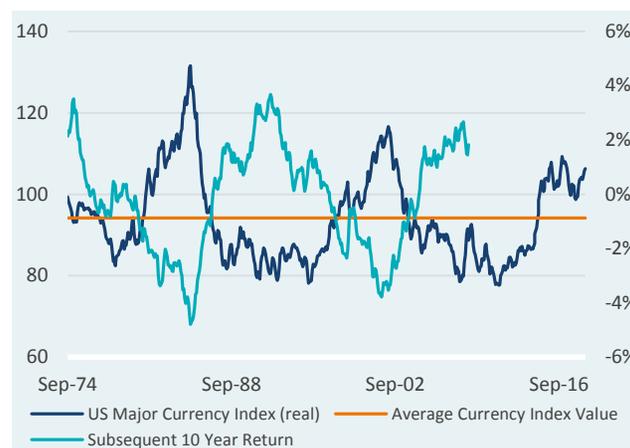
- The Markit France Composite PMI plunged from 54.2 to 48.7, slipping below 50 for the first time since June 2016. The dominant service sector contracted from 55.1 to 49.6, in part due to the weakest level of new business generation since February.
- Theresa May pushed back the U.K. parliament’s vote on her EU-approved Brexit deal to January 14th, due to expectations it would have failed in December. Despite surviving a vote of no confidence, May will need to make significant progress in negotiations with the EU in order to avoid a “no-deal” Brexit on March 29th.
- The forward 12-month P/E ratio of the MSCI EAFE Index touched as low as 11.7 over the month, a level not reached since June of 2012. The Eurozone composite PMI posted it’s fifth consecutive monthly decline, ending the year at 51.1, slightly above neutral.
- The yen appreciated 3.5% relative to the dollar, outperforming both the euro (+1.0%), and the pound sterling (-0.2%). Haven flows over the course of the month and more dovish language from the Federal Reserve, likely pushed the yen higher.

GLOBAL SOVEREIGN 10-YEAR YIELDS



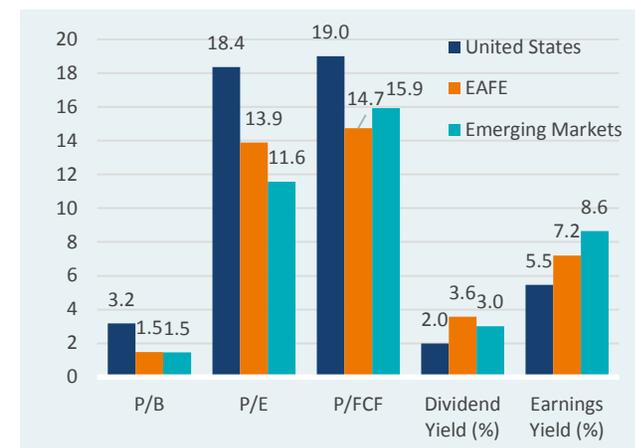
Source: Bloomberg, as of 12/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 12/31/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 12/31/18

Commodities

- The Bloomberg Commodity Index fell 6.9%, with most sectors declining over the period. Energy, which targets a 30% weight in the overall index, lost 18.7% and led the decline.
- Crude oil continued its slide in December. Over the course of the month, the price of a barrel of WTI crude fell from \$51.09 to \$45.41, ending the month 44% below the year-to-date high of \$75.96 established in October.
- Precious metals, representing around 16% of the overall index, outperformed, gaining 5.8% in December. Gold (+5.1%) and silver (+9.1%) likely benefitted from haven flows amidst the risk-off sentiment in equity markets.
- Volatility remained the story in natural gas markets. After shooting up 37.7% in November, natural gas futures contracts plummeted 33.5% in December. Relatively low storage levels, speculation on weather conditions, and short-covering dynamics all contributed to the recent elevation in volatility.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(6.9)	(9.4)	(11.2)	(11.2)	0.3	(8.8)	(3.8)
Bloomberg Agriculture	(2.4)	0.2	(10.8)	(10.8)	(6.8)	(9.1)	(2.9)
Bloomberg Energy	(18.7)	(25.8)	(12.7)	(12.7)	(1.0)	(18.5)	(13.1)
Bloomberg Grains	(1.2)	0.8	(5.5)	(5.5)	(7.6)	(10.4)	(4.7)
Bloomberg Industrial Metals	(5.1)	(8.7)	(19.5)	(19.5)	7.7	(3.2)	1.6
Bloomberg Livestock	(0.9)	0.7	(1.7)	(1.7)	(0.4)	(2.2)	(2.8)
Bloomberg Petroleum	(9.3)	(34.9)	(19.2)	(19.2)	1.2	(18.6)	(7.0)
Bloomberg Precious Metals	5.8	6.8	(4.6)	(4.6)	5.1	(0.9)	3.1
Bloomberg Softs	(6.3)	0.7	(22.3)	(22.3)	(9.2)	(9.5)	(2.5)

Source: Morningstar, as of 12/31/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 12/31/18

Appendix

Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5-Year	10-Year
Real Estate	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	5.3	10.4	15.3
Cash	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	9.0	13.5
US Bonds	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	8.2	13.3
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	5.9	12.0
Hedge Funds of Funds	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	5.1	11.2
Large Cap Equity	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	4.4	10.4
60/40 Global Portfolio	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	3.6	8.0
Large Cap Value	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	3.1	7.3
Small Cap Growth	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	2.5	6.8
Small Cap Equity	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	1.6	6.3
Commodities	-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	1.5	3.5
Small 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	-12.9	0.6	3.2
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	-13.8	0.5	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	-14.6	-8.8	-3.8

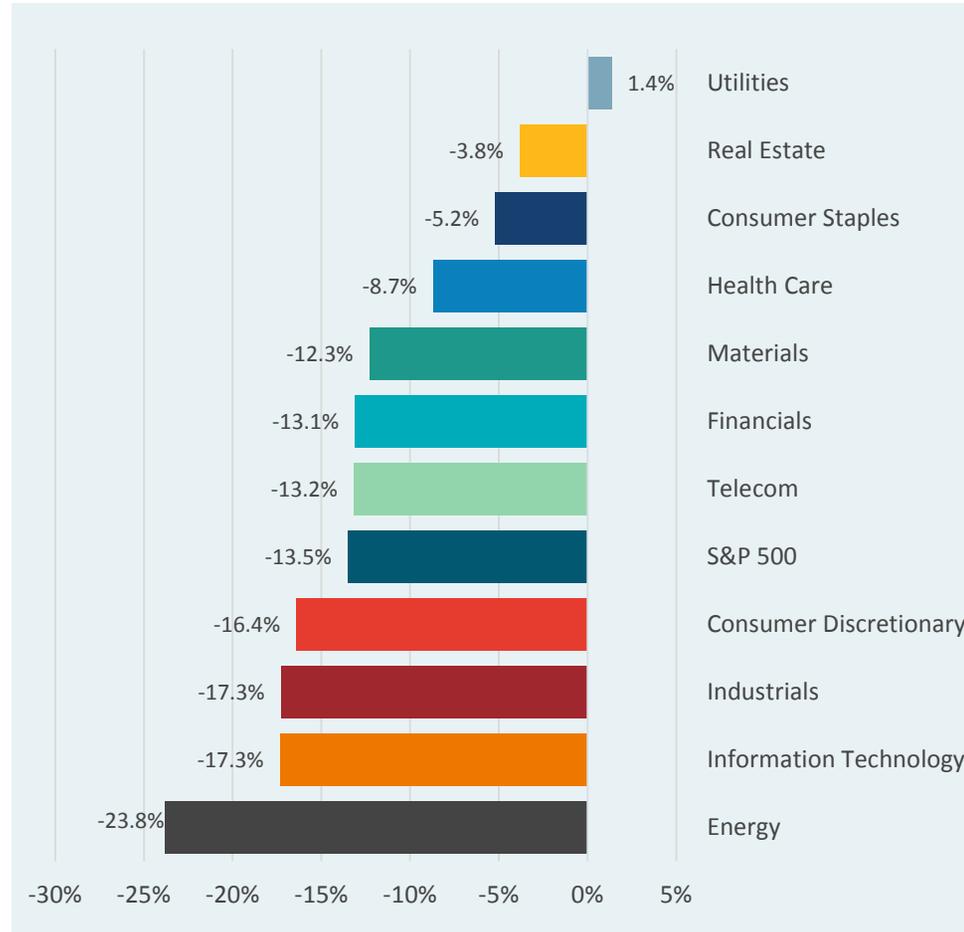
BEST
↑
WORST
↓

- 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 9/30/18.

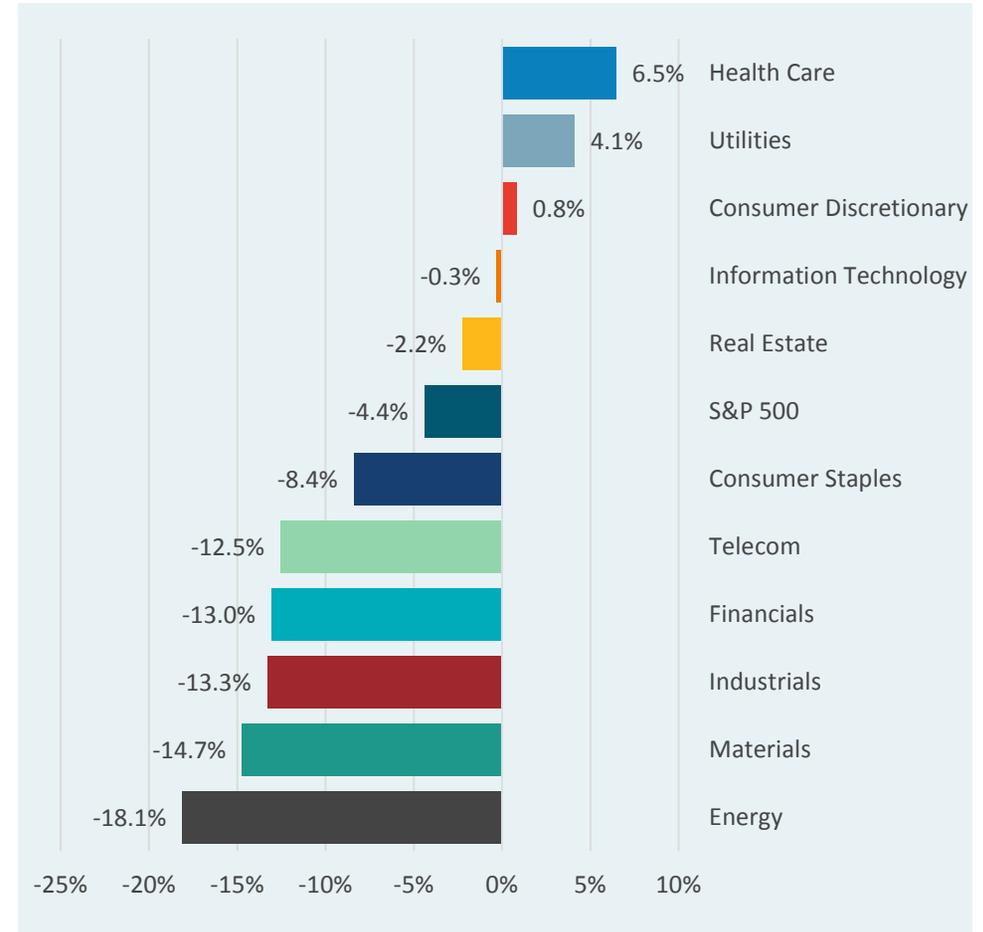
S&P 500 sector returns

QTD



Source: Morningstar, as of 12/31/18

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	(9.0)	(13.5)	(4.4)	(4.4)	9.3	8.5	13.1
S&P 500 Equal Weighted	(9.7)	(13.9)	(7.6)	(7.6)	8.0	7.1	15.0
DJ Industrial Average	(8.6)	(11.3)	(3.5)	(3.5)	12.9	9.7	13.2
Russell Top 200	(8.8)	(13.2)	(3.1)	(3.1)	9.9	9.0	13.0
Russell 1000	(9.1)	(13.8)	(4.8)	(4.8)	9.1	8.2	13.3
Russell 2000	(11.9)	(20.2)	(11.0)	(11.0)	7.4	4.4	12.0
Russell 3000	(9.3)	(14.3)	(5.2)	(5.2)	9.0	7.9	13.2
Russell Mid Cap	(9.9)	(15.4)	(9.1)	(9.1)	7.0	6.3	14.0
Style Index							
Russell 1000 Growth	(8.6)	(15.9)	(1.5)	(1.5)	11.1	10.4	15.3
Russell 1000 Value	(9.6)	(11.7)	(8.3)	(8.3)	7.0	5.9	11.2
Russell 2000 Growth	(11.7)	(21.7)	(9.3)	(9.3)	7.2	5.1	13.5
Russell 2000 Value	(12.1)	(18.7)	(12.9)	(12.9)	7.4	3.6	10.4

INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
MSCI ACWI	(7.0)	(12.8)	(9.4)	(9.4)	6.6	4.3	9.5
MSCI ACWI ex US	(4.5)	(11.5)	(14.2)	(14.2)	4.5	0.7	6.6
MSCI EAFE	(4.9)	(12.5)	(13.8)	(13.8)	2.9	0.5	6.3
MSCI EM	(2.7)	(7.5)	(14.6)	(14.6)	9.2	1.6	8.0
MSCI EAFE Small Cap	(6.4)	(16.0)	(17.9)	(17.9)	3.7	3.1	10.5
Style Index							
MSCI EAFE Growth	(4.8)	(13.3)	(12.8)	(12.8)	2.9	1.6	7.1
MSCI EAFE Value	(4.9)	(11.7)	(14.8)	(14.8)	2.8	(0.6)	5.5
Regional Index							
MSCI UK	(3.8)	(11.8)	(14.2)	(14.2)	1.6	(1.7)	6.8
MSCI Japan	(6.7)	(14.2)	(12.9)	(12.9)	3.4	3.1	5.3
MSCI Euro	(4.8)	(13.2)	(16.4)	(16.4)	2.4	(0.9)	4.4
MSCI EM Asia	(3.2)	(9.3)	(15.5)	(15.5)	8.6	3.9	9.8
MSCI EM Latin American	(0.8)	0.4	(6.6)	(6.6)	14.9	(1.7)	5.0

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	0.5	(0.4)	(1.3)	(1.3)	2.1	1.7	3.6
BBgBarc US Treasury Bills	0.2	0.6	1.9	1.9	1.0	0.6	0.4
BBgBarc US Agg Bond	1.8	1.6	0.0	0.0	2.1	2.5	3.5
Duration							
BBgBarc US Treasury 1-3 Yr	0.8	1.3	1.6	1.6	0.9	0.8	1.0
BBgBarc US Treasury Long	5.5	4.2	(1.8)	(1.8)	2.6	5.9	4.1
BBgBarc US Treasury	2.2	2.6	0.9	0.9	1.4	2.0	2.1
Issuer							
BBgBarc US MBS	1.8	2.1	1.0	1.0	1.7	2.5	3.1
BBgBarc US Corp. High Yield	(2.1)	(4.5)	(2.1)	(2.1)	7.2	3.8	11.1
BBgBarc US Agency Interm	1.0	1.6	1.6	1.6	1.3	1.4	1.8
BBgBarc US Credit	1.5	0.0	(2.1)	(2.1)	3.2	3.2	5.5

OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Index							
Bloomberg Commodity	(6.9)	(9.4)	(11.2)	(11.2)	0.3	(8.8)	(3.8)
Wilshire US REIT	(8.4)	(6.9)	(4.8)	(4.8)	2.1	7.9	12.2
CS Leveraged Loans	(2.3)	(3.1)	1.1	1.1	5.0	3.3	8.3
Alerian MLP	(8.3)	(16.3)	(11.9)	(11.9)	(1.6)	(6.9)	10.7
Regional Index							
JPM EMBI Global Div	1.3	(1.3)	(4.3)	(4.3)	5.2	4.8	8.2
JPM GBI-EM Global Div	1.3	2.1	(6.2)	(6.2)	5.9	(1.0)	3.5
Hedge Funds							
HFRI Composite	(2.0)	(5.4)	(4.1)	(4.1)	3.2	2.3	5.0
HFRI FOF Composite	(1.2)	(4.4)	(3.5)	(3.5)	1.5	1.5	3.2
Currency (Spot)							
Euro	1.0	(1.6)	(4.8)	(4.8)	1.7	(3.7)	(1.9)
Pound	(0.2)	(2.3)	(5.9)	(5.9)	(4.8)	(5.1)	(1.2)
Yen	3.5	3.5	2.7	2.7	3.1	(0.9)	(1.9)

Source: Morningstar, HFR, as of 12/31/18

Notices & disclosures

Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. available on the SEC’s website at www.adviserinfo.sec.gov.

Verus – also known as Verus Advisory™.

This page left blank intentionally.

Board of Trustees

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



Date: January 28, 2019

To: Board of Trustees

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

Agenda Item 14: Asset Allocation January 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

This page left blank intentionally.